Report to the
Council on Finance
and Administration

Southeastern Jurisdictional Conference of the United Methodist Church, Inc.

December 31, 2020

DHG

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Communication with Those Charged with Governance

February 25, 2022

Council on Finance and Administration
Southeastern Jurisdictional Conference of the United Methodist Church, Inc.
Glen Allen, Virginia

We have audited the financial statements of Southeastern Jurisdictional Conference of the United Methodist Church, Inc. (the "Organization") for the year ended December 31, 2020, and have issued our report thereon dated February 25, 2022. Professional standards require that we provide you with information about our responsibilities in accordance with auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 4, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the financial statements.

As described in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* This ASU, along with several related ASUs issued subsequently, requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Topic 606 replaces most existing revenue recognition guidance. The accounting changes have been applied using the modified retrospective approach as of January 1, 2020. The adoption of this standard did not have a significant impact on the financial statements.

The Organization also adopted the provisions of Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). This ASU removes, modifies, and adds financial statement disclosures on fair value measurements in order to provide information most important to financial statement users. The amendments to disclosure requirements on changes in unrealized gains and losses, the range and weighted average of significant observable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty were applied prospectively.

All other amendments were applied retrospectively to all periods presented. The adoption of this standard did not have a significant impact on the financial statements.

No other new accounting policies were adopted and the application of existing policies was not changed during 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the fair market value of alternative investments is based on the investment manager taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent arm's-length transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses, and limited marketability of the portfolio. Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions. We evaluated the key factors and assumptions used to develop the fair market value of alternative investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

During the course of the audit, one material misstatement was identified related to the accrual for contributions approved before December 31, 2020 but not recorded in the 2020 financial statements. A correcting entry was posted to record approximately $1.1 million of contribution expense in the correct period.

DHG

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management that are included in the management representation letter included at Appendix A.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Matters, Findings, or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following items are suggestions to improve or enhance internal controls:

<u>Internal Controls over Cybersecurity</u>

In the interest of continuous improvement, DHG recommends that employees should complete annual training that addresses cybersecurity risks like actions that could lead to installing malware or viruses. In addition, DHG recommends performing a technical network vulnerability assessment or penetration testing during the fiscal year to identify security weaknesses.

The frequency of cybersecurity incidents is increasing, and organizations both large and small are susceptible to attacks. A cybersecurity incident could result in the loss of sensitive data, stolen money, and significant expenditures of time and effort by staff. We recommend the Organization consider implementing these controls to reduce the risk from malicious cyberactivity.

Segregation of Duties

No duties were idenitifed that were being performed by one individual when it should have been separated between individuals. However, due the the size of the Organization's accounting and administrative staff, it is important that the Conference on Finance and Administration remain involved in the financial affairs of the Organization to provide oversight and independent review functions. The regular review of financials and other involvements are considered key controls in the Organization. In other words, no specific control deficiency was noted, but we would still like to make this communication to Those Charged with Governance.

Oversight of financial statements

During our audit, we noted that prior to December 31, 2020, the Council on Finance and Administration approved the disbursement of approximately $1.1 million in contributions to the Organization's underlying conferences. Based on follow-up conversations with management, it was determined that this commitment was properly omitted from the Organization's liabilities at December 31, 2020 but should be disclosed in the financial statements. Management is responsible for the accuracy and completeness of the financial statements, including footnote disclosures. If management is unsure of how to account for a transaction under accounting standards generally accepted in the United States of America (U.S. GAAP), they should consult with the auditors or an outside CPA and then conclude on proper treatment prior to the audit. We recommend proper oversight by management to ensure all transactions, including noncash transactions or those resulting from board resolutions, are properly recorded and disclosed in accordance with U.S. GAAP.

Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* to improve financial reporting of leasing transactions. The existing operating lease model has been criticized for failing to meet the needs of users of financial statements because it does not always provide a meaningful representation of leasing transactions. Under the new standard, all lease agreements will be recorded on the balance sheet.

Lease assets and liabilities will be recorded on the balance sheet

The key difference between existing standards and this ASU is the requirement for lessees to recognize all lease contracts with lease terms greater than 12 months, including operating leases, on the lessee's balance sheet.

Specifically, the new standard requires lessees to recognize on the balance sheet at lease commencement for all leases both:

- A right-of-use (ROU) asset, representing the lessee's right to use the leased asset over the term of the lease; and,
- A lease liability, representing the lessee's contractual obligation to make lease payments over the term of the lease.

Similar to current generally accepted accounting principles, the new lease standard requires lessees to classify leases as either operating leases or a finance leases. However, the distinction relates to treatment in the statements of income and cash flows, not to whether the lease is on the balance sheet. The accounting for the lease classifications on the statements of income and cash flows remains consistent with the current guidance for accounting for operating and capital leases.

Effective Date and Transition

The ASU affects all companies and other organizations that lease assets such as real estate and equipment. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2021. Early application is permitted.

This information is intended solely for the use of the Council on Finance and Administration and management of Southeastern Jurisdictional Conference of the United Methodist Church, Inc., and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

Richmond, VA

Appendix A

Management Representation Letter

Southeastern Jurisdictional Conference of the United Methodist Church, Inc.
10330 Staples Mill Road
Glen Allen, Virginia 23060

February 25, 2022

Dixon Hughes Goodman LLP
One James Center
901 East Cary Street
Suite 1000
Richmond, Virginia 23219

This representation letter is provided in connection with your audits of the financial statements of Southeastern Jurisdictional Conference of the United Methodist Church, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated February 4, 2021, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. The following have been properly accounted for and disclosed in the financial statements:

   a. Related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties

   b. Guarantees, whether written or oral, under which the Organization is contingently liable

c. Other liabilities or gain or loss contingencies

5. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

6. Significant assumptions we used in making accounting estimates, including estimates of fair value, are reasonable.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. There are no uncorrected misstatements or omitted disclosures.

9. We are in agreement with the adjusting journal entries you have proposed, if any, and they have been posted to the Organization's accounts.

10. We represent to you the following for the Organization's fair value measurements and disclosures:

    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.

    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.

    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

11. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of Council on Finance and Administration or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud affecting the Organization involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others when the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.

16. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

17. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

18. There are no regulatory examinations currently in progress for which we have not received examination reports.

19. We have disclosed to you the identity of the Organization's related parties and all the related party relationships and transactions of which we are aware.

20. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

21. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

22. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.

23. The Organization has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

24. The Organization recognizes tax benefits only to the extent that the Organization believes it is more-likely-than-not (i.e. greater than 50 percent) that its tax positions will be sustained upon examination. We have evaluated the Organization’s tax positions, including its not-for-profit status, and have determined that the Organization does not have any material uncertain tax positions.

25. We have adopted the provisions of FASB Accounting Standards Updates (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), along with several related ASUs issued subsequently, in the financial

statements as of and for the year ended December 31, 2020 using the modified retrospective approach. We have identified all of our revenues that are in scope of this new guidance and performed an analysis to determine the impact of the new guidance on the timing and amounts of revenue to be recognized. We believe that our analysis is sufficient to support our conclusions that there was no material impact as a result of adoption.

26. Effective January 1, 2020, we adopted FASB Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. We have appropriately modified our disclosures around fair value measurements as a result of adoption.

27. You have provided the following services:

- Financial statement preparation, including assistance with the implementation of the provisions of FASB Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606).

In regards to these services provided by you, we have:

a. Assumed all management responsibilities.

b. Overseen the service by designating an individual within senior management, who possesses suitable skill, knowledge, or experience.

c. Evaluated the adequacy and results of the services performed.

d. Accepted responsibility for the results of the services.

e. Evaluated and maintained internal controls, including monitoring ongoing activities.

28. With respect to the non-attest services performed by you during this engagement, we have received the deliverables from you and have stored these deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.

29. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the consolidated financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

30. We have complied with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the North Carolina state legislature and have disclosed restrictions on endowment fund net assets in accordance with this law.

31. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe to have a direct and material effect on the determination of consolidated financial statement amounts or other financial data significant to the audit objectives.

32. The Southeastern Jurisdictional Conference of the United Methodist Church, Inc. (the Jurisdiction) is a not-for-profit organization and is exempt from federal and state income taxes as part of a group Church exemption. Accordingly, no provision for income taxes has been made in the consolidated financial statements. The Jurisdiction has determined that there are no material unrecognized tax benefits or obligations as of December 31, 2020. The Commission on Archives and History of the Southeastern Jurisdiction is a disregarded entity.

33. The methods and assumptions used to allocate the Organization's expenses by function are reasonable and appropriate.

34. The Organization's endowment policy specifies that 90% of investment income will be used to supplement the annual operational budget of the Commission. The remaining 10% of this income is reinvested in the endowment as board designated funds within the permanent endowment.

35. Disclosures regarding the Organization's method for managing its liquidity, along with disclosures regarding the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date are complete and accurate.

36. With regard to the Organization's alternative investment portfolio:

    a) We believe that the amounts reported as the estimated fair value of the alternative investments have been determined in accordance with appropriate measurement methods and reflect the fair value of such investments;

    b) The methods and significant assumptions used to determine fair values have been appropriately and consistently applied and are adequately disclosed in the notes to the financial statements. The methods and significant assumptions used result in a measure of fair value that is appropriate for financial measures and disclosure purposes;

    c) The Organization has the intent and ability to continue to satisfy contractual commitments related to the future funding of alternative investments, if any, as required by the underlying investment agreements. Additionally, the Organization has the intent and ability to maintain existing investments in alternatives to comply with the contractual obligations with underlying fund manager, partnership, etc., if any.

    d) Disclosures regarding the methods for estimating fair value of investments, along with disclosures regarding the marketability and liquidation restrictions of such investments, are complete and accurately describe the Organization's alternative investment portfolio;

    e) There have been no events that have occurred since December 31, 2020 through the date of this letter that would require adjustment to the fair value measurement and disclosures.

37. Designations of net assets disclosed to you were properly authorized and approved and reclassifications of net assets, if any, have been properly reflected in the financial statements.

38. The Organization received a $15,000 invoice for work performed in December 2020 and January 2021. As almost all work was completed by the vendor in January 2021, we believe it is reasonable to expense the entire invoice in 2021 rather than estimate a portion of the invoice to be accrued as a liability as of December 31, 2020.

We have evaluated subsequent events through the date of this letter, which is the date the financial statements were issued. No events have occurred subsequent to the statements of financial position and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements except as made known to you and as disclosed in the financial statements.

Southeastern Jurisdictional Conference of the United Methodist Church, Inc.

David Dommisse

David Dommisse, Treasurer

Tina Gudgel

Tina Gudgel (Feb 25, 2022 14:49 EST)

Tina Gudgel, Senior Staff Accountant