

**Dakotas Annual Conference of the
United Methodist Church, Inc.**

**Independent Auditor's Report
and Financial Statements**

**For the Year Ended
December 31, 2022**

Dakotas Annual Conference of the United Methodist Church, Inc.

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Independent Auditor's Report

To the Board of Trustees of
Dakotas Annual Conference of the
United Methodist Church, Inc.

Opinion

We have audited the accompanying financial statements of Dakotas Annual Conference of the United Methodist Church, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dakotas Annual Conference of the United Methodist Church, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Dakotas Annual Conference of the United Methodist Church, Inc. and to meet our ethical responsibilities in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in cursive script that reads "ELO Prof LLC".

Mitchell, South Dakota

June 6, 2023

Dakotas Annual Conference of the United Methodist Church, Inc.

Statement of Financial Position

December 31, 2022

Assets

Current Assets

Cash and cash equivalents	\$ 3,164,573
Accounts receivable - apportionments and direct bill	496,932
Pledges receivable, current portion, net of allowance and discounts	1,000
Prepaid expenses	11,605
Notes and contracts receivable, current portion, less allowance for doubtful accounts of \$0	5,000
Total Current Assets	<u>3,679,110</u>

Noncurrent Assets

Pledges receivable, less current portion, net of allowance and discounts	94,641
Notes and contracts receivable, less current portion and allowance for doubtful accounts of \$0	83,730
Investment accounts - affiliated organizations	6,924,806
Deposit accounts - Conference Board of Pensions	50,494,406
Beneficial interest in trust funds	144,525
Total Noncurrent Assets	<u>57,742,108</u>

Property and Equipment - net

3,570,041
<u>\$ 64,991,259</u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 468,169
Accrued payroll taxes	51,690
Accrued real estate taxes	17,725
Deferred camps revenue	15,950
Current portion of post-retirement benefit obligation	890,271
Total Current Liabilities	<u>1,443,805</u>

Noncurrent Liabilities

Post-retirement benefit obligation	<u>33,562,050</u>
Total Liabilities	<u>35,005,855</u>

Net Assets

Without donor restrictions	7,183,142
With donor restrictions	<u>22,802,262</u>
Total Net Assets	<u>29,985,404</u>
	<u>\$ 64,991,259</u>

The accompanying Notes to Financial Statements are an integral part of this statement

Dakotas Annual Conference of the United Methodist Church, Inc.

Statement of Activities

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
Apportioned giving	\$ 3,804,207	\$ 41,375	\$ 3,845,582
Contributions and bequests	281	580,069	580,350
Investment income	381,210	2,519,914	2,901,124
Program fees and sales	762,101	--	762,101
Miscellaneous income	247,452	--	247,452
Net realized gain on property, plant and equipment	2,500	--	2,500
Net unrealized gain (loss) on long-term investments	(9,412,868)	(4,169,168)	(13,582,036)
Net assets released from restrictions	5,386,385	(5,386,385)	--
Total Revenues, Gains and Other Support	1,171,268	(6,414,195)	(5,242,927)
Expenses			
Program Services			
District superintendency	706,001	--	706,001
Equipping churches	1,065,659	--	1,065,659
Connectional ministries	445,697	--	445,697
Camping program	1,029,558	--	1,029,558
Total Program Service Expenses	3,246,915	--	3,246,915
Supporting Services			
Stewardship of resources	1,782,896	--	1,782,896
Pensions and insurance	(561,397)	--	(561,397)
Total Support Service Expenses	1,221,499	--	1,221,499
Total Expenses	4,468,414	--	4,468,414
Change in Net Assets	(3,297,146)	(6,414,195)	(9,711,341)
Net Assets, Beginning of Year	10,480,288	29,216,457	39,696,745
Net Assets, End of Year	\$ 7,183,142	\$ 22,802,262	\$ 29,985,404

The accompanying Notes to Financial Statements are an integral part of this statement

Dakotas Annual Conference of the United Methodist Church, Inc.
Statement of Functional Expenses
December 31, 2022

	Program Services					Supporting Services		Total Supporting Services	Total Expenses
	District Superintendent	Equipping Churches	Connectional Ministries	Camping Program	Total Program Services	Stewardship of Resources	Pensions and Insurance		
Compensation expenses									
Salaries and wages	\$ 283,151	\$ 55,702	\$ 117,703	\$ 387,646	\$ 844,202	\$ 596,383	\$ 69,999	\$ 666,382	\$ 1,510,584
Fringe benefits	102,199	10,036	34,092	44,062	190,389	348,529	4,682,420	5,030,949	5,221,338
Total Compensation Expenses	385,350	65,738	151,795	431,708	1,034,591	944,912	4,752,419	5,697,331	6,731,922
Other expenses									
Travel and meeting expense	66,790	48,247	17,793	34,746	167,576	43,667	4,560	48,227	215,803
Office expense	6,617	4,756	7,991	7,985	27,349	19,376	2,649	22,025	49,374
Professional fees	5,475	187,497	20,825	27,579	241,376	184,049	4,021	188,070	429,446
Program supplies and materials	219,525	58,794	174,908	190,439	643,666	215,990	2,055	218,045	861,711
Miscellaneous	--	5,275	--	--	5,275	7,192	(390)	6,802	12,077
Occupancy	8,425	1,814	41,933	330,321	382,493	45,626	3,867	49,493	431,986
Grants to local ministries	13,819	353,962	30,452	6,780	405,013	124,908	410,794	535,702	940,715
Bad debts	--	339,576	--	--	339,576	--	--	--	339,576
Change in net periodic benefit	--	--	--	--	--	--	(5,741,372)	(5,741,372)	(5,741,372)
Depreciation	--	--	--	--	--	197,176	--	197,176	197,176
Total Expenses	\$ 706,001	\$ 1,065,659	\$ 445,697	\$ 1,029,558	\$ 3,246,915	\$ 1,782,896	\$ (561,397)	\$ 1,221,499	\$ 4,468,414

The accompanying Notes to Financial Statements are an integral part of this statement

Dakotas Annual Conference of the United Methodist Church, Inc.

Statement of Cash Flows

December 31, 2022

Cash Flows From Operating Activities

Change in net assets	\$ (9,711,341)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:	
Depreciation expense	197,176
Bad debts	339,576
Net realized (gain) on property, plant and equipment	(2,500)
Unrealized loss on long-term investments	13,582,036
(Increase) decrease in:	
Accounts and pledges receivable	107,592
Prepaid expenses	(2,711)
Increase (decrease) in:	
Accounts payable	(79,844)
Accrued expenses	(4,859)
Deferred camps revenue	(7,029)
Post-retirement benefit obligation	<u>(5,741,372)</u>
 Net Cash (Used) by Operating Activities	 <u>(1,323,276)</u>

Cash Flows From Investing Activities

Collections on notes and contracts receivable	1,538
Proceeds from sale of investments	10,700,655
Purchase of investments	(10,673,189)
Issuance of notes receivable	(30,000)
Proceeds from sale of property, plant and equipment	2,500
Purchase of property, plant and equipment	<u>(106,038)</u>
 Net Cash (Used) by Investing Activities	 <u>(104,534)</u>

Net (Decrease) in Cash and Cash Equivalents (1,427,810)

Cash and Cash Equivalents, Beginning of Year	<u>4,592,383</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,164,573</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies:

Nature of Operations: The Conference serves local churches affiliated with the United Methodist Church in North and South Dakota. The Conference's revenues are derived primarily from apportionments collected from the local churches.

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of all institutions and organizations providing services of the level of administration above the individual congregation.

The Conference was organized January 1, 1994. The Conference was formed by resolution of the South Dakota Annual Conference of the United Methodist Church and the North Dakota Annual Conference of the United Methodist Church (amended in 1993 to Dakotas Annual Conference of the United Methodist Church, Inc.) The two conferences agreed to consolidate their budgets, treasuries, liabilities, financial reports and assets under the name of and governed by the Dakotas Annual Conference of the United Methodist Church, Inc.

Description of Programs:

District Superintendency: This program works with the Bishop to care for the supervision of pastors and churches. There are four District Superintendents who have specific churches assigned to them to monitor and work with to increase their effectiveness in making disciples of Jesus Christ. The District Superintendency often provides the most direct connection between pastors, churches, and the other programs of the Conference.

Equipping Churches: This program provides training and other resources for those seeking to become pastors, existing pastors, and churches to promote greater effectiveness in making disciples of Jesus Christ. This program cares for approximately 140 pastors and 210 churches in North and South Dakota.

Connectional Ministries: This program coordinates the various ministries of the Conference that are considered to be too large for an individual church to carry out alone. These ministries include campus ministry, supporting missionaries serving North and South Dakota, and holding statewide youth events.

Camping Program: This program provides camping facilities for children, youth and adults to encounter a Christ-centered ministry that provides places where people can experience and grow in God's love and grace with other people. There are facilities in both North and South Dakota.

Stewardship of Resources: This program cares for the property, personnel, and finances of the Conference. The Conference has approximately 30 permanent employees and several parsonages and ministry properties in North and South Dakota.

Pensions and Insurance: This program provides employment benefits for Conference staff and licensed or ordained pastors serving United Methodist churches in North and South Dakota. These benefits include pension, health insurance, and death/disability insurance.

Income Tax Status: The Conference is exempt from Federal and North Dakota state income taxes under Section 501(c) (3) of the Internal Revenue Code. The State of South Dakota does not levy an income tax.

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies: (Continued)

Cash and Cash Equivalents: The Conference considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at banks.

Promises to Give: Unconditional promises to give represent public pledges and are recorded at estimated net realizable value. Management evaluated all unconditional promises to give in order to determine the allowance for uncollectible pledges. Additionally, contributions receivable due in more than one year are reflected at the present value of estimated future cash flows using a risk-free discount rate based on the published Treasury note rate. At December 31, 2022, the discount rate applied to contributions scheduled to be collected in future years was 1.00%.

Use of Estimates: In preparing financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. Unrealized gains or losses are included in the change in net assets in the accompanying Statement of Activities.

Gains and losses and investment income derived from investments, receivables and the like are accounted for as unrestricted, temporarily restricted, or permanently restricted based on restrictions, if any, imposed by donors.

With Donor Restrictions and Without Donor Restrictions Revenue and Support: Contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or when purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the Statement of Activities as net assets released from restrictions.

The Conference reports gifts of land, buildings, and equipment as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Conference reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue Recognition: The apportionment revenues of the Conference are from affiliated churches and are considered contracts with customers under FASB Accounting Standards Codification 606. For each contract, the Conference has determined the transaction price to be 15% of the monthly operating income received by each affiliated church (cost of affiliation). In exchange for the affiliation fees, the member churches receive a bundle of services and resources. The fair value of these benefits is equal to the affiliation fees.

Receivables: The Conference carries its receivables at cost less an allowance for doubtful accounts. On a periodic basis, the Conference evaluates its receivables and establishes an allowance for doubtful accounts based on its history of past write-offs and collections and current credit conditions.

Subsequent Events: Subsequent events have been evaluated for potential recognition or disclosure through June 6, 2023, the date the financial statements were available to be issued.

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

2. Notes and Contracts Receivable:

Notes and contracts receivable consist of the following individual issues:

	Terms	
An individual - unsecured	No interest accruing; due in bi-weekly installments of \$192; final payment due August, 2028	\$ 28,462
An organization - unsecured	No interest accruing; due on demand	<u>60,268</u>
		88,730
	Less current portion	<u>(5,000)</u>
	Long-term portion	<u><u>\$ 83,730</u></u>

3. Pledges Receivable:

Pledges receivable at December 31, 2022, consist of unconditional promises to give as follows:

Within one year	\$ 1,000
One to five years	--
More than 5 years	<u>150,000</u>
	151,000
Less: discounts to net present value	<u>(55,359)</u>
	<u><u>\$ 95,641</u></u>

4. Property and Equipment:

A summary of property and equipment is as follows:

Land	\$ 554,695
Buildings and improvements	7,556,000
Equipment and furnishings	2,301,079
Less accumulated depreciation	<u>(6,841,733)</u>
	<u><u>\$ 3,570,041</u></u>

Property and equipment are stated at cost except properties acquired by gift conveyance which are carried at fair market value at time of conveyance. Depreciation is computed on the straight-line method based upon estimated service lives of the depreciable assets. It is the organization's policy to capitalize items with a useful life exceeding one year and a cost greater than \$5,000.

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

5. Deposit Accounts – Conference Board of Pensions:

The Conference has amounts deposited with Wespath Benefits and Investments in Glenview, Illinois. These funds consist of and are summarized as follows:

	<u>Endowment and Trust Funds</u>	<u>Pension Deposit Fund</u>	<u>Health Flex Deposit Fund</u>	<u>Care & Concern Fund</u>	<u>New Church Fund</u>	<u>Active Health Fund</u>	<u>Retiree Health Liability Fund</u>	<u>Pre-1982 Retirement Plan Fund</u>	<u>Total Wespath Benefits and Investments</u>
Balance, January 1, 2022	\$ 5,474,350	\$ 2,321,539	\$ 3,010,879	\$ 183,214	\$ 1,516,709	\$ 312,334	\$ 19,987,045	\$ 29,432,523	\$ 62,238,593
Net investment gain (loss)	225,795	107,709	9,693	579	--	--	158,951	2,167,751	2,670,478
Unrealized gain (loss)	(1,131,053)	(507,121)	(409,030)	(7,565)	(252,235)	(92,276)	(3,464,631)	(6,267,460)	(12,131,371)
Deposits	(102,239)	2,397,624	2,673,420	--	--	--	2,190,576	--	7,159,381
Withdrawals	(99,551)	(1,572,327)	(2,510,013)	(13,000)	--	--	(672,681)	(5,086,522)	(9,954,094)
Transfers	(186,849)	(94,710)	187,820	--	--	753,006	(6,261)	(653,006)	--
Balance, December 31, 2022	<u>\$ 4,180,453</u>	<u>\$ 2,652,714</u>	<u>\$ 2,962,769</u>	<u>\$ 163,228</u>	<u>\$ 1,264,474</u>	<u>\$ 973,064</u>	<u>\$ 18,192,999</u>	<u>\$ 19,593,286</u>	<u>\$ 49,982,987</u>

The Conference has amounts deposited with the Dakotas Annual Conference Board of Pensions of the United Methodist Church. These funds consist of and are summarized as follows:

	<u>Pension Deposit Fund</u>	<u>Total All Funds</u>
Balance, January 1, 2022	\$ 512,367	\$ 62,750,960
Net investment gain (loss)	3,165	2,673,643
Unrealized gain (loss)	(4,113)	(12,135,484)
Deposits	--	7,159,381
Withdrawals	--	(9,954,094)
Transfers	--	--
Balance, December 31, 2022	<u>\$ 511,419</u>	<u>\$ 50,494,406</u>

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

6. Fair Value Measurements:

FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Investments – Affiliated Organizations, Deposit Accounts – Conference Board of Pensions: Valued at the Net Asset Value of the Organization's respective share of the underlying assets.

Beneficial interest in trust funds: Valued at the Organization's share of the underlying assets held in the trust.

The following table summarizes financial assets by ASC 820 levels as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments-Affiliated Organizations	\$ --	\$ 6,924,806	\$ --	\$ 6,924,806
Deposit Accounts - Conference Board of Pensions	511,419	49,982,987	--	50,494,406
Beneficial interest in trust funds	--	--	144,525	144,525
	<u>\$ 511,419</u>	<u>\$ 56,907,793</u>	<u>\$ 144,525</u>	<u>\$ 57,563,737</u>

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

6. Fair Value Measurements: (Continued)

The following table summarizes the changes in fair values associated with ASC 820 Level 3 financial assets:

	Beneficial Interest in Trust Funds
Balance as of January 1, 2022	\$ 249,517
Sales	(97,333)
Net investment earnings included in changes in net assets	(7,659)
Balance as of December 31, 2022	<u>\$ 144,525</u>

7. Related Party Transactions - Affiliations:

The Conference is affiliated with the Dakotas United Methodist Foundation. The Foundation's purpose is to aid and give financial assistance to the causes and institutions of or related to the Dakotas Annual Conference. The Conference provides office space to the Foundation at no cost.

The Conference has placed \$6,924,806 with the Foundation as of December 31, 2022, to be managed with the Foundation's investment portfolio. The amount is recorded in the non-current assets section of the balance sheet with the investment accounts - affiliated organizations.

8. Trust Funds:

The Conference is the beneficiary of trust funds established by donors under a legal trust agreement. The trust is administered by outside fiscal agents. Total trust revenue received in 2022 was \$97,333, which includes a partial principal disbursement from one of the trusts. The annual disbursements received from the trust are unrestricted. The fair value of the Conference's beneficial interest in the trust funds was \$144,525 at December 31, 2022.

9. Net Assets Without Donor Restrictions:

Net Assets Without Donor Restrictions is summarized as follows:

Unrestricted operating	\$ 1,745,014
Board designated	36,320,408
Net investment in plant	3,570,041
Pension and retiree health obligation deficit	(34,452,321)
Total Net Assets Without Donor Restrictions	<u>\$ 7,183,142</u>

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

10. Net Assets With Donor Restrictions:

Temporarily restricted net assets are available for the following purposes:

Equipping churches	
Scholarship and loan programs	\$ 497,365
Leadership development programs	11,585
Connectional ministries	
Parish and community development programs	1,867,727
World service and conference mission projects	1,097,890
Camping Program	
Scholarships	25,512
Camps capital improvements funds	604,658
Maintenance	120,000
Supporting services	
Capital improvement funds	93,825
Pension and insurance	18,483,700
	<u>\$ 22,802,262</u>

11. Net Assets Released From Restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors.

Purpose restrictions accomplished:	
Equipping churches	\$ 176,944
Connectional ministries	2,029,849
Camping program	52,848
Supporting services	3,126,744
Total restrictions released	<u>\$ 5,386,385</u>

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

12. Contingent Liabilities:

The Conference has a legal and financial responsibility for the debts of the following institutions: Dakota Wesleyan University, Jenkins Methodist Home, United Methodist Healthcare Association of Greater Mitchell, and Sunnycrest Village. The extent of those obligations cannot be determined at this time.

13. Concentration of Credit Risk:

At various times throughout the year ended December 31, 2022, total cash balances exceeded the maximum limit for federal deposit insurance.

14. Accounting for Uncertain Tax Positions:

The Conference does not have an income tax filing requirement because it is a tax-exempt religious organization. The Conference includes all penalties and interest assessed by income taxing authorities in operating expenses. There were no penalties and interest expenses for the year ended December 31, 2022.

15. Subsequent Events:

Certain churches under the jurisdiction of the Dakotas Annual Conference of the United Methodist Church Inc. have subsequently applied for disaffiliation from the Organization and the Methodist denomination. Upon disaffiliation, reimbursements will be made by the affected churches to the Organization for expected future liabilities payable by the Organization. Such amounts are not determinable as of the date the financial statements were available to be issued.

16. Implementation of New Accounting Standards:

As of January 1, 2022, the Conference implemented the provisions of FASB ASU 2016-02, Leases (Topic 842) which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The implementation of this standard had no material effect on net assets.

17. Future Accounting Standards Update:

In 2016, FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), commonly known as CECL. CECL's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. This ASU is effective for periods beginning after December 15, 2022, including interim periods within those fiscal years. The Conference is currently evaluating this guidance to determine the impact, if any, it may have on the financial statements.

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

18. Post-Retirement Benefits Obligation:

The Conference sponsors a defined benefit post-retirement health care plan covering substantially all employees. The plan was amended effective January 1, 2013 to require contributions from the employer to a Health Reimbursement Account (HRA) in each participant's name. The Conference's funding policy is to contribute an established dollar amount to participant HRAs based on the earnings from a designated investment. The most recent actuarially determined liability is as of December 31, 2022. The following table provides further information about the plan as of December 31, 2022:

Fair value of plan assets	\$	--
Benefit obligation		<u>(18,284,124)</u>
Funded Status: Underfunded		<u>\$ (18,284,124)</u>
Key Assumptions		
Discount rate		5.00%
Expected return on plan assets		N/A

For measurement purposes, an 7% annual rate of increase in the per capita cost of covered healthcare benefits was assumed at December 31, 2022. The rate was assumed to decrease gradually to 5% by 2031 and remain at that level thereafter.

Service cost	\$	215,627
Benefits paid by employer	\$	679,226

Future expected benefit payments to be made by the Conference are as follows:

2023	\$	890,271
2024	\$	913,541
2025	\$	939,567
2026	\$	955,226
2027	\$	894,979
Five years thereafter	\$	5,254,238

The Conference has designated certain investments to fund the benefit obligations. These funds totaled \$18,192,999 at December 31, 2022.

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

19. Ministerial Pension Plan Annuities:

The Conference participates in the Ministerial Pension Plan, a multi-employer, defined contribution pension plan that is administered by Wespath Benefits and Investments. This plan covers substantially all United Methodist clergy for service with the Conference from January 1, 1982 through December 31, 2006.

Although as a defined contribution plan, there is no over or underfunding of this plan while participants are active, this changes upon their retirement. At the time of retirement, some or all of the account balance of participants in the plan is converted to an annuity contract, which is based upon past contributions plus accumulated earnings. The annuities are guaranteed by the plan sponsors of the plan, including the Dakotas Annual Conference. The legal status of the annuities 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 Dakotas Annual Conference does not control any provisions of the plan.

Because the funded status of the plan is the same for all annual conferences, the assets, liabilities, and funded status are not allocated among the various annual conferences. Only the required contribution, if one is required due to the existence of a negative funded status, is allocated to each annual conference.

No contribution will be required to be paid by the Conference in 2022. The amounts of required contributions for years after December 31, 2022, if any, are not determinable at this time.

20. Clergy Retirement Security Program:

The Conference participates in the Clergy Retirement Security Program, a multi-employer, hybrid defined contribution/defined benefit pension plan that is administered by Wespath Benefits and Investments. This plan covers substantially all United Methodist clergy for service with the Conference on or after January 1, 2007.

The Clergy Retirement Security Program has two components: the defined contribution portion and the defined benefit portion.

Defined Contribution Component – Contributions to the defined contribution portion of the Clergy Retirement Security Program are based upon a percentage of the participants' compensation. Retirement benefits provided will be in the form of annuity contracts, which will be based upon past contributions plus accumulated earnings. There are no unfunded prior service costs for the defined contribution portion of the plan.

Defined Benefit Component – The legal status of the defined benefit component of the Clergy Retirement Security Program is such that all assets are available to pay all defined benefits, regardless of the annual conference from which benefits came or under which benefits were accrued. The Dakotas Annual Conference does not control any of the benefit provisions of the plan; these are determined by the General Conference of the United Methodist Church. Retirement benefits provided will be in the form of annuity contracts, which will be based upon years of service.

The required contribution for December 31, 2022 of \$680,624 was paid through a redirection of surplus from Supplement One to the Clergy Retirement Security Program.

Dakotas Annual Conference of the United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2022

21. Supplement One to the Clergy Retirement Security Program:

The Conference participates in the Supplement One to the Clergy Retirement Security Program, which is administered by Wespath Benefits and Investments. 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 the benefits came or under which benefits were accrued. The Dakotas 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 \$806 as of January 1, 2022. The contingent annuitant percentage was 70% as of January 1, 2022.

The Conference assets, Conference liability, Conference funded status, and required contribution 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. Contributions to the plan during the year ended December 31, 2022 were \$795,450. The minimum required contribution for 2022 is \$795,450. Required contributions for years after December 31, 2022, if any, are not determinable at this time.

Below is a summary of the applicable plan information as of January 1, 2022.

Fair value of plan assets	\$ 16,262,288
Benefit obligation	<u>(16,168,197)</u>
Funded status: Overfunded	<u>\$ 94,091</u>

The Conference liability for 2022 was determined based on a 5.5% interest rate, a 1.75% past service rate increase, and the MP-20 Mortality Table.

In addition to Conference assets of \$16,262,288, the Conference has designated certain investments of \$5,464,407 to be used for making any future contributions.