

WISCONSIN ANNUAL CONFERENCE
THE UNITED METHODIST CHURCH
Sun Prairie, Wisconsin

FINANCIAL STATEMENTS
and
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

For the Years Ended December 31, 2004 and 2003

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[EDITOR'S NOTE: The Audit Report was provided to the Conference Secretary as a Microsoft Word Document and a Microsoft Excel Spreadsheet. The report has been formatted to fit the size of the Journal Page. In all other respects it is identical to the printed report provided by the Independent Auditors.]

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Wisconsin Annual Conference

The United Methodist Church

Sun Prairie, Wisconsin

We have audited the accompanying statements of financial position of the Wisconsin Annual Conference of The United Methodist Church as of December 31, 2004 and 2003, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Conference's 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.

The Conference has not fully implemented the financial reporting requirements of the Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations." Accordingly, the Conference has not classified the difference between its assets and liabilities as unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the existence or absence of donor-imposed restrictions on amounts in the designated fund. In addition, the Conference has not reported the changes in each of those classes of net assets in the statement of activities. Presentation of such information is required by generally accepted accounting principles. The effects on the financial statements of that departure from generally accepted accounting principles are not reasonably determinable.

As more fully described in Note 7 to the financial statements, the Conference has not determined its liability for post-retirement health benefits under its insurance plan as of December 31, 2004 in accordance with accounting principles generally accepted in the United States of America. These principles require the cost of post-retirement employees' health insurance be recognized over the employees' respective service periods and a liability recognized when the accumulated benefit

obligation exceeds the fair value of plan assets. The effects of that departure on the financial statements are not reasonably determinable.

In our opinion, except for the effect of the omission of the information discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Wisconsin Annual Conference of The United Methodist Church as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Madison, Wisconsin
May 5, 2005

SMITH & GESTELAND, LLP

WISCONSIN ANNUAL CONFERENCE
THE UNITED METHODIST CHURCH
Sun Prairie, Wisconsin
STATEMENTS OF FINANCIAL POSITION

December 31

	Undesignated	Group Health	Designated	Total All Funds	
	Fund	Benefit Fund	Fund	2004	2003
ASSETS					
Current assets					
Cash and cash equivalents held by Conference	\$ 710,565	\$ 130,223	\$ 158,427	\$ 999,215	\$ 525,151
Deposit held by General Board of Pension and Health Benefit			2,758,912	2,758,912	2,196,903
Total cash and cash equivalents	710,565	130,223	2,917,339	3,758,127	2,722,054
Due from local churches	799,173			799,173	1,012,668
Current portion of loans, notes, and mortgages receivable			90,893	90,893	67,626
Interfund receivables	124,835	575,506	7,219	(707,560)	
Other current assets	169,271	42,629		211,900	312,203
Total current assets	1,803,844	748,358	3,015,451	4,860,093	4,114,551
Investments, long-term receivables, and other assets					
Investments with Foundation			10,730,848	10,730,848	11,236,800
Loans, notes, and mortgages receivable	16,863		702,774	719,637	512,375
Other assets	950			950	5,000
Total investments, long-term receivables, and other assets	17,813		11,433,622	11,451,435	11,754,175
Property and equipment					
Fixed assets held for church development	966,150		218,000	1,184,150	1,347,150
Property and equipment	3,615,708		2,545,583	6,161,291	5,802,120
Less accumulated depreciation	(1,280,701)		(171,690)	(1,452,391)	(1,302,742)
Total property and equipment	3,301,157		2,591,893	5,893,050	5,846,528
Total assets	\$ 5,122,814	\$ 748,358	\$ 17,040,966	\$ 22,204,578	\$ 21,715,254

The accompanying notes are an integral part of the financial statements.

WISCONSIN ANNUAL CONFERENCE
THE UNITED METHODIST CHURCH
Sun Prairie, Wisconsin

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31

	Undesignated		Group Health		Designated		Eliminations		Total All Funds	
	Fund	Benefit Fund	Fund	Benefit Fund	Fund	Benefit Fund			2004	2003
Unrestricted net assets										
Support and revenue										
Appointments	\$ 7,036,632	\$ 1,135,454	\$		\$ 249,550		\$ (1,135,454)		\$ 7,036,632	\$ 6,904,018
Other support	29,144								278,694	568,895
Camping fees	973,174								973,174	842,651
Youth event fees	276,248								276,248	240,378
Service fees	276,150	5,317,417							5,593,567	5,131,486
Interest and dividends	8,367	4,596			801,530				814,493	265,196
Net gains on securities					424,095				424,095	1,107,944
Sundry	13,953								13,953	563
Advance and gifts designated by donors for specific organizations	1,219,462								1,219,462	1,119,633
Less: Advances and gifts remitted to those organizations	(1,219,462)								(1,219,462)	(1,119,633)
Net assets released from restriction	206,834				9,426				216,260	135,720
Total support and revenue	8,820,502	6,457,467	1,484,601		1,484,601		(1,135,454)		15,627,116	15,196,851
Expenses										
Missional										
General church appointments	1,874,003								1,874,003	1,786,183
District support										18,550
Board of Camps and Retreat Ministries	1,325,592		117,402						1,442,994	1,246,020
Board of Church and Society	31,142								31,142	25,526
Board of Congregation and Parish Development	998,650		203,375						1,202,025	894,568
Board of Discipleship	31,544		5,150						36,694	37,489
Council on Youth Ministries	296,013		8,175						304,188	246,514
Board of Global Ministries	284,407		7,219						291,626	295,793
Board of Higher Education and Student Ministry	113,207		1,650						114,857	107,770
Board of Lay Ministry	42,891								42,891	41,210
Commission on Christian Unity & Interreligious Concerns	65,118								65,118	69,246
Ethnic Local Church Concerns	19,049								19,049	31,997
Other missional	43,966		1,781						45,747	36,552
Total missional	5,125,582		344,752						5,470,334	4,837,418

The accompanying notes are an integral part of the financial statements.

	Undesignated Fund	Group Health Benefit Fund	Designated Fund	Eliminations	Total All Funds	
					2004	2003
Ministerial						
Joint Board of Pension, Insurance, & Equitable Compensation	1,177,438		51,303	(1,135,454)	93,287	503,197
Group health insurance	92,756	6,458,853	132,705		6,458,853	6,070,101
Other ministerial	1,270,194	6,458,853	184,008	(1,135,454)	225,461	1,701,135
Total ministerial					6,777,601	6,743,433
Administration						
District Superintendents	909,430				909,430	927,903
Board of Trustees	393,693				393,693	375,223
Conference Office	223,226				223,226	237,691
Council on Finance and Administration	78,478		426		78,904	101,838
Communications & Technology	164,730				164,730	211,451
Program & Arrangements	105,248				105,248	91,689
Episcopal Office	51,386				51,386	9,679
Personnel Committee	840,883				840,883	838,857
Other Conference Committees	14,391		15,831		30,222	22,833
Conference Moving Director	210,048				210,048	197,553
Other Conference Officers	32,937				32,937	40,755
Other Agencies			1,506		1,506	5,160
Total administrative	3,024,450		17,763		3,042,213	3,060,632
Restricted						
Restricted expenses	206,834		9,426		216,260	135,720
Total expenses	9,627,060	6,458,853	555,949	(1,135,454)	15,506,408	14,777,203
Change in unrestricted net assets	(806,558)	(1,386)	928,652		120,708	419,648
Temporarily restricted net assets						
Contributions	232,227		90,236		322,463	58,075
Net assets released from restriction	(206,834)		(9,426)		(216,260)	(135,720)
Change in temporarily restricted net assets	25,393		80,810		106,203	(77,645)
Change in net assets	(781,165)	(1,386)	1,009,462		226,911	342,003
Transfers of funds	767,197		(767,197)			
Net assets (deficit) - beginning of year (as previously reported)	3,784,707	(27,101,912)	14,486,297		(8,830,908)	(9,515,160)
Prior period adjustment - deposit account			2,196,903		2,196,903	2,539,152
Net assets (deficit) - beginning of year (as restated)	3,784,707	(27,101,912)	16,683,200		(6,634,005)	(6,976,008)
Net assets (deficit) - end of year	\$ 3,770,739	\$(27,103,298)	\$ 16,925,465	\$ -	\$ (6,407,094)	\$ (6,634,005)

The accompanying notes are an integral part of the financial statements.

**WISCONSIN ANNUAL CONFERENCE
THE UNITED METHODIST CHURCH**
Sun Prairie, Wisconsin

STATEMENTS OF CASH FLOWS

For the Years Ended December 31

	Undesignated Fund		Group Health Benefit Fund		Designated Fund		Total All Funds	
	2005	2004	2005	2004	2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:								
Change in net assets								
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:								
Depreciation	92,724				63,937		156,661	142,003
Forgiveness of debt					7,500		7,500	90,552
Net gains on securities					(424,095)		(424,095)	(1,107,944)
Investment earnings reinvested					(212,017)		(212,017)	(202,962)
Net loss on gift of land and buildings					163,000		163,000	
Changes in assets and liabilities:								
Due from local churches	213,495						213,495	60,217
Insurance proceeds receivable								105,074
Interfund receivables	(36,033)		(143,378)		56,556		(122,855)	434,229
Due from Foundation	(40,327)		144,529		151		104,353	347,050
Other assets	(26,944)		(89)		(2,752)		(29,785)	(39,415)
Trade payable			(39,900)				(39,900)	(360,264)
Unearned premiums	86,823		(1,709)		37,741		122,855	37,564
Interfund payable	11,749						11,749	(434,229)
Other liabilities								(391)
Net cash provided by (used in) operating activities	(479,678)		(41,933)		699,483		177,872	(586,513)

The accompanying notes are an integral part of the financial statements.

	Undesignated Fund	Group Health Benefit Fund	Designated Fund	Total All Funds
				2004
				2003
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales and maturities of investment securities			1,789,916	1,104,358
Purchase of investment securities			(647,852)	(688,218)
Payments received on notes and mortgage receivables			88,682	151,848
Notes and mortgage issued			(326,711)	(60,000)
Purchase of property and equipment	(188,658)		(177,525)	(415,326)
Net cash provided by (used in) investing activities	(188,658)		726,510	92,662
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from long-term debt	320,349			320,349
Transfer of funds	767,197		(767,197)	
Net cash provided by (used in) financing activities	1,087,546		(767,197)	320,349
Net change in cash and cash equivalents	419,210	(41,933)	658,796	(493,851)
Cash and cash equivalents - beginning of year	291,355	172,156	2,258,543	3,215,905
Cash and cash equivalents - end of year	\$ 710,565	\$ 130,223	\$ 2,917,339	\$ 3,758,127
				\$ 2,722,054
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Disposal of property through gift	\$	\$	\$ 163,000	\$ 163,000

The accompanying notes are an integral part of the financial statements.

**WISCONSIN ANNUAL CONFERENCE
THE UNITED METHODIST CHURCH**

Sun Prairie, Wisconsin

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - INFORMATION ABOUT THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

The Wisconsin Annual Conference of The United Methodist Church accepts apportionments from United Methodist churches in Wisconsin and distributes monies to General Conference agencies for national and international programs, Wisconsin Annual Conference agencies for local programs, and to other charitable organizations.

To ensure observance of limitations and restrictions placed on the use of resources available to the Conference, its accounts are maintained in accordance with the principles of fund accounting. Resources of various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund.

The Undesignated Fund represents amounts received primarily from apportionments and pass-through donations and is expended for purposes set forth in the annual budget adopted by the Conference or by the donor.

The Designated Fund includes amounts to be used for specified purposes as determined by donors or conference agencies. Historical records are not available to determine the proper classification of the funds as unrestricted, temporarily restricted, or permanently restricted.

The Group Health Benefit Plan makes available health benefits (pharmaceuticals, hospital, surgical and major medical) to all eligible active employees of the Wisconsin Annual Conference, participating local churches, agencies or institutions of The United Methodist Church, and to eligible retired individuals and surviving spouses of the participating groups.

B. INTERFUND ACTIVITY

For financial reporting purposes, interfund receivables and payables, as well as interfund revenues and expenses, have been eliminated.

C. CASH AND CASH EQUIVALENTS

For the statement of cash flows, the Conference considers cash accounts which are not subject to withdrawal restrictions or penalties and highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

D. DUE FROM LOCAL CHURCHES

Apportionments received between year-end and a specified cut-off date in mid-January of the following year that are specifically designated by churches for the previous year are treated as prior year apportionments and as receivables at year-end.

E. INVESTMENTS

Securities are carried at fair market value. Gains or losses on the sale of debt and equity securities are computed using the specific identification method.

F. PROPERTY AND EQUIPMENT

Equipment is stated at cost. Real estate, except camps, is carried at cost if purchased, and at market value at date of receipt if donated. Conference camps are carried at appraised value as of February 26, 1976, the earliest date for which information is available, plus additions since that date at cost. Buildings and improvements are being depreciated over seven to fifty-year periods using the straight-line depreciation method. Equipment is being depreciated over its estimated useful life using the straight-line depreciation method.

G. UNEARNED PREMIUMS

Unearned premiums represent premiums collected prior to or receivable at year end that relate to coverage periods subsequent to year end. Premiums are billed to participants one month in advance of the coverage month.

H. CLASSIFICATIONS OF NET ASSETS

Statement of Financial Accounting Standard No. 117 requires the Conference to report its net assets and changes therein in the following categories:

Unrestricted Net Assets – Unrestricted net assets represent resources that are generally available for support of the Conference’s activities. Amounts that have been earmarked for a specific purpose by one of the Conference’s boards are reported as unrestricted-designated.

Temporarily Restricted Net Assets – The Conference reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 restriction.

I. INCOME TAXES

Wisconsin Annual Conference is exempt from federal and state income taxation under Internal Revenue Code Section 501(c)(3).

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

K. RECLASSIFICATIONS

For comparability purposes, certain 2003 amounts have been reclassified to be consistent with 2004.

NOTE 2 - INVESTMENTS

The Wisconsin United Methodist Foundation, Inc., and the Conference are affiliated with The United Methodist Church. The foundation maintains the investments it manages for various United Methodist groups on a pooled basis similar to a mutual fund. Details of the investments underlying the units owned are not available.

NOTE 3 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at carrying value at December 31:

	<u>2004</u>	<u>2003</u>
United Methodist Center, Sun Prairie	\$ 1,231,420	\$ 1,116,095
Camps (four)	4,198,736	4,019,596
Bishops residence	204,851	196,966
Property held for sale	425,000	425,000
Sites held for church developments	759,150	922,150
Land improvements	31,285	31,285
Building improvements	222,030	222,030
Vehicles	98,507	95,402
Furniture and equipment	156,996	103,280
Computer software	<u>17,466</u>	<u>17,466</u>
	7,345,441	7,149,270
Less: Accumulated depreciation	<u>(1,452,391)</u>	<u>(1,302,742)</u>
Net	<u>\$ 5,893,050</u>	<u>\$ 5,846,528</u>

Depreciation expense for the years ended December 31, 2004 and 2003, was \$156,661 and \$142,003, respectively.

NOTE 4 - CONTINGENCIES AND CREDIT RISK

Most loans receivable are due from local churches within the Conference, whose ability to repay the loans is contingent upon member contributions.

The Conference maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits of \$100,000. The conference has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 5 - LINE OF CREDIT

The Conference has a \$500,000 line of credit available at the prime rate of interest (5.25% at December 31, 2004) with First Business Bank. There were no amounts drawn on the line of credit as of December 31, 2004.

NOTE 6 – NOTE PAYABLE

Note payable consisted of the following at December 31, 2004:

Note payable to the Wisconsin United Methodist Foundation with 5.125% interest rate. Monthly principal and interest payments of \$3,832 are payable through September 2013, with a final payment due on October 10, 2013. Beginning on October 1, 2008, the interest rate is adjusted annually based on the note agreement. The note is secured by all property and equipment of the Wisconsin Annual Conference.	\$ 320,349
Less current portion	<u>30,095</u>
Long-term portion of notes payable	<u>\$ 290,254</u>

Future maturities of long-term debt as of December 31, 2004, are as follows:

Year ending December 31	
2005	\$ 30,095
2006	31,674
2007	33,336
2008	35,053
2009	36,924
Thereafter	<u>153,267</u>
	<u>\$ 320,349</u>

NOTE 7 - BENEFITS

The Conference provides health insurance coverage for eligible clergy and lay employees who have retired from the Conference or its local churches and their surviving spouses. The cost to the Conference for its share of the current coverage was \$1,135,454 and \$1,030,000 for the years ended December 31, 2004 and 2003, respectively. Generally accepted accounting principles require that expense related to the retirement benefit be recorded over the period of employment of the employee and that a liability be recorded for future coverage related to past service by current and retired employees. The Conference has not received an actuarial valuation of its liability of future coverage related to past service as of December 31, 2004, accordingly the liability is reported at \$27,441,000 as of December 31, 2004 and 2003.

NOTE 8 - MINISTERIAL PENSION PLAN

The Conference participates in the Ministerial Pension Plan, a multi-employer defined contribution pension plan which is administered by the General Board of Pension and Health Benefits. It provides benefits for years of service after December 31, 1981. Contributions to the Ministerial Pension Plan are made directly by local churches and are based upon a percentage of participants' compensation.

Retirement benefits provided by the Ministerial Pension Plan will be in the form of annuity contracts that will be based upon past contributions plus accumulated earnings. There are no unfunded prior service costs under this plan.

NOTE 9 - SUPPLEMENT ONE TO THE MINISTERIAL PENSION PLAN

The Conference participates in Supplement One to the Ministerial Pension Plan, which is administered by the General Board of Pension and Health Benefits. This plan covers substantially all United Methodist clergy for service with the Conference or its predecessors before January 1, 1982. The legal status of the plan is such that all assets of the plan are available to pay all benefits of the plan, regardless of the annual conference from which benefits came or under which benefits were accrued. The Wisconsin Annual Conference controls certain benefit provisions of the plan, including the applicable past service rate and the contingent annuitant percentage. The past service rate was \$556 and \$540 as of January 1, 2005 and 2004, respectively. The contingent annuitant percentage has been 100% since January 1, 1999, and cannot be changed.

Commencing January 1, 2004, the conference assets, conference liability, conference funded status, and required contribution were provided to the Conference, and are disclosed below. In order to determine the required contribution for each conference, the total available assets are allocated amongst all the conferences. The difference between the conference liability and conference assets provides the funded status for the conference. If a negative funded status exists, a contribution is required.

Below is a summary of the applicable plan information as of January 1:

	<u>2005</u>	<u>2004</u>
Conference assets	\$ 59,878,066	\$ 61,066,605
Conference liability	(53,088,801)	(53,864,082)
Funded status	6,789,265	7,202,523

The conference liability was determined based on a 7.5% interest rate, a 3% past service rate increase, and the RP-2000 Mortality Table.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2004 and 2003, were restricted by donors for the following purposes:

	<u>2004</u>	<u>2003</u>
Disaster recovery	\$ 20,410	\$ 2,003
Other ministries and events	33,446	26,460
	<u>\$ 53,856</u>	<u>\$ 28,463</u>

Temporarily restricted net assets were released from donor restrictions for the following purposes during 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Disaster recovery	\$ 18,800	\$ 79,475
Other ministries and events	197,460	56,245
	<u>\$ 216,260</u>	<u>\$ 135,720</u>

NOTE 11 - PRIOR PERIOD ADJUSTMENT

During 2004, a correction was made to the 2003 beginning of the year net assets to record a deposit account that had not been correctly reported in previous years. During the year, the Conference became aware that it could exercise variance power over funds held by the General Board of Pension and Health Benefits of the United Methodist Church and, therefore, these funds should be reported as an asset of the Conference. The effect in 2003 was to increase cash and cash equivalents and net assets at December 31, 2003 by \$2,196,903 and decrease the change in net assets by \$342,249.