

# **The United Methodist Foundation of the Virginia Conference, Inc.**

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**Consolidated Financial Statements**

**Years Ended December 31, 2016 and 2015**



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## **Independent Auditors' Report**

Board of Directors  
The United Methodist Foundation of the Virginia Conference, Inc.  
Glen Allen, Virginia

We have audited the accompanying consolidated financial statements of The United Methodist Foundation of the Virginia Conference, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The United Methodist Foundation of the Virginia Conference, Inc. as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



***Adoption of New Accounting Standard***

As discussed in Note 2 to the consolidated financial statements, The United Methodist Foundation of the Virginia Conference, Inc. adopted Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): *Disclosure for Investments in Certain Entities That Calculated Net Asset Value per Share (or Its Equivalent)* in fiscal year 2016. Our opinion is not modified with respect to this matter.

***Prior Period Financial Statements***

The consolidated financial statements of The United Methodist Foundation of the Virginia Conference, Inc. as of December 31, 2015, were audited by other auditors whose report dated March 21, 2016, expressed an unmodified opinion on those statements.

*Dixon Hughes Goodman LLP*

**Richmond, Virginia  
May 30, 2017**

**The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiary**  
**Consolidated Statements of Financial Position**  
**December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,765,407	\$ 4,554,231
Investments:		
Investor	54,958,020	52,192,690
Foundation	1,609,512	2,148,497
Real property, investor	-	326,047
Total investments at fair value	<u>56,567,532</u>	<u>54,667,234</u>
Certificates of deposit at face value	<u>1,088,813</u>	<u>-</u>
Total investments	57,656,345	54,667,234
Loans receivable, net	17,307,945	6,467,597
Property and equipment, net	27,029	35,907
Capitalized costs, net	20,841	54,224
Other assets	<u>105,748</u>	<u>79,764</u>
Total assets	<u>\$ 76,883,315</u>	<u>\$ 65,858,957</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 122,246	\$ 29,882
Investment funds payable to investors	54,958,020	52,673,976
Savings and investment certificates	19,337,566	10,671,335
Charitable gift annuities obligation	135,714	161,978
Third party annuities obligation	<u>142,911</u>	<u>147,706</u>
Total liabilities	<u>74,696,457</u>	<u>63,684,877</u>
Net assets:		
Unrestricted	1,832,149	1,799,987
Temporarily restricted	12,726	32,110
Permanently restricted	<u>341,983</u>	<u>341,983</u>
Total net assets	<u>2,186,858</u>	<u>2,174,080</u>
Total liabilities and net assets	<u>\$ 76,883,315</u>	<u>\$ 65,858,957</u>

See accompanying notes.

**The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiary**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Administrative fees	\$ 429,119	\$ -	\$ -	\$ 429,119
Contributions	60,175	-	-	60,175
Fee income	20,874	-	-	20,874
Miscellaneous income	262	-	-	262
Investment income	89,389	584	-	89,973
Net interest income on loan program, after provision for loan losses	204,545	-	-	204,545
	<u>804,364</u>	<u>584</u>	<u>-</u>	<u>804,948</u>
Net assets released from restrictions:				
Payments for program services	24,000	(24,000)	-	-
Payments for charitable gift annuities fulfillments	(4,032)	4,032	-	-
	<u>19,968</u>	<u>(19,968)</u>	<u>-</u>	<u>-</u>
Change in value of charitable gift annuities obligation	<u>(22,921)</u>	<u>-</u>	<u>-</u>	<u>(22,921)</u>
Total support and revenue	<u>801,411</u>	<u>(19,384)</u>	<u>-</u>	<u>782,027</u>
Expenses:				
Personnel	379,292	-	-	379,292
Professional fees	44,072	-	-	44,072
Grants	24,000	-	-	24,000
Other general and administrative	321,885	-	-	321,885
Total expenses	<u>769,249</u>	<u>-</u>	<u>-</u>	<u>769,249</u>
Change in net assets	32,162	(19,384)	-	12,778
Net assets, beginning of year	<u>1,799,987</u>	<u>32,110</u>	<u>341,983</u>	<u>2,174,080</u>
Net assets, end of year	<u>\$ 1,832,149</u>	<u>\$ 12,726</u>	<u>\$ 341,983</u>	<u>\$ 2,186,858</u>

See accompanying notes.

**The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiary**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Administrative fees	\$ 426,706	\$ -	\$ -	\$ 426,706
Contributions	21,600	62,272	-	83,872
Fee income	4,906	-	-	4,906
Investment loss	(1,636)	(22,890)	-	(24,526)
Net loss on loan program, after provision for loan losses	(4,378)	-	-	(4,378)
	<u>447,198</u>	<u>39,382</u>	<u>-</u>	<u>486,580</u>
Net assets released from restrictions:				
Payments for program services	25,000	(25,000)	-	-
Payments for charitable gift annuities fulfillments	311,022	(311,022)	-	-
	<u>336,022</u>	<u>(336,022)</u>	<u>-</u>	<u>-</u>
Change in value of charitable gift annuities obligation	<u>(5,797)</u>	<u>60,328</u>	<u>-</u>	<u>54,531</u>
Total support and revenue	<u>777,423</u>	<u>(236,312)</u>	<u>-</u>	<u>541,111</u>
Expenses:				
Personnel	368,698	-	-	368,698
Professional fees	35,642	-	-	35,642
Grants	36,500	-	-	36,500
General and administrative	254,427	-	-	254,427
Total expenses	<u>695,267</u>	<u>-</u>	<u>-</u>	<u>695,267</u>
Change in net assets	82,156	(236,312)	-	(154,156)
Net assets, beginning of year	<u>1,717,831</u>	<u>268,422</u>	<u>341,983</u>	<u>2,328,236</u>
Net assets, end of year	<u>\$ 1,799,987</u>	<u>\$ 32,110</u>	<u>\$ 341,983</u>	<u>\$ 2,174,080</u>

See accompanying notes.

**The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 12,778	\$ (154,156)
Adjustments to reconcile change in assets to net cash used by operating activities:		
Net realized and unrealized (gains) losses on investments	(48,343)	28,874
Reinvested interest on investment certificates	245,802	58,547
Loan loss provision	28,000	15,000
Depreciation expense	14,323	12,831
Amortization expense	47,334	40,212
Change in assets and liabilities:		
Other assets	(25,984)	(38,545)
Accounts payable and accrued expenses	92,364	(16,704)
Investor funds held for investment	(2,439,283)	-
Investment funds payable to investors	2,284,044	2,945,221
Third party annuities obligation	(4,795)	5,797
Charitable gift annuities/trust obligation	(26,264)	(142,561)
Net cash used by operating activities	<u>179,976</u>	<u>2,754,516</u>
Cash flows from investing activities:		
Change in certificates of deposit, net	(1,088,813)	-
Proceeds from the sale of investments	696,025	33,795,043
Purchase of investments	(108,697)	(36,078,421)
Purchase of property and equipment	(5,445)	-
Development of offering circular	(6,760)	(16,733)
Purchase of computer software	(7,191)	-
Advances made on loans receivable, net	(10,868,348)	(6,381,725)
Net cash used by investing activities	<u>(11,389,229)</u>	<u>(8,681,836)</u>
Cash flows from financing activities:		
Proceeds from issuance of investment certificates	3,619,660	1,748,395
Repayment of investment certificates	(83,538)	-
Proceeds from issuance of congregation savings certificates	9,950,343	7,742,096
Repayment of congregation savings certificates	(5,984,018)	(818,427)
Proceeds from issuance of statement savings certificates	1,643,234	591,383
Repayment of statement savings certificates	(725,252)	(176,529)
Net cash provided by financing activities	<u>8,420,429</u>	<u>9,086,918</u>

See accompanying notes.



**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

**(Continued)**

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	<u>2016</u>	<u>2015</u>
Net increase (decrease) in cash and cash equivalents	<b>(2,788,824)</b>	3,159,598
Cash and cash equivalents, beginning of year	<u>4,554,231</u>	<u>1,394,633</u>
Cash and cash equivalents, end of year	<u><b>\$ 1,765,407</b></u>	<u><b>\$ 4,554,231</b></u>
Supplemental disclosure of noncash investing and financing activities:		
Increase in real property with a corresponding increase in liabilities	<u><b>\$ -</b></u>	<u><b>\$ 326,047</b></u>

## **Notes to the Consolidated Financial Statements**

### **1. Organization and Nature of Activities**

The accompanying consolidated financial statements include the accounts of The United Methodist Foundation of the Virginia Conference, Inc. and its wholly owned subsidiary Virginia United Methodist Development Company, LLC after eliminating all intercompany transactions and balances. The United Methodist Foundation of the Virginia Conference, Inc. (the Foundation) is a non-stock, not-for-profit corporation organized under the laws of the Commonwealth of Virginia in 1970. The purpose of the Foundation is to provide the opportunity for group investment of funds by churches and agencies (the Investors) associated with the Virginia Annual Conference of the United Methodist Church (the Conference). The Foundation also assists local Virginia United Methodist Churches in developing endowment programs as well as assisting individuals in implementing gifts for endowment. The investors are offered the opportunity to invest in one of four separate fund types which are managed by Global Institutional Consulting, a division of Merrill Lynch. These include the Balanced Fund, the Balanced Plus Fund, the Stock Fund, the Bond Fund, and the Money Market Fund (which was discontinued in April 2016). Also, the investors are offered the opportunity to establish Endowment Funds. At least sixty percent (60%) of the Foundation Board of Directors is elected by the Conference, and the remaining Directors are recruited and elected by the Board.

Investor accounts, including Endowment Fund accounts, are adjusted daily to reflect each investor's share of the net change in the market value of the fund in addition to reflecting the specific contribution or withdrawal by each investor. Investment funds administered by the Foundation on behalf of an investor are expendable at the discretion of the contributing investor. Accordingly, such funds are presented as a liability in the accompanying consolidated financial statements.

Virginia United Methodist Development Company, LLC (the Company) is a not-for-profit limited liability company which supports its sole member, the Foundation. The Company manages and operates a church extension loan fund to provide a source of funding for loans to United Methodist churches, institutions, and other related organizations within Virginia for building programs and other capital investments. The Company is governed by a Board of Managers appointed by the Foundation's Board of Directors.

The Company offers investment certificates to raise capital in order to finance the acquisition, development, construction, refinancing, expansion or renovations of buildings and facilities of related organizations of the Conference. The Company is subject to the provisions of an offering circular dated February 24, 2016, filed with the State Corporation Commission of the Commonwealth of Virginia. The Company pays a management fee to the Foundation for personnel, office and occupancy related expenses.

### **2. Summary of Significant Accounting Policies**

#### ***Basis of presentation***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The consolidated financial statements report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The financial statements report amounts separately by class of net assets as follows:

**Unrestricted** net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Boards or may otherwise be limited by contractual agreements with outside parties. Revenues, gains and losses that are not temporarily or permanently restricted by the donors are included in this classification. Expenses are reported as reductions in this classification.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Notes to the Consolidated Financial Statements**

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**Temporarily restricted** amounts are those which are stipulated by donors for specific operating purposes or future periods.

**Permanently restricted** amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

Revenues and support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor-imposed stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purposes have been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

***Recognition of contributions***

Contributions are recorded at their estimated fair value when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

***Cash and cash equivalents***

Cash and cash equivalents includes items such as short-term, highly liquid investments with maturities of three months or less at the date of purchase.

***Investments***

All investments in marketable securities with readily determinable fair values are valued at fair value as determined by the investment management firm holding the assets. Purchases and sales of securities are recorded on a trade-date basis. Unrealized gains and losses are recognized in the period in which they occur. Interest and dividends are recognized in the period earned, and realized gains or losses on securities are recorded in the period of sale.

***Certificates of deposit***

Certificates of deposit are reported at face value, as reported by the issuing institutions.

***Loans receivable***

Loans receivable are stated at their principal amount outstanding less the related allowance for loan losses and are collateralized by buildings, land, and assigned cash collateral. Interest rates on loans are subject to review and may be subject to adjustment on a periodic basis. The Company has two major loan types. One type is construction/renovation lines of credit for which interest only payments are required over the term. The second type is traditional mortgage loans for which principal and interest payments are required on a monthly basis. Loans will typically be amortized over a period of thirty years.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Notes to the Consolidated Financial Statements**

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***Allowance of loan losses***

The allowance for doubtful loans is maintained at a level that, in management's judgment, is adequate to absorb probable loan losses. The amount is based upon an analysis of the loan portfolio by management including, but not limited to, review of the collectability of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. The analysis is also based on a periodic review of payments and other factors based on the Company's historical experiences. To date, no loans have been in arrears or default and no loan has required modification to acclimate to a borrower's adverse circumstances or ability to repay. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for loan losses in the period in which they become known. In addition, the net realizable value of the property serving as collateral for delinquent loans will be assessed on an annual basis.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments are 30 days overdue. Loans will continue to accrue interest when a loan is delinquent; however, all accrued interest may be included in the allowance for doubtful loans. Payments for delinquent or impaired loans are treated as a payment of interest due until all accrued interest has been paid. Interest income on delinquent loans is recognized according to the original amortization schedule (accrual method). The accrual of interest income is discontinued when, in management's judgment, the scheduled interest may not be collectible within the stated term of the loan. Interest income is recognized on a cash basis for loans classified as nonaccrual loans, with subsequent payments applied first to interest and fees, if any, and then to principal. Loans classified as nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. At December 31, 2016 and 2015, the Company has no loans it considered impaired. The allowance for loan losses is \$43,000 and \$15,000 at December 31, 2016 and 2015, respectively.

***Property and equipment***

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Furniture and equipment	3-7 years
Vehicles	5 years

Maintenance, repairs, and minor renewals are expensed when incurred. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in the current year's operations.

***Amortization of intangible assets***

The Company is amortizing its investment in the offering circular over two years and its investment in computer software over four years using the straight-line method. Amortization expense is estimated to be \$14,100, \$4,350, and \$2,391 for each of the three succeeding years. Accumulated amortization was \$9,843 and \$50,265 at December 31, 2016 and 2015, respectively.

***Income taxes***

The Foundation is a not-for-profit organization and is exempt from federal and state income taxes under Internal Revenue Code, Section 501(c)(3) and the tax statutes of the Commonwealth of Virginia. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Company is not subject to federal or state income tax because the Company is a disregarded entity for tax purposes, and as such, it is treated as a subsidiary of the Foundation.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Notes to the Consolidated Financial Statements**

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***Servicing***

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures the loan servicing rights using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. No servicing asset has been recorded as the amount is determined to be immaterial to the financial statements.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned.

***Concentration***

Financial instruments which potentially subject the Foundation and the Company to concentrations of credit risk consist primarily of investments and cash. The Foundation places its investments and its cash and cash equivalents with creditworthy institutions and diversifies its holdings among entities, thereby limiting the amount of credit exposure to any one entity. As of December 31, 2016 and 2015, the Company has \$1,133,319 and \$4,085,295, respectively, of cash deposits in excess of federally insured limits being held by a federally insured financial depository institution.

The Foundation's investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. In addition, due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

See Note 7 regarding the concentration of credit risk with respect to loans receivable.

***New accounting pronouncements***

On May 1, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. Instead, the amounts measured using the NAV per share (or its equivalent) must be provided to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The Foundation has elected to early adopt ASU 2015-07 and has removed all investments from the fair value hierarchy for which fair value is measured using the NAV per share practical expedient.

***Reclassifications***

Certain prior year figures have been reclassified to conform to current year presentation. There was no impact on prior year net assets or change in net assets.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Notes to the Consolidated Financial Statements**

**3. Investments**

Investments, except for certificates of deposit, are carried at fair value and consist of the following at December 31:

	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Money market funds	\$ 3,149,976	\$ 3,149,976	\$ 2,530,773	\$ 2,530,773
Equities, multiple sectors	30,759,275	33,517,503	30,920,890	33,699,261
U.S. Government securities	7,303,977	8,573,200	9,802,325	9,745,219
Corporate bonds, multiple sectors	5,615,188	5,633,294	4,043,111	3,982,693
Municipal bonds	124,450	126,345	-	-
Mutual funds, fixed and equity	3,599,935	3,519,090	4,562,823	4,383,241
Alternative investments	2,044,559	2,048,124	-	-
	<u>\$ 52,597,360</u>	<u>\$ 56,567,532</u>	<u>\$ 51,895,922</u>	<u>\$ 54,341,187</u>

Investment income consisted of the following for the years ended December 31:

	2016	2015
Interest and dividend income	\$ 1,265,425	\$ 1,413,130
Realized gains, net	1,754,717	2,223,128
Unrealized losses, net	(221,826)	(3,076,029)
Investment income	<u>\$ 2,838,452</u>	<u>\$ 560,229</u>

Investment gains (losses) were classified as follows for the year ended December 31:

	2016	2015
Unrestricted	\$ 89,389	\$ (1,636)
Temporarily restricted	584	(22,890)
Credited to the benefit of investment accounts held for investors	<u>2,748,479</u>	<u>584,755</u>
Investment income	<u>\$ 2,838,452</u>	<u>\$ 560,229</u>

During 2015, an endowment fund benefiting third parties was created and funded with real property. The property was sold in 2016 with the net amount realized from the sale being used as the value assigned to the real property as of December 31, 2015.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Notes to the Consolidated Financial Statements**

**4. Fair Value Measurements**

Accounting standards establish 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 are described below:

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

**Level 2** Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Money market funds, mutual funds, U.S. government securities, corporate and municipal bonds, and equity securities

Valued at the closing price reported on the active market on which the individual securities are traded.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31:

	2016			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 3,149,976	\$ -	\$ -	\$ 3,149,976
U.S. Government securities	8,573,200	-	-	8,573,200
Corporate bonds	5,633,294	-	-	5,633,294
Municipal bonds	126,345	-	-	126,345
Equities	33,517,503	-	-	33,517,503
Mutual funds	3,519,090	-	-	3,519,090
Alternative investments (a)	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>2,048,124</u>
Total assets at fair value	<u>\$ 54,519,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,567,532</u>

**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Notes to the Consolidated Financial Statements**

	2015			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 2,530,773	\$ -	\$ -	\$ 2,530,773
U.S. Government securities	9,745,219	-	-	9,745,219
Corporate bonds	3,982,693	-	-	3,982,693
Equities	33,699,261	-	-	33,699,261
Mutual funds	4,383,241	-	-	4,383,241
Total assets at fair value	<u>\$ 54,341,187</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,341,187</u>

(a) Certain investments that are measured at fair value using the net asset value per share (or equivalent) practical expedient have not been recognized in the fair value hierarchy. The fair value amounts presented in this table are intended to show reconciliation to the amounts presented in the consolidated statements of financial position.

Alternative investments are valued using the practical expedient at the Foundation's pro-rata interest in the net assets of these entities. Investments held by these entities are valued at prices which approximate fair value. The fair value of certain investments in the underlying entities, which may include private placements and other securities for which values are not readily available, are determined in good faith by the investment advisors of the respective entities and may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized. Net asset valuations are provided daily, monthly, or quarterly by these entities. Appreciation of investments in these entities is net of all allocations to the investment advisors.

At December 31, 2016, alternative investments totaling \$927,756 may not be redeemed by the Foundation prior to September 2017.

Fair value of investments at December 31, 2016 are held for the following purposes:

	Administered on behalf of:		
	Investors	Foundation	Total
Regular accounts	\$ 54,594,799	\$ 258,285	\$ 54,853,084
Regular account, temporarily restricted	-	12,726	12,726
Charitable gift annuities	363,221	169,556	532,777
Endowments	-	1,168,945	1,168,945
Total	<u>\$ 54,958,020</u>	<u>\$ 1,609,512</u>	<u>\$ 56,567,532</u>

Fair value of investments at December 31, 2015 are held for the following purposes:

	Administered on behalf of:		
	Investors	Foundation	Total
Regular accounts	\$ 51,748,798	\$ 258,285	\$ 52,007,083
Regular account, temporarily restricted	-	12,726	12,726
Real property	326,047	-	326,047
Gift account payable	10,798	-	10,798
Charitable gift annuities	427,402	214,082	641,484
Endowments	-	1,669,096	1,669,096
Total	<u>\$ 52,513,045</u>	<u>\$ 2,148,497</u>	<u>\$ 54,667,234</u>



**The United Methodist Foundation of the Virginia Conference, Inc.**  
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**5. Net Asset Value Unit Detail**

The Foundation's individual donor and board designated funds participate in the Foundation's investment pool which is measured on a fair value basis. Each individual donor or board designated fund subscribes to or disposes of units on the basis of the fair value per unit at the end of the calendar quarter within which the transaction takes place.

Net asset value and unit detail of investments consist of the following at December 31, 2016:

	<u>Net Asset Value</u>	<u>Unit Detail</u>	<u>Unit Value</u>
Balanced fund	\$ 36,941,701	2,878,629	\$ 12.8331
Stock fund	4,473,198	304,124	14.7085
Bond fund	1,610,646	176,998	9.0998
Balanced plus fund	13,009,210	1,017,309	12.7879

Net asset value and unit detail of investments consist of the following at December 31, 2015:

	<u>Net Asset Value (Unaudited)</u>	<u>Unit Detail (Unaudited)</u>	<u>Unit Value (Unaudited)</u>
Balanced fund	\$ 43,786,472	3,507,317	\$ 12.4843
Stock fund	6,466,686	461,937	13.9991
Bond fund	3,107,191	342,826	9.0635
Money market fund	349,603	349,603	1.0000

**6. Investment Funds Held for Investor**

The following schedule reflects the activity in the investment funds held for investors during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Investment funds payable to investors, beginning of year	\$ 52,673,976	\$ 50,226,736
Funds received from investors	3,329,951	7,901,594
Distributions to investors	(3,149,648)	(5,287,809)
Gift account returned to customer	(10,798)	-
Investment return	2,748,479	584,755
Administrative fees	(208,983)	(324,594)
Administrative fees, Foundation	(424,957)	(426,706)
Investment funds payable to investors, end of year	<u>\$ 54,958,020</u>	<u>\$ 52,673,976</u>

**The United Methodist Foundation of the Virginia Conference, Inc.**  
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The assets related to investments fund payable to investors were classified as follows in the consolidated statements of financial position at December 31:

	<u>2016</u>	<u>2015</u>
Investments, investor	\$ 54,958,020	\$ 52,192,690
Investments, real property, investor	-	326,047
Cash and cash equivalents	-	155,239
	<u>54,958,020</u>	<u>155,239</u>
Investment funds payable to investors, end of year	<u>\$ 54,958,020</u>	<u>\$ 52,673,976</u>

**7. Loans Receivable**

The Company approves loans based upon specific Board of Managers approved criteria, and all loans are secured by the individual entity's land, buildings, and equipment and assigned collateral. In accordance with the provisions of the offering circular described in Note 1, the Company only makes loans to borrowers in Virginia. Adverse economic conditions in Virginia could correspondingly result in increased defaults by these borrowers. This could, in turn, adversely affect the Company's liquidity, ability to operate programs, and ultimately the ability to repay or redeem investment certificates.

Company loans consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Construction/renovation loans	\$ 2,189,097	\$ 3,284,417
Mortgage loans, net of loan participations sold of \$7,605,848 in 2016 and \$2,443,313 in 2015, respectively	15,161,848	2,846,398
Loan advances pending settlement	-	351,782
Allowance for loan losses	<u>(43,000)</u>	<u>(15,000)</u>
Total	<u>\$ 17,307,945</u>	<u>\$ 6,467,597</u>

  

	<u>2016</u>	<u>2015</u>
Fixed rate (4% - 4.25%)	\$ 15,178,773	\$ 4,744,616
Variable rate (Wall Street Journal prime rate plus 75 basis points)	2,172,172	1,386,199
Loan advances pending settlement (4% - 4.25%)	-	351,782
Allowance for loan losses	<u>(43,000)</u>	<u>(15,000)</u>
Total	<u>\$ 17,307,945</u>	<u>\$ 6,467,597</u>

There are outstanding loan commitments at December 31, 2016 in the amount of \$5,375,000.

The Company has entered into loan participation agreements to sell a portion of loans to other financial institutions in connection with three of its outstanding mortgage loans receivable. The loan participations were sold without recourse and are secured by real property. Loan servicing functions on these loans receivable are retained by the Company.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
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The Company has two outstanding Irrevocable Letters of Credit at December 31, 2016 connected to one of the loans. One letter is to the Board of Supervisors for Fairfax County in the amount of \$234,413 for a conservation easement. The other letter is to International Fidelity Insurance for the benefit of the Virginia Department of Transportation in the amount of \$497,000 for a traffic control easement. The Company has pledged certificates of deposit totaling \$731,413 at December 31, 2016 with its bank which support these Letters of Credit. There were no outstanding letters of credit at December 31, 2015.

**8. Property and Equipment**

Major classes of property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 32,663	\$ 27,217
Vehicles	<u>48,304</u>	<u>48,304</u>
	80,967	75,521
Accumulated depreciation	<u>(53,938)</u>	<u>(39,614)</u>
Property and equipment, net	<u>\$ 27,029</u>	<u>\$ 35,907</u>

**9. Savings and Investment Certificates**

The Company issues statement savings certificates to individuals meeting the terms of the offering circular. These certificates have no maturity date and the interest rate is subject to change daily. The interest rate for 2016 ranged from 1.10% to 1.75%. The interest rate for 2015 ranged from 1% to 1.5%. Outstanding statement savings certificates totaled \$1,502,874 and \$529,128 at December 31, 2016 and 2015, respectively.

The Company issues congregational savings certificates to Virginia United Methodist churches and affiliated entities. These certificates have no maturity date and the interest rate is subject to change daily. The interest rate for 2016 ranged from 1.40% to 1.75%. The interest rate for 2015 ranged from 1.3% to 1.5%. Outstanding congregational savings certificates totaled \$12,328,792 and \$8,233,916 at December 31, 2016 and 2015, respectively.

The Company issues investment certificates to individuals meeting the terms of the offering circular, Virginia United Methodist churches and affiliated entities. These certificates have maturity dates ranging from six to five years with interest rates ranging from 1.00% to 3.00% during 2016 and 2015, depending upon the term of the certificate. Outstanding investment certificates totaled \$5,505,900 and \$1,908,291 at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, the Company has investment certificates outstanding as summarized below:

<u>Maturity</u>	<u>2016</u>	<u>2015</u>
Six month	\$ 130,050	\$ 50,000
One year	2,248,246	217,165
Two year	453,266	223,044
Three year	599,125	231,025
Four year	407,796	218,480
Five year	<u>1,667,417</u>	<u>968,577</u>
Total	<u>\$ 5,505,900</u>	<u>\$ 1,908,291</u>

**The United Methodist Foundation of the Virginia Conference, Inc.**  
**Notes to the Consolidated Financial Statements**

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In 2016, the Company began issuing retirement savings certificates to individuals meeting the terms of the offering circular. These certificates have a five year term with an interest rate of 3.00% during 2016. The Company has a contract with a third party to manage the terms and conditions for appropriate tax qualified accounts known as IRAs ("Individual Retirement Accounts"), whether classified as a Roth IRA or Traditional IRA. At December 31, 2016, the Company has \$105,949 in retirement certificates outstanding which are included in the five year term above.

The investment, savings and retirement certificates are unsecured obligations and no loans or other collateral are specifically pledged, assigned or otherwise set aside to secure the obligations of the certificates.

The investment, savings and retirement certificates are not bank deposits. They are neither issued by, nor obligations of, a bank; therefore, they are not insured by the Federal Deposit Insurance Corporation (FDIC) or any other agency. In addition, they are not protected by the Securities Investor Protection Corporation. The certificates are not regulated by any federal or state governmental authority and are not guaranteed by any person or entity. However, the Company is registered under the State Corporation Commission which also reviews and approves the offering circular. The Company is further required to maintain compliance with terms in the articles of organization and offering circular (see Note 15).

## **10. Restricted Net Assets**

Temporarily restricted net assets at December 31 are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
Charitable gift annuities/trust to be received in subsequent periods	\$ -	\$ (4,032)
Scholarship fund	<u>12,726</u>	<u>36,142</u>
	<u>\$ 12,726</u>	<u>\$ 32,110</u>

Permanently restricted net assets of \$341,983 at December 31, 2016 and 2015 are required to be invested in perpetuity. These net assets represent twelve endowment funds whereby the Foundation is named as the beneficiary.

## **11. Charitable Gift Annuities Obligation**

At December 31, 2016 and 2015, the Foundation has been the recipient of several charitable gift annuities naming the Foundation as the primary beneficiary of the annuities. All such annuity funds are administered by the Foundation and are included in the investments held for the Foundation in the consolidated financial statements. Under the terms of the charitable gift annuity agreements, the Foundation is required to make annuity distributions to the donors and the donors' spouses over their lifetimes.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
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A summary of the change in value of the charitable gifts and annuities obligations for the years ended December 31, 2016 and 2015 is as follows:

	<u>Charitable Gifts Assets</u>	<u>Annuities Obligation</u>	<u>Charitable Gifts, net</u>
Balance, December 31, 2014	\$ 629,098	\$ 304,539	\$ 324,559
Annuity payments	(393,255)	(82,233)	(311,022)
Investment return	(21,761)	-	(21,761)
Decrease in obligation	<u>-</u>	<u>(60,328)</u>	<u>60,328</u>
Balance, December 31, 2015	<b>214,082</b>	<b>161,978</b>	<b>52,104</b>
Annuity payments	<b>(53,979)</b>	<b>(53,979)</b>	<b>-</b>
Investment return	<b>9,453</b>	<b>-</b>	<b>9,453</b>
Increase in obligation	<u>-</u>	<u>27,715</u>	<u>(27,715)</u>
Balance, December 31, 2016	<u><b>\$ 169,556</b></u>	<u><b>\$ 135,714</b></u>	<u><b>\$ 33,842</b></u>

All of the \$33,842 net charitable gifts as of December 31, 2016 is unrestricted.

Estimated future annuity obligations based on the life expectancies of the donors and the donors' spouses are discounted at the rate established by the Internal Revenue Code at the gift date.

## **12. Third Party Annuities Obligation**

The Foundation has entered into annuity agreements with multiple individuals for which the Foundation is not the beneficiary. The charitable gift annuity agreements which have been entered into, read that the Foundation will pay a monthly/quarterly/annual distribution to the donors until their death. The Foundation is responsible for making payments to the donors even if the fair value of their original gifts has been completely liquidated. The Foundation has calculated the payout liability based on the current fair values and life expectancies of the donors. For the charitable gift annuities which have an expected payout liability greater than the gift fair value as of December 31, 2016, a third party annuities obligation of \$142,911 (\$147,706 as of December 31, 2015) has been recorded and is reflected in the consolidated statements of financial position.

## **13. Pension Expense**

The Foundation offers a defined contribution pension plan through the General Board of Pensions of the United Methodist Church to all full-time employees. The pension plan is funded by both employer and employee contributions. Total 2016 and 2015 employer contributions were \$27,156 and \$24,876, respectively.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
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**14. Related Party Transactions**

The following is a summary of transactions with the Virginia Annual Conference of the United Methodist Church, which is affiliated with the Foundation, for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Rent expense	\$ 30,000	\$ 10,200
Administrative services expense	<u>48,000</u>	<u>44,400</u>
	<u>\$ 78,000</u>	<u>\$ 54,600</u>

No formal agreements exist related to rent expense or administrative services.

The Conference and Board Members of the Foundation and the Company held the following investments at the Company at December 31:

	<u>Conference</u>		<u>Board Members</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Congregational savings	\$ 1,523,886	\$ 1,083,232	\$ -	\$ -
Statement savings	-	-	341,579	139,622
Investment	-	-	<u>186,829</u>	<u>204,896</u>
Total	<u>\$ 1,523,886</u>	<u>\$ 1,083,232</u>	<u>\$ 528,408</u>	<u>\$ 344,518</u>
Interest earned during year	<u>\$ 20,532</u>	<u>\$ 13,983</u>	<u>\$ 6,128</u>	<u>\$ 4,153</u>

**15. Offering Circular Compliance Requirements**

On February 24, 2016, the Company received approval for an amended and restated offering circular which, among other things, increased the authorized amount of deposits from \$25,000,000 to \$75,000,000 and included the offering of retirement certificates. This circular retains two financial related covenants among other requirements, which are as follows:

- Maintain a minimum cash reserve (includes cash, cash equivalents, and readily marketable securities) of at least 10% of the outstanding principal amount of issued investment certificates.
- Maintain a reserve of cash and securities that mature in one year or less in an amount no less than the sum of (I) 10% of the first \$1,000,000 in outstanding investment certificates principal, plus (II) 5% of the outstanding investment certificates principal in excess of \$1,000,000.

The Company was in compliance with these requirements at December 31, 2016 and 2015.

**The United Methodist Foundation of the Virginia Conference, Inc.**  
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**16. Endowment Funds**

The Foundation's endowment consists of twelve individual funds established to support the operating activities of the Foundation. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In accordance with state UPMIFA law, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation and (7) the investment policies of the Foundation.

The following schedule summarizes the endowment net asset composition as of December 31, 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	<u>\$ 884,416</u>	<u>\$ 341,983</u>	<u>\$ 1,226,399</u>

The following schedule summarizes the changes in endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,385,084	\$ 341,983	\$ 1,727,067
Investment income	69,915	-	69,915
Contributions	10,000	-	10,000
Appropriation for expenditure	<u>(580,583)</u>	<u>-</u>	<u>(580,583)</u>
Endowment net assets, end of year	<u>\$ 884,416</u>	<u>\$ 341,983</u>	<u>\$ 1,226,399</u>

The following schedule summarizes the endowment net asset composition as of December 31, 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments funds	\$ -	\$ 341,983	\$ 341,983
Board-designated endowment funds	<u>1,385,084</u>	<u>-</u>	<u>1,385,084</u>
Total endowment funds	<u>\$ 1,385,084</u>	<u>\$ 341,983</u>	<u>\$ 1,727,067</u>

The following schedule summarizes the changes in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,491,669	\$ 341,983	\$ 1,833,652
Investment loss	(2,632)	-	(2,632)
Contributions	80,000	-	80,000
Appropriation for expenditure	<u>(189,953)</u>	<u>-</u>	<u>(183,953)</u>
Endowment net assets, end of year	<u>\$ 1,385,084</u>	<u>\$ 341,983</u>	<u>\$ 1,727,067</u>

**The United Methodist Foundation of the Virginia Conference, Inc.**  
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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature should be reported in unrestricted net assets. There were no deficiencies as of December 31, 2016 and 2015.

The Foundation employs a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For 2016 and 2015, the Board approved spending formula for the endowment provided for an annual spending rate of 4.5% and 5.0% of the average of the prior twelve quarters' market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is treated as unrestricted in accordance with donors' intentions. The primary investment objective is long-term capital appreciation and total return. The Foundation utilizes diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

### **17. Functional Classification of Expenses**

Functional classification of expenses was as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Program services	\$ 474,172	\$ 427,586
Management and general	<u>295,077</u>	<u>267,681</u>
	<u>\$ 769,249</u>	<u>\$ 695,267</u>

### **18. Subsequent Events**

The preparation of the consolidated financial statements includes an evaluation of subsequent events through May 30, 2017, which is the date that the consolidated financial statements were available to be issued.