

**DAKOTAS ANNUAL CONFERENCE  
OF THE  
UNITED METHODIST CHURCH, INC.**

**AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2016**

DRAFT

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*Your success is our business!*

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the Dakotas Annual Conference of the United Methodist Church, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dakotas Annual Conference of the United Methodist Church, Inc. as of December 31, 2016, 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.

*Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 17 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*CIO Prof LLC*

Mitchell, South Dakota  
November 28, 2017

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**DAKOTAS ANNUAL CONFERENCE  
OF THE UNITED METHODIST CHURCH, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 1,464,766
Accounts receivable - apportionments and direct bill	676,923
Pledges receivable, current portion, net of allowance and discounts	390,800
Other receivable	366,762
Prepaid expenses	34,721
Notes and contracts receivable, current portion, less allowance for doubtful accounts of \$0	3,300
<i>Total Current Assets</i>	2,937,272

**NONCURRENT ASSETS**

Pledges receivable, less current portion, net of allowance and discounts	1,292,340
Notes and contracts receivable, less current portion and allowance for doubtful accounts of \$0	53,089
Investment accounts - affiliated organizations	3,514,918
Deposit accounts - Conference Board of Pensions	42,411,817
Beneficial interest in trust funds	13,091,967
<i>Total Noncurrent Assets</i>	60,364,131

**PROPERTY AND EQUIPMENT - net**

3,897,941
\$ 67,199,344

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 464,887
Accrued payroll taxes	36,964
Accrued real estate taxes	27,546
Deferred camps revenue	2,145
Current portion of post-retirement benefit obligation	671,901
<i>Total Current Liabilities</i>	1,203,443

**NONCURRENT LIABILITIES**

Post-retirement benefit obligation	37,022,657
<i>Total Noncurrent Liabilities</i>	37,022,657

**NET ASSETS**

Unrestricted	(8,969,983)
Temporarily restricted	36,738,580
Permanently restricted	1,204,647
<i>Total Net Assets</i>	28,973,244
	\$ 67,199,344

*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, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Apportioned giving	\$ 3,014,623	\$ 35,078	\$ --	\$ 3,049,701
Contributions and bequests	33,508	2,039,713	--	2,073,221
Investment income	78,798	26,829	--	105,627
Program fees and sales	1,061,951	--	--	1,061,951
Miscellaneous income	20,711	--	--	20,711
Net realized gain on property, plant and equipment	28,396	--	--	28,396
Net gain on long-term investments	1,755,950	2,929,533	--	4,685,483
Net assets released from restrictions	5,141,292	(5,141,292)	--	--
<i>Total Revenues, Gains and Other Support</i>	<u>11,135,229</u>	<u>(110,139)</u>	<u>--</u>	<u>11,025,090</u>
<b>EXPENSES</b>				
<b>Program Services</b>				
District superintendency	744,375	--	--	744,375
Equipping churches	223,965	--	--	223,965
Connectional ministries	1,989,675	--	--	1,989,675
Camping program	1,135,025	--	--	1,135,025
<i>Total Program Service Expenses</i>	<u>4,093,040</u>	<u>--</u>	<u>--</u>	<u>4,093,040</u>
<b>Supporting Services</b>				
Stewardship of resources	1,413,187	--	--	1,413,187
Pensions and insurance	3,008,821	--	--	3,008,821
<i>Total Support Service Expenses</i>	<u>4,422,008</u>	<u>--</u>	<u>--</u>	<u>4,422,008</u>
<i>Total Expenses</i>	<u>8,515,048</u>	<u>--</u>	<u>--</u>	<u>8,515,048</u>
<b>CHANGE IN NET ASSETS</b>	<u>2,620,181</u>	<u>(110,139)</u>	<u>--</u>	<u>2,510,042</u>
<i>NET ASSETS, Beginning of Year</i>	<u>(11,590,164)</u>	<u>36,848,719</u>	<u>1,204,647</u>	<u>26,463,202</u>
<i>NET ASSETS, End of Year</i>	<u>\$ (8,969,983)</u>	<u>\$ 36,738,580</u>	<u>\$ 1,204,647</u>	<u>\$ 28,973,244</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 CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016*

<b><i>CASH FLOWS FROM OPERATING ACTIVITIES</i></b>	
Change in net assets	\$ 2,510,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	304,191
Net realized (gain) on property, plant and equipment	(28,396)
Unrealized (gain) on long-term investments	(4,507,553)
(Increase) decrease in:	
Accounts and pledges receivable	(383,614)
Prepaid expenses	(27,751)
Increase (decrease) in:	
Accounts payable	232,784
Accrued expenses	120
Deferred camps revenue	(5,305)
Post-retirement benefit obligation	(238,441)
	<u>(2,143,923)</u>
<b><i>NET CASH (USED) BY OPERATING ACTIVITIES</i></b>	
<b><i>CASH FLOW FROM INVESTING ACTIVITIES</i></b>	
Proceeds from sale of investments	8,478,854
Purchase of investments	(5,083,482)
Principal received on notes receivable	3,333
Proceeds from sale of property, plant and equipment	211,103
Purchase of property, plant and equipment	(193,780)
	<u>3,416,028</u>
<b><i>NET CASH PROVIDED BY INVESTING ACTIVITIES</i></b>	
<b><i>NET INCREASE IN CASH AND CASH EQUIVALENTS</i></b>	
	1,272,105
<b><i>CASH AND CASH EQUIVALENTS, Beginning of Year</i></b>	<u>192,661</u>
<b><i>CASH AND CASH EQUIVALENTS, End of Year</i></b>	<u><u>\$ 1,464,766</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, 2016*

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 250 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, 2016*

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, 2016, 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.

**Restricted Support:** The Conference reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

The Conference reports gifts of land, buildings, and equipment as unrestricted support 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 restricted support. 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.

**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 November 28, 2017, 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, 2016*

**2. NOTES AND CONTRACTS RECEIVABLE:**

Notes and contracts receivable consist of the following individual issues:

	<i>TERMS</i>	
An individual - unsecured	No interest accruing; balloon payment due April, 2020	\$ 20,000
An individual - unsecured	No interest accruing; due in monthly installments of \$278; final payment due November, 2021	16,389
An individual - unsecured	No interest accruing; balloon payment due July, 2022	<u>20,000</u>
		56,389
	Less current portion	<u>(3,300)</u>
	Long-term portion	<u><u>\$ 53,089</u></u>

**3. PLEDGES RECEIVABLE:**

Pledges receivable at December 31, 2016, consist of unconditional promises to give as follows:

Within one year	\$ 390,800
One to five years	<u>1,341,729</u>
	1,732,529
Less: discounts to net present value	<u>(49,389)</u>
	<u><u>\$ 1,683,140</u></u>

**4. PROPERTY AND EQUIPMENT:**

A summary of property and equipment is as follows:

Land	\$ 623,319
Buildings and improvements	6,899,458
Equipment and furnishings	2,122,764
Less accumulated depreciation	<u>(5,747,600)</u>
	<u><u>\$ 3,897,941</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, 2016**

**5. DEPOSIT ACCOUNTS – CONFERENCE BOARD OF PENSIONS:**

The Conference has amounts deposited with the General Board of Pension and Health Benefits of the United Methodist Church Incorporated in Evanston, Illinois. These funds consist of and are summarized as follows:

	<i>Endowment and Trust Funds</i>	<i>Pension Deposit Fund</i>	<i>Health Flex Deposit Fund</i>	<i>Care &amp; Concern Fund</i>	<i>New Church Fund</i>	<i>Retiree Health Liability Fund</i>	<i>Pre-1982 Retirement Plan Fund</i>	<i>Total General Board of Pensions</i>
Balance, January 1, 2016	\$ 3,577,218	\$ 1,749,180	\$ 2,902,392	\$ 148,259	46,223	\$ 1,216,100	\$ 32,234,193	\$ 41,873,565
Net investment gain (loss)	295,272	161,979	201,741	3,237	1,115	101,024	2,738,777	3,503,145
Deposits	--	1,256,876	2,128,381	--	--	500,664	--	3,885,921
Withdrawals	(87,065)	(784,526)	(2,538,989)	--	--	(500,000)	(3,256,639)	(7,167,219)
Transfers	(25,724)	(725,799)	24,143	--	(29,777)	34,773	712,228	(10,156)
Balance, December 31, 2016	<u>\$ 3,759,701</u>	<u>\$ 1,657,710</u>	<u>\$ 2,717,668</u>	<u>\$ 151,496</u>	<u>\$ 17,561</u>	<u>\$ 1,352,561</u>	<u>\$ 32,428,559</u>	<u>\$ 42,085,256</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:

	<i>Pension Deposit Fund</i>	<i>Total Dakotas Conference Board</i>	<i>Total All Funds</i>
Balance, January 1, 2016	\$ 310,370	\$ 310,370	\$ 42,183,935
Net investment gain (loss)	6,035	6,035	3,509,180
Deposits	--	--	3,885,921
Withdrawals	--	--	(7,167,219)
Transfers	10,156	10,156	--
Balance, December 31, 2016	<u>\$ 326,561</u>	<u>\$ 326,561</u>	<u>\$ 42,411,817</u>

*DAKOTAS ANNUAL CONFERENCE  
OF THE UNITED METHODIST CHURCH, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016*

**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, 2016:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investments-Affiliated Organizations	\$ --	\$ 3,514,918	\$ --	\$ 3,514,918
Deposit Accounts - Conference Board of Pensions	326,561	42,085,256	--	42,411,817
Beneficial interest in trust funds	--	--	13,091,967	13,091,967
	<u>\$ 326,561</u>	<u>\$ 45,600,174</u>	<u>\$ 13,091,967</u>	<u>\$ 59,018,702</u>

*DAKOTAS ANNUAL CONFERENCE  
OF THE UNITED METHODIST CHURCH, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016*

6. *FAIR VALUE MEASUREMENTS: (continued)*

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

	<i>Beneficial Interest in Trust Funds</i>
Balance as of January 1, 2016	\$ 12,646,756
Sales	(534,158)
Net investment earnings included in changes in net assets	979,369
Balance as of December 31, 2016	\$ 13,091,967

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 \$3,514,918 with the Foundation as of December 31, 2016, 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 2016 was \$534,158. The annual disbursements received from the trust are unrestricted. The fair value of the Conference's beneficial interest in the trust funds was \$13,091,967 at December 31, 2016.

9. *UNRESTRICTED NET ASSETS:*

Unrestricted Net Assets is summarized as follows:

Unrestricted operating	\$ (525,079)
Board designated	25,351,713
Net investment in plant	3,897,941
Pension and retiree health obligation deficit	(37,694,558)
Total Unrestricted Net Assets	\$ (8,969,983)

*DAKOTAS ANNUAL CONFERENCE  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016*

**10. TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets are available for the following purposes:

Equipping churches	
Scholarship and loan programs	\$ 325,882
Connectional ministries	
Parish and community development programs	345,796
Thrive campaign	2,029,932
World service and conference mission projects	513,373
Camping Program	
Scholarships	10,786
Camps capital improvements funds	108,729
Supporting services	
Capital improvement funds	8,078
Pension and insurance	33,396,004
	<u>\$ 36,738,580</u>

**11. PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

Supporting services-pension and insurance	\$ 1,084,647
Camping program-maintenance	120,000
	<u>\$ 1,204,647</u>

**12. 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	\$ 32,616
Connectional ministries	1,252,789
Camping program	235,202
Supporting services	3,620,685
Total restrictions released	<u>\$ 5,141,292</u>

**13. 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.

*DAKOTAS ANNUAL CONFERENCE  
OF THE UNITED METHODIST CHURCH, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016*

**14. CONCENTRATION OF CREDIT RISK:**

At various times throughout the year ended December 31, 2016, total cash balances exceeded the maximum limit for federal deposit insurance.

**15. 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, 2016.

**16. 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, 2014. The following table provides further information about the plan as of December 31, 2014:

Fair value of plan assets	\$	--
Benefit obligation		(15,651,240)
Funded Status: Underfunded		<u>\$ (15,651,240)</u>
 Key Assumptions		
Discount rate		3.80%
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, 2014. The rate was assumed to decrease gradually to 5% by 2019 and remain at that level thereafter.

Service cost	\$	253,681
Interest cost		582,144
Benefits paid by employer		411,837

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

2017	\$	701,264
2018		729,923
2019		722,728
2020		770,626
2021		700,699
Five years thereafter		3,723,039

The Conference has designated certain investments to fund the benefit obligations. These funds totaled \$1,435,367 at December 31, 2016.

*DAKOTAS ANNUAL CONFERENCE  
OF THE UNITED METHODIST CHURCH, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016*

**17. MINISTERIAL PENSION PLAN ANNUITIES:**

The Conference participates in the Ministerial Pension Plan, a multi-employer, defined contribution pension plan that is administered by the General Board of Pension and Health Benefits. 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 2017. The amounts of required contributions for years after December 31, 2016, if any, are not determinable at this time.

**18. 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 the General Board of Pension and Health Benefits. 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, 2016 of \$797,959 was paid through a redirection of surplus from Supplement One to the Clergy Retirement Security Program.



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**19. 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 the General Board of Pension and Health Benefits. This plan covers substantially all United Methodist clergy for service with the Conference or its predecessors before January 1, 1982. The legal status of the plan is such that all assets of the plan are available to pay all benefits of the plan, regardless of the annual conference from which 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 \$700 as of January 1, 2016. The contingent annuitant percentage was 70% as of January 1, 2016.

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, 2016 were \$781,935. The minimum required contribution for 2016 is \$135,641. Required contributions for years after December 31, 2016, if any, are not determinable at this time.

Below is a summary of the applicable plan information as of January 1, 2016.

Fair value of plan assets	\$ 19,361,880
Benefit obligation	<u>(21,461,063)</u>
Funded status: Underfunded	<u><u>\$ (2,099,183)</u></u>

The Conference liability for 2016 was determined based on a 6.625% interest rate, a 1.75% past service rate increase, and the RP-14 Mortality Table.

In addition to Conference assets of \$19,361,880, the Conference has designated certain investments of \$14,771,662 to be used for making any future contributions.

***SUPPLEMENTAL INFORMATION***

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**DAKOTAS ANNUAL CONFERENCE  
OF THE UNITED METHODIST CHURCH, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
DECEMBER 31, 2016**

	<i>Program Services</i>				<i>Total Program Services</i>	<i>Supporting Services</i>		<i>Total Supporting Services</i>	<i>Total Expenses</i>
	<i>District Superintendency</i>	<i>Equipping Churches</i>	<i>Connectional Ministries</i>	<i>Camping Program</i>		<i>Stewardship of Resources</i>	<i>Pensions and Insurance</i>		
<i>Compensation expenses</i>									
Salaries and wages	\$ 305,864	\$ 1,500	\$ 237,232	\$ 420,861	\$ 965,457	\$ 631,219	\$ 57,350	\$ 688,569	\$ 1,654,026
Fringe benefits	102,294	248	76,309	137,292	316,143	156,093	3,027,478	3,183,571	3,499,714
<i>Total Compensation Expenses</i>	<u>408,158</u>	<u>1,748</u>	<u>313,541</u>	<u>558,153</u>	<u>1,281,600</u>	<u>787,312</u>	<u>3,084,828</u>	<u>3,872,140</u>	<u>5,153,740</u>
<i>Other expenses</i>									
Travel and meeting expense	107,633	40,791	117,425	12,968	278,817	48,511	5,083	53,594	332,411
Office expense	32,030	9,141	105,805	53,489	200,465	28,438	2,192	30,630	231,095
Professional fees	5,378	49,103	58,099	22,364	134,944	29,563	20	29,583	164,527
Program supplies and materials	164,568	68,095	375,121	455,721	1,063,505	35,305	2,715	38,020	1,101,525
Miscellaneous	--	--	--	3,653	3,653	--	--	--	3,653
Occupancy	13,059	--	104,046	28,677	145,782	179,367	--	179,367	325,149
Grants to local ministries	13,549	55,087	915,638	--	984,274	500	152,424	152,924	1,137,198
Change in net periodic benefit	--	--	--	--	--	--	(238,441)	(238,441)	(238,441)
Depreciation	--	--	--	--	--	304,191	--	304,191	304,191
<i>Total Expenses</i>	<u>\$ 744,375</u>	<u>\$ 223,965</u>	<u>\$ 1,989,675</u>	<u>\$ 1,135,025</u>	<u>\$ 4,093,040</u>	<u>\$ 1,413,187</u>	<u>\$ 3,008,821</u>	<u>\$ 4,422,008</u>	<u>\$ 8,515,048</u>