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**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

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Independent Auditors' Report

The General Board of Church and Society of
The United Methodist Church

The Committee on Audit and Review of the
General Council on Finance and Administration of
The United Methodist Church:

We have audited the accompanying statement of financial position of the General Board of Church and Society of The United Methodist Church (the Board) as of December 31, 2006, and the related statements of activities and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended December 31, 2005 were audited by other auditors, whose unqualified opinion was dated December 12, 2006.

We conducted our audit 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 General Board of Church and Society of The United Methodist Church as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crosslin, Vaden & Associates, P.C.

June 15, 2007
Nashville, Tennessee

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Statements of Financial Position

December 31, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Investments	\$12,739,275	\$11,819,677
Accounts receivable	353,936	248,399
Investment in General Council on Finance and Administration		
Pooled Investment Fund	529,648	351,523
Accrued World Service Fund Allocation	794,090	713,991
Receivable from General Agency Benefit Trust	-	51,205
Inventories	103,703	82,738
Prepaid expenses and other assets	254,360	249,986
Property and equipment, net	<u>8,876,306</u>	<u>8,705,291</u>
Total assets	<u>\$23,651,318</u>	<u>\$22,222,810</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 112,785	\$ 221,202
Other liabilities	<u>153,686</u>	<u>130,714</u>
Total liabilities	<u>266,471</u>	<u>351,916</u>
Net assets:		
Unrestricted – designated	15,048,978	14,431,704
Undesignated	<u>2,276,967</u>	<u>1,386,133</u>
Total unrestricted	17,325,945	15,817,837
Temporarily restricted	3,455,883	3,450,038
Permanently restricted	<u>2,603,019</u>	<u>2,603,019</u>
Total net assets	<u>23,384,847</u>	<u>21,870,894</u>
Total liabilities and net assets	<u>\$23,651,318</u>	<u>\$22,222,810</u>

See accompanying notes to financial statements.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Statement of Activities

Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue and support:				
Allocation from UMC:				
Allocation from the World Service Fund	\$ 2,131,799	\$ 261,564	\$ -	\$ 2,393,363
Special Sunday Offerings	-	260,789	-	260,789
Other income:				
Sale of literature and other publications	81,651	-	-	81,651
Special gifts and contributions	3,250	805	-	4,055
Grants	-	30,000	-	30,000
Dividends and interest	21,642	-	-	21,642
Capital gains (designated for operations)	209,769	112,001	-	321,770
Benefit trust distribution	192,348	-	-	192,348
Rental income	-	1,739,255	-	1,739,255
Other	66,338	-	-	66,338
Net assets released from restrictions	<u>2,471,426</u>	<u>(2,471,426)</u>	<u>-</u>	<u>-</u>
Total operating revenues and support	<u>5,178,223</u>	<u>(67,012)</u>	<u>-</u>	<u>5,111,211</u>
Expenses:				
Program:				
Core Programs:				
General Secretary's Office – Program Related	\$ 397,638	\$ -	\$ -	\$ 397,638
Fund Raising	375	-	-	375
United Nations Office	169,985	-	-	169,985
Communications	185,044	-	-	185,044
Christian Social Action	48	-	-	48
Resource Production	88,000	-	-	88,000
Legislative Briefing	5,233	-	-	5,233
Education and Leadership Formation	495,635	-	-	495,635
Human Welfare	119,260	-	-	119,260
Economic and Environmental Justice	114,890	-	-	114,890
Alcohol, Addictions and Healthcare	137,933	-	-	137,933
Restricted Programs:				
Peace with Justice	216,101	-	-	216,101
Ethnic Local Church Grants	151,735	-	-	151,735
Youth Offender Project	29,677	-	-	29,677
Genetic Engineering	3,069	-	-	3,069
Hugh Moore Population	150,864	-	-	150,864
Immigration Project	3,599	-	-	3,599
Substance Abuse Training	7,303	-	-	7,303
Scholarship	4,140	-	-	4,140
Designated Programs:				
Emerging Issues – Designated	10,750	-	-	10,750
Rental Assistance Grants	<u>21,649</u>	<u>-</u>	<u>-</u>	<u>21,649</u>
Total program services	<u>2,312,928</u>	<u>-</u>	<u>-</u>	<u>2,312,928</u>
Supporting services:				
Management and general	899,873	-	-	899,873
Rental property expenses	<u>979,032</u>	<u>-</u>	<u>-</u>	<u>979,032</u>
Total supporting services	<u>1,878,905</u>	<u>-</u>	<u>-</u>	<u>1,878,905</u>
Total expenses	4,191,833	-	-	4,191,833
Nonoperating activity:				
Investment return after amounts designated for operations	<u>521,718</u>	<u>72,857</u>	<u>-</u>	<u>594,575</u>
Changes in net assets	1,508,108	5,845	-	1,513,953
Net assets at beginning of year	<u>15,817,837</u>	<u>3,450,038</u>	<u>2,603,019</u>	<u>21,870,894</u>
Net assets at end of year	<u>\$17,325,945</u>	<u>\$ 3,455,883</u>	<u>\$2,603,019</u>	<u>\$23,384,847</u>

See accompanying notes to financial statements.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Statement of Activities

Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue and support:				
Allocation from UMC:				
Allocation from the World Service Fund	\$ 1,925,123	\$ 237,936	\$ -	\$ 2,163,059
Special Sunday Offerings	-	182,882	-	182,882
Other income:				
Sale of literature and other publications	110,597	-	-	110,597
Special gifts and contributions	11,768	12,140	-	23,908
Grants	500	-	-	500
Dividends and interest	10,396	-	-	10,396
Capital gains (designated for operations)	233,490	56,992	-	290,482
Benefit trust distribution	158,103	-	-	158,103
Rental income	-	1,589,993	-	1,589,993
Other	47,460	-	-	47,460
Net assets released from restrictions	<u>2,209,190</u>	<u>(2,209,190)</u>	<u>-</u>	<u>-</u>
Total operating revenues and support	<u>4,706,627</u>	<u>(129,247)</u>	<u>-</u>	<u>4,577,380</u>
Expenses:				
Program:				
Core Programs:				
General Secretary's Office – Program Related	\$ 347,313	\$ -	\$ -	\$ 347,313
United Nations Office	160,782	-	-	160,782
Communications	165,459	-	-	165,459
Christian School Action	1,762	-	-	1,762
Resource Production	99,307	-	-	99,307
Education and Leadership Formation	457,500	-	-	457,500
Human Welfare	103,098	-	-	103,098
Economic and Environmental Justice	116,466	-	-	116,466
Alcohol, Addictions and Healthcare	134,035	-	-	134,035
Restricted Programs:				
Peace with Justice	196,540	-	-	196,540
National Plan Hispanic Ministry	15,000	-	-	15,000
Ethnic Local Church Grants	151,501	-	-	151,501
Genetic Engineering	3,282	-	-	3,282
Hugh Moore Population	121,708	-	-	121,708
Substance Abuse Training	13,820	-	-	13,820
Designated Programs:				
Bold Faith (Seminar Resources)	6,700	-	-	6,700
Rental Assistance Grants	<u>22,059</u>	<u>-</u>	<u>-</u>	<u>22,059</u>
Total program services	<u>2,116,332</u>	<u>-</u>	<u>-</u>	<u>2,116,332</u>
Supporting services:				
Management and general	829,884	-	-	829,884
Rental property expenses	<u>933,604</u>	<u>-</u>	<u>-</u>	<u>933,604</u>
Total supporting services	<u>1,763,488</u>	<u>-</u>	<u>-</u>	<u>1,763,488</u>
Total expenses	3,879,820	-	-	3,879,820
Nonoperating activity:				
Investment return after amounts designated for operations	<u>120,255</u>	<u>40,576</u>	<u>-</u>	<u>160,831</u>
Changes in net assets	947,062	(88,671)	-	858,391
Net assets at beginning of year	<u>14,870,775</u>	<u>3,538,709</u>	<u>2,603,019</u>	<u>21,012,503</u>
Net assets at end of year	<u>\$15,817,837</u>	<u>\$ 3,450,038</u>	<u>\$2,603,019</u>	<u>\$21,870,894</u>

See accompanying notes to financial statements.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Statements of Cash Flows

Year Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Changes in net assets	\$ 1,513,953	\$ 858,391
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	385,646	298,483
Net gain on investments	(649,973)	(288,290)
Decrease (increase) in assets:		
Accounts receivable	(105,547)	163,719
Accrued World Service Fund Allocation	(80,099)	(60,248)
Receivable from General Agency Benefit Trust	51,205	20,823
Inventories	(20,965)	(17,926)
Prepaid expenses and other assets	(4,374)	(78,469)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(108,417)	(221,563)
Other liabilities	<u>37,642</u>	<u>2,126</u>
Net cash provided by operating activities	<u>1,019,081</u>	<u>677,046</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(556,661)	(1,256,318)
Increase in investment in General Council on Finance and Administration Pooled Investment Fund	(178,125)	(97,078)
Purchase of investments	(19,185,115)	(20,045,464)
Sale of investments	<u>18,915,490</u>	<u>20,714,446</u>
Net cash used in investing activities	<u>(1,004,411)</u>	<u>(684,414)</u>
Cash flows from financing activities:		
Payments on capital lease	(14,670)	(14,417)
Net cash used in financing activities	<u>(14,760)</u>	<u>(14,417)</u>
Net decrease in cash and cash equivalents	-	(21,785)
Cash, beginning of year	<u>-</u>	<u>21,785</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosure:		
Interest paid during the year	\$ -	\$ 253

See accompanying notes to financial statements.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Notes to Financial Statements

December 31, 2006 and 2005

(1) Nature of Organization

The General Board of Church and Society (the Board) is a general agency of The United Methodist Church (the Church) and is a not-for-profit organization incorporated in the District of Columbia. The primary objective of the Board is to establish programs to analyze social concerns and to develop Christian lines of action in relation thereto, in keeping with the objectives of the Church.

Funding for the Board's projects is principally pledged by allocation received from the General Funds of The United Methodist Church based on a four year budget and developed from projections of expected programs costs. The allocation accounts for 47% of the Board's operating revenue in 2006 and 2005, respectively. In addition, rental income and investment earnings from the Board's assets provide significant resources to enable the Board to carry out its mission. The Board's continued existence is partially dependent upon the Church's future support. The Church's financial support of the Board is dependent upon contributions from the congregations (i.e., congregational participation in the apportionment covenant).

Assets of the Board include the United Methodist Building, located in the District of Columbia. Tenants of the United Methodist Building include the Board, various other not-for-profit organizations which lease office space, and individuals who lease apartment units.

(2) Summary of Significant Accounting Policies

The financial statements of the Board have been prepared on the accrual basis of accounting. The Board's significant accounting policies are described below:

(a) Basis of Accounting

To ensure the observance of limitations and restrictions placed on the use of resources the Board maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives of the Board. Separate accounts are maintained for each fund.

For reporting purposes, however, the Board's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported into three classes, as follows:

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Notes to Financial Statements

December 31, 2006 and 2005

Unrestricted Net Assets

Unrestricted net assets are not subject to donor imposed stipulations. These net assets are available for the overall operations of the Board and certain amounts have been designated for use by the Board of Directors as follows:

	<u>2006</u>	<u>2005</u>
Invested in fixed assets	\$ 8,876,306	\$ 8,705,291
Less: Permanently restricted net assets in land and building	<u>(1,116,417)</u>	<u>(1,116,417)</u>
Net invested in fixed assets	<u>7,759,889</u>	<u>7,588,874</u>
Program related	6,112,208	5,598,608
Building related	<u>1,176,881</u>	<u>1,244,222</u>
Designated	15,048,978	14,431,704
Available for operations	<u>2,276,967</u>	<u>1,386,133</u>
Total unrestricted net assets	<u>\$ 17,325,945</u>	<u>\$ 15,817,837</u>

Certain net assets are invested in fixed assets of which \$1,116,417 is permanently restricted. Amounts reported as invested in fixed assets are not readily liquid.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Notes to Financial Statements

December 31, 2006 and 2005

Temporarily Restricted Net Assets

Temporarily restricted net assets are subject to restrictions imposed by the church or donor that may or will be met by actions of the Board and/or passage of time. When the restriction expires (i.e., when a stipulated time restriction ends or the Board fulfills the purpose for which the net assets were restricted), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Capital Campaign Fund is released over the useful life of the building improvements. Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2006</u>	<u>2005</u>
Peace with Justice	\$ 297,670	\$ 305,446
Youth Offender Project	62,548	39,156
Ethnic Local Church Grants	361,798	274,197
Pan-Methodist Coalition on Alcohol (and other drugs)	11,808	11,808
Eco-Justice Working Group Project	1,497	1,497
National Pan Hispanic Ministry	143,668	121,440
Substance Abuse Training Seminars	2,082	9,385
Immigration Project	20,359	23,958
Hugh Moore Fund	900,404	977,428
Concern for Workers	3,877	3,877
Genetic Engineering	3,605	6,674
Capital Campaign Fund	1,583,646	1,638,111
Children Mediation Fund	1,400	1,400
Chaplain Position	100	100
Enough is Enough Anti-Gambling	130	130
Prohibition Trust	4,500	4,500
Children's Health Environmental	9,800	9,800
Scholarship Fund	5,860	10,000
Young Adult Advocacy Network	11,131	11,131
D&A Coordinator Training	21,000	-
Addictions intern	<u>9,000</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$3,455,883</u>	<u>\$3,450,038</u>

Permanently Restricted Net Assets

The Board reports contributions which require that the amounts be maintained in perpetuity as permanently restricted. Permanently restricted net assets were received by the creation of the Methodist Building Endowment Fund (Fund) Trust Agreement, from the Division of Alcohol Problems and General Welfare of the Board of Christian Social Concerns of the Methodist Church, and from the Board of Temperance, Prohibition and Public Morals of the Methodist Episcopal Church. The Trust permanently restricts the use of the Fund's corpus, and requires that income generated by the corpus be used for building operations, alterations, repairs, improvements, and to support programs addressing problems involving alcohol, public morals, gambling, drug abuse, and general welfare.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
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Notes to Financial Statements

December 31, 2006 and 2005

Management reports revenue generated from the Methodist Building Endowment Fund (Trust Fund) as temporarily restricted, then, released from restriction as expenses on building operations, alterations, repairs, improvements, and to support programs addressing problems involving alcohol, public morals, gambling, drug abuse, and general welfare exceed the annual Trust Fund revenue. This policy is based on a legal opinion obtained by the Board in 1975.

The Board's management, on March 5, 1975, asked outside legal counsel whether the income from the Trust Fund could be properly spent on certain specific activities carried out by the board related to "public morals" and "general welfare." The list reviewed by the outside legal counsel included not only alcohol and temperance concerns, and drug abuse, but also "the whole area of the criminal justice system with specific focus on such activities as the National Interreligious Task Force on Criminal Justice, research into problems containing to police, corrections and courts, and with very important and significant work in the area of Crisis Intervention and Conflict Management where the role of churchmen in mediating social conflict is being understood and developed. Police-Community Relations' issues are also encompassed...as well as the issues of gambling, juvenile delinquency, penal reform and grand jury reform...policy aspects of the public welfare problem and policy aspects of our health care delivery system...questions of public morality relating to human sexuality, pornography, and the like...mak(ing) materials available of relevance and importance to the annual conferences and leadership of the church...the cost of administration for these programs..."

On May 12, 1975, outside legal counsel stated that "...it would be proper to interrupt the work...as described in your letter of March 5, 1975, as indicated under the category of 'public morals'...(and) 'general welfare' for Trust Fund purposes. This would mean that income from the Trust Fund could be used on an annual basis for these purposes...the yearly cost of administration for the programs mentioned above...appears to be properly supported from the annual income from the Trust Fund."

The Board's management has long interpreted its work on public policy as well as its efforts to communicate that work to its constituents and resource local congregations to affect public policy change as fitting under the categories of "public morals" and "general welfare" for Trust Fund purposes. Specifically, management believes the work it performs in all core programs of the Board meet the "public morals" and "general welfare" descriptions above. This would include the following core programs: Public Witness and Advocacy, Legislative Briefing, Ministry of Resourcing Congregational Life, Communications, Christian Social Action, Resource Production, United Nations Office, and the program-related portion of the General Secretary's Office. The Board's current management has reviewed past solicitation documentation and organizational documentation of the predecessor boards and believes that this interpretation is consistent with the implicit intent of the original donors, the General Conference and the advice of outside legal counsel.

(b) Operations

Operating results in the statements of activities reflect all transactions increasing or decreasing unrestricted or temporarily restricted net assets except the receipt and expenditure of those gifts, grants, and bequests of a capital nature and investment return in excess of amounts designated for operations.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Notes to Financial Statements

December 31, 2006 and 2005

(c) Investments and Investment Payout

Investments are reported at fair value. The fair value of investments is determined based on quoted market prices. Cash equivalent funds held by the investment manager are not considered cash equivalents for purposes of the statement of cash flows.

The Board has adopted the total return concept in allocating investment income. The Board has designated the income from a portion of its unrestricted investment portfolio to support operations. In accordance with the Board's total return objective, an amount equal to 5% of a three year rolling average of total fair market value of this portion is in the form of an investment payout. If investment income received (i.e., interest and dividends) is not sufficient to support the total return objective, the balance is provided from realized gains. If investment income is received in excess of the objective, the balance is reinvested in the investment fund.

(d) Property and Equipment

Property and equipment assets are carried at original cost or estimated fair value at date of donation, if donated. Depreciation is computed on a straight-line basis over estimated useful lives of 37.5 years for the building and 3 to 10 years for furniture, equipment, and building improvements.

(e) Contributions

Contributions are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, the organization has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, contributions of property and equipment are recorded as temporarily restricted support. Assets contributed to acquire property and equipment are also recorded as temporarily restricted support.

(f) Grants Disbursed

Conditional revocable grants are awarded to support various Ethnic Minority Local Church, Peace with Justice, and Youth Offender projects. Grants awarded are charged to program expense as grant requirements are met. At December 31, 2006 and 2005, undisbursed commitments on revocable grants totaled \$95,140 and \$73,281, respectively. These amounts are not recorded as liabilities or disclosed as designated net assets in the accompanying financial statements. Funding decisions for conditional grants are dependent on receiving progress reports from the grantees. Grants expense for amounts disbursed to organizations associated with the Church was \$227,848 and \$207,745, for the years ended December 31, 2006 and 2005.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
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Notes to Financial Statements

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(g) Income Taxes

The Board is covered under GCFA's group determination letter from the Internal Revenue Service indicating that it is a nonprofit corporation and, except for taxes pertaining to unrelated business income, is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Board has no significant unrelated business income during the years ended December 31, 2006 and 2005.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgments 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 revenue and expense during the reporting period. Actual results could differ from those estimates.

(i) Reclassifications

Certain balances in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

(3) Investments

Investments at December 31, 2006 and 2005 consist of the following:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,164,777	\$ 1,164,777	\$ 1,157,461	\$ 1,157,461
REITs	-	-	86,091	88,563
Corporate bonds	1,088,107	1,064,284	1,219,954	1,151,627
Marketable equity securities	7,674,035	8,729,274	5,453,111	6,565,694
U.S. Government securities	<u>1,809,025</u>	<u>1,780,940</u>	<u>2,892,974</u>	<u>2,856,332</u>
Total investments	<u>\$11,735,944</u>	<u>\$12,739,275</u>	<u>\$10,809,591</u>	<u>\$11,819,677</u>

Investments at December 31, 2006 and 2005 are managed as part of the following pooled funds:

	<u>2006</u>	<u>2005</u>
Permanently Restricted: United Methodist Building Endowment Fund	\$ 1,486,602	\$ 1,486,602
Temporarily Restricted: Hugh Moore Population Fund	900,404	977,428
Temporarily Restricted: Capital Campaign Fund	1,583,646	1,638,111
Other portfolio investments	<u>8,768,623</u>	<u>7,717,536</u>
Total investments	<u>\$12,739,275</u>	<u>\$11,819,677</u>

**GENERAL BOARD OF CHURCH AND SOCIETY OF
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Notes to Financial Statements

December 31, 2006 and 2005

Amounts equal to the annual release of restriction from the Capital Campaign Fund are transferred from the Capital Campaign pooled fund to other portfolio investments as repayment for the building improvements.

Investment income for the years ended December 31, consists of the following:

	<u>2006</u>	<u>2005</u>
Interest and dividends on operating funds	\$ 21,642	\$ 10,396
Net gains designated for operations	<u>321,770</u>	<u>290,482</u>
Investment income for operations	343,412	300,878
Interest and dividends on non-operating funds	397,700	292,866
Net gains on investments	649,973	288,290
Net gains designated for operations	(321,770)	(290,482)
Investment expenses	<u>(131,328)</u>	<u>(129,843)</u>
Total invest return other than amounts designated for operations	<u>594,575</u>	<u>160,831</u>
Net investment income	<u>\$ 937,987</u>	<u>\$ 461,709</u>

(4) Investment in General Council on Finance and Administration Short-Term Pooled Investment Fund

The amounts invested with the General Council on Finance and Administration (GCFA) consist of Board funds that have been pooled with other agencies' funds and are managed by the GCFA. In addition, the Board's allocation of General Funds of The United Methodist Church for the month of December 2006 has been accrued. The Board's future allocation is dependent on the receipt of funds by The United Methodist Church from local churches and donors.

(5) Property and Equipment

Property and equipment assets consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Land	\$ 183,038	\$ 183,038
Building and improvements	10,999,036	10,680,683
Furniture and equipment	1,196,878	1,038,438
Equipment held under capital lease	<u>126,469</u>	<u>126,469</u>
Total property and equipment	12,505,421	12,028,628
Less accumulated depreciation and amortization	<u>(3,629,115)</u>	<u>(3,323,337)</u>
Property and equipment, net	<u>\$ 8,876,306</u>	<u>\$ 8,705,291</u>

The Board has legal title to the United Methodist Building at 100 and 110 Maryland Avenue, N.E., Washington, D.C. However, the Board must obtain approval from the General Conference of The United Methodist Church prior to sale of the building.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
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Notes to Financial Statements

December 31, 2006 and 2005

(6) Employee Benefits

(a) Retirement Benefits

Full-time lay persons and eligible clergy employed by the Board participate in the Staff Retirement Benefits Program (SRBP) and the Ministerial Pension Plan (MPP), respectively. These defined contributions plans are administered by The General Board of Pension and Health Benefits of The United Methodist Church (GBOPHB).

The Board makes annual contributions to each eligible employees' account held by GBOPHB based on 12% of annual employee compensation. Total contributions made by the Board during 2006 and 2005 were, \$165,665 and \$153,110, respectively.

The Retirement Security Program for General Agencies (RSP) that was approved by the 2004 General Conference, provides for a two-component benefit design that begins January 1, 2007. The core program, which is provided to all eligible general agency employees and clergy appointed to general agencies, consists of separate defined benefit and defined contribution plans. GCFA has determined that the defined benefit plan is considered a multi-employer plan.

(b) Health Care and Life Insurance Benefits

The Board provides health, life, and other employee benefits for its active employees and health, dental, and life benefits to retirees through a group plan which qualifies for treatment as a multi-employer plan under Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Substantially all retired employees are eligible to participate in the Plan if they have attained normal retirement age while in the employ of the Board.

The General Agencies of The United Methodist Church Benefit Plan (the Plan) provides medical, dental, life, and long and short-term disability defined benefits to participants of eleven general agencies, all Bishops covered by the Episcopal Fund and employees of other United Methodist related organizations.

The Plan's unfunded accumulated postretirement benefit obligation (APBO) was approximately \$121,043,000 and \$128,482,000 and the Plan's unfunded expected postretirement benefit organization (EPBO) was approximately \$151,091,000 and \$162,606,000 as of December 31, 2006 and 2005, respectively.

All of the Board's active employees are covered by the Plan. The cost if the benefits is recognized as expense as premiums are paid. The total cost of benefits for active employees was \$152,878 and \$148,758 in 2006 and 2005, respectively, exclusive of reimbursement from the Benefit Trust.

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GBOPHB has transferred certain excess pension assets to the General Agency Benefit Trust (Benefit Trust) established by the 1996 General Conference. Annually, the Benefit Trust allows a stated percentage, 4% for 2006 and 4% for 2005, respectively, of the fair market value of Benefit Trust assets at year end to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retiree employee benefits. The fair value of the Benefit Trust's assets (not plan assets) was approximately \$140,044,000 as of December 31, 2006. The total amount available for reimbursement in 2006 and 2005 is \$5,345,317 of which the Board's share, including retiree health benefits, is \$192,348 and \$158,103, in 2006 and 2005 respectively.

Beginning in 2006, the General Board of Church and Society received a distribution of funds from the Agency Group Plan (AGI) to offset a portion of the costs of its employee health insurance plan. This distribution was \$34,246 during 2006 and is included in other revenue on the statement of activities. All of the organizations participating in the AGI health insurance plan received distributions during 2006 and are expected to receive similar distributions through 2012. The amount of each participating organization's distribution is based upon the organization's proportionate share of the base year health insurance premium cost of AGI.

(7) Lease Commitments

The Board rents out office space to not-for-profit organizations in the buildings it owns. A Summary of future minimum rental income on noncancelable leases at December 31, 2006 is as follows:

2007	\$1,453,869
2008	1,412,991
2009	1,026,417
2010	469,376
2011	371,546
Thereafter	<u>920,929</u>
	<u>\$5,655,128</u>

The Board rents certain office space to other agencies of The United Methodist Church as well as certain residential space to employees. Rental income for related agencies was approximately \$223,993 and \$338,000 for the years ended December 31, 2006 and 2005, respectively. Rental income from employees was \$15,319 and \$14,916 for the years ended December 31, 2006 and 2005.

(8) Uncertainties and Contingencies

The Board's management and board members have evaluated challenges made by certain United Methodists concerning misallocations of revenue generated by the Methodist Building Endowment Fund. The Board's management and board have reviewed those allegations and believe they are not based on factual evidence nor consistent with legal opinions provided by the Board's outside legal counsel. There is no pending litigation regarding the allegations of misallocation, however, the Board has requested that the Probate Division of the Superior Court of the District of Columbia review and affirm the current allocations which are based on the determination's more fully discussed previously on page 8.

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The General Conference of The United Methodist Church, which meets every four years and which has full legislative power over the church, has the power to expropriate, for any or no reason, the assets owned by the Board, including real property (property and equipment) and other assets. Title to all real and personal, tangible and intangible property of the Board is held in trust by the Board for The United Methodist Church. An unfavorable resolution and/or action taken by the General Conference of The United Methodist Church could result in material decreases in net assets, revenues or reclassifications in net assets of the Board.

The Board invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

GENERAL BOARD OF CHURCH AND SOCIETY OF
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Schedule of Natural Classification of Expenses - Unrestricted Net Assets - Undesignated

Year ended December 31, 2006

	General Secretary's Office	United Nations Office	Communications	Christian Social Action	Resource Production	Human Welfare	Economic and Environmental Justice	Alcohol Addictions & Healthcare	Education and Leadership Formation	Legislative Briefing	Fund raising	General Administration	Finance/ Personnel	Service Department	Total
Salaries	\$ 336,688	\$ 87,511	\$ 121,443	\$ -	\$ -	\$ 64,922	\$ 68,603	\$ 67,718	\$ 241,510	\$ -	\$ -	\$ -	\$ 178,150	\$ 14,701	\$ 1,181,246
Employer's pension contribution	39,286	5,844	14,290	-	-	7,675	8,193	10,977	34,784	-	-	-	21,746	1,764	144,559
Payroll taxes	19,168	(2,476)	3,486	-	-	4,421	(2,573)	624	3,000	-	-	-	8,812	310	34,772
Group insurance	45,870	5,939	11,833	-	-	11,844	6,217	5,677	27,877	-	-	111,906	15,929	1,614	244,706
Membership and grants	3,800	300	-	-	-	1,300	2,350	1,000	4,150	-	-	-	-	-	12,900
Program development	105	7,857	-	-	-	2,952	2,484	1,710	51,144	-	-	-	-	-	66,252
Staff training	95	-	-	-	-	-	-	-	-	-	-	6,183	-	-	6,278
Moving expense	-	-	2,028	-	-	4,267	-	-	-	-	-	-	-	-	6,295
Rent	-	29,374	-	-	-	-	-	-	-	-	-	-	-	-	29,374
Occupancy	33,754	-	17,010	-	-	11,340	11,340	11,340	38,990	-	-	-	15,249	9,965	148,988
Telephone	6,252	1,173	2,031	-	-	955	924	914	3,670	1,620	-	-	1,543	1,040	20,122
Postage and freight	386	861	15	-	-	175	286	1,369	3,261	102	-	-	3,674	3,903	18,155
Printing and duplication	2,182	1,325	290	-	-	1,036	1,747	1,569	10,962	-	-	115	1,159	(12,085)	8,300
Office supplies	5,557	1,851	4,514	-	-	952	754	751	3,996	5	-	119	1,890	2,740	23,129
Equipment repair and maintenance	12,467	3,893	-	-	-	-	-	-	-	-	-	-	-	3,960	20,320
Equipment leasing and replacement	-	-	-	-	-	-	-	-	-	-	-	-	-	12,950	12,950
Books and subscriptions	2,913	866	300	-	-	1,067	1,048	1,194	1,799	-	-	61,528	82	9,269	61,528
Depreciation	-	-	-	-	-	-	-	-	-	-	-	58,829	-	-	58,829
Legal fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consultant fees, security, and professional fees	20,620	2,186	-	-	-	-	-	17,781	-	-	-	2,729	-	2,058	45,374
Order fulfillment fees	-	-	-	-	-	4,455	-	-	-	-	-	-	-	-	4,455
Services rendered by other agencies (US 2)	-	-	-	-	-	-	-	-	4,869	-	-	-	-	-	4,869
Independent contractors - Honoraria	-	-	-	-	-	-	-	-	12,230	-	-	-	-	-	12,230
Employee activities	-	-	-	-	-	-	-	-	-	-	-	1,947	-	-	1,947
Meeting expense	-	-	-	-	-	-	215	2,074	-	578	-	209,519	-	-	212,386
Staff travel	35,157	23,269	4,332	-	-	4,704	11,264	10,706	39,143	-	-	16	1,824	-	130,415
Materials for resale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Promotional and informational materials	-	-	-	-	12,094	-	-	-	-	-	-	-	-	-	12,094
Insurance	-	-	-	-	211	-	-	-	2,774	2,928	375	-	-	-	6,288
Interest expense on copier lease	-	-	-	-	-	-	81	297	-	-	-	12,366	-	-	12,366
Miscellaneous	1,303	96	1,739	-	-	350	81	875	-	-	-	4,678	163	-	9,582
Computer plan and guest apartment services	-	81	79	-	-	56	-	-	163	-	-	-	-	-	216
Hospitality-Seminar Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	163
Worship Committee (MISC)	429	-	-	-	-	-	-	-	-	-	-	-	-	-	429
Website services and data processing fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	61,989
Capitalized items paid by operations	(2,019)	-	(749)	-	-	-	-	-	(300)	-	-	-	-	(3,068)	(3,068)
Allocation of service department	4,041	35	2,403	48	5,128	1,244	1,957	2,232	10,738	-	-	120	3,667	(37,407)	(37,407)
	\$ 568,054	\$ 169,985	\$ 185,044	\$ 48	\$ 888,000	\$ 119,260	\$ 114,890	\$ 137,933	\$ 495,635	\$ 5,233	\$ 375	\$ 470,055	\$ 253,888	\$ 5,513	\$ 2,613,913
Expenses satisfying restrictions on use of building fund income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	850,575
Net, unrestricted, undesignated expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 1,763,338

See accompanying independent auditors' report.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Schedule of Expenses – Unrestricted Net Assets – Designated

Year ended December 31, 2006

	United Methodist Building General <u>Administration</u>	Rental Assistance <u>Grants</u>	Emerging issues <u>(Designated)</u>	<u>Total</u>
Salaries	\$ 98,924	\$ -	\$ -	\$ 98,924
Employer's pension contribution	4,721	-	-	4,721
Payroll taxes	1,235	-	-	1,235
Group insurance	7,206	-	-	7,206
Membership and grants	-	21,649	5,500	27,149
Utilities	182,283	-	-	182,283
Telephone	10,558	-	-	10,558
Building repair and maintenance	432,744	-	-	432,744
Real estate management fees	46,968	-	-	46,968
Depreciation	324,117	-	-	324,117
professional fees	4,171	-	5,250	9,421
Insurance – building	37,532	-	-	37,532
Miscellaneous	240	-	-	240
Occupancy allocation	<u>(171,667)</u>	<u>-</u>	<u>-</u>	<u>(171,667)</u>
	<u>\$ 979,032</u>	<u>\$21,649</u>	<u>\$10,750</u>	1,011,431
Expenses satisfying restriction on use of building fund income				<u>1,000,681</u>
Net unrestricted, designated expenses				<u>\$ 10,750</u>

See accompanying independent auditors' report.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Schedule of Net Assets Released from Restrictions

Year ended December 31, 2006

	Peace With Justice	Immigration Project	Substance Abuse Training	Ethnic Local Church Grants	Youth Offender Project	Genetic Engineering	Scholarship Fund	Hugh Moore Population Office	Total
Salaries	\$ 68,522	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,290	\$ 136,812
Employer's pension contribution	8,193	-	-	-	-	-	-	8,193	16,386
Payroll taxes	5,074	-	-	-	-	-	-	4,189	9,263
Group insurance	6,098	-	-	-	-	-	-	6,098	12,196
Memberships and grants	59,450	-	-	151,735	29,000	-	-	3,890	244,075
Program development	5,697	3,562	7,303	-	-	135	4,140	2,834	23,671
Occupancy	11,340	-	-	-	-	-	-	11,340	22,680
Telephone	1,510	-	-	-	-	488	-	1,661	3,659
Postage and freight	882	-	-	-	-	-	-	1,128	2,010
Printing and duplication	8,000	-	-	-	-	-	-	2,148	10,148
Office supplies	1,211	-	-	-	-	-	-	1,370	2,581
Books and subscriptions	1,322	-	-	-	-	-	-	1,252	2,574
Honoraria	-	-	-	-	-	-	-	500	500
Meeting expense	23,364	-	-	-	-	2,446	-	25,327	51,137
Staff travel	11,312	-	-	-	677	-	-	9,380	21,369
Miscellaneous expense	1,174	37	-	-	-	-	-	261	1,472
Commuter Plan	329	-	-	-	-	-	-	58	387
Allocation of service department	2,623	-	-	-	-	-	-	2,945	5,568
Subtotal restricted project expenses	\$216,101	\$ 3,599	\$ 7,303	\$151,735	\$29,677	\$3,069	\$4,140	\$150,864	566,488
Release due to time restrictions	-	-	-	-	-	-	-	-	53,682
Release of building fund income due to satisfaction of program expenses	-	-	-	-	-	-	-	-	1,851,256
Total net assets released from restrictions in endowment fund	\$216,101	\$ 3,599	\$ 7,303	\$151,735	\$29,677	\$3,069	\$4,140	\$150,864	\$2,471,426

Release due to time restrictions
Release of building fund income due to satisfaction of program expenses

Total net assets released from restrictions in endowment fund

See accompanying independent auditors' report.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Schedule of Land and Buildings Owned and Leased by the Board

December 31, 2006

Land/Buildings Owned by the Board

<u>Description</u>	<u>Address</u>	<u>Value</u>	<u>Debt/Mortgage</u>	<u>Owner</u>
Office	100 Maryland Avenue, NE Washington, DC 20002	Unknown	None	The Board
Office and Residential	100 Maryland Avenue, NE Washington, DC 20002	Unknown	None	The Board

Land and Buildings Leased by the Board

<u>Description</u>	<u>Address</u>	<u>Estimated Annual Rental Cost*</u>	<u>Titled Owner</u>
Office	777 United Nations Plaza 11 th Floor, Suites 11-D and F-1 New York, NY 10017	\$29,439	Women's Division of GBGM

See accompanying auditors' report.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
THE UNITED METHODIST CHURCH**

Schedule of Assets Included in Permanently Restricted Assets

December 31, 2006

	<u>Permanently Restricted</u>	
	<u>2006</u>	<u>2005</u>
Assets:		
Investments	\$1,486,602	\$1,486,602
Fixed assets	<u>1,116,471</u>	<u>1,116,471</u>
Assets	<u>\$2,603,019</u>	<u>\$2,603,019</u>
Liabilities		
Net assets	<u>\$2,603,019</u>	<u>\$2,603,019</u>

See accompanying independent auditors' report.

**GENERAL BOARD OF CHURCH AND SOCIETY OF
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Schedule of Activities of the United Methodist Building Endowment Fund

December 31, 2006 and 2005

	<u>Temporarily Restricted</u>	
	<u>2006</u>	<u>2005</u>
Operating revenue:		
Rental income	\$ 1,739,255	\$ 1,589,993
Capital gains (designated for operations)	<u>112,001</u>	<u>56,992</u>
Total operating revenue	<u>1,851,256</u>	<u>1,646,985</u>
Release of restrictions:		
Expenses satisfying restrictions, rental expense	979,032	933,604
Expense satisfying restriction, rental assist grants	<u>21,649</u>	<u>22,059</u>
Subtotal of released restrictions	<u>(1,000,681)</u>	<u>(955,663)</u>
Expenses satisfying restrictions, core programs excluding fundraising expenses	2,613,912	2,415,606
Amount by which core programs exceed endowment funds available	<u>(1,763,337)</u>	<u>(1,724,284)</u>
Subtotal of expenses released satisfying restrictions over endowment funds available	<u>(850,575)</u>	<u>(691,322)</u>
Total release of restrictions	<u>(1,851,256)</u>	<u>(1,646,985)</u>
Change in United Methodist Building Endowment Fund Temporarily Restricted net assets	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.