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INDEPENDENT AUDITORS' REPORT

To the Council on Finance and Administration
South Carolina Conference of the United Methodist Church
Columbia, South Carolina

We have audited the accompanying statements of financial position of the South Carolina Conference of the United Methodist Church 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 the Council. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Conference's 2004 financial statements and, in our report dated February 24, 2005, we expressed an unqualified opinion on those financial statements.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note B, the statements do not include the Conference's investment in property and equipment as required by accounting principles generally accepted in the United States of America. Expenditures for such investments are charged as expenditures in the year of purchase. Accordingly, the accompanying financial statements are generally not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for not capitalizing property and equipment and recording depreciation, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Conference of the United Methodist Church as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Derrick, Stubbs & Stith, L.L.P.

August 1, 2006

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005

(With Summarized Financial Information as of December 31, 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	2005 Total Net Assets	2004 Total Net Assets
ASSETS				
Cash and Cash Equivalents				
Demand deposits: Bank of America	\$ -	\$ 4,074,280	\$ 4,074,280	\$ 2,970,440
Receivables				
Due from churches	-	1,478,417	1,478,417	2,038,645
Due from others	-	826,896	826,896	581,619
Accrued interest receivable	-	13,338	13,338	7,982
Total receivables	-	2,318,651	2,318,651	2,628,246
Prepaid Expenses				
Registration deposits	-	61,999	61,999	44,858
Investments				
Certificates of deposit	704,408	2,095,592	2,800,000	2,300,000
Van Kampen Merritt Government Fund	-	158,102	158,102	158,102
Wachovia Money Market accounts	-	1,197,218	1,197,218	1,074,418
Total investments	704,408	3,450,912	4,155,320	3,532,520
Property and Equipment				
Building improvements	1,584,505	-	1,584,505	1,584,505
Total assets	2,288,913	9,905,842	12,194,755	10,760,569
LIABILITIES				
Current portion of notes payable	52,419	-	52,419	50,397
Due to General Board of Pensions	-	337,635	337,635	404,000
Due to General Council on Finance and Administration	-	1,635,857	1,635,857	428,555
Due to Conference boards, agencies and support groups	-	683,127	683,127	825,460
Accounts payable	-	93,914	93,914	114,152
Funds held in trust for others	-	222,859	222,859	217,532
Advance fees held for others	-	1,270	1,270	83,772
Church remittances received for future years	-	1,172	1,172	11,084
Total current liabilities	52,419	2,975,834	3,028,253	2,134,952
Notes payable	1,059,629	-	1,059,629	1,297,261
Total liabilities	1,112,048	2,975,834	4,087,882	3,432,213
NET ASSETS				
Unrestricted	1,176,865	-	1,176,865	918,994
Temporarily restricted for programs	-	6,930,008	6,930,008	6,409,362
Total net assets	1,176,865	6,930,008	8,106,873	7,328,356
Total liabilities and net assets	\$ 2,288,913	\$ 9,905,842	\$ 12,194,755	\$ 10,760,569

See notes to financial statements.

**SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005
(With Summarized Financial Information as of December 31, 2004)**

	Unrestricted	Temporarily Restricted	2005 Total Net Assets	2004 Total Net Assets
Revenue				
Contributions				
Churches	\$ 184,043	\$ 14,453,197	\$ 14,637,240	\$ 12,454,213
Other	-	120,434	120,434	102,670
Bequest	-	2,924	2,924	-
Institutional Payments for				
Pension fund	-	5,728,720	5,728,720	5,379,379
Conference insurance	-	10,109,270	10,109,270	9,470,126
Insureds - Conference insurance	-	2,308,966	2,308,966	2,158,688
General Council on Finance and Administration	-	99,125	99,125	82,500
Registrations and fees	-	1,804,108	1,804,108	1,576,233
Rent	-	185,354	185,354	206,150
Investment income	125,497	22,472	147,969	163,601
Print media services	-	207,697	207,697	216,217
Other	202	2,207,985	2,208,187	2,922,784
Net unrealized gains (losses) on investments	-	28,023	28,023	(2,410)
Total	309,742	37,278,275	37,588,017	34,730,151
Net assets released from restrictions to satisfy program restrictions	36,757,629	(36,757,629)	-	-
Total revenue	37,067,371	520,646	37,588,017	34,730,151
Expenses				
Program Services				
General Board of Pensions - Pension Fund	5,275,000	-	5,275,000	5,194,000
General Board of Pensions - Conference insurance	11,550,000	-	11,550,000	11,455,000
Senior College Fund and Spartanburg Methodist College	1,293,835	-	1,293,835	1,415,811
District administration	652,877	-	652,877	625,484
District superintendent's salary	1,005,910	-	1,005,910	985,649
Council on Ministries operations	648,616	-	648,616	611,592
Ministerial education	502,632	-	502,632	528,808
Epworth Children's Home	479,042	-	479,042	465,364
Methodist Homes	469,487	-	469,487	479,146
World Service Fund	1,541,367	-	1,541,367	1,405,897
Camps and Retreat Center	1,205,299	-	1,205,299	1,053,014
Youth spiritual retreats	507,268	-	507,268	540,343
Other program services for Conference boards, agencies and commissions	11,326,981	-	11,326,981	8,521,732
Management and general	292,283	-	292,283	274,453
Conference Center construction	58,903	-	58,903	45,473
Total expenses	36,809,500	-	36,809,500	33,601,766
Increase (decrease) in net assets	257,871	520,646	778,517	1,128,385
Net Assets				
Beginning	918,994	6,409,362	7,328,356	6,199,971
Ending	\$ 1,176,865	\$ 6,930,008	\$ 8,106,873	\$ 7,328,356

See notes to financial statements.

SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 778,517	\$ 1,128,385
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Net unrealized (gains) losses on investments	(22,800)	2,410
(Increase) decrease in receivables	309,595	136,577
(Increase) decrease in prepaid expenses	(17,141)	8,122
Increase (decrease) in due to General Board of Pensions	(66,365)	(611,000)
Increase (decrease) in due to General Council on Finance and Administration	1,207,302	35,645
Increase (decrease) in due to Conference boards, agencies and Support Groups	(142,333)	79,357
Increase (decrease) in notes payable	(235,610)	(236,848)
Increase (decrease) in accounts payable	(20,238)	(194,256)
Increase (decrease) in funds held in trust for others	5,327	(106,679)
Increase (decrease) advance fees held for others	(82,502)	(34,744)
Increase in deferred revenue	(9,912)	(7,578)
Net cash provided by operating activities	<u>1,703,840</u>	<u>199,391</u>
Cash Flows from Investing Activities		
Proceeds from matured investments	2,300,000	2,100,000
Purchase of investments	(2,900,000)	(2,100,000)
Net cash provided by (used in) investing activities	<u>(600,000)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from construction loans	-	89,226
Investment in Building Improvements	-	(89,226)
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	1,103,840	199,391
Cash and Cash Equivalents		
Beginning	<u>2,970,440</u>	<u>2,771,049</u>
Ending	<u>4,074,280</u>	<u>2,970,440</u>
Supplemental Disclosures of Cash Flow Information		
Cash payment of interest	<u>\$ 58,903</u>	<u>\$ 43,473</u>

See notes to financial statements.

**SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Notes to Financial Statements

Note A. Nature of Activities

The South Carolina Conference of the United Methodist Church governs the various boards, commissions, committees and agencies whose purpose is to carry out the programs of the United Methodist Church. The South Carolina Conference of the United Methodist Church is a nonprofit religious organization and is exempt from paying income taxes under Section 501(c)(3) of the Internal Revenue Code. These financial statements report only those transactions maintained by the Treasurer of the South Carolina Conference of the United Methodist Church.

Note B. Summary of Significant Accounting Policies

Financial reporting: The accompanying financial statements are based on the accrual method of accounting reflecting income earned regardless of when received and expenses incurred regardless of when paid.

The Conference has three net asset categories, which are described as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed restrictions.

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

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that may be maintained permanently by the Conference. Generally, the donors of these assets permit the Conference to use all or part of the income earned on related investments for program operations. There are no permanently restricted net assets.

To insure observance of limitations and restrictions placed on the use of resources available to the Conference, the accounts of the Conference are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Support and expenses: A contribution is deemed to have been received when the cash or other assets including securities, land, buildings, use of facilities, materials and supplies, intangible assets, services or unconditional promise to give such items in the future is received. An unconditional promise to give is a promise, which is not dependent on the occurrence of a specified future and uncertain event to bind the promisor.

Contributions received and unconditional promises to give are measured at their fair values and are reported as increase in 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, or if they are designated as support for future periods. 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 restrictions.

The financial statements present expenses in accordance with the overall service mission of the Conference displayed within their natural classifications.

Cash and cash equivalents: For purposes of reporting the statement of cash flows, the Conference considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Investments are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

**SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Notes to Financial Statements

Note B. Summary of Significant Accounting Policies (Continued)

Property and equipment: The Conference has generally not recorded land or buildings as fixed assets on its balance sheet. In 2003 the Conference recorded the renovations to the conference center, based on its intention to start recording fixed assets along with the related depreciation. Property was to be recorded at cost with depreciation being provided on the straight-line method over the estimated useful lives of 10 to 39 years for buildings and 10 to 39 years for Improvements to Land and Building. The plan has been delayed while the Conference re-evaluates starting the policy of recording all current land and property versus continuing the previous policy. Therefore the Conference did not record depreciation for the conference renovation. The Conference does not maintain investments in an equipment fund or record the related depreciation of such equipment as required by accounting principles generally accepted in the United States of America. Expenditures for such investments in the equipment fund are generally charged as expenditures in the year of purchase.

Note C. Investments

Investments are valued at market value with appreciation being recognized and reported in the Statement of Activities in the appropriate classes. Unless specific prohibited clauses are contained in the gift instrument, funds for investment have been combined into one investment pool. Earned income received on investments by the Conference Treasurer is credited to the permanent reserve fund. The cost and market values of investments at December 31, 2005 and 2004 are summarized as follows:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Certificates of deposit	\$ 2,800,000	\$ 2,800,000	\$ 2,300,000	\$ 2,300,000
Van Kampen American Capital -				
U.S. Governmental Fund A	158,102	125,661	158,102	128,519
Wachovia Money Market	1,223,731	1,229,659	1,104,001	1,104,001
Total	\$ 4,181,833	\$ 4,155,320	\$ 3,562,103	\$ 3,532,520

Note D. Deferred Revenue

Deferred Revenue consists of church contributions made to support the following years' activities.

Note E. Funds Held for Others

The following funds are held for certain United Methodist Conference Boards, Committees and Agencies at December 31, 2005 and 2004:

	2005	2004
Ministers Spouses Association	\$ 2,222	\$ 2,257
Ministers wives retreat	9,707	8,412
Maintenance reserve (United Methodist Center)	196,141	176,141
Maintenance reserve (Episcopal Residence)	16,276	12,776
Campus Ministry/repairs and maintenance	7,124	10,301
Asbury Hills Development	(11,301)	4,786
Total	\$ 222,859	\$ 215,737

**SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Notes to Financial Statements

Note F. Assets Released from Donor Restrictions

Net assets during the year ended December 31, 2005 and 2004 were released from donor restrictions by incurring expenses satisfying the restricted purposes, purchase of property and equipment, and by occurrence of other events specified by donors as follows:

Purpose restrictions accomplished by:

Satisfaction of Program Restriction Expense Category:

	<u>2005</u>	<u>2004</u>
General Board of Pensions - Pension Fund	\$ 5,275,000	\$ 5,194,000
General Board of Pensions - Conference insurance	11,550,000	11,455,000
Senior College Fund and Spartanburg Methodist College	1,293,835	1,415,811
District administration	376,977	349,284
District superintendent's salary	1,005,910	985,649
Council on Ministries operations	648,616	611,592
Ministerial education	502,632	528,808
Epworth Children's Home	479,042	465,364
Methodist Homes	469,487	479,146
World Service Fund	1,541,367	1,405,896
Camps and Retreat Center	1,205,299	1,053,014
Youth spiritual retreats	507,268	540,343
Other program services for Conference boards, agencies and commissions	11,661,784	9,102,047
Management and general	240,412	274,453
Total	<u>\$ 36,757,629</u>	<u>\$ 33,860,406</u>

Note G. Fidelity Bond

The General Council on Finance and Administration provides \$ 1,000,000 fidelity bond protection for all Annual Conference Treasurers and their staff at no charge. Fidelity bonding for trustees and related staff is provided by the Annual Conference.

Note H. Net Assets

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

	<u>2005</u>	<u>2004</u>
Contingency fund	100,000	100,000
Permanent reserve	604,408	821,268
Total	<u>\$ 704,408</u>	<u>\$ 921,268</u>

**SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Notes to Financial Statements

Note H. Net Assets (Continued)

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

	2005	2004
Ministers book	\$ 31,736	\$ 59,408
United Methodist Center operations	55,681	39,939
Conference Board of Trustees	301,330	234,331
Computer upgrade reserve	29,864	48,426
District administration	102,450	64,081
District parsonage funds	197,019	155,797
District office occupancy	44,338	62,940
District extension funds	209,622	191,976
District undesignated specials	87,230	67,798
District habitat houses	25,011	21,705
District Superintendent continuing education	12,186	9,023
District congregational development	271,059	199,318
Equitable compensation	331,132	311,288
Asbury Hills Camp	(25,739)	4,792
Golden Cross	1,299	8,434
Congregational development	781,190	768,659
Congregational development/allocated	283,245	193,923
Congregational development/land acquisition	362,173	478,096
Salkehatchie summer service	53,390	92,996
UM volunteers in mission	103,355	90,842
Ordained ministry scholarships	309,734	296,067
Other program services for Conference boards, agencies and commissions	3,362,703	3,009,523
Total	\$ 6,930,008	\$ 6,409,362

Note I. Ministerial Pension Plan and Comprehensive Protection Plan (MPP/CPP) and Cumulative Pension and Benefit Fund (CPBF)

The South Carolina Conference of the United Methodist Church participates in a defined benefit multi-employer pension plan administered by the General Board of Pensions of the United Methodist Church. The plan provides pension benefits to retiring members in addition to providing disability income benefits and guaranteed minimum benefits for widows and dependent children of deceased members.

The Conference contributes to the fund an amount equivalent to twelve percent (12%) of each minister's annual plan compensation (cash salary, tax-deferred contributions made and housing allowance) limited by the denominational average compensation. For lay employees, the Conference contributes nine percent (9%) and the lay employee contributes three percent (3%). CPP contributions for eligible full-time ministers are the equivalent of 4.4% of the minister's plan compensation limited by 200% of the current denominational average compensation. Past service defined benefit funding is an annual actuarially determined amount approved by the Annual Conference. Contributions for each participant are fully vested. The Conference Treasurer remitted \$ 5,275,000 in 2005 and \$ 5,194,000 in 2004 to the General Board of Pensions. The Conference is not liable for any unfunded liabilities under the MPP/CPP/CPBF plans in force.

Past service expenses are charged to the Annual Conference. The RP 2000 Individual Annuity Mortality Table is used in the determination of these amounts.

**SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Notes to Financial Statements

Note I. Ministerial Pension Plan and Comprehensive Protection Plan (MPP/CPP) and Cumulative Pension and Benefit Fund (CPBF) (Continued)

Ministers' pension payments received by the Conference Treasurer are remitted to the General Board of Pensions of the United Methodist Church.

Note J. Accounting for Post-Retirement Benefits Other Than Pensions

The Annual Conference requires payment of \$ 70 per participant per month from retirees for retiree or dependents for postretirement benefits.

The Annual Conference sponsors a contributory defined benefit post-retirement medical plan that covers substantially all of its statutory and common-law employees.

The Annual Conference also sponsors a defined benefit post-retirement death benefit plan that covers substantially all of its full-time retired CPP eligible clergy members. This plan is non-contributory, is fully funded, and no change from this policy is anticipated in the future.

Other than the plans identified above, the Annual Conference sponsors no other post-retirement benefit plans.

Legal opinion has been obtained that the plans described above are multi-employer plans as that term is defined in Paragraph 79 of SFAS No. 106, "Employer's Accounting for Post-Retirement Benefits Other Than Pensions". Accordingly, the post-retirement benefit costs are recognized on a current period basis.

Note K. Comparative Amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2004 from which the summarized information was derived.

Note L. Concentration of Market and Credit Risk

Pooled investments include an overnight investment account with Bank of America totaling \$ 4,073,780. The financial institution has a strong credit rating and management believes that credit risk related to this deposit is minimal. There are also four \$100,000 certificates of deposit at First Federal of Charleston. Of this amount, \$ 300,000 is secured by federal bonds.

Note M. Equitable Compensation Commission

The Conference treasurer holds investments in Van Kampen mutual funds (U.S. Government Fund Class A). This fund is reserved for the purpose of paying supplemental salary for pastors of local churches that cannot afford to pay the minimum salary for pastors as set by the Conference. The market value at December 31, 2005 is \$ 343,136 compared to cost of \$ 427,019 in 1986.

The investments are not recorded in the records or financial statements of the South Carolina Conference of the United Methodist Church

Note N. Conference Board of Trustees

The Conference treasurer held five (5) loans receivable totaling \$ 17,940 at December 31, 2005. The loans are not recorded in the records or financial statements of the South Carolina Conference of the United Methodist Church.

**SOUTH CAROLINA CONFERENCE OF THE UNITED METHODIST CHURCH
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Notes to Financial Statements

Note O. United Methodist Center Renovation

Expenditures for the acquisition of property were to be capitalized at cost when completed in 2004. The Conference has decided to delay recording the renovation until it has re-evaluated the proposed new policy of recording land and buildings currently owned versus the existing policy. The Conference has not capitalized any land or building prior to the current renovation to the Conference Center in Columbia. Similarly, no depreciation expense has been reflected on any building related asset. Renovations of the United Methodist Center located in Columbia started in October of 2002 with completion coming in early 2004. At December 31, 2003, \$ 1,584,505 was the revised cost estimate and \$ 1,495,279 was the outstanding balance of the construction loan. The construction loan was converted to permanent financing in February 2004. At December 31, 2005 \$ 1,112,048 was the outstanding balance of the loan.

Note P. Investment in Building

Expenditures for the acquisition of property are capitalized at cost when done. The Conference has not capitalized any land or building prior to the current renovation to the Conference Center in Columbia. Similarly, no depreciation expense has been reflected on any building related asset. The Conference has decided to delay recording the renovation until it has re-evaluated the proposed new policy of recording land and buildings currently owned versus the existing policy.

Note Q. Litigation, Contingencies and Uncertainties

From time to time, the Conference is a party to threatened, pending or active litigation in the normal course of conducting its business. As of December 31, 2005 and for the period since then to the date of this report, the Conference has been involved in issues which it will rigorously defend. The Conference believes that it has adequate insurance coverage for these and any other reasonably contemplated matter. Accordingly, the Conference does not believe that it will incur a material loss from any existing unsettled issues.

Note R. Pension and Insurance

Beginning with the conference year 2004 institutional pension and insurance costs for pastors appointed to local churches was billed directly to individual churches. For years prior year to 2004 those costs were covered by line items in the conference budget and apportioned to churches. The money was received from churches and shown in church contributions on prior financial statements.

Note S. Long-Term Debt

The Conference has obtained a mortgage loan with Bank of America for an original principal balance of \$ 1,585,505 which included the construction loan at the end of 2005 with a balance of \$ 1,112,048. The payments of \$ 8,543, including principal and interest, were set up for a 5 year payback period with a balloon payment at the end of that period. The interest rate is floating indexed to the LIBOR Daily Floating Rate. Additional principal payments are anticipated to be made during the payback period. The total principal payments during 2005 were \$ 235,609.

Future payments:

Year	Principal Payments
2006	\$ 52,419
2007	54,522
2008	56,709
2009	1,131,610