

**NEW MEXICO ANNUAL
CONFERENCE OF THE
UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS

For the Year Ended December 31, 2018



**NEW MEXICO ANNUAL CONFERENCE
OF THE UNITED METHODIST CHURCH**

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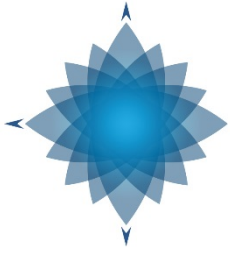
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INDEPENDENT AUDITOR'S REPORT

Council on Finance and Administration,
New Mexico Annual Conference of the
United Methodist Church

We have audited the accompanying financial statements of NM Annual Conference of the United Methodist Church (the Conference) (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets—modified cash basis as of December 31, 2018, and the related statements of revenues, expenses, and other changes in net assets—modified cash basis, functional allocation of expenses—modified cash basis, and cash flows—modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the statement of assets, liabilities, and net assets—modified cash basis of the Conference as of December 31, 2018, and the changes in its statement of revenues, expenses, and other changes in net assets—modified cash basis, function allocation of expenses—modified cash basis, and its cash flows—modified cash basis for the year then ended in accordance with the cash basis of accounting as described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the NM Annual Conference of the United Methodist Church's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Integrity Accounting + Consulting, LLC

Integrity Accounting & Consulting, LLC
Albuquerque, NM
August 2, 2019

**NEW MEXICO ANNUAL CONFERENCE OF
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STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
As of December 31, 2018 With Comparative Totals For 2017

	2018	2017
	<u>Total</u>	<u>Total</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,321,838	1,479,566
Local investments-short-term	99,000	99,000
Other assets	4,165	2,573
TOTAL CURRENT ASSETS	<u>1,425,003</u>	<u>1,581,139</u>
NON-CURRENT ASSETS:		
Local investments-long-term	446,959	698,855
Investments, Schedule 1	9,814,581	10,313,370
Note receivables, net	18,939	21,858
Property and equipment, net	1,340,760	1,053,138
TOTAL NON-CURRENT ASSETS	<u>11,621,239</u>	<u>12,087,221</u>
TOTAL ASSETS	<u>\$ 13,046,242</u>	<u>13,668,360</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
TOTAL CURRENT LIABILITIES	<u>-</u>	<u>-</u>
LONG-TERM LIABILITIES:		
TOTAL LONG-TERM LIABILITIES	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
NET ASSETS		
Without donor restrictions		
Undesignated	1,763,368	2,431,396
Board designated	5,720,556	5,727,757
Investment in property and equipment, net	1,340,760	1,053,138
Total without donor restrictions	8,824,684	9,212,291
With donor restrictions	4,221,558	4,456,069
TOTAL NET ASSETS	<u>13,046,242</u>	<u>13,668,360</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,046,242</u>	<u>13,668,360</u>

**NEW MEXICO ANNUAL CONFERENCE OF
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STATEMENT OF REVENUES, EXPENSES, AND OTHER
CHANGES IN NET ASSETS - MODIFIED CASH BASIS
For the Year Ended December 31, 2018 With Comparative Totals For 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>	<u>2017 Total</u>
SUPPORT, REVENUE, AND INVESTMENT EARNINGS				
Apportionments				
Ministerial support	\$ 529,876	-	529,876	502,691
World service	218,430	-	218,430	223,077
Conference ministries	863,292	-	863,292	954,079
Regional ministries	15,753	-	15,753	17,513
General church ministries	141,496	-	141,496	146,988
Total apportionments	<u>1,768,847</u>	<u>-</u>	<u>1,768,847</u>	<u>1,844,348</u>
Second mile giving	-	167,726	167,726	314,266
Contributions/income - other programs	96,500	40,877	137,377	125,847
Trustees	1,447,821	-	1,447,821	2,862,164
Other revenues	99,550	156,376	255,926	702,521
Interest income	1,617	479	2,096	5,458
Net assets released from restrictions	258,550	(258,550)	-	-
Total support, revenue, and investment earnings	<u>3,672,885</u>	<u>106,908</u>	<u>3,779,793</u>	<u>5,854,604</u>
OPERATING EXPENSES:				
Conference and general church programs	2,590,790	82,744	2,673,534	3,535,497
Management and general	1,116,364	-	1,116,364	1,068,969
Total operating expenses	<u>3,707,154</u>	<u>82,744</u>	<u>3,789,898</u>	<u>4,604,466</u>
Change in net assets before gains/(losses)	(34,269)	24,164	(10,105)	1,250,138
Net realized/unrealized gains/(losses) in investments	<u>(353,338)</u>	<u>(258,675)</u>	<u>(612,013)</u>	<u>1,389,728</u>
CHANGE IN NET ASSETS	(387,607)	(234,511)	(622,118)	2,639,866
BEGINNING NET ASSETS	<u>9,212,291</u>	<u>4,456,069</u>	<u>13,668,360</u>	<u>11,028,494</u>
NET ASSETS END OF YEAR	<u>\$ 8,824,684</u>	<u>4,221,558</u>	<u>13,046,242</u>	<u>13,668,360</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

**NEW MEXICO ANNUAL CONFERENCE OF
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STATEMENT OF FUNCTIONAL ALLOCATION OF EXPENSES -
MODIFIED CASH BASIS
For the Year Ended December 31, 2018**

	Conference And General Church Programs	Management & General	Fundraising	2018	2017
Compensation and related expenses:					
Salaries	\$ -	523,031	-	523,031	538,170
Employee benefits and taxes	-	93,857	-	93,857	86,968
Total Compensation and related expenses:	<u>-</u>	<u>616,888</u>	<u>-</u>	<u>616,888</u>	<u>625,138</u>
General expenses:					
Ministerial support	548,100	-	-	548,100	554,046
Conference ministries	136,792	-	-	136,792	131,893
Regional ministries	17,108	-	-	17,108	14,195
General church ministries	507,808	-	-	507,808	430,475
Other supported programs	274,037	-	-	274,037	494,891
Trustees	1,109,955	-	-	1,109,955	1,623,299
Investments	79,734	4,689	-	84,423	286,698
Training and Continuing Education	-	30,901	-	30,901	18,787
Travel and related expenses	-	1,905	-	1,905	(989)
Meeting expenses	-	72,364	-	72,364	69,909
Repairs and maintenance	-	12,397	-	12,397	13,437
IT and Computer support	-	14,396	-	14,396	14,774
Office Supplies and equipment	-	15,107	-	15,107	14,247
Insurance	-	23,568	-	23,568	20,276
Utilities and Telephone	-	18,980	-	18,980	19,200
Professional and Contract Services	-	16,648	-	16,648	15,408
Postage	-	(158)	-	(158)	1,077
Printing and Books	-	600	-	600	3,111
Depreciation expense	-	54,467	-	54,467	46,706
Boards and Committees	-	233,612	-	233,612	207,888
Total General expenses	<u>2,673,534</u>	<u>499,476</u>	<u>-</u>	<u>3,173,010</u>	<u>3,979,328</u>
Total expenses	<u>\$ 2,673,534</u>	<u>1,116,364</u>	<u>-</u>	<u>3,789,898</u>	<u>4,604,466</u>

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STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
For the Year Ended December 31, 2018 With Comparative Totals For 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Cash received from:		
Apportionments	\$ 1,768,847	1,844,348
Non-apportionment sources	2,008,850	4,004,798
Interest and dividends	2,096	5,458
Total cash received from operations	<u>3,779,793</u>	<u>5,854,604</u>
Less cash payments to or for:		
Personnel and vendors	<u>(3,737,023)</u>	<u>(4,559,826)</u>
Total cash used in operations	<u>(3,737,023)</u>	<u>(4,559,826)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>42,770</u>	<u>1,294,778</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(598,611)	(493,915)
Proceeds from the sale of investments	737,283	286,698
Purchase of property and equipment	<u>(342,089)</u>	<u>-</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(203,417)</u>	<u>(207,217)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment/(increase) of church development loans	<u>2,919</u>	<u>13,219</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>2,919</u>	<u>13,219</u>
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(157,728)	1,100,780
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,479,566</u>	<u>378,786</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,321,838</u>	<u>1,479,566</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ (622,118)	2,639,866
Depreciation	54,467	46,706
(Gains)/losses on investments	612,013	(1,389,728)
(Increase)/Decrease in other assets	(1,592)	(2,025)
Increase/(Decrease) in accrued expenses	<u>-</u>	<u>(41)</u>
NET CASH PROVIDED BY OPERATION ACTIVITIES	<u>\$ 42,770</u>	<u>1,294,778</u>

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OF THE UNITED METHODIST CHURCH
NOTES TO AUDITED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

NOTE A – NATURE OF ORGANIZATION

Nature of Organization and its Affiliated Agencies. The Conference is a New Mexico not-for-profit corporation. It was organized for Christian, religious, church, benevolent and charitable purposes. The Conference is comprised of three districts, which are, in turn, comprised of local churches. Each of these districts and local churches operate through various separate not-for-profit corporations or unincorporated entities in the states of New Mexico and Texas. Each of these affiliated organizations has its own annual budget, fund raising and expenditure programs. As a part of the connectional Methodist church processes, annual apportionments for various church benevolences and programs are made by and through the Conference to its local churches. Such apportionments are based on a three-year average of non-benevolent, non-building expenses and provide funds for various church benevolences and programs.

The financial aspects of the Conference are governed by the Council of Finance and Administration (CFA). Such Council is elected by the Conference membership. It is the responsibility of the CFA "to develop, maintain and administer a comprehensive and coordinated plan of fiscal and administrative policies, procedures and management services for the annual conference." (2012 Book of Discipline, paragraph 611)

One of the Conference's primary functions is to hold in trust and distribute certain monies, voluntarily given by individual church members and in the payment of church apportionments, through their local churches for general church benevolences and programs of the United Methodist Church. The Conference and the CFA serve as conduits for these monies which are transmitted to various affiliated United Methodist Church entities, including the General Council on Finance and Administration of the United Methodist Church (GCFA). Revenue arising from receipt and expenses related to the distribution of such monies are recorded in the financial statements of this organization.

The Conference also receives various types of non-apportionment revenues, which are handled by its Treasurer and the CFA. Also, the Conference and its CFA performs accounting and reporting functions for its agencies (and related organizations) receiving general church funds; establishes policy governing the functions of banking, payroll, accounting and budget control, takes legal steps to safeguard and protect the interests and rights of the denomination; and maintains an accurate record of the mailing addresses of active clergy and others in the organization.

In addition, certain other directly affiliated corporations in the Conference exist. These corporations include:

Board of Trustees of the New Mexico Annual Conference of the United Methodist Church – The Board of Trustees of the New Mexico Annual Conference of the United Methodist Church is a New Mexico not-for-profit corporation. The primary purpose of this corporation is to receive, collect and hold in trust for the benefit of the Conference, or its agencies, any and all donations, bequests and devices of any kind, real or personal, that may be given, devised, bequeathed or conveyed to the Conference for any benevolent, charitable or religious purpose, and to administer the same and the income there from in accordance with the directions of the donor, trustor or testator. Reference is made to the 2012 Discipline of the United Methodist Church. In addition, the Board is responsible for holding title to real estate owned or has an interest in jointly owned real estate for the benefit of the Conference. The Board of Trustees holds title to the Conference's office building, which is located at 11816 Lomas Blvd NE in Albuquerque. Also the Trustees hold title, jointly with the Northwest Texas Conference Trustees, to the Area Episcopal Residence, at 5414

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Avenida Cuesta NE in Albuquerque. The Trustees also held title to 5 other properties in 2017. There are district and local property management committees, which see to their routine maintenance and operation.

When any United Methodist-owned building site, parsonage, institution or just vacant land ceases to be managed by, either a local or district board of trustees, it becomes, by the "trust clause" of the 2012 Discipline, the responsibility of the New Mexico Annual Conference Board of Trustees. In 2017, the Board of Trustees is not aware of any such situations existing with the New Mexico Annual Conference.

The financial accounts of the Board of Trustees are included in these financial statements.

New Mexico Conference Board of Pension and Health Benefits, The United Methodist Church – The New Mexico Conference Board of Pension and Health Benefits, The United Methodist Church, is a New Mexico not-for-profit corporation. The primary purpose of this corporation is for the insurance and pension concerns for retired and active clergy of the Conference. The goal is to promote "Service with Security and Retirement with Dignity" for the clergy, spouses and dependents of the Conference.

The financial accounts of the Board of Pension and Health Benefits are included in these financial statements, Each paying unit (local church, Wesley Foundation, District Superintendents' Fund, etc.) of the Ministerial Pension Plan shall contribute 15% of actual compensation through direct billing from the General Board of Pension and Health Benefits or modified direct billing from the Conference.

The Comprehensive Protection Plan amounts are determined by the Board of Pension and Health Benefits and such amounts are billed to the local churches within the Conference.

In addition, the Board of Pension and Health Benefits is responsible for the active and retirees' life/health insurance programs, for those individuals who have been granted retirement within the New Mexico Annual Conference.

The Conference handles five types of insurance programs. Such programs are under the general supervision of the Board of Pension and Health Benefits.

Such programs include (1) health insurance, (2) disability, (3) life insurance, (4) accidental death/dismemberment benefits and (5) supplemental health insurance for retired clergy on Medicare. These programs are funded by Conference bills and apportionments to individual local churches and by the clergy and others who are affected. These insurance programs are handled through the Conference's offices.

The financial accounts of the Board of Pension and Health Benefits are not included in these financial statements. A separately issued report identifying the financial position and activities of the Board of Pension and Health Benefits is available at 11816 Lomas Blvd NE, Albuquerque, NM 87112.

New Mexico Annual Conference District Offices – The New Mexico Annual Conference has three district offices, which are supervised by District Superintendents. Such districts operate as either unincorporated entities or not-for-profit corporations in New Mexico and Texas. Apportionment payments from the Conference to the Districts are contained in these financial statements.

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These are separately managed affiliated Methodist entities within the Conference. Their financial activities and any related District entities are not reflected within these financial statements.

Wesley Foundation at Five (5) University Campuses – The Wesley Foundation programs at five (5) university campuses in New Mexico and Southwest Texas are either unincorporated entities or not-for-profit corporations. The District Superintendent in one of the three Districts has over-sight responsibilities for each of the Wesley Foundation programs. Apportionment payments from the Conference are contained in these financial statements.

These are separately managed affiliated Methodist entities within the Conference. Their financial activities are not reflected within these financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

1) Basis of Accounting

The accompanying financial statements have been prepared the modified cash basis of accounting. Accordingly, certain revenues and the related assets are recorded when received rather than when earned and certain expenses are recorded when paid rather than when the obligation is incurred. The records were held open until January 15, 2019 to include the remittance from the churches in the Conference for the last few weeks of the year. This policy is consistent with prior years and is not in accordance with U.S. generally accepted accounting procedures.

2) Classes of Net Assets:

The Conference reports information regarding its financial position and activities based on the existence or absence of restrictions imposed by donor or grantors. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor or grantor restrictions, including net assets that have been designated by the Board of Directors for a particular purpose or as a board-designated endowment fund. Net assets without donor restrictions represent the investment in unrestricted assets and the investment in property and equipment, less accumulated depreciation and amortization.

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions expire by passage of time or can be fulfilled and removed by actions of the Conference pursuant to those stipulations. Donor imposed restrictions are released

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when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

3) Fair Value of Measurements:

The Conference has adopted ASC 820-10 which provides a framework for measuring fair value under generally accepted accounting principles. ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Conference uses various methods including market, income, and cost approaches. Based on these approaches, the Conference often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. the Conference utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The fair value of investments securities is the market value based on the quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs to the limited market activity of the instrument.

The Conference's significant financial instruments are investments. For these financial instruments, carrying values approximate fair value.

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Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Cash and cash equivalents, certificates of deposit, short-term receivables, accounts payable and accrued liabilities – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Investments in securities or mutual funds– The fair value of investments in securities or mutual funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs to the limited market activity of the instrument.

The following table summarizes the valuation of the Conference’s financial instruments by the above ASC 820-10 categories as of December 31, 2018.

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ -	9,814,581	-	9,814,581
Certificates of deposit	545,959	-	-	545,959
Total	<u>\$ 545,959</u>	<u>9,814,581</u>	<u>-</u>	<u>10,360,540</u>

The following table summarizes the valuation of the Conference’s financial instruments by the above ASC 820-10 categories as of December 31, 2017.

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ -	10,313,370	-	10,313,370
Certificates of deposit	797,854	-	-	797,854
Total	<u>\$ 797,854</u>	<u>10,313,370</u>	<u>-</u>	<u>11,111,224</u>

4) Cash and Cash Equivalents:

For purposes of the statement of assets, liabilities, and net assets - modified cash basis and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.

5) Loans Receivable:

Loans receivable represent funds advanced to churches within the Annual Conference. Loans are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan fees and unearned discounts. There were no deferred loan fees or unearned discounts as of yearend. The loans are not collateralized.

Under the Conference's application of the modified cash basis of accounting, no amounts of interest income have been accrued nor have any amounts for loan origination and commitment fees been deferred.

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Loans currently bear interest at the rate of 5.0% per annum. Interest on loans is recognized over the term of the loan and is calculated using the interest method on principal amounts outstanding. The recognition of income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become ninety (90) days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Interest is subsequently recognized only as received until the loan is returned to accrual status. A loan is restored to accrual status when all interest and principal payments are current, and the church has demonstrated to management the ability to make payments of principal and interest as scheduled. The Conference's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the church's failure to meet repayment terms, the church's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. The allowance for loan losses was \$-0- at December 31, 2018.

6) Investments:

Under FASB ASC 958-320, *Investments—Debt and Equity Securities*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statement of financial position. Equity securities without readily determinable fair values are stated at cost. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

7) Prepaid Expenses:

Prepaid expenses represent those expenses paid for during the year but not recognized until future periods.

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8) Property & Equipment:

The Conference capitalizes all expenditures in excess of \$5,000 for property and equipment at cost. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Repairs and maintenance expenses are charged to operations when incurred and any major improvements/betterments and/or replacements of existing assets are capitalized.

Depreciation and amortization are calculated principally on the straight-line basis over the following estimated useful lives of the assets.

<u>Type</u>	<u>Useful Lives</u>
Land	Perpetuity
Conference office & equipment	5 - 40 years
Episcopal residence	40 years
Episcopal residence furnishings	5 - 10 years
Vehicles	5 years

9) Impairment of Long-Lived Assets:

The Conference accounts for long-lived assets in accordance with the provisions of FASB ASC 360-10 and subsections. FASB ASC 360-10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. Management does not believe impairment indicators are present as of December 31, 2018.

10) Budget:

The Council on Finance and Administration prepares an annual budget for the Conference to adopt at its Annual Conference. The budget specifies the source and use of funds and amounts of funds required by the Conference for the budgeted year. With regards to the financing of Pension and Benefits programs, the Council on Finance and Administration reports to the Conference after consultation with the Board of Pensions and Health Benefits, the amounts computed by the Board that are required to meet the authority to receive and disburse funds as specified in the budget. The funds required in the budget are apportioned among the local churches based on a formula taking into consideration non-benevolent, non-building expenses. After the budget is adopted, the Conference notifies the member churches of their apportionments for the year.

11) Revenue Recognition:

Contributions received are recorded as support with or without donor restrictions depending on the

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existence or nature of any donor restrictions. Gifts of cash and other assets are reported as support with donor restrictions if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions. Donated stocks, bonds or other securities are recorded at the fair market value on the date of the gift.

Gifts of long-lived assets are reported as support without donor restrictions support unless the donor has restricted the use of the assets for specific purposes. Long-lived assets with explicit restrictions and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Long-lived assets are recorded at their fair market value on the date of receipt.

12) Special Offerings:

The Conference acts as a receiving-disbursing agent for special offerings and other designated giving remitted from churches.

13) Advertising and Promotions:

Advertising and promotion costs are expensed as incurred. For the year ended December 31, 2018 advertising expenses were \$-0-.

14) Income Taxes:

The Conference qualifies as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is recognized as a church organization under Section 170 (B)(1)(A)(i). As a result of this classification, the Conference is exempt from filing a Form 990 information return to the Internal Revenue Service. Accordingly, no provision for federal or state income taxes has been included in the financial statements. However, any unrelated business income may be subject to taxation. Currently, the Conference has no obligation for any unrelated business income tax.

The Conference is generally no longer subject to examination by federal and state taxing authorities for years prior to 2015. The organization is not currently under audit nor has the organization been contacted by any of these jurisdictions. Management believes that they are operating within their tax-exempt purpose.

The Conference recognizes interest accrued related to unrecognized tax benefits in interest expenses and penalties in operating expenses, when applicable. For the year ended December 31, 2018, no interest or penalties were recorded or included in the financial statements.

The Conference has adopted the provisions of FASB ASC 740-10. Under ASC 740-10, an organization must recognize the tax benefit/liability associated with any uncertain tax positions taken by the organization when it is more likely than not the position will be sustained by review of the taxing

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authority. An analysis performed by management during the year ended December 31, 2018 of the organization's tax positions revealed no positions that met the requirements for disclosure as identified by ASC 740-10.

15) Functional Expenses:

The Conference classifies expenses into three functions: Program services, Management and General, and Fund Raising. Program services includes all funds expended directly or indirectly to support the programs of the Conference. Management and General expenses represent administrative costs and general operating costs. Fundraising expenses consist of expenses related to the solicitation of contributions.

16) Prior-year Presentation:

The financial statements include certain prior year summarized comparative information in total but not by net asset class or fund. Accordingly, such information should be read in conjunction with the Conference's financial statements for the year ended December 31, 2017 from which the summarized information was derived.

17) Use of Estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE C – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of December 31, 2018:

<u>Type</u>	<u>2018</u>	<u>2017</u>
Cash in local banks	\$ 1,157,521	1,321,816
Cash in revolving fund	140,790	122,946
Cash in building fund	23,527	34,804
	<u>\$ 1,321,838</u>	<u>1,479,566</u>

NOTE D – CONCENTRATIONS OF CREDIT RISK

Periodically throughout the year ended December 31, 2018, the Conference's cash balances in its local bank accounts may have exceeded the insured limits allowed under the Federal Deposit Insurance Corporation. Currently those limits insure up to \$250,000 per financial institution. However, management felt the risks related to these balances were within an acceptable range. The Conference believes any credit risk exposure to its cash balances as a result of periodically exceeding available insurance levels is of an acceptable level.

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NOTE E – INVESTMENTS

A summary of investments held at December 31 is as follows:

<u>Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Certificates of deposit	\$ 545,959	545,959	\$ 797,854	797,855
Foundation funds	9,814,581	5,117,119	10,313,370	4,739,060
Total investments	<u>\$ 10,360,540</u>	<u>5,663,078</u>	<u>\$ 11,111,224</u>	<u>5,536,915</u>

The certificates of deposit rates and maturities are as follows:

<u>CD</u>	<u>Terms</u>	<u>Rate</u>	<u>Maturity</u>	<u>FMV</u>
CD #1	90 days	0.10%	3/9/2019	\$ 99,000
CD #2	1 year	0.20%	4/6/2019	99,597
CD #3	1 year	0.20%	4/6/2019	99,597
CD #4	17 months	0.25%	5/29/2019	247,765
				<u>\$ 545,959</u>

Investment activity for the year ended December 31, 2018 was as follows:

<u>Methodist Foundation funds</u>	<u>Without</u>	<u>With</u>	<u>2018</u>	<u>2017</u>
	<u>Donor</u>	<u>Donor</u>		
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Totals</u>	<u>Totals</u>
Investments, beginning of year	\$ 5,857,301	4,456,069	10,313,370	8,718,666
Deposits	59	44,208	44,267	491,159
Interest, dividends, and earnings	243	479	722	516
Realized gains/(losses)	194,540	70,295	264,835	211,535
Unrealized gains/(losses)	<u>(547,878)</u>	<u>(328,970)</u>	<u>(876,848)</u>	<u>1,178,192</u>
Net realized and unrealized gains/(losses)	(353,338)	(258,675)	(612,013)	1,389,727
Disbursements/withdrawals	(1,679)	(78,055)	(79,734)	(282,213)
Transfers from/(to) other Conference accounts	217,970	(65,312)	152,658	-
Fees	-	(4,689)	(4,689)	(4,485)
Investments, end of year	<u>\$ 5,720,556</u>	<u>4,094,025</u>	<u>9,814,581</u>	<u>10,313,370</u>

<u>Certificates of deposit</u>	<u>Without</u>	<u>With</u>	<u>2018</u>	<u>2017</u>
	<u>Donor</u>	<u>Donor</u>		
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Totals</u>	<u>Totals</u>
Investments, beginning of year	\$ 797,855	-	797,855	795,614
Withdrawals	(252,825)	-	(252,825)	-
Interest, dividends, and earnings	929	-	929	2,241
Investments, end of year	<u>\$ 545,959</u>	<u>-</u>	<u>545,959</u>	<u>797,855</u>

NOTE F – ENDOWMENTS

The Conference's endowment consists of approximately 24 individual funds established for a variety of purposes. Its endowment includes both funds with donor restrictions and funds designated by the Conference to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Conference to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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Interpretation of Relevant Law. The Conference is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conference classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Most of those assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without restrictions. In accordance with UPMIFA, the Conference considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Conference, and (7) the Conference's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Conference has adopted investment and spending policies, approved by the Conference, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested with the Texas Methodist Foundation in a well-diversified asset mix, which includes equity and debt securities, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 3%, while growing the funds if possible. Therefore, the Conference expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Conference has a policy of appropriating for distribution each year 3% of its primary endowment fund's fair value at the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Conference considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Conference expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with the Conference's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Underwater Endowment Funds. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Conference to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature are reported in net assets without donor restrictions. None of the Conference's endowment funds were underwater as of December 31, 2018 and 2017.

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Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Totals</u>	<u>2017 Totals</u>
Donor restricted	\$ -	4,094,025	4,094,025	4,456,069
Board designated endowment funds	5,720,556	-	5,720,556	5,857,301
Total	<u>\$ 5,720,556</u>	<u>4,094,025</u>	<u>9,814,581</u>	<u>10,313,370</u>

See the Texas Methodist Foundation funds chart in Note E for endowment activity for the year ended December 31, 2018.

NOTE G – RECEIVABLES

Church Development (Revolving Fund) Loans

The Conference makes loans to church entities for land acquisition, new construction, remodeling and interim refinancing. Repayment must begin at a minimum rate of \$1,000 per year, not later than 36 months after the date of the loan, or within 12 months following the organization of the new congregation, whichever comes first. The loan must be repaid in full within 10 years. The loans are not collateralized. Management believes all loans are fully collectible and has not established an allowance for doubtful accounts at December 31, 2018.

The following loans are outstanding at December 31, 2018:

<u>Name</u>	<u>Loan Date</u>	<u>Rate</u>	<u>Term (in months)</u>	<u>Balance</u>
Van Horn Methodist Church	Jul-14	5.00%	120	18,939
Total				<u>\$ 18,939</u>

Tuition Loans

The Conference makes certain short-term tuition loans to assist persons in need. As of December 31, 2018, the total loans outstanding were \$-0-. These loans are considered fully collectible and as a result no allowance for uncollectible amounts has been established.

NOTE H – CONFERENCE RESERVE FUNDS

Included in the Conference's reserve funds is the stabilization fund. It includes cash, certificates of deposit and a fund invested with the Texas Methodist Foundation (Stabilization Fund 5001.016). It is the expressed purpose of the Stabilization Fund to provide payment of organizational commitments during the months of the year when cash flow is low. Money that has been placed in the fund has come from the former contingency fund, unspent money from the program monies in the reorganization budget, accrued interest earned from invested organization funds and realized and unrealized gains on investments held by the Texas Methodist Foundation. The Endowment Fund is the other part of the Conference's reserves. It originated with the sale of the Bataan Memorial Hospital.

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Following is a summary of the reserve activity:

	Stabilization Fund Cash	Texas Methodist Foundation		Totals
		Stabilization Fund 5001.016	Endowment Fund 5001.002	
Increases				
Interest income	\$ 304	80	11	395
Realized gains/(losses)	-	-	190,411	190,411
Unrealized gains/(losses)	-	(91,775)	(409,678)	(501,453)
Transfers in	-	174,502	29,089	203,591
Total increases	304	82,807	(190,167)	(107,056)
Decreases				
Transfers out	59,572	-	261,754	321,326
Total decreases	59,572	-	261,754	321,326
Net change	(59,268)	82,807	(451,921)	(428,382)
Beginning balances	(489,533)	1,293,527	3,877,827	4,681,821
Ending balances	(548,801)	1,376,334	3,425,906	4,253,439

NOTE I – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

Type	2017	Additions	Deletions	2018
Depreciable property and equipment				
Conference office	\$ 828,732	11,958	-	840,690
Trustee buildings and improvements	-	305,540	-	305,540
Episcopal residence	260,795	17,012	-	277,807
Episcopal residence furnishings	52,031	-	-	52,031
Vehicles	87,815	-	-	87,815
Subtotal	1,229,373	334,510	-	1,563,883
Less: Accumulated depreciation	(341,235)	(54,467)	-	(395,702)
Total depreciable property and equipment, net	888,138	280,043	-	1,168,181
Non-depreciable property and equipment				
Land	165,000	-	-	165,000
Construction in progress	-	7,579	-	7,579
Total non-depreciable property and equipment	165,000	7,579	-	172,579
Total property and equipment, net	\$ 1,053,138	287,622	-	1,340,760

Depreciation expense for the years ended December 31, 2018 was \$54,467.

NOTE J – RELATED PARTY TRANSACTIONS

The Conference collected amounts for administrative and office expenses incurred for other parties totaling \$5,805 for the year ending December 31, 2018. These expenses include telephone, copy/printing charges, and postage. The Conference also collects rent for office space from tenants in the Lomas property.

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The amounts collected were as follows:

	<u>Rent</u>	<u>Admin</u>
NWT - NM Episcopal Office	\$ 10,980	1,773
New Mexico Methodist Foundation	9,900	328
New Mexico Annual Conference Archives	-	252
Albuquerque District Superintendent	9,144	2,650
Board of Pension and Health Benefits	-	802
Total	<u>\$ 30,024</u>	<u>5,805</u>

NOTE K – ECONOMIC DEPENDENCY

The Conference received a significant portion of its revenue in the form of contributions from Methodist churches in the Conference. The Conference expects these contributions to continue into the foreseeable future. If, however, a significant portion of these funds do not continue, the Conference’s ability to continue all programs would be diminished.

NOTE L – LIQUIDITY AND FUNDS AVAILABLE

The Conference’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and equivalents	\$ 1,194,305
Short-term investments - not donor restricted	99,000
Other assets	4,165
	<u>\$ 1,297,470</u>

As a part of Conference’s liquidity management, it has policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash excess is generally held in savings or money market accounts until it is required for operational use.

NOTE M – CHANGE IN ACCOUNTING PRINCIPLE

During 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This standard replaced the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets: those with donor restrictions and those without donor restrictions. Additionally, ASU 2016-14 enhanced financial disclosures with respect to board designations, cash needs, cost allocations, and underwater investments, if any. The Conference has implemented ASU 2016-14 for its fiscal year and has adjusted the presentation in these financial statements accordingly.

NOTE N – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Conference recognizes in the financial statements the effects of all subsequent

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events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Conference's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The organization has evaluated subsequent events through August 2, 2019, which is the date the financial statements were available to be issued.

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SUPPLEMENTAL SCHEDULE OF INVESTMENTS HELD AND MANAGED BY
THE TEXAS METHODIST FOUNDATION
As of December 31, 2018**

Fund Title	Without Donor Restrictions	With Donor Restrictions	Total
Conference Endowment	\$ 3,425,906	-	3,425,906
Lackey Fund	-	40,003	40,003
Pruett Loan Fund	-	41,691	41,691
Board of Trustees^	104,791	-	104,791
New Church Fund	-	275,132	275,132
Senior Ministries Endowment	-	319,987	319,987
Conference Building Reserve^	16,286	-	16,286
Congregational Transformation	-	80,428	80,428
Pace Endowment (New Church)	-	508,934	508,934
Sivley Special Account-CBGM	-	10,150	10,150
Stabilization Fund	1,376,334	-	1,376,334
NMAC Archives and History	-	6,872	6,872
Thaxton Fund	-	1,203,529	1,203,529
Volunteers In Mission	-	9,347	9,347
Pruett Earnings Fund	-	36,467	36,467
Thaxton Endowment Earnings	-	105,671	105,671
McGregor Professorship	-	393,701	393,701
Pippin Endowment	-	575,910	575,910
Whitfield Seminary Schlrshp	-	39,203	39,203
Aves Fund	121,752	-	121,752
New Church	425,336	-	425,336
Pace Earnings	-	19,504	19,504
New Church Development	250,151	-	250,151
Campus Ministries	-	51,544	51,544
Native Amer MEF	-	138,398	138,398
Native Amer MEF Earnings	-	69,486	69,486
Hagerman Endowment	-	168,068	168,068
	<u>\$ 5,720,556</u>	<u>4,094,025</u>	<u>9,814,581</u>

^ - Managed by Conference Trustees