

Western North Carolina Conference of the United Methodist Church

Financial Report

December 31, 2005

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Council on Finance and Administration
Western North Carolina Conference of
The United Methodist Church
Charlotte, North Carolina

We have audited the accompanying statements of financial position of the Western North Carolina Conference of the United Methodist Church (the "Conference") as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western North Carolina Conference of the United Methodist Church as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 13 to the financial statements, the Conference has significant relationships with various constituents that were permitted but not required to be consolidated in the financial statements due to the Conference having both control of and an economic interest in those entities. Summary financial information related to those constituents is provided in Note 13 to the financial statements.

McGladrey & Pullen, LLP

Charlotte, North Carolina
April 21, 2006

**Western North Carolina Conference
of The United Methodist Church**

**Statements of Financial Position
December 31, 2005 and 2004**

Assets	2005	2004
Cash and cash equivalents	\$ 4,127,004	\$ 4,676,757
Accounts receivable	2,690,303	2,554,331
Investments (Note 2)	24,013,177	22,966,762
Loans receivable	224,317	254,439
Contributions receivable from trusts (Note 3)	109,593	96,880
Building, improvements and equipment, net (Note 4)	1,656,434	893,366
	<u>\$ 32,820,828</u>	<u>\$ 31,442,535</u>
Liabilities and Net Assets		
Accounts payable	\$ 2,268,858	\$ 2,740,504
Agency liabilities	567,233	292,882
Deferred revenue	132,140	133,127
Accrued health benefits	1,449,985	2,010,629
Accrued postretirement benefit obligation (Notes 5 and 6)	43,659,796	44,092,640
Total liabilities	<u>48,078,012</u>	<u>49,269,782</u>
Commitments (Notes 5, 6, 10, and 11)		
Net assets:		
Unrestricted (Note 6)	(19,802,687)	(21,932,085)
Temporarily restricted (Note 7)	2,250,284	1,809,619
Permanently restricted (Note 8)	2,295,219	2,295,219
Total net assets	<u>(15,257,184)</u>	<u>(17,827,247)</u>
	<u>\$ 32,820,828</u>	<u>\$ 31,442,535</u>

See Notes to Financial Statements.

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Western North Carolina Conference
of The United Methodist Church

Statements of Activities
Years Ended December 31, 2005 and 2004

	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support:				
Apportionment income	\$ 19,950,675	\$ -	\$ -	\$ 19,950,675
Premium income	8,338,924	-	-	8,338,924
Contributions	2,035,255	2,547,649	-	4,582,904
Investment income (Note 2)	561,778	67,886	-	629,664
Net realized gain (loss) on investments (Note 2)	(687)	(1,517)	-	(2,204)
Change in unrealized gain on investments (Note 2)	389,829	60,718	-	450,547
Split interest agreement (Note 3)	-	12,713	-	12,713
Net assets released from restrictions (Note 9)	2,246,784	(2,246,784)	-	-
Total revenues, gains and other support	33,522,558	440,665	-	33,963,223
Expenses:				
Grants	1,948,328	-	-	1,948,328
Program disbursements	11,752,015	-	-	11,752,015
Management and general	4,593,802	-	-	4,593,802
Health benefit claims	8,999,598	-	-	8,999,598
Annual conference	300,978	-	-	300,978
Memorial center	186,713	-	-	186,713
General Church expenses	3,603,113	-	-	3,603,113
Total expenses	31,384,547	-	-	31,384,547
Increase in net assets before nonoperating activities	2,138,011	440,665	-	2,578,676
Nonoperating revenues:				
Gain/(loss) on sale of property	(8,613)	-	-	(8,613)
Change in net assets	2,129,398	440,665	-	2,570,063
Net assets, beginning	(21,932,085)	1,809,619	2,295,219	(17,827,247)
Net assets, ending	\$ (19,802,687)	\$ 2,250,284	\$ 2,295,219	\$ (15,257,184)

See Notes to Financial Statements.

2004

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 19,150,049	\$ -	\$ -	\$ 19,150,049
7,667,782	-	-	7,667,782
2,448,578	1,918,405	100	4,367,083
461,737	58,588	-	520,325
560	887	-	1,447
1,176,468	300,113	-	1,476,581
-	96,880	-	96,880
2,086,866	(2,086,866)	-	-
32,992,040	288,007	100	33,280,147
2,110,494	-	-	2,110,494
11,377,575	-	-	11,377,575
5,516,550	-	-	5,516,550
9,807,422	-	-	9,807,422
301,468	-	-	301,468
175,956	-	-	175,956
3,510,845	-	-	3,510,845
32,800,310	-	-	32,800,310
191,730	288,007	100	479,837
750,085	-	-	750,085
941,815	288,007	100	1,229,922
(22,873,900)	1,521,612	2,295,119	(19,057,169)
\$ (21,932,085)	\$ 1,809,619	\$ 2,295,219	\$ (17,827,247)

**Western North Carolina Conference
of The United Methodist Church**

**Statements of Cash Flows
Years Ended December 31, 2005 and 2004**

	2005	2004
Cash Flows from Operating Activities		
Change in net assets	\$ 2,570,063	\$ 1,229,922
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	101,957	95,620
(Gain) loss on disposal of property and equipment	8,613	(750,085)
Net realized (gain) loss on investments	2,204	(1,447)
Unrealized gain on investments	(450,547)	(1,476,581)
Changes in assets and liabilities:		
Increase in:		
Accounts receivable	(135,972)	(147,244)
Contributions receivable from trusts	(12,713)	(96,880)
Increase (decrease) in:		
Accounts payable	(471,646)	982,234
Agency liabilities	274,351	18,265
Deferred revenue	(987)	(10,742)
Accrued health benefits	(560,644)	434,629
Accrued postretirement benefit obligation	(432,844)	899,213
Net cash provided by operating activities	891,835	1,176,904
Cash Flows from Investing Activities		
Purchase of improvements and equipment	(873,638)	(36,439)
Proceeds from sale of property	-	750,085
Purchase of investments	(7,601,845)	(7,154,907)
Proceeds from sale of investments	7,003,773	6,766,833
Issuance of loans receivable	-	(100,000)
Payments received on loans receivable	30,122	15,419
Net cash provided by (used in) investing activities	(1,441,588)	240,991
Cash Flows from Financing Activities		
Payments on note payable	-	(144,971)
Net cash used in financing activities	-	(144,971)
Net increase (decrease) in cash and cash equivalents	(549,753)	1,272,924
Cash and cash equivalents:		
Beginning	4,676,757	3,403,833
Ending	\$ 4,127,004	\$ 4,676,757

(Continued)

**Western North Carolina Conference
of The United Methodist Church**

**Statements of Cash Flows
Years Ended December 31, 2005 and 2004**

	2005	2004
<hr/>		
Supplemental Schedule of Cash Flow Information		
Cash payments for:		
Interest	\$ -	\$ 3,516
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment acquired through accounts payable	-	45,208

See Notes to Financial Statements.

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Western North Carolina Conference of the United Methodist Church (the "Conference") is a not-for-profit organization representing approximately 1,150 member churches. The Conference provides various services for its member churches including administration of health benefits and retirement plans available to member clergy and lay employees and collection of funds for remittance to various regional, national and global benevolences.

A portion of the funds collected from its member churches is remitted to the General Council on Finance and Administration of the United Methodist Church which provides funds to national and global benevolences. The amounts remitted have been included in the Statement of Activities as "General Church Expenses."

The audit of the Conference includes the funds of the Charlotte Area Episcopal Office.

Principles of consolidation: Generally accepted accounting principles require the Conference to consolidate entities in which it has control and an economic interest, when that control is evidenced through majority ownership or voting interests. Since the Conference has an economic interest in and control of various constituents through means other than majority ownership or voting interests, consolidation is permitted, but not required. Therefore, the Conference has elected not to consolidate the constituents described in Note 13.

The Conference has not recognized any asset in its accounts that represent an interest in the net assets of the unconsolidated entities in accordance with Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*.

A summary of the significant accounting policies follows:

Accrual basis: The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that must be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Donor restricted contributions whose restrictions are met in the same reporting period are reported as temporarily restricted support and as assets released from restriction.

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash and cash equivalents include short-term investments with an original maturity of 90 days or less. At various times throughout the year, cash balances in financial institutions exceed the amounts which are federally insured. The Conference periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Accounts receivable: Since a significant dollar amount of member church contributions are received close to year-end, member churches are provided a cut-off date subsequent to year-end in order for churches to fulfill their annual apportionments. Thus, accounts receivable are recognized at the dollar amount of apportionments received by the cut-off date. As such, no allowance for doubtful accounts is necessary.

Investments: Purchased investments are recorded at market value. Investments received by gift are recorded at market value at the date of acquisition. Market value on short-term investments and marketable securities is based on quoted market price. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets, unless the income or loss is restricted by the donor.

Loans receivable: Loans receivables are recognized at the cash value provided to the member church. Interest is calculated at 2% of the outstanding balance. Loans are converted to grants by the Board of Trustees when it is determined that the member church has satisfied certain requirements associated with the loan.

Building, improvements and equipment: Building, improvements and equipment are stated at cost less accumulated depreciation. Cost of donated building, improvements and equipment is equal to its fair value at the date of its donation. Minor renewals and replacements are expensed when incurred.

Depreciation is computed on a straight-line basis over the estimated economic lives of the respective assets held, which are as follows:

Building and improvements	10 - 40 years
Furniture and equipment	3 - 10 years

Agency liabilities: The Conference is an agent for various affiliates and constituents. Amounts received and not yet expended on behalf of beneficiaries have been reported as a liability for amounts held for others in accordance with SFAS No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions to Others*.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Income taxes: The Conference is exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3).

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 2. Investments

The Conference has an agreement with the United Methodist Foundation of Western North Carolina, Inc. (the "Foundation") in which the Foundation acts as Agent and investment manager of the Conference's investments. These investments are pooled by the Foundation into a larger investment fund. The Foundation adheres to the Statement of Investment Guidelines adopted by the General Council of Finance and Administration of the United Methodist Church. Fund investments are comprised of approved equity, fixed income and money market instruments in accordance with investment objectives.

The Conference also maintains deposit accounts with the General Board of Pension and Health Benefits of the United Methodist Church (the "Board"). These deposit accounts are invested by the Board in a pooled investment fund. Fund investments are comprised of approved equity, fixed income and money market instruments in accordance with investment objectives.

Investments at December 31, 2005 and 2004 are as follows:

	2005		
	Market	Cost	Gross Unrealized Gain (Loss)
Assets held by Foundation	\$ 23,787,496	\$ 19,378,347	\$ 4,409,149
Assets held by General Board of Pensions	225,681	226,609	(928)
	\$ 24,013,177	\$ 19,604,956	\$ 4,408,221

	2004		
	Market	Cost	Gross Unrealized Gain (Loss)
Assets held by Foundation	\$ 22,802,452	\$ 18,919,044	\$ 3,883,408
Assets held by General Board of Pensions	164,310	165,237	(927)
	\$ 22,966,762	\$ 19,084,281	\$ 3,882,481

The participation in the ownership of the investments at December 31, 2005 and 2004 is as follows:

	2005	2004
Unrestricted undesignated net assets	\$ 8,592,361	\$ 8,485,505
Unrestricted Board designated net assets	10,875,313	10,376,419
Temporarily restricted net assets	2,250,284	1,809,619
Permanently restricted net assets	2,295,219	2,295,219
	\$ 24,013,177	\$ 22,966,762

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 2. Investments (Continued)

Investment income is comprised of the following for the years ended December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Investment income (net of investment fees 2005 \$124,640; 2004 \$115,907)	\$ 629,664	\$ 520,325
Net realized gain (loss) on investments	(2,204)	1,447
Unrealized gain on investments	450,547	1,476,581
	<u>\$ 1,078,007</u>	<u>\$ 1,998,353</u>

Note 3. Contributions Receivable from Trusts

The Conference has been named as a beneficiary in a charitable lead trust in which the Conference is not the trustee. When the Conference is notified of a trust, a receivable and contribution revenue are recorded at the present value of the estimated future cash receipts. A discount rate of 4.63% was used to calculate the present value of the estimated future cash receipts of the charitable lead trust at December 31, 2005.

Note 4. Building, Improvements and Equipment

The composition of building, improvements and equipment at December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Building and improvements	\$ 2,385,918	\$ 1,527,612
Furniture and equipment	997,691	951,286
Land	37,915	37,915
Construction in progress	-	42,308
	<u>3,421,524</u>	<u>2,559,121</u>
Less accumulated depreciation	1,765,090	1,665,755
	<u>\$ 1,656,434</u>	<u>\$ 893,366</u>

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 5. Retirement Plans

The Conference participates in the Ministers Reserve Pension Fund which is a multi-employer defined benefit pension plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. The fund covers service prior to 1982 for substantially all clergy and lay pastors. The Board of Pensions of the Conference acts as trustee responsible for deposits with the General Board of Pensions and Health Benefits of the United Methodist Church. The Conference made no contributions to the Ministers Reserve Pension Fund in 2005. For service subsequent to 1981, ministerial and lay employees of the Conference are eligible to participate in the multi-employer retirement plans offered by The United Methodist Church as described below.

Ministerial Pension Plan: U.S. bishops, Conference members and local pastors under Episcopal appointment are eligible for pension coverage under the Ministerial Pension Plan (MPP). The MPP is a defined benefit plan which currently requires the Conference to contribute 12% of each participant's compensation. The contribution was limited to the first \$50,931 of participant compensation in 2005. Total contributions to the plan for the year ended December 31, 2005 and 2004 were \$4,857,988 and \$4,698,947, respectively. These amounts are included in program disbursements in the financial statements.

Comprehensive Protection Plan: In addition to the MPP, certain ministerial employees are provided disability and death benefits as well as certain minimum benefits related to pension coverage through participation in the Comprehensive Protection Plan (CPP). The CPP is a multi-employer defined benefit pension plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. Total contributions to the plan for the years ended December 31, 2005 and 2004 were \$2,065,818 and \$2,014,032, respectively. These amounts are included in program disbursements in the financial statements.

Cumulative Pension and Benefit Fund: Conference lay employees are eligible for retirement coverage under the Cumulative Pension and Benefit Fund (CPBF). The CPBF is a defined contribution pension plan which currently requires between a 4% and a 20% employer contribution. The Conference currently contributes 9% of all eligible participant's compensation. Total contributions to the plan for the years ended December 31, 2005 and 2004 were \$59,237 and \$56,176, respectively. These amounts are included in program disbursements in the financial statements.

Personal Investment Plan: Conference and local church personnel are eligible to participate in a defined contribution plan administered by the General Board of Pensions and Health Benefits of the United Methodist Church. Contributions are limited to the lesser of 10% of compensation or \$12,000. No contributions are made to the plan by the Conference.

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 6. Postretirement Benefit Plan

The Conference sponsors a multi-employer defined benefit postretirement health care plan for ministerial employees of its member churches and employees of the Conference. The plan is contributory, whereby the retiree contributions can be adjusted for increases in the cost of health care. The plan is unfunded. A measurement date of December 31 is used for the plan.

The following table provides a reconciliation of the changes in the plan's benefit obligation and fair value of assets for the years ended December 31, 2005 and 2004 and a statement of funded status at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Reconciliation of accumulated postretirement benefit obligation:		
Accumulated postretirement benefit, beginning	\$ 24,171,233	\$ 29,823,813
Service cost for benefits earned during the year	506,417	634,722
Interest cost on accumulated postretirement benefit obligation	1,367,574	1,760,226
Actuarial (gains) losses	872,180	(7,579,445)
Contributions by plan participants	1,199,447	1,396,146
Benefit payments	(1,930,798)	(1,864,229)
Plan amendments	(13,516,599)	-
Accumulated postretirement benefit obligations, ending	<u>12,669,454</u>	<u>24,171,233</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets, beginning	-	-
Employer contributions	731,351	468,083
Contributions by plan participants	1,199,447	1,396,146
Benefit payments	(1,930,798)	(1,864,229)
Fair value of plan assets, ending	<u>-</u>	<u>-</u>
Funded status:		
Accumulated postretirement benefit obligation in excess of plan assets	(12,669,454)	(24,171,233)
Unamortized prior service benefit	(22,323,579)	(9,834,632)
Unrecognized net gain	(8,666,763)	(10,086,775)
Postretirement benefit obligation	<u>\$ (43,659,796)</u>	<u>\$ (44,092,640)</u>

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 6. Postretirement Benefit Plan (Continued)

The components of the pension cost charged to expense consisted of the following:

	<u>2005</u>	<u>2004</u>
Service cost for benefits earned during the year	\$ 506,417	\$ 634,722
Interest cost on projected benefit obligation	1,367,574	1,760,226
Amortization of net gain	(547,832)	-
Amortization of prior service benefit	(1,027,652)	(1,027,652)
	<u>\$ 298,507</u>	<u>\$ 1,367,296</u>

The following benefit payments, which reflect expected future service, are expected to be paid:

	Retiree		
	Contributions	Conference	Total
2006	\$ 1,031,273	\$ 381,199	\$ 1,412,472
2007	1,167,275	429,380	1,596,655
2008	1,302,444	473,782	1,776,226
2009	1,482,559	528,870	2,011,429
2010	1,670,251	592,110	2,262,361
2011-2015	10,629,265	3,416,726	14,045,991

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 5.50% and 5.75% for 2005 and 2004, respectively. In 2005, the health care cost trend rate was assumed to be 9.50%, then the trend rate was assumed to decline by 0.50% for eight consecutive years to 5.50%, which would remain level thereafter. The health care trend rate was assumed to be 10% in 2004.

Assumed health care rates have a significant effect on the amounts reported for the plan. A one percent change in assumed health care cost trend rates would have the following effect:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total service and interest cost components	\$ 701,796	\$ (530,628)
Effect on the accumulated postretirement benefit obligation	2,300,207	(1,817,377)

As of December 31, 2005 and 2004, the Conference has approximately \$2,275,000 and \$1,042,000, respectively, designated by the Board to be used for payment of future pension costs. The Conference expects to allocate resources of \$1,800,000 to the plan in 2006 and anticipates the resources committed by the Board to exceed the amounts required to be funded to the plan. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant effect on the amount of the reported obligation and future annual expense.

Effective January 1, 2006, prescription drug coverage is no longer covered by the plan.

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2005 and 2004 are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Congregational development	\$ 176,625	\$ 183,237
Retired ministers and their spouses	1,041,820	955,934
Disaster relief	419,450	268,530
Program ministries	502,796	305,038
Time restricted	109,593	96,880
	<u>\$ 2,250,284</u>	<u>\$ 1,809,619</u>

Note 8. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2005 and 2004 are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Investment in perpetuity, the income from which is expendable to support:		
Congregational development	\$ 817,814	\$ 817,814
Retired ministers and their spouses	1,477,405	1,477,405
	<u>\$ 2,295,219</u>	<u>\$ 2,295,219</u>

Note 9. Net Assets Released From Restrictions

Net assets during the year ended December 31, 2005 and 2004 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2005</u>	<u>2004</u>
Congregational development	\$ 159,129	\$ 183,170
Retired ministers and their spouses	208,236	177,209
Disaster relief	872,801	404,351
Program ministries	1,006,618	1,322,136
	<u>\$ 2,246,784</u>	<u>\$ 2,086,866</u>

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 10. Lease Commitments

The Conference leases various equipment under noncancelable operating leases which expire through September 2007. Minimum annual rentals range from \$5,238 to \$13,075. Total rent expense was approximately \$43,000 and \$38,000 for the years ended December 31, 2005 and 2004, respectively.

Future minimum rental commitments for all noncancelable leases at December 31, 2005 are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 29,688
2007	23,339
2008	8,979
2009	3,741
	<u>\$ 65,747</u>

Note 11. Guarantee of Indebtedness of Others

In December 2002, the Conference guaranteed a loan for a member church. The member church required the loan for working capital purposes. The Conference would be required to perform under the loan if the member church was in default in accordance with the loan agreement. The maximum amount of potential future payments is approximately \$170,000, which consists of future principal and interest payments. The carrying amount of the loan at December 31, 2005 and 2004 was \$72,327 and \$83,179, respectively, and is payable in monthly installments of \$1,890 including interest at the bank's prime rate (7.25 % at December 31, 2005), plus 0.50% through August 2005.

Note 12. Abandoned or Discontinued Property

When a member church is abandoned or discontinued, the deed is transferred from the church's board of trustees to the Conference's Board of Trustees. The properties are recorded by the Conference at the lower of the carrying amount or fair value. Since there is no carrying value and the fair market value of the properties is not easily estimated when abandoned, the properties are recorded by the Conference at a value of \$-0-. When sold, the Conference will normally retain 25% of the net proceeds and remit the remaining amount to the applicable district in the area that the church was sold.

Note 13. Unconsolidated Constituent Ministries

Generally accepted accounting principles require the Conference to consolidate entities in which it has control and an economic interest, when that control is evidenced through majority ownership or voting interests. Since the Conference has an economic interest in and control of various constituents through means other than majority ownership or voting interests, consolidation is permitted, but not required. Therefore, the Conference has elected not to consolidate the constituents as described below.

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 13. Unconsolidated Constituent Ministries (Continued)

One of those constituents is the Foundation, a not-for-profit organization providing various investment management services for its clients which consist of the Conference and United Methodist churches, institutions, and agencies in Western North Carolina. The primary purpose of the Foundation is to act as an agent to provide professional investment management services to its clients. According to the statement of relationship between the Conference and the Foundation, the organizations have similar purposes and interests but are separate, self-governing associations.

In addition to the Foundation, the Conference has control, other than through majority ownership and voting interest, and an economic interest in each of the following entities:

Districts:

The Albemarle District of the United Methodist Church, Inc.
The Asheville District of the United Methodist Church, Inc.
The Charlotte District of the United Methodist Church, Inc.
The Gastonia District of the United Methodist Church, Inc.
The Greensboro District of the United Methodist Church, Inc.
The High Point District of the United Methodist Church, Inc.
The Lexington District of the United Methodist Church, Inc.
The Marion District of the United Methodist Church, Inc.
The Northeast District of the United Methodist Church, Inc.
The North Wilkesboro District of the United Methodist Church, Inc.
The Salisbury District of the United Methodist Church, Inc.
The Statesville District of the United Methodist Church, Inc.
The Waynesville District of the United Methodist Church, Inc.
The Winston-Salem District of the United Methodist Church, Inc.

Camps and Other Constituents:

Building Teams
Camp Carolwood, Inc.
Camp Loy White, Inc. of the United Methodist Church, Gastonia District
Camp McCall, Inc.
Elk Shoals United Methodist Camp, Inc.
Finch-Hunt
Guilrock United Methodist Camp, Inc.
Methodist Counseling Center, Inc.
Methodist Youth Camp of Western N.C. Conference, Inc.
Mount Shepherd Retreat Center
Pastoral Counseling and Consultation Services, Inc.
Potter's Touch

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 13. Unconsolidated Constituent Ministries (Continued)

Summary financial information for these unconsolidated constituents is as follows:

Foundation
Statement of Financial Position
December 31

Assets	2005*	2004*
Cash and cash equivalents	\$ 423,321	\$ 468,923
Accounts receivable	565,443	633,814
Cash surrender value of life insurance policies	107,432	105,142
Investments	85,214,322	82,874,652
Prepaid expenses and other assets	-	1,805
Land, buildings and equipment, net	24,162	31,348
	\$ 86,334,680	\$ 84,115,684
Liabilities and Net Assets		
Accounts payable	\$ 9,579	\$ 96,048
Agency payables	62,850,307	59,818,346
Charitable remainder unitrusts and gift annuities payable	8,883,737	9,579,963
Deferred charitable benefits	6,118,891	6,387,760
Total liabilities	77,862,514	75,882,117
Net assets:		
Unrestricted	1,793,582	1,823,937
Temporarily restricted	1,771,457	1,737,552
Permanently restricted	4,907,127	4,672,078
Total net assets	8,472,166	8,233,567
	\$ 86,334,680	\$ 84,115,684

* The Foundation's financial statements are audited by other auditors.

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 13. Unconsolidated Constituent Ministries (Continued)

Foundation
Statement of Activities
Years Ended December 31

	2005*	2004*
Revenues, gains and other support:		
Contributions	\$ 482,962	\$ 196,449
Fees for investment services	519,235	488,274
Investment income	175,015	180,094
Net realized gain (loss) on investments	(4,382)	58,073
Unrealized gain on investments	127,619	376,558
Changes in value of split-interest agreements	(72,326)	31,243
Total revenues, gains and other support	<u>1,228,123</u>	<u>1,330,691</u>
Expenses:		
Management and general expenses	608,713	561,207
Beneficiary payments	380,811	544,477
Total expenses	<u>989,524</u>	<u>1,105,684</u>
Change in net assets	<u>238,599</u>	<u>225,007</u>
Net assets, beginning	8,233,567	8,079,363
Prior period adjustment	-	70,803
Net assets, beginning (restated)	<u>8,233,567</u>	<u>8,008,560</u>
Net assets, ending	<u>\$ 8,472,166</u>	<u>\$ 8,233,567</u>

* The Foundation's financial statements are audited by other auditors.

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 13. Unconsolidated Constituent Ministries (Continued)

Districts and Other Constituents
Statement of Financial Position (Unaudited)
December 31

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 2,866,252	\$ 2,352,742
Receivables	264,971	500,824
Investments	2,065,878	1,904,421
Prepaid expenses and other assets	258,145	264,519
Land, buildings and equipment, net	5,562,886	5,020,703
	<u>\$ 11,018,132</u>	<u>\$ 10,043,209</u>
 <u>Liabilities and Net Assets</u>		
Accounts payable	\$ 140,492	\$ 150,155
Notes payable	1,000,471	1,127,457
Total liabilities	<u>1,140,963</u>	<u>1,277,612</u>
 Net assets:		
Unrestricted	8,008,025	7,373,432
Temporarily restricted	1,795,444	1,318,465
Permanently restricted	73,700	73,700
Total net assets	<u>9,877,169</u>	<u>8,765,597</u>
	<u>\$ 11,018,132</u>	<u>\$ 10,043,209</u>

**Western North Carolina Conference
of the United Methodist Church**

Notes to the Financial Statements

Note 13. Unconsolidated Constituent Ministries (Continued)

Districts and Other Constituents
Statement of Activities (Unaudited)
Years Ended December 31

	2005	2004
Revenues, gains, and other support:		
Apportionments, income, and other contributions	\$ 7,968,164	\$ 7,726,973
Investment income	201,480	38,029
Net realized gain	35,806	377,159
Net unrealized gain	48,980	50,877
Gain on sale of parsonage	253,159	190,652
Total revenues, gains and other support	<u>8,507,589</u>	<u>8,383,690</u>
Expenses:		
Program disbursements	4,540,002	5,294,459
District offices	2,856,015	2,569,107
Total expenses	<u>7,396,017</u>	<u>7,863,566</u>
Change in net assets	1,111,572	520,124
Net assets, beginning	8,765,597	8,245,473
Net assets, ending	<u>\$ 9,877,169</u>	<u>\$ 8,765,597</u>

The summary financial information does not eliminate the transactions between the Conference and the constituents, such as investment activity in the Foundation and contributions from the Conference to the districts and other constituents.

The Conference has a reversionary interest in the assets of the majority of the districts and other constituents, as well as an obligation for any liabilities incurred. In several cases, the districts have a majority ownership or voting interest in the camps, which would require consolidation of those entities. One district also has a majority voting interest in a separate, unaffiliated not-for-profit organization that would require consolidation at the district level. Total assets of that organization were approximately \$1,539,000 and \$1,395,000 as of December 31, 2005 and 2004, respectively.

The Conference is also affiliated with a significant number of related ministries through its connection with the United Methodist Church. The Conference has signed a statement of relationship with the districts and other entities that defines this connectional relationship and states that neither entity may require the other entity to assume any contractual, financial or other obligation. These affiliated entities are in addition to the constituents above since the Conference does not have control of or a financial interest in the affiliated entities. Grants and operating support provided to these entities totaled approximately \$1,623,837 and \$1,254,513 for the years ended December 31, 2005 and 2004, respectively. These entities provided contributions to the Conference totaling approximately \$321,286 and \$283,577 for the years ended December 31, 2005 and 2004, respectively.