

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, 2004 and 2003, 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, 2004 and 2003, 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 14 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 14 to the financial statements.

McGladrey & Pullen, LLP

Charlotte, North Carolina
April 15, 2005

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

**Statements of Financial Position
December 31, 2004 and 2003**

Assets	2004	2003
Cash and cash equivalents	\$ 4,676,757	\$ 3,403,833
Accounts receivable	2,554,331	2,407,087
Investments (Note 2)	22,966,762	21,100,660
Loans receivable	254,439	169,858
Contributions receivable from trusts (Note 3)	96,880	-
Building, improvements and equipment, net (Note 4)	893,366	907,339
	<u>\$ 31,442,535</u>	<u>\$ 27,988,777</u>

Liabilities and Net Assets		
Accounts payable	\$ 2,740,504	\$ 1,713,062
Agency liabilities	292,882	274,617
Deferred revenue	133,127	143,869
Accrued health benefits	2,010,629	1,576,000
Note payable (Note 5)	-	144,971
Accrued postretirement benefit obligation (Notes 6 and 7)	44,092,640	43,193,427
Total liabilities	<u>49,269,782</u>	<u>47,045,946</u>

Commitments (Notes 6, 7, 11, and 12)

Net assets:		
Unrestricted (Note 7)	(21,932,085)	(22,873,900)
Temporarily restricted (Note 8)	1,809,619	1,521,612
Permanently restricted (Note 9)	2,295,219	2,295,119
Total net assets	<u>(17,827,247)</u>	<u>(19,057,169)</u>
	<u>\$ 31,442,535</u>	<u>\$ 27,988,777</u>

See Notes to Financial Statements.

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

**Statements of Activities
Years Ended December 31, 2004 and 2003**

	2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Apportionment income	\$ 19,150,049	\$ -	\$ -	\$ 19,150,049
Premium income	7,667,782	-	-	7,667,782
Contributions	2,448,578	1,918,405	100	4,367,083
Investment income (Note 2)	461,737	58,588	-	520,325
Net realized gain (loss) on investments (Note 2)	560	887	-	1,447
Change in unrealized gain on investments (Note 2)	1,176,468	300,113	-	1,476,581
Split interest agreement (Note 3)	-	96,880	-	96,880
Net assets released from restrictions (Note 10)	2,086,866	(2,086,866)	-	-
Total revenues, gains and other support	32,992,040	288,007	100	33,280,147
Expenses:				
Grants	2,110,494	-	-	2,110,494
Program disbursements	11,377,575	-	-	11,377,575
Management and general	5,516,550	-	-	5,516,550
Health benefit claims	9,807,422	-	-	9,807,422
Annual conference	301,468	-	-	301,468
Memorial center	175,956	-	-	175,956
General Church expenses	3,510,845	-	-	3,510,845
Total expenses	32,800,310	-	-	32,800,310
Increase in net assets before nonoperating activities	191,730	288,007	100	479,837
Nonoperating revenues:				
Gain on sale of property	750,085	-	-	750,085
Change in net assets	941,815	288,007	100	1,229,922
Net assets, beginning	(22,873,900)	1,521,612	2,295,119	(19,057,169)
Net assets, ending	\$ (21,932,085)	\$ 1,809,619	\$ 2,295,219	\$ (17,827,247)

See Notes to Financial Statements.

2003

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 19,203,554	\$ -	\$ -	\$ 19,203,554
6,485,150	-	-	6,485,150
1,498,624	1,627,028	-	3,125,652
390,438	49,650	-	440,088
(3,136)	(390)	-	(3,526)
2,883,570	461,532	-	3,345,102
-	-	-	-
1,191,313	(1,191,313)	-	-
31,649,513	946,507	-	32,596,020
1,472,252	-	-	1,472,252
10,887,216	-	-	10,887,216
4,669,854	-	-	4,669,854
9,238,470	-	-	9,238,470
290,785	-	-	290,785
147,208	-	-	147,208
3,651,579	-	-	3,651,579
30,357,364	-	-	30,357,364
1,292,149	946,507	-	2,238,656
-	-	-	-
1,292,149	946,507	-	2,238,656
(24,166,049)	575,105	2,295,119	(21,295,825)
\$ (22,873,900)	\$ 1,521,612	\$ 2,295,119	\$ (19,057,169)

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

**Statements of Cash Flows
Years Ended December 31, 2004 and 2003**

	2004	2003
Cash Flows from Operating Activities		
Change in net assets	\$ 1,229,922	\$ 2,238,656
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	95,620	119,504
(Gain) loss on disposal of property and equipment	(750,085)	18,496
Net realized (gain) loss on investments	(1,447)	3,526
Unrealized gain on investments	(1,476,581)	(3,345,102)
Loan receivable converted to grant	-	63,645
Changes in assets and liabilities:		
Increase in:		
Accounts receivable	(147,244)	(454,424)
Contributions receivable from trusts	(96,880)	-
Increase (decrease) in:		
Accounts payable	982,234	(34,636)
Agency liabilities	18,265	135,840
Deferred revenue	(10,742)	4,973
Accrued health benefits	434,629	232,115
Accrued postretirement benefit obligation	899,213	919,643
Net cash provided by (used in) operating activities	1,176,904	(97,764)
Cash Flows from Investing Activities		
Purchase of improvements and equipment	(36,439)	(36,350)
Proceeds from sale of property	750,085	-
Purchase of investments	(7,154,907)	(4,482,950)
Proceeds from sale of investments	6,766,833	7,462,737
Issuance of loans receivable	(100,000)	(95,000)
Payments received on loans receivable	15,419	5,436
Net cash provided by investing activities	240,991	2,853,873
Cash Flows from Financing Activities		
Payments on note payable	(144,971)	(85,029)
Net cash used in financing activities	(144,971)	(85,029)
Net increase in cash and cash equivalents	1,272,924	2,671,080
Cash and cash equivalents:		
Beginning	3,403,833	732,753
Ending	<u>\$ 4,676,757</u>	<u>\$ 3,403,833</u>

(Continued)

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

**Statements of Cash Flows
Years Ended December 31, 2004 and 2003**

	2004	2003
<hr/>		
Supplemental Schedule of Cash Flow Information		
Cash payments for:		
Interest	\$ 3,516	\$ 7,833
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 Fund.

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 14.

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.

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 is 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 in preparation of financial statements: The preparation of financial statements 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. Actual results could differ from those estimates.

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, 2004 and 2003 are as follows:

		2004		
				Gross Unrealized Gain (Loss)
	Market	Cost		
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)
	<u>\$ 22,966,762</u>	<u>\$ 19,084,281</u>	<u>\$</u>	<u>3,882,481</u>

		2003		
				Gross Unrealized Gain
	Market	Cost		
Assets held by Foundation	\$ 20,918,773	\$ 18,523,779	\$	2,394,994
Assets held by General Board of Pensions	181,887	181,887		-
	<u>\$ 21,100,660</u>	<u>\$ 18,705,666</u>	<u>\$</u>	<u>2,394,994</u>

The participation in the ownership of the investments at December 31, 2004 and 2003 is as follows:

	2004	2003
Unrestricted undesignated net assets	\$ 8,485,505	\$ 7,748,860
Unrestricted Board designated net assets	10,376,419	9,535,069
Temporarily restricted net assets	1,809,619	1,521,612
Permanently restricted net assets	2,295,219	2,295,119
	<u>\$ 22,966,762</u>	<u>\$ 21,100,660</u>

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

Notes to the Financial Statements

Note 2. Investments (Continued)

Donor-restricted funds for which the fair value of the assets is less than the amount required to be restricted by donors was \$-0- and \$152,040 for the years ended December 31, 2004 and 2003, respectively.

Investment income is comprised of the following for the years ended December 31, 2004 and 2003:

	2004	2003
Investment income (net of investment fees 2004 \$115,907; 2003 \$97,959)	\$ 520,325	\$ 440,088
Net realized gain (loss) on investments	1,447	(3,526)
Unrealized gain on investments	1,476,581	3,345,102
	<u>\$ 1,998,353</u>	<u>\$ 3,781,664</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, 2004.

Note 4. Building, Improvements and Equipment

The composition of building, improvements and equipment at December 31, 2004 and 2003 is as follows:

	2004	2003
Building and improvements	\$ 1,527,612	\$ 1,514,712
Furniture and equipment	951,286	924,847
Land	37,915	37,915
Construction in progress	42,308	-
	<u>2,559,121</u>	<u>2,477,474</u>
Less accumulated depreciation	1,665,755	1,570,135
	<u>\$ 893,366</u>	<u>\$ 907,339</u>

Note 5. Note Payable

The balance outstanding on the unsecured note payable was \$-0- and \$144,971 at December 31, 2004 and 2003, respectively.

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

Notes to the Financial Statements

Note 6. 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 2004. 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 \$49,325 of participant compensation in 2004. Total contributions to the plan for the year ended December 31, 2004 and 2003 were \$4,698,947 and \$4,371,305, 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, 2004 and 2003 were \$2,014,032 and \$1,928,969, 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, 2004 and 2003 were \$56,176 and \$51,929, 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 7. 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, 2004 and 2003 and a statement of funded status at December 31, 2004 and 2003:

	2004	2003
Reconciliation of accumulated postretirement benefit obligation:		
Accumulated postretirement benefit, beginning	\$ 29,823,813	\$ 29,624,987
Service cost for benefits earned during the year	634,722	739,428
Interest cost on accumulated postretirement benefit obligation	1,760,226	1,893,256
Actuarial gains and losses	(7,579,445)	(1,748,469)
Contributions by plan participants	1,396,146	1,404,726
Benefit payments	(1,864,229)	(2,090,115)
Accumulated postretirement benefit obligations, ending	<u>24,171,233</u>	<u>29,823,813</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets, beginning	-	-
Employer contributions	468,083	685,389
Contributions by plan participants	1,396,146	1,404,726
Benefit payments	<u>(1,864,229)</u>	<u>(2,090,115)</u>
	-	-
Funded status:		
Accumulated postretirement benefit obligation in excess of plan assets	(24,171,233)	(29,823,813)
Unamortized prior service cost	(9,834,632)	(10,862,284)
Unrecognized net transition obligation or asset	(10,086,775)	(2,507,330)
Postretirement benefit obligation	<u>\$ (44,092,640)</u>	<u>\$ (43,193,427)</u>

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

Notes to the Financial Statements

Note 7. Postretirement Benefit Plan (Continued)

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

	2004	2003
Service cost for benefits earned during the year	\$ 634,722	\$ 739,428
Interest cost on projected benefit obligation	1,760,226	1,893,256
Prior service cost recognized	(1,027,652)	(1,027,652)
Net periodic pension cost	<u>\$ 1,367,296</u>	<u>\$ 1,605,032</u>

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

	Retiree Contributions	Conference	Total
2005	\$ 1,725,012	\$ 774,684	\$ 2,499,696
2006	1,910,705	832,296	2,743,001
2007	2,126,982	910,246	3,037,228
2008	2,359,516	985,204	3,344,720
2009	2,620,733	1,060,222	3,680,955
2010-2014	17,244,102	6,083,837	23,327,939

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 5.75% and 6.00% for 2004 and 2003, respectively. In 2004, the health care cost trend rate was assumed to be 10.0%, then the trend rate was assumed to decline by 0.50% for nine consecutive years to 5.50%, which would remain level thereafter. The health care trend rate was assumed to be 10.50% in 2003.

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:

	1% Increase	1% Decrease
Effect on total service and interest cost components	\$ 550,611	\$ (417,813)
Effect on the accumulated postretirement benefit obligation	4,537,366	(3,555,341)

As of December 31, 2004 and 2003, the Conference has approximately \$1,042,000 and \$233,000, 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 2005 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.

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

Notes to the Financial Statements

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2004 and 2003 are available for the following purposes:

	2004	2003
Congregational development	\$ 183,237	\$ 145,556
Retired ministers and their spouses	955,934	678,838
Disaster relief	268,530	68,552
Program ministries	305,038	628,666
Time restricted	96,880	-
	<u>\$ 1,809,619</u>	<u>\$ 1,521,612</u>

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2004 and 2003 are available for the following purposes:

	2004	2003
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	1,477,305
	<u>\$ 2,295,219</u>	<u>\$ 2,295,119</u>

Note 10. Net Assets Released From Restrictions

Net assets during the year ended December 31, 2004 and 2003 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2004	2003
Congregational development	\$ 183,170	\$ 43,425
Retired ministers and their spouses	177,209	4,475
Disaster relief	404,351	38,567
Program ministries	1,322,136	1,104,846
	<u>\$ 2,086,866</u>	<u>\$ 1,191,313</u>

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

Notes to the Financial Statements

Note 11. Lease Commitments

The Conference leases various equipment under noncancelable operating leases which expire through September 2007. Minimum annual rentals range from \$7,960 to \$13,075. Total rent expense was approximately \$38,000 and \$44,000 for the years ended December 31, 2004 and 2003, respectively.

Future minimum rental commitments for all noncancelable leases at December 31, 2004 are as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 29,425
2006	20,708
2007	14,360
	<u>\$ 64,493</u>

Note 12. 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, 2004 and 2003 was \$83,179 and \$102,549, respectively, and is payable in monthly installments of \$1,320 including interest at the bank's prime rate (5.25 % at December 31, 2004), plus 0.50% through August 2005.

Note 13. 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 14. 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 14. Unconsolidated Constituent Ministries (Continued)

One of those constituents is The United Methodist Foundation of Western North Carolina, Inc. (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.
The United Methodist Deaf Ministry of the Western North Carolina Conference of the United Methodist Church

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

Notes to the Financial Statements

Note 14. Unconsolidated Constituent Ministries (Continued)

Summary financial information for these unconsolidated constituents is as follows:

Foundation
Statement of Financial Position
December 31

Assets	2004*	2003*
Cash and cash equivalents	\$ 468,923	\$ 384,000
Accounts receivable	633,814	522,694
Cash surrender value of life insurance policies	105,142	102,158
Investments	82,874,652	77,452,135
Prepaid expenses and other assets	1,805	-
Land, buildings and equipment, net	31,348	37,255
	<u>\$ 84,115,684</u>	<u>\$ 78,498,242</u>
Liabilities and Net Assets		
Accounts payable	\$ 96,048	\$ -
Agency payables	59,818,346	53,636,065
Charitable remainder unitrusts and gift annuities payable	9,579,963	10,501,232
Deferred charitable benefits	6,301,820	6,281,582
Total liabilities	<u>75,796,177</u>	<u>70,418,879</u>
Net assets:		
Unrestricted	1,909,877	1,943,823
Temporarily restricted	1,737,552	1,501,646
Permanently restricted	4,672,078	4,633,894
Total net assets	<u>8,319,507</u>	<u>8,079,363</u>
	<u>\$ 84,115,684</u>	<u>\$ 78,498,242</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 14. Unconsolidated Constituent Ministries (Continued)

Foundation
Statement of Activities
Years Ended December 31

	2004*	2003*
Revenues, gains and other support:		
Contributions	\$ 196,449	\$ 851,150
Fees for investment services	488,274	447,541
Investment income	180,094	137,681
Net realized gain (loss) on investments	58,073	(495)
Unrealized gain on investments	376,558	993,639
Changes in value of split-interest agreements	46,380	88,884
Total revenues, gains and other support	1,345,828	2,518,400
Expenses:		
Management and general expenses	561,207	469,558
Beneficiary payments	544,477	413,053
Total expenses	1,105,684	882,611
Change in net assets	240,144	1,635,789
Net assets, beginning	8,079,363	6,443,574
Net assets, ending	\$ 8,319,507	\$ 8,079,363

* 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 14. Unconsolidated Constituent Ministries (Continued)

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

Assets	2004	2003
Cash and cash equivalents	\$ 2,352,742	\$ 2,436,291
Receivables	500,824	272,289
Investments	1,904,421	1,871,108
Prepaid expenses and other assets	264,519	279,617
Land, buildings and equipment, net	5,020,703	3,895,269
	<u>\$ 10,043,209</u>	<u>\$ 8,754,574</u>
Liabilities and Net Assets		
Accounts payable	\$ 150,155	\$ 126,842
Notes payable	1,127,457	382,259
Total liabilities	<u>1,277,612</u>	<u>509,101</u>
Net assets:		
Unrestricted	7,373,432	6,839,661
Temporarily restricted	1,318,465	1,332,112
Permanently restricted	73,700	73,700
Total net assets	<u>8,765,597</u>	<u>8,245,473</u>
	<u>\$ 10,043,209</u>	<u>\$ 8,754,574</u>

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

Notes to the Financial Statements

Note 14. Unconsolidated Constituent Ministries (Continued)

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

	2004	2003
Revenues, gains, and other support:		
Apportionments, income, and other contributions	\$ 7,726,973	\$ 7,216,457
Investment income	38,029	24,995
Net realized gain (loss)	377,159	(445,000)
Net unrealized gain	50,877	120,583
Gain on sale of parsonage	190,652	588,696
Total revenues, gains and other support	<u>8,383,690</u>	<u>7,505,731</u>
Expenses:		
Program disbursements	5,294,459	4,311,494
District offices	2,569,107	2,662,462
Total expenses	<u>7,863,566</u>	<u>6,973,956</u>
Change in net assets	520,124	531,775
Net assets, beginning	8,245,473	7,713,698
Net assets, ending	<u>\$ 8,765,597</u>	<u>\$ 8,245,473</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 \$1,395,000 and \$895,000 as of December 31, 2004 and 2003, 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 \$1,254,513 and \$2,198,478 for the years ended December 31, 2004 and 2003, respectively. These entities provided contributions to the Conference totaling approximately \$283,577 and \$306,000 for the years ended December 31, 2004 and 2003, respectively.