

# 2005

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# Financial Report



GENERAL BOARD OF PENSION AND HEALTH BENEFITS  
OF THE UNITED METHODIST CHURCH

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Caring For Those Who Serve

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## A Message from the General Secretary



We are bound together by our spiritual ties as we serve a world rocked by forces large and small, demanding constant support, vigilance and steadfast faith.

The United Methodist Church has built a strong financial and benefits foundation to enable those in ministry to be a vital and focused presence in the world. We are humbled by the commitment and passion of those we serve, and their trust in us.

We continue to strive to live up to that trust and meet the growing and changing needs of the clergy and lay workers of the Church, and their families.

### FULFILLING LONG-TERM RETIREMENT NEEDS

In 2005, the General Board took significant steps toward fulfilling the present and future needs of those we serve. We implemented decisions of the 2004 General Conference and introduced new plans and services to assist participants with long-term retirement, investment and financial planning needs. These new offerings include:

**LifeStage Investment Management Service (LifeStage)** – An investment tool designed to help participants invest wisely and manage their account balances by tailoring investment allocations.

**Ernst & Young LLP Financial Planning Service** – A fee-based service providing retirement planning advice from a global financial services firm that has specific knowledge of General Board-administered retirement plans and appreciation for clergy and lay employee needs.

**United Methodist Personal Investment Plan (UMPIP)** – An enhanced retirement savings plan (effective January 1, 2006) for clergy and lay employees of United Methodist churches, church-related organizations and general agencies. UMPIP merged the Cumulative Pension and Benefit Fund (CPBF) and the Personal Investment Plan (PIP) to provide retirement benefits and savings opportunities. The General Board added new contribution options and gave participants the choice of directing both employee and employer contributions to any combination of available General Board investment funds or letting LifeStage select allocations for their UMPIP account balances.

**Group Long-Term Care Insurance** – A new General Board-endorsed voluntary benefit program underwritten by John Hancock Life Insurance Company, one of the nation's top long-term care insurance providers. Long-term care insurance provides extended care benefits for participants with chronic illnesses or injuries typically not covered under traditional health care plans or under Medicare or Medicaid.

**Restructuring of Investment Funds** – Changes to five investment funds that diversified investment managers and investment management styles. The General Board believes that these changes will continue our ongoing successful investment performance.

### INFLUENCING CHANGE THROUGH SOCIALLY RESPONSIBLE INVESTING

The General Board continues to ensure that every dollar invested in a United Methodist pension plan is a dollar that can help people, influence how corporations do business or bring about important elements of social economic change. In 2005, our shareholder advocacy urged companies to report their sustainability efforts, particularly those related to the environment and labor relations.

## A Message from the General Secretary *(continued)*

The General Board administers the investments supporting clergy and lay retirement benefits in a way that continues to make a positive and meaningful change in the lives of the underserved. Through our Affordable Housing Program, the General Board participated in various initiatives, including a 30-year loan for the construction of the \$12 million Friendship House American Indian Healing Center in San Francisco, California. Since 1990, the General Board has made investments that support low- and moderate-income families and has helped build or renovate approximately 25,000 housing units. This program is a sound investment, producing an average 7.5% rate of return since its inception. Today, our affordable housing and community development commitments total \$1.3 billion.

In 2005, the General Board also made first-time investments in international microfinance institutions. These institutions provide loans throughout the developing world to the self-employed poor to help them improve their businesses and support their families.

### DEVELOPING PENSIONS FOR CENTRAL CONFERENCES

Over the past five years, the General Board, along with four other United Methodist agencies, has taken steps to address pension needs within the central conferences. The Central Conference Pension Initiative (CCPI) remains focused on creating sustainable pension systems for clergy and lay church workers outside the U.S. In 2005, forty-three U.S. annual conferences and one annual conference outside the U.S. donated their portions of the United Methodist Publishing House allocation to the CCPI Benefit Fund. This marks a major milestone, growing the CCPI fund to over \$1 million.

### FOCUSING ON THE FUTURE

Looking ahead, we are committed to several initiatives that support those in ministry. Among them:

- Preventive health initiatives intended to encourage healthy living through exercise, nutrition, stress relief and spiritual connection.
- Enhanced administrative tools at the conference level to efficiently track and process day-to-day health and retirement benefits.
- Continued successful investment performance through the active management of investment funds.
- Ongoing participant and plan sponsor education about the new Clergy Retirement Security Program (CRSP)\* and the Retirement Security Program for General Agencies (RSP)\*, offering new defined benefit and defined contribution components to provide greater protection and financial support.

*\* CRSP and RSP are effective January 1, 2007. For bishops, CRSP is effective September 1, 2008.*

- Continued advancement of the CCPI with a focus on education, communication, fundraising and model development.

As an agency of the Church, we at the General Board are constantly broadening our view to anticipate changing financial landscapes and emerging participant needs while continuing to seek sound investment opportunities and uphold positive social purposes. The General Board is privileged to support those in ministry and to further the mission of our Church in making disciples for Jesus Christ for the transformation of the world.

Yours in Service to Christ,



Barbara A. Boigegrain  
General Secretary

## Summary of 2005 Economic Events

2005 was a challenging year for the financial markets. Stocks produced solid returns, with the strongest returns coming from international markets, despite the stronger dollar. Fixed income markets were more subdued, as central banks of countries around the world adjusted their monetary policies to counteract the potential for an increase in the rate of inflation. The ups and downs of the markets all year seemed to reflect the mixed signals within the economy—solid economic expansion and strong corporate earnings reports versus rising interest rates and high oil prices.

At the beginning of 2005, concerns over oil prices continued to linger in the financial markets. Oil prices continued their ascent throughout the year due to both surging global demand and uncertainty in supply given terrorist activity in Saudi Arabia and Nigeria, continued violence in Iraq, and renewed nuclear ambitions by Iran. Energy prices reached a high of \$70 per barrel after Hurricane Katrina swept through the southeast U.S. in late August, disrupting oil production in the Gulf of Mexico and leveling parts of Louisiana and Mississippi. Katrina was followed by Hurricanes Rita, in September, and Wilma, in October, causing additional property damage and a surge in energy prices, leading to increased concern about inflation.

The Federal Reserve Board (Fed) continued its campaign in 2005 to fight potential higher inflation rates by raising the Fed funds rate from 2.25% to 4.25% over the course of the year. The Fed's rate moves, however, did not have the desired effect on longer-term interest rates, which barely budged. This created a "conundrum" for Fed Chairman, Alan Greenspan. Longer-term rates remained unchanged or modestly declined, perhaps due to strong demand for longer-term U.S. Treasury Bonds, particularly from foreign buyers, or to the perception that inflation was contained. The yield curve ended the year slightly inverted, as interest rates on shorter-term notes rose above longer-term bonds. An inverted yield curve typically signals an economic recession, creating some anxiety for investors heading into 2006. The Fed signaled in early

December that it might be ready to pause its rate-increase campaign. However, it will continue to monitor the strength of the economy and watch for signs of inflation. Leadership at the Federal Reserve changed early in 2006, as Alan Greenspan retired and Princeton economics professor, Ben Bernanke, took over.

The relatively high interest rates in the U.S. gave support to the U.S. dollar, and its strength in 2005 surprised many investors. Given the large trade deficit and the expected revaluation of the Chinese yuan, many investors expected the dollar to decline in 2005. The dollar gained roughly 11%–15% against the pound sterling, the euro, and the yen. Instability in the European Union lessened support for the euro; the yuan was only modestly revalued after Chinese monetary officials appeared to succumb to pressure from U.S. government officials.

### HOW THIS AFFECTS PARTICIPANTS

Strong investment performance in the U.S. and world financial markets helped produce an investment return of 8.6% (9.2% before management fees and operating expenses) for the General Board's investments in the Multiple Asset Fund (MAF). The fund's investment return again surpassed the return of its benchmark. For 2005, MAF outperformed its benchmark by 1.7% (2.3% before fees). Additional General Board investment performance information is available at <http://www.gbophb.org/invest/performance/perf.html>.

### LOOKING AHEAD

In 2006, investors will continue to gauge the strength of the economy and corporate profits, the potential acceleration of inflation, oil prices, geopolitics and the direction of interest rates. Many strategists agree that the U.S. dollar will likely decline, that interest rates will likely rise, and that higher energy prices will continue to pose a threat. As always, the General Board continues to monitor the markets and execute its long-term investment strategy in order to provide security and competitive returns to its participants.

## Summary of 2005 Economic Events *(continued)*

On January 1, 2006, the General Board restructured five of its investment funds and implemented the LifeStage Investment Management Service (LifeStage), allowing participants to customize fund allocations. LifeStage replaced MAF as the investment vehicle for participants in the Ministerial Pension Plan and the Staff Retirement Benefits Program. LifeStage automatically adjusts each participant's fund allocation as personal circumstances change and as market conditions change. Also effective January 1, the United Methodist Personal Investment Plan (UMPIP) replaced the Cumulative Pension and Benefit Fund and the Personal Investment Plan. Participants in UMPIP may elect LifeStage as the investment vehicle for their balances and continue to invest in MAF. However, the fund is now comprised of four funds that invest in predetermined allocations: the Inflation Protection Fund, the Domestic Bond Fund, the Domestic Stock Fund and the International Stock Fund. Although changed structurally, MAF employs the same investment managers and investment styles as it did previously.

### SOCIALLY RESPONSIBLE INVESTING

The General Board continues to be a leader among socially responsible investors. In addition to avoiding investments in tobacco, alcohol, gambling, weapons production and pornography, the General Board invests in a manner that accomplishes a positive social purpose, and continues to fulfill its mandate to influence corporations toward greater social responsibility. The General Board has provided over \$600 million in market rate loans to help support the purchase of affordable housing by low- and moderate-income individuals and families. Additionally, the General Board has influenced major U.S. corporations to change business practices affecting the long-term sustainability of their business operations by addressing issues related to global warming, fair labor practices, HIV/AIDS, corporate governance, equal opportunity employment, and other important social issues. In 2005, shareholders approved three proxy resolutions sponsored by the General Board. Shareholders at Bed Bath & Beyond Inc., as well as Longs Drugs, approved our resolutions calling for an annual election of the board of directors. Shareholders of Textron voted to separate the roles of Chairman of the Board of Directors and the Chief Executive Officer, as a result of our resolution.

## COMBINED BALANCE SHEETS

Assets (in thousands)	December 31, 2005	December 31, 2004
Investments (Note 2)		
Stock	\$ 4,274,333	\$ 4,740,247
Fixed income securities and contracts	2,844,013	2,929,347
International securities	3,743,043	3,377,006
Cash equivalents	825,204	607,359
Real estate and private equity limited partnerships	343,104	290,154
Securities loaned under securities lending agreements (Note 3)	2,247,025	1,733,925
Total Investments	<u>14,276,722</u>	<u>13,678,038</u>
Invested collateral from securities lending transactions (Note 3)	2,322,187	1,783,019
Other assets (Note 2)	1,057,191	135,820
Cash	8,087	7,984
<b>Total Assets</b>	<b><u>\$ 17,664,187</u></b>	<b><u>\$ 15,604,861</u></b>

Liabilities and Net Assets (in thousands)	December 31, 2005	December 31, 2004
Plan accumulations, plan sponsor deposits and endowments (Note 2)		
Defined contribution plans	\$ 6,848,980	\$ 6,420,484
Defined benefit plans	3,367,393	3,280,838
Annuities	2,214,648	2,072,650
Disability, death and health benefit program deposits (Note 7)	1,093,112	994,085
Plan sponsor and other deposits	824,776	788,382
Endowments	28,434	27,691
Total plan accumulations, plan sponsor deposits and endowments	<u>14,377,343</u>	<u>13,584,130</u>
Payable under securities lending agreements (Note 3)	2,322,187	1,783,019
Other liabilities (Note 2)	931,836	207,225
Total liabilities	<u>17,631,366</u>	<u>15,574,374</u>
Net assets	32,821	30,487
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 17,664,187</u></b>	<b><u>\$ 15,604,861</u></b>

See accompanying Notes to Combined Financial Statements.

## COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

<b>Years Ended December 31</b> (in thousands)	<b>2005</b>	<b>2004</b>
Interest, dividend, real estate partnership & trust investment income	\$ 434,119	\$ 416,029
Other income	<u>6,590</u>	<u>5,085</u>
Investment income	440,709	421,114
Net realized gain on investments	903,708	650,830
Net unrealized (loss) gain on investments	<u>(177,004)</u>	<u>366,774</u>
Investment income and net gain on investments	1,167,413	1,438,718
Investment management and custodial fees	<u>(47,380)</u>	<u>(42,109)</u>
Net investment gain	1,120,033	1,396,609
Operating expenses (Note 8)	(36,289)	(36,513)
Net administration expense charged to health benefit program (Note 7)	<u>2,035</u>	<u>1,281</u>
Excess of net investment income over operating expenses	1,085,779	1,361,377
Interest credits to Diversified Investment Fund accounts (Note 5)	-	(1,269,580)
Earnings allocated to unitized fund accounts (Note 6)	<u>(1,083,445)</u>	<u>(1,154,741)</u>
Increase (decrease) in net assets during the year	2,334	(1,062,944)
Net assets:		
Beginning of year	<u>30,487</u>	<u>1,093,431</u>
End of year	<u>\$ 32,821</u>	<u>\$ 30,487</u>

See accompanying Notes to Combined Financial Statements.

## COMBINED STATEMENTS OF CHANGES IN PLAN ACCUMULATIONS, PLAN SPONSOR DEPOSITS, ENDOWMENTS AND NET ASSET ACCOUNTS

Year Ended December 31, 2005 (in thousands)	Balances Beginning of Year	Interest and Unitized Fund Credits	Contributions and Deposits	Withdrawals and Distributions	Net Transfers and Other	Balances End of Year
Defined contribution plans	\$ 6,420,484	\$ 463,837	\$ 251,099	\$ (163,812)	\$ (122,628)	\$ 6,848,980
Defined benefit plans	3,280,838	280,730	–	(221,642)	27,467	3,367,393
Annuities	2,072,650	184,264	–	(177,215)	134,949	2,214,648
Disability, death and health benefit program deposits	994,085	85,362	184,672	(167,868)	(3,139)	1,093,112
Plan sponsor and other deposits	788,382	66,867	203,188	(201,822)	(31,839)	824,776
Endowments	<u>27,691</u>	<u>2,385</u>	<u>52</u>	<u>(130)</u>	<u>(1,564)</u>	<u>28,434</u>
Total plan accumulations, plan sponsor deposits and endowments	13,584,130	1,083,445	639,011	(932,489)	3,246	14,377,343
Net assets	\$ 30,487	\$ 2,334	–	–	–	\$ 32,821

Year Ended December 31, 2004 (in thousands)	Balances Beginning of Year	Interest and Unitized Fund Credits	Contributions and Deposits	Withdrawals and Distributions	Net Transfers and Other	Balances End of Year
Defined contribution plans	\$ 5,417,870	\$ 1,051,205	\$ 214,362	\$ (148,103)	\$ (114,850)	\$ 6,420,484
Defined benefit plans	2,824,898	647,758	–	(217,617)	25,799	3,280,838
Annuities	1,708,449	404,599	–	(167,530)	127,132	2,072,650
Disability, death and health benefit program deposits	798,606	182,422	169,248	(142,494)	(13,697)	994,085
Plan sponsor and other deposits	670,914	131,263	188,223	(174,323)	(27,695)	788,382
Endowments	<u>21,487</u>	<u>6,455</u>	<u>104</u>	<u>(100)</u>	<u>(255)</u>	<u>27,691</u>
Total plan accumulations, plan sponsor deposits and endowments	11,442,224	2,423,702	571,937	(850,167)	(3,566)	13,584,130
Net assets	\$ 1,093,431	\$ (1,062,944)	–	–	–	\$ 30,487

See accompanying Notes to the Combined Financial Statements.

# NOTES TO THE COMBINED FINANCIAL STATEMENTS

## NOTE 1:

### NATURE OF OPERATIONS

The General Board of Pension and Health Benefits is a not-for-profit, administrative general agency of the religious denomination known as The United Methodist Church. It functions through two related not-for-profit corporations: General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Illinois (the Illinois Corporation), and General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Missouri (the Missouri Corporation). (The Illinois and Missouri Corporations are referred to collectively as the General Board). The General Board is responsible for the general supervision and administration of pension, disability, death and health benefit plans, programs and funds as authorized by the General Conference, the denomination's highest legislative authority. The Illinois Corporation is the plan administrator of the various pension, disability, death and health benefit plans, programs and funds which the General Board administers for its plan sponsors.

**Pension and retirement plans:** As of December 31, 2005, the four Internal Revenue Code section 403(b) pension plans include: the Ministerial Pension Plan (MPP), providing pension benefits to eligible clergy; the Cumulative Pension and Benefit Fund (CPBF), providing pension benefits to lay employees of local churches, annual conferences and other eligible United Methodist-related institutions; the Staff Retirement Benefits Program (SRBP), providing pension benefits to eligible employees of general agencies of the denomination; and the Personal Investment Plan (PIP), a retirement savings plan for employee contributions. The current Internal Revenue Code section 401(k) plan is the Horizon Plan, a retirement savings plan for employee and employer contributions for employees of eligible United Methodist-related institutions. In addition, the Illinois Corporation administers various former benefit plans, which no longer accrue additional service credit for active plan participants or allow for the eligibility of new participants.

As of January 1, 2006, PIP and CPBF have been amended and restated into a new plan, called the United Methodist Personal Investment Plan (UMPIP), which allows clergy and lay participants to make personal contributions and plan sponsors that so elect to make any of several kinds of employer contributions for their participants.

The General Conference 2004 adopted new retirement programs for both clergy and general agency staff, the Clergy Retirement Security Program (CRSP) and the Retirement Security Program for General Agencies (RSP), to become effective January 1, 2007. Both programs will consist of two components:

- A defined benefit component based on either Denominational Average Compensation (DAC) or actual compensation, and
- A defined contribution component providing for a contribution of at least 3% of actual compensation.

The new retirement program for clergy is an amendment and restatement of MPP. Beginning in 2007, the program will consist of three parts covering three different time periods:

- CRSP for service beginning January 1, 2007;
- MPP for service from January 1, 1982, through December 31, 2006; and
- Pre-82 Plan for service prior to 1982.

The new retirement program for employees of general agencies maintains the tradition of generally mirroring the clergy pension program design. The agency program is an amendment and restatement of SRBP, which is retained in Supplement Two to RSP, and The Uniform Staff Pension Fund, which is retained in Supplement One to RSP.

Contributions to the current retirement programs (MPP and SRBP) will cease on December 31, 2006, and the General Board will continue to invest the programs' account balances on behalf of their participants. Upon a participant's retirement, then current plan provisions will apply.

### **Disability, death and health benefit plans or programs:**

The three current disability, death and health benefit programs include: the Comprehensive Protection Plan (CPP), providing various welfare benefits to eligible clergy; the Basic Protection Plan (BPP), providing various welfare benefits to eligible clergy and lay employees of participating local churches, annual conferences and other eligible United Methodist-related institutions; and the Hospitalization and Medical Expense Program (HMEP), doing business as HealthFlex, providing group

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

health coverage to employees of participating local churches, annual conferences, general agencies and other eligible United Methodist-related institutions.

**Funding of benefit liabilities:** Plan sponsors are responsible for the funding and recording of all pension, disability, death and health benefit liabilities. All sponsoring entities are responsible for funding both current and past service costs. The pension obligation under Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions" and the postretirement obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," are the responsibility of the sponsoring entities.

The Missouri Corporation is the trustee of eight trusts, which are described below.

**Pension Trust:** The Pension Trust consists of pension plan-related assets from the four current Internal Revenue Code section 403(b) plans and the former defined benefit programs administered by the Illinois Corporation.

**Horizon 401(k) Plan Trust:** The Horizon 401(k) Plan Trust was established in 2003 and consists of the pension plan-related assets from the current Internal Revenue Code section 401(k) plan.

**Protection Benefit Trust:** The Protection Benefit Trust consists of disability and death benefit plan-related assets administered by the Illinois Corporation.

**Employee Health Benefit Trust:** The Employee Health Benefit Trust consists of health program-related assets administered by the Illinois Corporation.

**General Agency Benefit Trust:** The General Agency Benefit Trust of The United Methodist Church consists of assets to be used in the funding of benefits for employees of general agencies of The United Methodist Church.

**Deposit Accounts Trust:** The Deposit Accounts Trust consists of assets such as those deposited by the various plan sponsors for the purpose of funding their pension, disability, death and health benefit plans and programs, and of the assets deposited by the United Methodist Overseas Pension Corporation.

**Long-Term Care Trust:** The Group Long-Term Care Trust of The United Methodist Church holds the group long-term care insurance policy underwritten by John Hancock Life Insurance Company.

**Common Master Trust:** The Common Master Trust consists of assets from various special-purpose endowments, trusts and funds administered by the General Board.

All of the assets of the seven trusts are invested in a prudent, diversified manner based on an investment policy statement adopted by the General Board. As of December 31, 2005, the General Board offered nine investment funds: Multiple Asset Fund (MAF), Stable Value Fund (SVF), Balanced Social Values Plus Fund, Domestic Bond Fund (DBF), Inflation Protection Fund (IPF), Money Market Plus Fund, Short-Term Investment Fund, Domestic Stock Fund, and International Stock Fund. PIP (and as of January 1, 2006 UMPIP) participants may invest before-tax and after-tax contributions, together with resulting earnings, in seven of the nine available investment funds. Entities with balances in the Deposit Accounts Trust may elect among eight of the nine available investment funds. IPF, a bond fund that invests in securities linked to inflation (as an eligible investment fund), was established by the General Board on January 5, 2004. On December 31, 2005 the General Board also established the Annuity Immunization Fund for the investments that support the monthly annuity benefit payments instituted prior to January 1, 2004 for participants in the former CPBF, former PIP, SRBP and Supplement Two to MPP.

At the close of business on February 27, 2004, the General Board discontinued the Diversified Investment Fund (DIF) as an investment option for Deposit Accounts Trust investors. These investors were required to transfer all of their balances held in this fund to other funds offered by the General Board.

At the close of business on April 16, 2004, the General Board discontinued DIF for all remaining investors and transferred balances to MAF, SVF or to a newly established reserve fund, the Protected Annuity Rate Balance Fund (PARB). This fund contains balances accumulated through June 30, 2003, of clergy participants who had attained the age of 62 or older or who had 35 years of service as of July 1, 2003. These participants were promised an 8% annuity conversion rate for the portion of these accumulated balances converted to a monthly benefit payment at the election of the participant after retirement. These balances are non-interest bearing to the entitled participants, but are invested in MAF. Any gains or losses associated with the PARB accrue to the plan sponsors who are ultimately responsible for fulfilling the monthly benefit payment.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

Beginning January 1, 2006, the General Board introduced the LifeStage Investment Management Service (LifeStage). This service selects among five of the General Board funds based on specific participant characteristics that include age, expected date to receive retirement benefits, enrollment in Social Security, risk tolerance, and other factors. The service automatically rebalances among the five funds at least once annually.

Additionally, in April, 2004, the General Board provided active participants in CPBF, MPP, and SRBP with the opportunity to gradually convert the investment of their plan balances to lower risk investment funds. The General Board established Participant-Directed Accounts (PDA) in these plans for participants age 61 and over. For those participants with a PDA, the General Board will annually transfer 20% of a participant's accumulated balance (excluding PARB) to the PDA. Participants with a PDA may elect to keep the designated balance invested in MAF, or may choose among three lower risk funds (DBF, IPF, or SVF). If a participant makes no election, the General Board will invest PDA balances in SVF. With the introduction of LifeStage on January 1, 2006, the General Board no longer establishes PDAs.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation:** The combined financial statements include the accounts of the funds within the Illinois Corporation and the Missouri Corporation, prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates. All significant intercompany and interfund accounts and transactions have been eliminated in these combined statements.

**Investments:** All investment transactions are governed by investment policy and guidelines adopted by the General Board. In general, investments are stated at market value. Changes in market value of investments are recorded in the Combined Statements of Operations and Changes in Net Assets as "net unrealized (loss) gain on investments". Investment purchases and sales are recorded as of the trade date. Net gains and losses on the sale of

investments, other than cash equivalent investments, are included in net realized (loss) gain on investments in the Combined Statements of Operations and Changes in Net Assets. Gains and losses on the sale of cash equivalent investments are included in interest income. Costs of investments sold are determined on an average cost basis.

**Stock, fixed income and international securities:** Common and preferred stock, fixed income and international securities are stated at market value determined primarily by closing prices quoted on recognized U.S. and international security exchanges.

International securities consist primarily of international stock, bonds and foreign currency forward contracts.

Fixed income securities and contracts consist of U.S. Treasury and agency securities, corporate bonds, mortgage-backed securities, asset-backed securities, sovereign securities denominated in U.S. dollars and foreign currency, forward contracts and mortgage contracts or other loans that comprise investments in the General Board's Affordable Housing/Community Development Program.

The Affordable Housing/Community Development Program was established in 1990 to earn risk-adjusted market rates of return while supporting the development of affordable housing for low- and moderate-income individuals and families. The program invests primarily in privately placed mortgage-backed securities, mortgage loans, and direct loans that meet pre-set criteria such as specified minimum loan-to-value and debt coverage ratios. At December 31, 2005 and 2004, the General Board had outstanding investments of approximately \$455 million and \$375 million, respectively. Mortgage contracts and other loans are recorded on the financial statements at the net present value of the future cash flows, which approximates fair value. The discount rate applied is based on current risk-free interest rates adjusted by the General Board based on its assessment of the credit worthiness of the borrowers. At December 31, 2005 and 2004, the General Board had outstanding commitments to provide approximately \$203 million and \$212 million, respectively, in additional funding related to the Affordable Housing/Community Development program. These amounts are not reflected in the financial statements.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

**Cash equivalents:** Cash equivalent investments are stated at cost, which approximates market value. Cash equivalents include cash, short-term securities that mature within three months or less at date of purchase and cash collateral relating to futures contracts.

**Real estate limited partnerships:** Investments in real estate limited partnerships are carried at the General Board's share of the net asset value based on the most recent quarterly financial statements of the partnership (typically three months in arrears), which approximates fair value at year end. Changes in net asset value are reflected as unrealized gains and losses in the Combined Statements of Operations and Changes in Net Assets. At December 31, 2005 and 2004, the General Board had outstanding commitments to provide approximately \$189 million and \$157 million, respectively, in additional funding related to these real estate limited partnerships. These amounts are not reflected in the financial statements.

**Private equity limited partnerships:** Investments in private equity limited partnerships are carried at the General Board's share of the net asset value based on the most recent quarterly financial statements of the partnership (typically three months in arrears), which approximates fair value at year end. Changes in net asset value are reflected as unrealized gains and losses in the Combined Statements of Operations and Changes in Net Assets. At December 31, 2005 and 2004, the General Board had outstanding funding commitments of \$174 and \$218 million for private equity investments, respectively. These amounts are not reflected in the financial statements.

**Securities loaned under securities lending agreements:** A portion of stock, fixed income and international securities has been loaned to qualified borrowers pursuant to the General Board's securities lending program further described in Note 3. The amount of securities on loan as of December 31, is comprised of the following:

	2005	2004
Common stock	\$780,929	\$738,938
Fixed income securities	1,275,810	913,632
International securities	190,286	81,355
<b>Total</b>	<b>\$2,247,025</b>	<b>\$1,733,925</b>

**Other assets:** Other assets consist primarily of fixed assets and investment receivables. Fixed assets, which include property, furniture and equipment, are stated at cost less allowance for depreciation. Depreciation of fixed assets is on a straight-line basis over the asset's estimated service life, typically three years for equipment and thirty years for buildings. Depreciation expense is included in operating expenses in the Combined Statements of Operations and Changes in Net Assets.

Investment receivables of approximately \$979 million and \$22 million at December 31, 2005 and 2004, respectively, are included in other assets. Investment receivables consist of settlement date obligations of the purchasers of investments sold by the Missouri Corporation. Beginning January 1, 2006, the General Board introduced LifeStage. At December 31, 2005 in order to facilitate the transition to LifeStage, the General Board executed a series of purchases and sales of securities within the various funds so that it could properly position the funds to accommodate changes in the expected participant investment mix resulting from LifeStage.

**Defined contribution plans:** Contributions to one of the four (and, as of January 1, 2006, one of the three) Internal Revenue Code section 403(b) or one 401(k) defined contribution pension or retirement plans are made by the conference/salary-paying entity to a participant's account. All accounts are marked to market daily for each of the respective investment funds.

**Defined benefit plans:** Plan sponsors fund current and future benefits for services rendered under the former defined benefit plans. For financial statement purposes, the General Board shows only the assets that plan sponsors have contributed to date, with accumulated investment earnings. These plans include funded and unfunded liabilities. Plan sponsors of the Pre-82 Plan are required to contribute the unfunded amounts, plus any changes resulting from benefit improvements, no later than the end of the year 2021.

**Annuities:** Monthly benefit payments in the form of annuities for retired individuals that have been established under defined contribution plans. Actuarially determined benefits are funded upon retirement from the individual accounts of active participants. Participants make specific elections with regard to survivorship, post-retirement benefit increases, and other terms of the annuity.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

### **Disability, death and health benefit program deposits:**

These pooled accounts represent deposits made by plan sponsors participating in the disability, death and health benefit programs to provide benefits to individual participants.

**Plan sponsor and other deposits:** Plan sponsor deposits represent undesignated amounts received from plan sponsors to fund pension, disability, death and health benefit programs. These funds are invested at the discretion of the plan sponsor.

**Endowments:** Included in endowments, within the Missouri Corporation, are permanent and restricted funds. The General Board invests these funds as the trustee. Distributions of income are made in accordance with the provisions of the individual funds. Many annual conferences, particularly those in the South Central and Southeastern jurisdictions, have Conference Superannuate Endowment Fund accounts. These funds, the principal of which may not be withdrawn as mandated by General Conference, represent endowment funds for the benefit of retirees of the former Methodist Episcopal Church, South. Also included in endowments, within the Illinois Corporation, are undesignated gifts, bequests and donations.

**Other liabilities:** Investment payables of approximately \$901 million and \$190 million at December 31, 2005 and 2004, respectively, are included in other liabilities. Investment payables consist of settlement date obligations for investment purchases. At December 31, 2005, in order to facilitate the transition to LifeStage, the General Board executed a series of purchases and sales of securities within the various funds so that it could properly position the funds to accommodate changes in the expected participant investment mix resulting from LifeStage.

**Net assets:** Combined Net Assets at December 31, 2005 represent the Illinois Corporation's net assets. In 2004, the dissolution of DIF changed the allocation of earnings to plans from a defined allocation to a daily marked to market valuation for nearly all of the liabilities. After the dissolution of DIF, net assets are determined based on increases or decreases in the value of assets not specifically allocated to plans.

**Reclassification:** Certain prior-year amounts have been reclassified for comparative purposes. These reclassifications did not affect net assets for the years presented. Securities on loan to qualified borrowers have been segregated from "stock, fixed income and international securities" and reported separately as "securities loaned under securities lending agreements". Prior year amounts reported as "invested securities lending collateral" include a portion of the assets previously reported as "stock, fixed income, and international securities". Prior year amounts, which were presented by active and retired individuals, have been reclassified to reflect balances by type of plan.

### **NOTE 3: SECURITIES LENDING TRANSACTIONS AND REPURCHASE AGREEMENTS**

The General Board enters into securities lending transactions in its fixed income and equity portfolios, for which it receives compensation. Loans of securities are secured by cash collateral equal to at least 102% and 105% of the market value of the securities on loan for domestic and international securities, respectively. The General Board monitors the market value of the collateral relative to the amounts due under the agreements and, when required, requests through its advisors additional collateral or reduces the loan balance in order to maintain the contractual margin protection. The General Board typically reinvests the collateral into repurchase agreements, fixed income securities and cash equivalents. The amount of the collateral related to its reinvestment agreements is carried at market value and is reported on the Combined Balance Sheets as "invested collateral from securities lending transactions". Repurchase agreements are collateralized by securities with a market value equal to at least 102% of the General Board's investment in the agreement. The General Board, through its advisors, monitors the market value of the collateral relative to its investment and, when required, requests additional collateral or reduces its investment in order to maintain the contractual margin protection.

The market value of the securities loaned totaled \$2,247 million and \$1,734 million at December 31, 2005 and 2004, respectively. The securities loaned are recorded in the Combined Balance Sheets as "securities loaned under securities lending agreements". The market value of the "invested collateral from securities lending transactions"

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

totaled \$2,322 million and \$1,783 million at December 31, 2005 and 2004, respectively. These amounts are offset by liabilities of the same amounts recorded as “payable under securities lending agreements”.

The General Board follows SFAS No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” to account for securities lending transactions and repurchase agreements. SFAS No. 140 has no effect on the net assets of the General Board as the only effect is a balance sheet gross-up reflecting an asset in the form of securities loaned and a liability reflecting the collateral received.

Repurchase agreements totaling \$2,299 million and \$1,691 million at December 31, 2005 and 2004, respectively, were collateralized with securities with a market value of \$2,408 million and \$1,758 million, respectively.

### NOTE 4:

#### RISK MANAGEMENT INSTRUMENTS

The Missouri Corporation may, from time to time, enter into financial futures contracts, foreign currency forward contracts and forward contracts to purchase U.S. government agency obligations for trading purposes. Equity futures contracts are used as a means to replicate the performance of the broad stock market and to reduce transaction costs associated with rebalancing a market-based indexed portfolio when there are cash inflows or outflows. Foreign currency forward contracts are used to manage the risk of foreign currency fluctuations and to ensure that adequate funds, denominated in the local currency, are available to settle purchases of foreign securities. Forward contracts to purchase U.S. government agency obligations are used to take advantage of market yield premiums available for delayed settlement contracts. Fixed income financial futures (both exchange-traded and over-the-counter, including forward contracts and futures contracts) may be used for hedging purposes. Hedging transactions that use fixed income futures contracts are defined as transactions that are substitutes for fixed income securities that the portfolio could own, and that have the comparable economic impact of managing the risks of the portfolio. In addition, fixed income financial futures are used for obtaining efficient investment exposure to certain financial market sectors that may not be economically accessible outside of the derivatives market. The General Board does not use derivative instruments or strategies to leverage the portfolio.

Financial futures contracts, foreign currency forward contracts and forward contracts to purchase U.S. government agency obligations are stated at market value determined by prices quoted on national security exchanges. Financial futures contracts are marked to market, and fluctuations in the value are recognized as realized gains or losses that are settled daily with cash through a margin account. Foreign currency forward contracts and forward contracts to purchase U.S. government agency obligations are also marked to market and fluctuations in value prior to maturity are recognized as unrealized gains or losses in the period during which they arise. At maturity, realized gain or loss is recognized. Other liabilities, including the payables related to forward contracts to purchase U.S. government agency obligations, are stated at face value.

The General Board follows SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” that requires all organizations to record derivative instruments on the balance sheet at market value. Changes in market value must be recognized as a change in net assets in the period of change.

As with all of the securities included in the General Board’s investment portfolio, these instruments are exposed to both market and credit risk. The market risk associated with these instruments is that equity prices or foreign exchange rates could change, resulting in a loss in the value of the investment. These risks are minimized by holding partially offsetting positions in the underlying securities from time to time. The credit risk associated with these instruments relates to the failure of the counterparty to pay based on the contractual terms of the agreement. The General Board anticipates, however, that counterparties will be able to fully satisfy their obligations under the contracts, given their high credit ratings. Each equity futures contract requires that the General Board place on deposit with the executing counterparty an amount equal to the margin requirement for the contract. The margin requirement is recalculated daily based on the change in market value. Funds transfer to or from the General Board depending on the change in margin requirement. Hence, the General Board’s daily credit exposure is limited to the margin requirement attributable to one day’s price fluctuation. The General Board experienced no credit-related losses on these arrangements in 2005 or 2004.

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

The market values of risk management instruments as of December 31 are:

(in thousands)	2005	2004
<b>Forward Commitments</b>		
Federal National Mortgage Association	\$ 70,386	\$ 112,845
Federal Home Loan Mortgage Corporation	3,350	29,412
Government National Mortgage Association	859	3,630
<b>Contracts to sell</b>		
foreign currency	952,611	847,037
<b>Contracts to buy</b>		
foreign currency	(866,716)	(841,130)
<b>Contracts to buy equity futures</b>		
S&P 500 Index	110,171	20,329
S&P 400 Index	3,281	5,390
Russell 2000 Index	2,041	4,447
Russell 1000 Index	1,025	5,868
<b>Contracts to buy other futures</b>		
Fixed income securities	119,290	271,868
Cash and equivalents	53,526	30,016

**NOTE 5:**  
**INTEREST CREDITS TO DIVERSIFIED INVESTMENT FUND ACCOUNTS**

It was the practice of the General Board to credit interest to accounts in DIF on a monthly basis. Effective March 1, 2003, the General Board suspended the base interest credit. In 2004, no additional interest was credited.

On February 27, 2004 and April 16, 2004, the General Board credited plan sponsors and participants, respectively, with balances in DIF, their proportionate share of the net assets at those dates, substantially all of which was earned in 2003.

The amounts credited on those dates were approximately \$51 million and \$1,219 million, respectively. All balances were then transferred from DIF to other funds. At the close of business on April 16, 2004, the General Board discontinued DIF for all remaining investors.

**NOTE 6:**  
**EARNINGS ALLOCATED TO UNITIZED FUND ACCOUNTS**

MAF and other investment options, excluding DIF, are recorded in units to participants' and plan sponsors' accounts and are credited with actual earned returns, including realized and unrealized gains and losses.

**NOTE 7:**  
**HEALTHFLEX**

In 2004, substantially all of the benefits under HealthFlex were funded by the General Board using a minimum premium arrangement under which the General Board paid most claims. Claims were administered by a third-party administrator. To manage its ultimate claim costs, the General Board entered into a stop-loss agreement with an insurance company, whereby the insurance company absorbed all claim costs in excess of 110% of projected claim costs for the year. The General Board paid a premium for this protection.

As of January 1, 2005, HealthFlex changed its funding mechanism and its third-party administrative arrangements. HealthFlex no longer pays for most health benefits through a minimum premium insurance arrangement but is now a self-funded church plan, contracting with certain outside firms for administrative services only. In addition, to manage its risk, the General Board has entered into aggregate per participant stop-loss agreements. A few of the benefit programs under HealthFlex remain insured by third-party providers. The General Board has also entered a purchasing coalition with other church benefit program administrators, in which a single provider administers prescription drug claims with beneficial economies of scale.

As the HealthFlex plan administrator, the General Board bills the plan sponsors a monthly premium for benefits received by the plan participants. The monthly premium is actuarially determined to cover all plan costs including premiums paid to insurance companies, self-funded claims and all administrative costs.

The General Board invests the assets of HealthFlex in MAF and the Short-Term Investment Fund (STIF) and incurs staff support and other costs to administer HealthFlex. In 2005 and 2004, approximately \$2.0 million and \$1.3

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

million, respectively, representing the administrative fees, net of investment and other income, were charged to the HealthFlex accumulated reserve account. This item is reflected on the “net administration expense charged to health benefit program” line of the Combined Statements of Operations and Changes in Net Assets.

The following is a summary of the program results for 2005 and 2004:

(in thousands)	2005	2004
Premiums		
Medical	\$ 123,295	\$ 113,499
Other	6,067	4,692
Total Premiums	<u>129,362</u>	<u>118,191</u>
Claims		
Medical (net of rebates)	(97,500)	(88,268)
Other	(4,808)	(4,333)
Total Claims	<u>(102,308)</u>	<u>(92,601)</u>
Illinois Corp. administration	(2,951)	(3,083)
Third party administration	(9,271)	(7,481)
Total Administration	<u>(12,222)</u>	<u>(10,564)</u>
Net Experience	<u>\$ 14,832</u>	<u>\$ 15,027</u>
Accumulated Reserves		
Beginning of Year	44,014	27,186
Net Experience	14,832	15,027
Investment/other income	916	1,802
End of year	<u>\$59,762</u>	<u>\$44,014</u>

The HealthFlex accumulated reserves are included in the Combined Balance Sheets as “Disability, death and health benefit program deposits”.

### NOTE 8: OPERATING EXPENSES

The components of operating expenses for the years ended December 31 are as follows:

(in thousands)	2005	2004
Salaries and employee benefits	\$ 22,436	\$ 22,475
Professional services	8,004	7,799
Occupancy and other office expenses	2,388	2,477
Computer and other equipment	1,659	1,972
Meetings and travel	1,291	1,225
Other expenses	511	577
Total operating fund expenses	<u>36,289</u>	<u>36,525</u>
General endowment fund expenses	-	1
Missouri Corporation expense	-	(13)
<b>Total operating expenses</b>	<b>\$ 36,289</b>	<b>\$ 36,513</b>

### NOTE 9: TAX STATUS

The General Board operates exclusively for religious and charitable purposes and is exempt from federal income taxes under Internal Revenue Code section 501(c)(3).

Accountants and Business Advisors

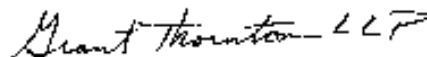
## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit Committee of the Board of Directors  
General Board of Pension and Health Benefits of The United Methodist Church,  
Incorporated in Illinois and the General Board of Pension and Health Benefits  
of The United Methodist Church, Incorporated in Missouri

We have audited the accompanying combined balance sheet of the General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Illinois and the General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Missouri (the "General Board") as of December 31, 2005, and the related combined statement of operations and changes in net assets and combined statement of changes in plan accumulations, plan sponsor deposits, endowments and net asset accounts for the year then ended. These financial statements are the responsibility of the General Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The combined financial statements of the General Board as of and for the year ended December 31, 2004, were audited by other auditors whose report dated May 6, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the General Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Illinois and the General Board of Health Benefits of The United Methodist Church, Incorporated in Missouri as of December 31, 2005, and the combined results of their operations and changes in net assets and changes in plan accumulations, plan sponsor deposits, endowments and net asset accounts for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Chicago, Illinois  
April 7, 2006

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## OTHER INFORMATION

### EXECUTIVE COMPENSATION

The following information regarding executive compensation is unaudited. We regularly review and analyze market compensation data to help ensure that we can attract superior leadership while maintaining our commitments to stewardship and strong investment returns. Shown below is competitive data relative to the total cash compensation packages of the top five executives at the General Board. The financial services and church pension funds compensation data was obtained from surveys conducted by independent compensation consulting firms. The compensation packages of our top five executives are lower than comparable financial services organizations and church pension funds.

(in thousands)	2005
<b>Chief Executive Officer</b>	
Financial Services*	\$ 1,441.2
Church Pension Funds**	463.5
General Board	400.0
<b>Chief Operating Officer</b>	
Financial Services*	1,114.9
Church Pension Funds***	–
General Board	247.5
<b>Top Investment Executive</b>	
Financial Services*	359.7
Church Pension Funds**	375.2
General Board	231.9
<b>Top Legal Executive</b>	
Financial Services*	395.4
Church Pension Funds**	330.8
General Board	216.0
<b>Top Financial Executive</b>	
Financial Services*	587.1
Church Pension Funds**	220.0
General Board	184.5
(position open as of 11/05)	

\* Median (50th percentile) of total cash compensation at comparable financial services organizations

\*\* 75th percentile of total cash compensation for church pension funds with assets of at least \$1 billion

\*\*\* No comparable data reported

Number of participating church organizations by asset size:

\$1 billion to \$3.9 billion:	5
\$4 billion to \$10 billion:	4
\$10 billion plus:	2

The aggregate total cash compensation of the top five positions at the General Board is about 33% of the median (50<sup>th</sup> percentile) of total cash compensation for the same five positions in comparable financial services organizations. This means the cost of our leadership team is 67% less than that of comparable financial services organizations.

### AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of eight members—four full members of the board and four at-large members of the committee with particular expertise in accounting and finance. The authority and responsibility of the Audit Committee is defined in its charter, which is updated annually; copies are available upon request. It satisfied its responsibilities under the charter in 2005 by reviewing the adequacy of internal controls, reviewing significant internal and external audit findings, and reviewing specific projects on business continuity and risk management. The committee also reviewed and approved the audited 2005 financial statements.

## SUPPLEMENT ONE TO THE MINISTERIAL PENSION PLAN (THE PRE-82 PLAN)

The 1980 General Conference amended the Pre-82 Plan to require that each conference fund its liability by December 31, 2021. Below is a summary of the funded status by conference for the Pre-82 Plan.

### MINIMUM CONTRIBUTION LIABILITY AS OF JANUARY 1, 2005 FOR THE PLAN YEAR 2007<sup>1</sup>

Conference	Past Service Rate <sup>2</sup>	Survivor Percentage	Plan Funding	Liability	Funded Status	Plan Funded Ratio
Alabama-West Florida	\$541.00	70%	\$43,434,195	(\$36,433,685)	\$7,000,510	119%
Alaska Missionary	541.00	100%	4,281,733	(2,485,948)	1,795,785	172%
Arkansas	533.00	75%	35,237,562	(31,153,459)	4,084,103	113%
Baltimore-Washington	509.00	85%	73,788,604	(49,848,079)	23,940,525	148%
California-Nevada	788.00	75%	45,270,770	(49,909,814)	(4,639,044)	91%
California-Pacific	531.00	85%	82,016,346	(56,369,567)	25,646,779	146%
Central Pennsylvania	471.00	75%	54,615,914	(47,925,545)	6,690,369	114%
Central Texas	570.00	75%	22,282,849	(28,517,070)	(6,234,221)	78%
Dakotas	484.00	70%	36,851,589	(23,003,896)	13,847,693	160%
Desert Southwest	537.00	100%	17,628,085	(14,499,021)	3,129,064	122%
Detroit	618.00	75%	129,319,268	(53,089,555)	76,229,713	244%
East Ohio	648.00	70%	101,676,601	(81,880,167)	19,796,434	124%
Eastern Pennsylvania	423.00	70%	20,616,085	(31,755,972)	(11,139,887)	65%
Florida	662.00	75%	114,664,521	(85,418,177)	29,246,344	134%
Greater New Jersey	513.00	75%	63,133,922	(46,497,230)	16,636,692	136%
Holston	449.00	70%	21,207,764	(34,968,295)	(13,760,531)	61%
Illinois Great Rivers	593.00	100%	110,287,026	(90,080,703)	20,206,323	122%
Iowa	521.00	70%	76,036,837	(64,911,548)	11,125,289	117%
Kansas East	526.00	75%	33,152,429	(21,989,553)	11,162,876	151%
Kansas West	576.00	100%	52,953,822	(38,005,962)	14,947,860	139%
Kentucky	577.00	75%	69,908,294	(44,287,994)	25,620,300	158%
Louisiana	535.00	75%	40,880,968	(31,722,576)	9,158,392	129%
Memphis	485.00	70%	26,576,213	(20,755,335)	5,820,878	128%
Minnesota	568.00	70%	63,858,617	(41,385,420)	22,473,197	154%
Mississippi	429.00	75%	41,923,899	(45,414,970)	(3,491,071)	92%
Missouri	470.00	70%	53,113,385	(43,977,719)	9,135,666	121%
Nebraska	510.00	75%	47,837,659	(31,313,216)	16,524,443	153%
New England	505.00	85%	67,971,548	(44,606,118)	23,365,430	152%
New Mexico	497.00	85%	20,677,791	(12,967,810)	7,709,981	159%
New York	498.00	70%	53,983,431	(40,670,326)	13,313,105	133%
North Alabama	570.00	70%	56,619,746	(40,246,728)	16,373,018	141%
North Carolina	547.00	75%	19,110,674	(41,844,365)	(22,733,691)	46%
North Central New York	394.00	70%	26,395,586	(22,882,684)	3,512,902	115%
North Georgia	620.00	75%	23,453,693	(56,336,374)	(32,882,681)	42%
North Indiana	498.00	75%	75,218,564	(51,858,618)	23,359,946	145%
North Texas	608.00	70%	13,692,101	(26,268,787)	(12,576,686)	52%
Northern Illinois	510.00	75%	63,087,751	(52,018,058)	11,069,693	121%

# SUPPLEMENT ONE TO THE MINISTERIAL PENSION PLAN (THE PRE-82 PLAN)

## MINIMUM CONTRIBUTION LIABILITY AS OF JANUARY 1, 2005 FOR THE PLAN YEAR 2007<sup>1</sup>

Conference	Past Service Rate <sup>2</sup>	Survivor Percentage	Plan Funding	Liability	Funded Status	Plan Funded Ratio
Northwest Texas	485.00	75%	8,678,728	(19,589,000)	(10,910,272)	44%
Oklahoma	510.00	75%	28,485,666	(38,765,290)	(10,279,624)	73%
Oklahoma Indian Mission	236.00	70%	1,018,023	(665,270)	352,753	153%
Oregon-Idaho	434.00	70%	28,108,745	(18,622,396)	9,486,349	151%
Pacific Northwest	538.00	70%	45,224,769	(32,281,910)	12,942,859	140%
Peninsula-Delaware	487.00	75%	23,666,462	(17,791,305)	5,875,157	133%
Puerto Rico	228.00	70%	5,393,239	(2,661,551)	2,731,688	203%
Rio Grande	365.00	70%	3,330,494	(5,133,023)	(1,802,529)	65%
Rocky Mountain	443.00	70%	36,088,968	(27,005,365)	9,083,603	134%
South Carolina	579.00	75%	89,548,946	(62,723,329)	26,825,617	143%
South Georgia	555.00	70%	17,030,590	(32,974,382)	(15,943,792)	52%
South Indiana	572.00	70%	51,907,742	(48,590,893)	3,316,849	107%
Southwest Texas	539.00	70%	21,206,249	(27,276,946)	(6,070,697)	78%
Tennessee	541.00	70%	39,367,150	(27,381,737)	11,985,413	144%
Texas	714.00	75%	67,982,928	(61,560,331)	6,422,597	110%
Troy	434.00	70%	23,779,411	(18,463,928)	5,315,483	129%
Virginia	507.00	70%	68,928,441	(75,304,272)	(6,375,831)	92%
West Michigan	656.00	85%	68,201,288	(44,128,302)	24,072,986	155%
West Ohio	488.00	70%	135,171,074	(88,638,609)	46,532,465	153%
West Virginia	472.00	70%	50,802,504	(44,894,235)	5,908,269	113%
Western New York	390.00	70%	25,056,496	(19,892,926)	5,163,570	126%
Western North Carolina	610.00	70%	113,782,535	(78,068,461)	35,714,074	146%
Western Pennsylvania	468.00	75%	127,617,916	(77,831,018)	49,786,898	164%
Wisconsin	583.00	100%	66,039,903	(51,358,176)	14,681,727	129%
Wyoming	499.00	75%	21,141,013	(15,604,439)	5,536,574	135%
Yellowstone	363.00	70%	13,811,381	(8,936,637)	4,874,744	155%
<b>Total Plan</b>			<b>\$3,084,136,503</b>	<b>(\$2,483,444,075)</b>	<b>\$600,692,428</b>	<b>124%</b>

<sup>1</sup> Represents only assets that have been contributed to Supplement One to the Ministerial Pension Plan.

<sup>2</sup> Assumptions: 2007 Automatic PSR, 2% PSR increases for all subsequent years and 7.0% interest earnings. A conference's liabilities will increase from these stated values if it elects a higher PSR.

**Past Service Rate (PSR):** The minimum pension benefit payable for each year of approved service with pension credit rendered to an annual conference prior to January 1, 1982 (pre-'82).

**Survivor %:** The percentage (elected by the conference) of the participant's annuity payable to the participant's eligible spouse, upon the participant's death.

**Plan Funding:** The market value of plan assets attributable to a conference.

**Liability (Present Value of Benefits):** The estimated total of all benefits to be paid now and expected to be paid in the future, expressed in today's dollars.

**Funded Status:** The difference between a plan's assets and liabilities. If positive, there is a surplus. If negative, there is an unfunded liability.

## SUPPLEMENT ONE TO THE MINISTERIAL PENSION PLAN (THE PRE-82 PLAN)

The 1980 General Conference amended the Pre-82 Plan to require that each conference fund its liability by December 31, 2021. Below is a summary of the funded status by conference for the Pre-82 Plan. The amounts in the Liability column of this chart have been adjusted to reflect the settlement value of the plan. The settlement value is intended to represent the amount of funding that would be required by a third party to assume the liability of the plan sponsor. This information is provided in the interest of full disclosure and transparency only.

### ESTIMATED SETTLEMENT VALUES AS OF JANUARY 1, 2005 FOR THE PLAN YEAR 2007<sup>1</sup>

Conference	Past Service Rate <sup>2</sup>	Survivor Percentage	Plan Funding	Liability	Funded Status	Plan Funded Ratio
Alabama-West Florida	\$541.00	70%	\$43,434,195	(\$48,084,248)	(\$4,650,053)	90%
Alaska Missionary	541.00	100%	4,281,733	(3,245,688)	1,036,045	132%
Arkansas	533.00	75%	35,237,562	(41,194,134)	(5,956,572)	86%
Baltimore-Washington	509.00	85%	73,788,604	(66,336,709)	7,451,895	111%
California-Nevada	788.00	75%	45,270,770	(64,836,362)	(19,565,592)	70%
California-Pacific	531.00	85%	82,016,346	(74,258,544)	7,757,802	110%
Central Pennsylvania	471.00	75%	54,615,914	(64,176,309)	(9,560,395)	85%
Central Texas	570.00	75%	22,282,849	(37,654,438)	(15,371,589)	59%
Dakotas	484.00	70%	36,851,589	(30,381,112)	6,470,477	121%
Desert Southwest	537.00	100%	17,628,085	(19,065,156)	(1,437,071)	92%
Detroit	618.00	75%	129,319,268	(70,964,924)	58,354,344	182%
East Ohio	648.00	70%	101,676,601	(108,636,696)	(6,960,095)	94%
Eastern Pennsylvania	423.00	70%	20,616,085	(42,092,567)	(21,476,482)	49%
Florida	662.00	75%	114,664,521	(115,357,788)	(693,267)	99%
Greater New Jersey	513.00	75%	63,133,922	(61,566,832)	1,567,090	103%
Holston	449.00	70%	21,207,764	(44,838,896)	(23,631,132)	47%
Illinois Great Rivers	593.00	100%	110,287,026	(119,793,646)	(9,506,620)	92%
Iowa	521.00	70%	76,036,837	(85,272,486)	(9,235,649)	89%
Kansas East	526.00	75%	33,152,429	(28,953,555)	4,198,874	115%
Kansas West	576.00	100%	52,953,822	(50,204,261)	2,749,561	105%
Kentucky	577.00	75%	69,908,294	(57,988,689)	11,919,605	121%
Louisiana	535.00	75%	40,880,968	(42,022,522)	(1,141,554)	97%
Memphis	485.00	70%	26,576,213	(27,355,547)	(779,334)	97%
Minnesota	568.00	70%	63,858,617	(55,420,668)	8,437,949	115%
Mississippi	429.00	75%	41,923,899	(59,568,371)	(17,644,472)	70%
Missouri	470.00	70%	53,113,385	(58,886,078)	(5,772,693)	90%
Nebraska	510.00	75%	47,837,659	(41,520,969)	6,316,690	115%
New England	505.00	85%	67,971,548	(58,433,013)	9,538,535	116%
New Mexico	497.00	85%	20,677,791	(17,338,182)	3,339,609	119%
New York	498.00	70%	53,983,431	(52,776,005)	1,207,426	102%
North Alabama	570.00	70%	56,619,746	(52,685,866)	3,933,880	107%
North Carolina	547.00	75%	19,110,674	(54,057,735)	(34,947,061)	35%
North Central New York	394.00	70%	26,395,586	(30,106,696)	(3,711,110)	88%
North Georgia	620.00	75%	23,453,693	(73,275,974)	(49,822,281)	32%
North Indiana	498.00	75%	75,218,564	(68,287,165)	6,931,399	110%
North Texas	608.00	70%	13,692,101	(34,016,524)	(20,324,423)	40%

## SUPPLEMENT ONE TO THE MINISTERIAL PENSION PLAN (THE PRE-82 PLAN)

ESTIMATED SETTLEMENT VALUES AS OF JANUARY 1, 2005 FOR THE PLAN YEAR 2007<sup>1</sup>

Conference	Past Service Rate <sup>2</sup>	Survivor Percentage	Plan Funding	Liability	Funded Status	Plan Funded Ratio
Northern Illinois	510.00	75%	63,087,751	(69,350,905)	(6,263,154)	91%
Northwest Texas	485.00	75%	8,678,728	(25,762,100)	(17,083,372)	34%
Oklahoma	510.00	75%	28,485,666	(50,989,178)	(22,503,512)	56%
Oklahoma Indian Mission	236.00	70%	1,018,023	(820,822)	197,201	124%
Oregon-Idaho	434.00	70%	28,108,745	(24,643,992)	3,464,753	114%
Pacific Northwest	538.00	70%	45,224,769	(43,237,659)	1,987,110	105%
Peninsula-Delaware	487.00	75%	23,666,462	(23,387,082)	279,380	101%
Puerto Rico	228.00	70%	5,393,239	(3,592,901)	1,800,338	150%
Rio Grande	365.00	70%	3,330,494	(6,566,309)	(3,235,815)	51%
Rocky Mountain	443.00	70%	36,088,968	(35,701,760)	387,208	101%
South Carolina	579.00	75%	89,548,946	(82,741,192)	6,807,754	108%
South Georgia	555.00	70%	17,030,590	(42,251,158)	(25,220,568)	40%
South Indiana	572.00	70%	51,907,742	(63,106,651)	(11,198,909)	82%
Southwest Texas	539.00	70%	21,206,249	(35,936,236)	(14,729,987)	59%
Tennessee	541.00	70%	39,367,150	(36,080,658)	3,286,492	109%
Texas	714.00	75%	67,982,928	(80,704,056)	(12,721,128)	84%
Troy	434.00	70%	23,779,411	(24,438,541)	(659,130)	97%
Virginia	507.00	70%	68,928,441	(100,505,220)	(31,576,779)	69%
West Michigan	656.00	85%	68,201,288	(58,359,120)	9,842,168	117%
West Ohio	488.00	70%	135,171,074	(116,929,478)	18,241,596	116%
West Virginia	472.00	70%	50,802,504	(59,244,544)	(8,442,040)	86%
Western New York	390.00	70%	25,056,496	(26,964,918)	(1,908,422)	93%
Western North Carolina	610.00	70%	113,782,535	(102,431,942)	11,350,593	111%
Western Pennsylvania	468.00	75%	127,617,916	(106,562,202)	21,055,714	120%
Wisconsin	583.00	100%	66,039,903	(68,193,258)	(2,153,355)	97%
Wyoming	499.00	75%	21,141,013	(20,899,017)	241,996	101%
Yellowstone	363.00	70%	13,811,381	(11,780,058)	2,031,323	117%
<b>Total Plan</b>			<b>\$3,084,136,503</b>	<b>(\$3,281,835,312)</b>	<b>(\$197,698,809)</b>	<b>94%</b>

<sup>1</sup> Represents only assets that have been contributed to Supplement One to the Ministerial Pension Plan.

<sup>2</sup> Assumptions: 2007 Automatic PSR, 2% PSR increases for all subsequent years and 7.0% interest earnings. A conference's liabilities will increase from these stated values if it elects a higher PSR.

## INVESTMENT MANAGERS, AFFORDABLE HOUSING INTERMEDIARIES, BANKS, AUDITORS AND CONSULTANTS

### INVESTMENT MANAGERS

AMB Institutional Alliance Fund, Inc. San Francisco, California	Genesis Investment Management, LTD London, England	Prudential Investment Management Services, LLC Parsippany, New Jersey
Adams Street Partners Chicago, Illinois	Heitman Capital Management Corporation Chicago, Illinois	Putnam Investments, LLC Boston, Massachusetts
Barclays Global Investors San Francisco, California	High Pointe Capital Management, LLC Buffalo Grove, Illinois	RCG Urban American West New York, New Jersey
Blackacre Institutional Partners, L.P. New York, New York	Hoover Investment Management Co., LLC San Francisco, California	RCM Capital Management San Francisco, California
Bridgewater Associates, Inc. Westport, Connecticut	Hotchkis & Wiley Capital Management Los Angeles, California	(RREEF) America LLC (Real Estate Securities) Chicago, Illinois
Brown Capital Management, Inc. Baltimore, Maryland	JPMorgan Investment Management, Inc. New York, New York	Seix Investment Advisors, Inc. Woodcliff Lake, New Jersey
Cabot Properties, Inc. Boston, Massachusetts	Lehman Asset Management, LLC Chicago, Illinois	Sprucegrove Investment Management Toronto, Ontario, Canada
Capital Advisors, Inc. Lancaster, Pennsylvania	LM Capital San Diego, California	Standish Mellon Asset Management Company LLC Pittsburgh, Pennsylvania
Capital Guardian Trust Company Los Angeles, California	Mellon Bond Associates Pittsburgh, Pennsylvania	TA Associates Realty Boston, Massachusetts
CB Richard Ellis Investors Los Angeles, California	Metropolitan West Securities, Inc. Los Angeles, California	Transwestern Realty Partners Chicago, Illinois
CMD Realty Investors, Inc. Chicago, Illinois	Miller/Howard Investments Woodstock, New York	Tri Continental Capital, LP Toronto, Ontario, Canada
Cooke and Bieler Investment Counsel Philadelphia, Pennsylvania	Northern Trust Global Investments, Inc. Chicago, Illinois	Urdang & Associates Real Estate Advisors Plymouth Meeting, Pennsylvania
Daruma Asset Management, Inc. New York, New York	Oaktree Capital Management, LLC Los Angeles, California	Wellington Management Company, LLC Boston, Massachusetts
Disciplined Growth Investors Minneapolis, Minnesota	Pacific Investment Management Company (PIMCO) Newport Beach, California	Zevenbergen Capital Management, Inc. Seattle, Washington
Fidelity Management Trust Company Boston, Massachusetts	PRISM Mezzanine Fund, LP Chicago, Illinois	
GKM Generation Funds Los Angeles, California		

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### AFFORDABLE HOUSING AND COMMUNITY DEVELOPMENT INTERMEDIARIES

BlueOrchard Finance, S.A.  
Geneva, Switzerland

The Community Development Trust,  
Inc.  
New York, New York

Community Investment Corporation  
Chicago, Illinois

The Community Preservation  
Corporation  
New York, New York

Community Reinvestment Fund  
Minneapolis, Minnesota

Enterprise Mortgage Investments, Inc.  
Columbia, Maryland

The Enterprise Social Investment  
Corporation  
Columbia, Maryland

Great Lakes Capital Fund  
Lansing, Michigan

Illinois Facilities Fund  
Chicago, Illinois

Local Initiatives Managed Assets  
Corporation  
New York, New York

The Low Income Investment Fund  
San Francisco, California

Mercy Loan Fund  
Denver, Colorado

State Street Global Advisors/  
The Tuckerman Group  
and Boston Capital  
Institutional Advisors  
Boston, Massachusetts

CUSTODIAL BANK  
Mellon Bank, N.A  
Pittsburgh, Pennsylvania

COMMERCIAL BANK  
The Northern Trust Company  
Chicago, Illinois

INDEPENDENT AUDITORS  
Grant Thornton, LLP  
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Mercer Human Resource Consulting  
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