

**MORAVIAN CHURCH IN AMERICA,  
SOUTHERN PROVINCE**

**Financial Statements**

**December 31, 2010**

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To The Provincial Financial Board  
Moravian Church in America, Southern Province  
Winston-Salem, North Carolina

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying statements of financial position of the Moravian Church in America, Southern Province (a non-profit organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Moravian Church in America, Southern Province's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note B to the financial statements, the Moravian Church in America, Southern Province has excluded from the financial statements the real estate used by the individual congregations of the Moravian Church in America, Southern Province. In our opinion, U.S. generally accepted accounting principles require that such information be included in the accompanying financial statements and related notes.

As more fully described in Note B to the financial statements, the Province has not implemented the financial reporting requirements of FASB ASC 958-205-50 related to net asset classifications and disclosures of the Province's endowment funds. Presentation of such information is required by U.S. generally accepted accounting principles.

In our opinion, except for the effects on the financial statements of the matters discussed in the preceding paragraphs, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Moravian Church in America, Southern Province as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Butler # Burke LLP*

Winston-Salem, North Carolina  
July 8, 2011

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 658,200	\$ 2,632,877
Accounts receivable - trade	2,857	10,420
Accounts receivable - other	189,870	308,982
Contributions receivable	58,205	103,258
Prepaid expenses	114,851	108,907
Inventories	32,979	29,256
Notes receivable	502,645	515,923
Contributions receivable - capital campaign	-	4,805
Property and equipment, net	4,740,569	4,772,976
Cash surrender value of life insurance	73,443	69,989
Investments	8,723,500	6,871,724
Assets held in charitable remainder trusts	396,042	410,874
Beneficial interest in perpetual trusts	773,883	399,061
Other assets	606,159	606,159
Collections	-	-
	<u>                    </u>	<u>                    </u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 16,873,203</u></b>	<b><u>\$ 16,845,211</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 239,403	\$ 199,251
Accrued and other liabilities	126,754	107,337
Due to other Moravian Church entities, net	114,420	72,033
Due to other Moravian Church supported entities	16,886	22,598
Line of credit	179,500	179,500
Notes payable	1,416,564	1,490,408
Charitable gift annuity liabilities:		
Annuity payment liabilities	23,875	41,458
Remainder interests due to other Moravian Church entities	19,362	8,113
Charitable remainder trust liabilities:		
Liability under unitrust agreements	314,650	332,484
Remainder interests due to other Moravian Church entities	54,835	52,361
Agency funds	73,657	19,947
<u>Total Liabilities</u>	<u>2,579,906</u>	<u>2,525,490</u>
Unrestricted		
Undesignated	2,610,256	2,942,483
Designated	2,868,933	3,006,687
	<u>5,479,189</u>	<u>5,949,170</u>
Temporarily restricted	4,788,430	5,112,365
Permanently restricted	4,025,678	3,258,186
<u>Total Net Assets</u>	<u>14,293,297</u>	<u>14,319,721</u>
	<u>                    </u>	<u>                    </u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$ 16,873,203</u></b>	<b><u>\$ 16,845,211</u></b>

# MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>SUPPORT AND REVENUE</b>				
Contributions				
Provincial churches support	\$ 1,465,076	\$ 279,603	\$ -	\$ 1,744,679
Other contributions	303,690	776,559	309,750	1,389,999
Program fees	668,968	-	-	668,968
Gross profit on sales of merchandise and literature	15,332	-	-	15,332
Treasurer's office - fees	61,722	-	-	61,722
Investment income	85,265	90,790	-	176,055
Net realized and unrealized gains on investments	204,354	206,743	463,309	874,406
Increase in cash surrender value of life insurance policies	-	3,454	-	3,454
Change in value of split-interest agreements	(690)	1,375	997	1,682
Change in value of perpetual trusts	-	-	65,255	65,255
Other revenue	<u>33,351</u>	<u>-</u>	<u>-</u>	<u>33,351</u>
	2,837,068	1,358,524	839,311	5,034,903
Net assets released from restrictions				
Restrictions satisfied by payments	<u>1,754,278</u>	<u>(1,754,278)</u>	<u>-</u>	<u>-</u>
<u>Total Support and Revenue</u>	<u>4,591,346</u>	<u>(395,754)</u>	<u>839,311</u>	<u>5,034,903</u>
<b>EXPENSES</b>				
Program Services				
Provincial Elders' Conference	319,629	-	-	319,629
Board of Cooperative Ministries	1,616,398	-	-	1,616,398
Laurel Ridge Camp and Conference Center	1,018,302	-	-	1,018,302
Moravian Archives	314,359	-	-	314,359
Moravian Music Festival	211,623	-	-	211,623
Ministerial student aid	60,156	-	-	60,156
Unity causes	62,498	-	-	62,498
Services to ministers and congregations	732,251	-	-	732,251
Other programs and causes	<u>218,690</u>	<u>-</u>	<u>-</u>	<u>218,690</u>
<u>Total Program Services</u>	<u>4,553,906</u>	<u>-</u>	<u>-</u>	<u>4,553,906</u>
Supporting Services				
General and administrative	416,037	-	-	416,037
Capital campaign	<u>91,384</u>	<u>-</u>	<u>-</u>	<u>91,384</u>
<u>Total Supporting Services</u>	<u>507,421</u>	<u>-</u>	<u>-</u>	<u>507,421</u>
<u>Total Expenses</u>	<u>5,061,327</u>	<u>-</u>	<u>-</u>	<u>5,061,327</u>
Change in Net Assets Before Transfers	(469,981)	(395,754)	839,311	(26,424)
Transfers	-	71,819	(71,819)	-
Net Assets at Beginning of Year	<u>5,949,170</u>	<u>5,112,365</u>	<u>3,258,186</u>	<u>14,319,721</u>
Net Assets at End of Year	<u>\$ 5,479,189</u>	<u>\$ 4,788,430</u>	<u>\$ 4,025,678</u>	<u>\$ 14,293,297</u>

# MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>SUPPORT AND REVENUE</b>				
Contributions				
Provincial churches support	\$ 1,525,261	\$ 322,122	\$ -	\$ 1,847,383
Other contributions	351,751	807,964	55,984	1,215,699
Program fees	656,612	-	-	656,612
Gross profit on sales of merchandise and literature	8,116	-	-	8,116
Treasurer's office - fees	60,157	-	-	60,157
Moravian Music Festival	101,116	-	-	101,116
Investment income	109,156	95,793	-	204,949
Net realized and unrealized gains on investments	280,040	171,373	647,709	1,099,122
Increase in cash surrender value of life insurance policies	-	3,693	-	3,693
Change in value of split-interest agreements	481	8,777	3,848	13,106
Change in value of perpetual trusts	-	-	74,905	74,905
Loss on disposal of assets	(222,085)	-	-	(222,085)
Other revenue	27,398	-	-	27,398
	<u>2,898,003</u>	<u>1,409,722</u>	<u>782,446</u>	<u>5,090,171</u>
Net assets released from restrictions				
Restrictions satisfied by payments	<u>1,087,469</u>	<u>(1,087,469)</u>	<u>-</u>	<u>-</u>
<u>Total Support and Revenue</u>	<u>3,985,472</u>	<u>322,253</u>	<u>782,446</u>	<u>5,090,171</u>
<b>EXPENSES</b>				
Program Services				
Provincial Elders' Conference	323,612	-	-	323,612
Board of Christian Education	386,094	-	-	386,094
Board of Evangelism and Home Missions	1,108,313	-	-	1,108,313
Laurel Ridge Camp and Conference Center	1,017,883	-	-	1,017,883
Moravian Archives	311,095	-	-	311,095
Moravian Book and Gift Shop	47,494	-	-	47,494
Moravian Music Festival	92,886	-	-	92,886
Ministerial student aid	73,126	-	-	73,126
Unity causes	61,910	-	-	61,910
Services to ministers and congregations	262,703	-	-	262,703
Other programs and causes	64,795	-	-	64,795
<u>Total Program Services</u>	<u>3,749,911</u>	<u>-</u>	<u>-</u>	<u>3,749,911</u>
Supporting Services				
General and administrative	436,552	-	-	436,552
Capital campaign	89,145	-	-	89,145
<u>Total Supporting Services</u>	<u>525,697</u>	<u>-</u>	<u>-</u>	<u>525,697</u>
<u>Total Expenses</u>	<u>4,275,608</u>	<u>-</u>	<u>-</u>	<u>4,275,608</u>
Change in Net Assets	(290,136)	322,253	782,446	814,563
Net Assets at Beginning of Year	<u>6,239,306</u>	<u>4,790,112</u>	<u>2,475,740</u>	<u>13,505,158</u>
Net Assets at End of Year	<u>\$ 5,949,170</u>	<u>\$ 5,112,365</u>	<u>\$ 3,258,186</u>	<u>\$ 14,319,721</u>

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**

**STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (26,424)	\$ 814,563
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	240,261	237,183
Loss on disposal of assets	4,668	222,085
Net realized and unrealized gains on investments	(874,406)	(1,099,122)
Change in value of split-interest agreements	(1,682)	(13,106)
Change in value of perpetual trusts	(65,255)	(74,905)
Noncash contributions	(360,830)	-
Noncash transfer of assets	331,022	-
Decrease (increase) in operating assets:		
Receivables	176,987	177,338
Prepaid expenses	(5,944)	(37,567)
Inventories	(3,723)	15,346
Notes receivable	13,278	12,552
Cash surrender value of life insurance policies	(3,454)	(3,694)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	59,569	(191,629)
Due to other Moravian Church entities, net	42,387	116,025
Due to Moravian Church supported entities	(5,712)	(13,673)
Contributions and receipts restricted for long-term purposes	-	(55,984)
<b><u>Net Cash Provided by (Used in) Operating Activities</u></b>	<b><u>(479,258)</u></b>	<b><u>105,412</u></b>
<b>INVESTING ACTIVITIES</b>		
Sales (purchases) of investments, net	(1,262,763)	1,845,352
Purchases of property and equipment	(236,421)	(60,848)
Proceeds from disposal of assets	23,899	-
Receipt of agency funds, net	53,710	97
<b><u>Net Cash Provided by (Used in) Investing Activities</u></b>	<b><u>(1,421,575)</u></b>	<b><u>1,784,601</u></b>
<b>FINANCING ACTIVITIES</b>		
Principal repayments on debt	(73,844)	(68,658)
Contributions and receipts restricted for long-term purposes	-	55,984
<b><u>Net Cash Used in Financing Activities</u></b>	<b><u>(73,844)</u></b>	<b><u>(12,674)</u></b>
Increase (Decrease) in Cash and Cash Equivalents	(1,974,677)	1,877,339
Cash and Cash Equivalents at Beginning of Year	<u>2,632,877</u>	<u>755,538</u>
Cash and Cash Equivalents at End of Year	<u>\$ 658,200</u>	<u>\$ 2,632,877</u>
<b><u>SUPPLEMENTAL INFORMATION</u></b>		
Interest paid	<u>\$ 103,293</u>	<u>\$ 108,169</u>

# MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE A: NATURE OF ORGANIZATION

The Moravian Church in America, Southern Province ("MCSP") is a North Carolina corporation formed by an action of the General Assembly of North Carolina in 1877. The corporation serves within the southeastern United States to administer and promote the purposes and activities of the worldwide Moravian Church, formally known as The Unitas Fratrum.

The Provincial Synod is the legislative body composed of representatives from congregations, boards, and agencies. It meets every four years to elect officers of the Province, adopt rules and regulations, and to oversee the affairs of the Province.

The activities of MCSP are carried out by the congregations of the Province located in North Carolina, Virginia, Georgia and Florida and by:

- The Provincial Elders' Conference which establishes and implements the goals and priorities of the Province; and plans and implements all phases of extension work.
- The Provincial Financial Board which manages the funds of Provincial Boards and congregations.
- Laurel Ridge Camp and Conference Center which operates under the direction of the Board of Christian Education to further the purposes of that Board.
- The Board of Cooperative Ministries (formerly the Board of Evangelism and Home Missions and Board of Christian Education) which serves to develop programs, strategies, and resources for local churches and the Province; plan and implement work undertaken by the Province to meet community and human need in areas served by the Province including the operations of Sunnyside Ministry; and make policy and implement programs in all matters pertaining to Christian education.
- The Archives of the Moravian Church in America, Southern Province which serves as custodian for the archives of the Province.

However, the assets, liabilities and operations of the congregations of the Province are not reflected in these financial statements.

### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The financial statements of MCSP have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP), except for the effects of the GAAP departures described below.

#### Principles of Combination

The financial statements of MCSP include the activities of the following operating agencies:

- Provincial Administration
- Board of Cooperative Ministries (formerly the Board of Evangelism and Home Missions and the Board of Christian Education)
- Laurel Ridge Camp and Conference Center
- Moravian Archives

# MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, Subtopic 205, *Presentation of Financial Statements*. Under those provisions, net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets – net assets that are not restricted by donors for which donor-imposed restricted have expired.

Temporarily restricted net assets – net assets that contain donor-imposed time or purpose restrictions that have not currently be met.

Permanently restricted net assets – net assets contain donor-imposed restrictions stipulates that amounts be maintained in perpetuity. MCSP may expend part or all of the income earned according to donor stipulations.

#### Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

#### Promises to Give

Unconditional promises to give are recognized as support or gains in the period received and as assets or decreases of liabilities depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

#### Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of maintenance and repairs is expensed as incurred.

#### Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

## MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Investments

MCSP carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values in the statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Net unrealized gains and losses on investments, whose income is unrestricted or temporarily restricted as to use, is reported as unrestricted or temporarily restricted net assets unless such net unrealized activity is permanently restricted by donor or by law.

MCSP maintains investment accounts for its invested funds, most of which have been pooled with other affiliated entities of the MCSP in a pooled investment fund account, the Common Fund, operated by the Moravian Ministries Foundation in America under the direction of a professional investment manager. Realized and unrealized gains and losses from securities in the pooled investment fund account are allocated to the individual funds.

Expenses relating to investment income, including custodial fees and investment advisory fees, have been netted against investment income in the financial statements.

##### Collections

MCSP owns significant collections of historical books, materials, manuscripts, and records. In addition, MCSP also serves as custodian for significant collections of historical books, materials, manuscripts and records owned by various other Moravian entities.

The collections, which were acquired since MCSP's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets in the year acquired. In accordance with GAAP, MCSP does not capitalize donated collection items or recognize them as revenues or gains. GAAP provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain, are protected, kept unencumbered, cared for, and preserved, and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

##### Donated Assets and Services

Donated marketable securities and non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

MCSP receives a substantial amount of services donated by many individuals in carrying out its ministries. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under GAAP. MCSP pays for most services requiring specific expertise.

# MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### Expense Allocation

The costs of providing program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Directly identifiable expenses are charged to the appropriate programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimates made by management. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of MCSP.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Income Tax Status

MCSP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to MCSP's tax-exempt purpose is subject to taxation as unrelated business income. In addition, MCSP qualifies for the charitable contribution deduction under Section 170 and has been classified as an organization that is not a private foundation under Section 509(a). It is the opinion of management that the MCSP has no significant uncertain tax positions that would be subject to change upon examination.

#### Subsequent Events

MCSP has evaluated its subsequent events (events occurring after December 31, 2010) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the financial statements.

# MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### GAAP Departures

FASB ASC Subtopic 958-205, Section 50, *Disclosures* (ASC 958-205-50) provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC 958-205-50 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The State of North Carolina enacted UPMIFA effective March 23, 2009, the provisions of which apply to endowment funds existing on or established after that date.

MCSP has not implemented ASC 958-205-50 for the years ended December 31, 2010 and 2009. The disclosures and information related to the MCSP's donor restricted and board-designated endowment funds are not included in the financial statements. Disclosure of this information is required to conform to GAAP.

MCSP holds title to certain church property real estate used by various individual congregations of the Province. The exclusion of these assets is due to the fact that the original cost of the assets is not available or practical to attain. However, their exclusion from the accompanying financial statements is not in conformity with GAAP.

#### Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation.

### NOTE C: CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments that potentially expose MCSP to concentrations of credit and market risk consist primarily of cash, cash equivalents, and investments. MCSP maintains most of its deposited cash balances in one financial institution located in Winston-Salem, North Carolina. Cash equivalents are maintained at local financial institutions and brokerage firms. MCSP has not experienced any losses on its cash equivalents. MCSP's investments are held by local bank trust departments and various brokerage firms. MCSP's investment portfolio is diversified among issuers. MCSP has not experienced any losses in such accounts.

### NOTE D: CONTRIBUTIONS RECEIVABLE - CAPITAL CAMPAIGN

In 2004, Laurel Ridge Camp and Conference Center began a capital campaign called "Growing for a Lifetime" to raise money for the expansion of Higgins Lodge. This campaign officially ended in 2009, and there are no outstanding pledges receivable at December 31, 2010.

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE E: INVENTORIES**

Inventory owned by the Board of Cooperative Ministries consists of various publications and literature. The value of the inventory at December 31, 2010 and 2009 was \$32,979 and \$29,256, respectively.

**NOTE F: NOTES RECEIVABLE**

Notes receivable at December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Notes receivable - ministers	\$ 2,631	\$ 7,987
Notes receivable - churches	<u>565,778</u>	<u>560,841</u>
	568,409	568,828
Less allowance for uncollectible accounts	<u>(65,764)</u>	<u>(52,905)</u>
	<u>\$ 502,645</u>	<u>\$ 515,923</u>

Notes receivable - churches represent loans made to MCSP churches, primarily for the purchase, construction and/or development of church facilities. These have varying repayment terms and interest rates ranging from 5% to 7%.

**NOTE G: PROPERTY AND EQUIPMENT**

A summary of property and equipment at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 206,811	\$ 199,693
Buildings and improvements	6,217,972	6,114,017
Computer equipment	204,326	205,065
Furniture and equipment	644,209	598,065
Vehicles	127,100	122,312
Construction costs	<u>10,475</u>	<u>3,750</u>
	7,410,893	7,242,902
Less: accumulated depreciation	<u>(2,670,324)</u>	<u>(2,469,926)</u>
	<u>\$ 4,740,569</u>	<u>\$ 4,772,976</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$240,261 and \$237,183, respectively.

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE H: INVESTMENTS**

Investments, stated at fair value, consisted of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Assets held by Moravian Ministries Foundation in America, as agent, in the Moravian Common Fund:		
Fixed income securities fund	\$ 1,939,049	\$ 2,067,201
Equity securities fund	3,511,486	3,599,396
Real estate investment trusts	304,714	313,524
Short-term reserves and cash	<u>81,370</u>	<u>58,078</u>
	<u>5,836,619</u>	<u>6,038,199</u>
Other investments:		
Equity securities	614,126	763,045
Fixed income securities	1,869,275	-
Short-term reserves and cash	<u>403,480</u>	<u>70,480</u>
	<u>2,886,881</u>	<u>833,525</u>
	<u>\$ 8,723,500</u>	<u>\$ 6,871,724</u>

**NOTE I: SPLIT-INTEREST AGREEMENTS**

**Charitable Remainder Trusts**

MCSP administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. The terms of all charitable remainder trusts administered by MCSP are the lifetimes of the respective distribution recipients. At the end of the respective trusts terms, the remaining assets are available for use by either the MCSP or other Moravian Church entities (as specified in the trust agreements).

Assets held in charitable remainder trusts as reported on the statements of financial position represent those assets, the majority of which are investments (cash, mutual funds, marketable debt and equity securities, etc.), contributed by individuals to establish charitable remainder trusts (as adjusted for investment return and distributions). These assets are carried at fair market value.

Upon receipt of irrevocable interests in charitable remainder trusts, the present value of future payments to lifetime distribution recipients and future payments of remainder interests due to other Moravian Church entities are recognized as liabilities, and the present value of remainder interests due to MCSP are recorded as either a temporarily restricted or permanently restricted contribution (as determined by the trust agreement). On an annual basis, MCSP revalues the trust liabilities and remainder interests due to MCSP based on federal discount and actuarial assumptions. The annual change in the present value of remainder interests due to MCSP is reflected in the statement of activities.

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE I: SPLIT-INTEREST AGREEMENTS (CONTINUED)**

**Beneficial Interest in Perpetual Trusts**

Beneficial interest in perpetual trusts represents assets held in trust and administered by a local financial institution, from which MCSP has the irrevocable right to receive a share of income from the trust's assets in perpetuity. These assets are stated at the fair value of MCSP's share of trust assets, which is an approximation of the present value of estimated future distributions from the respective trusts to MCSP.

Upon receipt of an irrevocable interest in the income of a perpetual trust administered by a third party, MCSP records its share of the fair value of trust assets as a permanently restricted contribution. Over the term of the perpetual trust, income distributions to MCSP are included in investment income. Changes in the fair value of trust assets are reflected in the statement of activities.

**Charitable Gift Annuities**

MCSP is also the recipient of various charitable gift annuities. A charitable gift annuity agreement provides that, in exchange for a contribution to the general assets of the organization, the donor will receive a fixed periodic annuity over a specified period of time. The terms of all charitable gift annuities administered by MCSP are the lifetimes of the respective donor/annuitants.

It is the policy of MCSP to maintain a separate account for assets donated under such agreements. Donated assets are invested and an account balance maintained for each charitable gift annuity until the death of the donor/annuitant, with adjustments for investment return and distributions. Investments, as reported on the statements of financial position, include the following amounts attributable to charitable gift annuities (carried at fair market value):

**December 31**

2010	\$	56,923
2009	\$	62,374

Upon receipt of charitable gift annuities, the present value of future payments to donor/annuitants and future payments of remainder interests due to other Moravian Church entities are recognized as liabilities, and the present value of the remainder interest due to MCSP is recorded as a temporarily restricted contribution. On an annual basis, MCSP revalues the gift annuity liabilities and remainder interests due to MCSP based on federal discount and actuarial assumptions. The annual change in the present value of remainder interests due to MCSP is reflected in the statement of activities.

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
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**NOTE J: LAND PURCHASE**

In March 2001, MCSP, through the Board of Evangelism and Home Missions (now known as the Board of Cooperative Ministries), purchased approximately 18 acres of undeveloped land in Wake County, North Carolina at a cost of \$673,585. During the year ended December 31, 2006, MCSP sold approximately two acres of the tract at a gain of approximately \$400,000. The remaining cost of \$601,359 is included in other assets on the statement of financial position.

**NOTE K: LINE OF CREDIT**

Line of credit outstanding at December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Line of credit up to \$250,000 with interest at the prime rate less 0.5%, Interest is payable monthly and principal is due upon demand to the lender.	<u>\$ 179,500</u>	<u>\$ 179,500</u>

**NOTE L: NOTES PAYABLE**

Notes payable at December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Promissory note, with monthly payments of \$4,157, including interest at 8%, through February, 2016, secured by deed of trust	\$ 210,310	\$ 241,981
Promissory note, interest only payments through September 2008, and then principal and interest payments of \$10,080 monthly, commencing September, 2008 through February 2027 at 6.5%	<u>1,206,254</u>	<u>1,248,427</u>
	<u>\$ 1,416,564</u>	<u>\$ 1,490,408</u>

Future maturities are as follows:

2011	\$ 79,746
2012	85,635
2013	91,967
2014	98,771
2015	106,084
Thereafter	<u>954,361</u>
	<u>\$ 1,416,564</u>

Also, MCSP is primarily liable for mortgage loans on various church properties. Since these loans are to be repaid from the resources of the individual congregations, the debt is not considered a liability of MCSP.

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
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**NOTE M: DUE TO MORAVIAN CHURCH SUPPORTED ENTITIES**

	December 31, <u>2009</u>	Allocated to <u>Congregations</u>	<u>Remittances</u>	December 31, <u>2010</u>
Moravian Theological Seminary	\$ 5,914	\$ 128,737	\$ 130,301	\$ 4,350
Salem College Dept of Religion	1,755	40,332	40,722	1,365
Interprovincial Board of Communication	2,931	64,309	65,023	2,217
Board of World Mission	<u>11,998</u>	<u>262,987</u>	<u>266,031</u>	<u>8,954</u>
	<u>\$ 22,598</u>	<u>\$ 496,365</u>	<u>\$ 502,077</u>	<u>\$ 16,886</u>

**NOTE N: AGENCY FUNDS**

MCSP acts as an agent, or custodian, for certain assets owned by churches of the province and other Moravian church-related entities by receiving, investing, and disbursing funds on their behalf. Changes in agency funds for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 19,947	\$ 18,959
Receipts	131,702	-
Investment income	99	97
Gains on investments	660	891
Disbursements	<u>(78,751)</u>	<u>-</u>
	<u>\$ 73,657</u>	<u>\$ 19,947</u>

**NOTE O: UNRESTRICTED NET ASSETS DESIGNATED FOR SPECIAL PURPOSES**

Unrestricted net assets include funds designated by the governing boards within MCSP for certain special purposes. The amounts of such designated net assets at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Provincial Administration	\$ 2,043,622	\$ 553,511
Board of Christian Education	-	196,340
Board of Evangelism and Home Missions	-	1,766,944
Board of Cooperative Ministries	488,213	-
Laurel Ridge Camp and Conference Center	106,178	73,853
Moravian Archives	230,920	230,628
Moravian Music Festival	<u>-</u>	<u>185,411</u>
	<u>\$ 2,868,933</u>	<u>\$ 3,006,687</u>

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE P: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available to support certain specified activities, programs, and time periods of the following program service categories at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Board of Christian Education	\$ -	\$ 4,513
Board of Evangelism and Home Missions	-	1,330,696
Board of Cooperative Ministries	783,300	-
Laurel Ridge Camp and Conference Center	296,540	253,255
Moravian Archives	25,500	25,000
Provincial Administration:		
Agency funds	86,682	90,032
Provincial programs and causes	3,203,318	2,580,766
Churches	276,772	287,070
Ministers' housing equity	5,833	425,470
Other donor-designated funds	<u>110,485</u>	<u>115,563</u>
	<u>\$ 4,788,430</u>	<u>\$ 5,112,365</u>

**NOTE Q: PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support certain specified activities and programs of the following program service categories at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Board of Christian Education	\$ -	\$ 11,708
Board of Evangelism and Home Missions	-	574,651
Board of Cooperative Ministries	625,052	-
Laurel Ridge Camp and Conference Center	334,632	133,854
Moravian Archives	395,899	344,829
Moravian Music Festival	-	1,153
Provincial Administration:		
Agency funds	191,943	158,634
Provincial programs and causes	963,385	870,957
Churches	1,252,432	1,077,082
Other donor-designated funds	<u>262,335</u>	<u>85,318</u>
	<u>\$ 4,025,678</u>	<u>\$ 3,258,186</u>

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE R: RELATED PARTY TRANSACTIONS**

MCSP received grants from Salem Congregation of \$203,794 in 2010 and \$256,709 in 2009.

The Treasurer’s office of MCSP provides general accounting services to Salem Congregation, the Mission Society of the Moravian Church, South, Inc., the Moravian Music Foundation, Inc., and the Moravian Widows Society. General accounting service charges were \$57,034 and \$55,373 for 2010 and 2009, respectively.

MCSP rents various office and retail properties from Salem Congregation on an annual basis. It is expected that the office rental arrangements will continue to be renewed, with reasonable annual increases. Rental payments to Salem Congregation (including amounts for maintenance and utilities) were as follows for 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Offices	\$ 114,246	\$ 114,246
Book and Gift Shop	\$ -	\$ 6,915

**NOTE S: RETIREMENT BENEFITS**

**Housing Equity Plan**

MCSP maintains a housing equity plan for those ministers who live in church-owned parsonages. Churches and agencies of the Southern Province fund this plan. Amounts paid into this plan by MCSP churches and agencies for the years ended December 31, 2010 and 2009 were \$38,351 and \$33,404, respectively.

**Health Insurance**

MCSP also maintains a plan to provide health insurance for retired and disabled clergy. The Province is required to provide these health insurance benefits to retired and disabled clergy as a result of Synod action. The same Synod action allows MCSP to assess congregations for the cost of the benefits.

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5: RETIREMENT BENEFITS (CONTINUED)**

**Defined Benefit Pension Plan**

MCSP has a defined benefit pension plan covering all ministers and their surviving spouses. MCSP is required to provide these pension benefits as a result of Synod action. The same Synod action allows MCSP to assess congregations and church agencies for the cost of the benefits. Therefore, no liability for an under funded status is recorded. The following is for informational purposes only.

	<u>2010</u>	<u>2009</u>
Fair value of plan assets at December 31	\$ 5,839,918	\$ 5,415,444
Benefit obligation at December 31	<u>10,090,212</u>	<u>9,365,735</u>
Funded status	<u>\$ (4,250,294)</u>	<u>\$ (3,950,291)</u>
Weighted-average assumptions as of December 31:		
Discount rate	5.25%	5.75%
Expected return on plan assets	8.00%	8.00%
Benefit costs		
Service cost	<u>\$ 212,656</u>	<u>\$ 202,875</u>
Interest cost	<u>\$ 514,150</u>	<u>\$ 521,050</u>
Employer contributions	<u>\$ 429,420</u>	<u>\$ 272,971</u>
Benefits paid	<u>\$ 553,360</u>	<u>\$ 561,632</u>

# MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE T: FAIR VALUE MEASUREMENTS

FASB ASC Subtopic 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 also establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MCSP has the ability to access.

**Level 2** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used by the MCSP for assets and liabilities measured at fair value:

- *Investments*: Valued at the closing price reported on the active markets on which the individual securities and mutual funds are traded (Level 1).
- *Contributions Receivable from Split-Interest Agreements*: Valued by calculating the present value of the future distributions expected to be received, using published life expectancy tables and discount rates ranging from 3.25% to 12.25% (Level 3).
- *Assets held in Charitable Remainder Trust*: Mutual funds within the pooled investment fund account (Common Fund) are valued at the closing price reported on the active markets on which the funds are traded (Level 1).

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE T: FAIR VALUE MEASUREMENTS (CONTINUED)**

- *Beneficial Interest In Perpetual Trusts:* Mutual funds within the pooled investment fund account (Common Fund) are valued at the closing price reported on the active markets on which the funds are traded (Level 1).
- *Charitable Remainder Trust Liabilities:* Valued by calculating the present value of payments expected to be made, using published life expectancy tables and discount rates ranging from 8.24% to 13.66% (Level 3).
- *Charitable Gift Annuity Liabilities:* Valued by calculating the present value of payments respected to be made, using published life expectancy tables and discount rate ranging from 7.96% to 13.25% (Level 3).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while MSCP believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, MCSP's assets and liabilities at fair value as of December 31, 2010 and 2009:

**Assets:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2010</u>				
Investments	\$ 8,320,020	\$ -	\$ -	\$ 8,320,020
Contributions receivable from split-interest agreements	-	-	2,874	2,874
Assets held in charitable remainder trusts	396,042	-	-	396,042
Beneficial interest in perpetual trusts	771,009	-	-	771,009
	<u>\$ 9,487,071</u>	<u>\$ -</u>	<u>\$ 2,874</u>	<u>\$ 9,489,945</u>
<u>2009</u>				
Investments	\$ 6,801,244	\$ -	\$ -	\$ 6,801,244
Contributions receivable from split-interest agreements	-	-	3,057	3,057
Assets held in charitable remainder trusts	410,874	-	-	410,874
Beneficial interest in perpetual trusts	396,004	-	-	396,004
	<u>\$ 7,608,122</u>	<u>\$ -</u>	<u>\$ 3,057</u>	<u>\$ 7,611,179</u>

**MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE T: FAIR VALUE MEASUREMENTS (CONTINUED)**

**Liabilities:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2010</b>				
Charitable gift annuity liabilities	\$ -	\$ -	\$ 43,237	\$ 43,237
Charitable remainder trust liabilities	-	-	369,485	369,485
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,722</u>	<u>\$ 412,722</u>
<b>2009</b>				
Charitable gift annuity liabilities	\$ -	\$ -	\$ 49,571	\$ 49,571
Charitable remainder trust liabilities	-	-	384,845	384,845
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 434,416</u>	<u>\$ 434,416</u>

MCSP had \$1,061,680 and \$2,703,357 of cash and cash equivalents as of December 31, 2010 and 2009, which were not classified as a Level as prescribed within ASC 820-10.

The tables below set forth a summary of changes in the fair value of MCSP's level 3 assets and liabilities for the year ended December 31, 2010 and 2009.

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 3,057	\$ 1,116	\$ 434,416	\$ 456,565
Change in value	<u>(183)</u>	<u>1,941</u>	<u>(21,694)</u>	<u>(22,149)</u>
Balance, end of year	<u>\$ 2,874</u>	<u>\$ 3,057</u>	<u>\$ 412,722</u>	<u>\$ 434,416</u>