The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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. and Subsidiaries as of December 31, 2018 and 2017, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Organization adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. Our opinion is not modified with respect to that matter.

Dixon Hughes Goodman LLP

Richmond, Virginia
August 7, 2019

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017 (as adjusted)
ASSETS		
Cash and cash equivalents	**$ 6,420,924**	$ 2,864,645
Investments:		
Investor	**59,612,338**	65,708,300
Foundation	**1,307,070**	1,631,495
Total investments at fair value	**60,919,408**	67,339,795
Certificates of deposit at face value	**2,700,000**	234,413
Total investments	**63,619,408**	67,574,208
Total cash and investments	**70,040,332**	70,438,853
Loans receivable, net	**36,734,641**	27,344,310
Property and equipment, net	**57,276**	74,224
Capitalized costs, net	**-**	1,927
Other assets	**241,227**	502,568
Total assets	**$ 107,073,476**	$ 98,361,882
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,003,883**	$ 408,738
Cash equivalents payable to investors	**1,729,754**	6,886
Investment funds payable to investors	**59,612,338**	65,708,300
Savings and investment certificates	**42,118,745**	29,552,170
Charitable gift annuities obligation	**82,838**	117,251
Third party annuities obligation	**161,782**	149,974
Total liabilities	**104,709,340**	95,943,319
Net assets:		
Without donor restrictions	**1,949,226**	2,052,081
With donor restrictions	**414,910**	366,482
Total net assets	**2,364,136**	2,418,563
Total liabilities and net assets	**$ 107,073,476**	$ 98,361,882

See accompanying notes.

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Administrative fees	$ 456,909	$ -	$ 456,909
Contributions	10,000	75,757	85,757
Fee income	(845)	-	(845)
Investment loss, net	(67,835)	(4,129)	(71,964)
Net interest income on loan program, after provision for loan losses of $39,000	709,978	-	709,978
	1,108,207	71,628	1,179,835
Net assets released from restrictions:			
Payments for program services	23,200	(23,200)	-
Change in value of charitable gift annuities obligation	(83,154)	-	(83,154)
Total support and revenue	1,048,253	48,428	1,096,681
Expenses:			
Program services	667,733	-	667,733
Management and general	483,375	-	483,375
Total expenses	1,151,108	-	1,151,108
Change in net assets	(102,855)	48,428	(54,427)
Net assets, beginning of year (as adjusted)	2,052,081	366,482	2,418,563
Net assets, end of year	$ 1,949,226	$ 414,910	$ 2,364,136

See accompanying notes.

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions (as adjusted)	With Donor Restrictions (as adjusted)	Total
Support and revenue:			
Administrative fees	$ 478,462	$ -	$ 478,462
Contributions	10,000	24,499	34,499
Fee income	32,915	-	32,915
Miscellaneous income	1,641	-	1,641
Investment income, net	199,949	717	200,666
Net interest income on loan program, after provision for loan losses of $26,000	404,653	-	404,653
	1,127,620	25,216	1,152,836
Net assets released from restrictions:			
Payments for program services	13,443	(13,443)	-
Change in value of charitable gift annuities obligation	(86,777)	-	(86,777)
Total support and revenue	1,054,286	11,773	1,066,059
Expenses:			
Program services	488,926	-	488,926
Management and general	345,428	-	345,428
Total expenses	834,354	-	834,354
Change in net assets	219,932	11,773	231,705
Net assets, beginning of year	1,832,149	354,709	2,186,858
Net assets, end of year	$ 2,052,081	$ 366,482	$ 2,418,563

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018		
	Program Services	Management and General	Total
Personnel	**$ 411,091**	**$ 205,545**	**$ 616,636**
Professional fees	**50**	**119,611**	**119,661**
Grants	**100,250**	**-**	**100,250**
Other operating expenses	**60,990**	**22,861**	**83,851**
Office administration	**-**	**72,000**	**72,000**
Insurance	**13,183**	**38,190**	**51,373**
Software support	**38,141**	**7,422**	**45,563**
Rent	**20,600**	**10,300**	**30,900**
Depreciation and amortization	**23,428**	**7,446**	**30,874**
	$ 667,733	**$ 483,375**	**$ 1,151,108**

	2017		
	Program Services	Management and General	Total
Personnel	$ 303,072	$ 151,536	$ 454,608
Professional fees	6,859	44,275	51,134
Grants	25,315	-	25,315
Other operating expenses	56,510	25,745	82,255
Office administration	-	60,000	60,000
Insurance	9,193	40,483	49,676
Software support	37,408	6,703	44,111
Rent	20,000	10,000	30,000
Depreciation and amortization	30,569	6,686	37,255
	$ 488,926	$ 345,428	$ 834,354

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ (54,427)**	$ 231,705
Adjustments to reconcile change in assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	**95,551**	(171,701)
Loss on disposal of equipment	**-**	814
Reinvested interest on investment certificates	**723,854**	436,675
Loan loss provision	**39,000**	26,000
Depreciation expense	**28,947**	25,532
Amortization expense	**1,927**	11,723
Change in operating assets and liabilities:		
Investor funds held for investment	**6,095,962**	(10,750,280)
Other assets	**261,341**	(396,820)
Accounts payable and accrued expenses	**595,145**	291,261
Cash equivalents payable to investors	**1,722,868**	2,117
Investment funds payable to investors	**(6,095,962)**	10,750,280
Charitable gift annuities/trust obligation	**(34,413)**	(18,463)
Third party annuities obligation	**11,808**	7,063
Net cash provided by operating activities	**3,391,601**	445,906
Cash flows from investing activities:		
Change in certificates of deposit, net	**(2,465,587)**	854,400
Proceeds from the sale of investments	**422,659**	227,845
Purchase of investments	**(193,785)**	(78,127)
Purchase of property and equipment	**(11,999)**	(66,350)
Loan principal disbursed to borrowers	**(12,795,684)**	(12,060,230)
Repayments made on loans receivable	**3,366,353**	1,997,865
Net cash used by investing activities	**(11,678,043)**	(9,124,597)
Cash flows from financing activities:		
Proceeds from issuance of investment certificates	**12,620,344**	9,583,707
Repayment of investment certificates	**(4,356,696)**	(1,105,592)
Proceeds from issuance of congregation savings certificates	**10,307,029**	12,176,480
Repayment of congregation savings certificates	**(6,029,785)**	(11,146,199)
Proceeds from issuance of statement savings certificates	**84,909**	1,117,482
Repayment of statement savings certificates	**(783,080)**	(847,949)
Net cash provided by financing activities	**11,842,721**	9,777,929

	2018	2017
Net increase in cash and cash equivalents	**3,556,279**	1,099,238
Cash and cash equivalents, beginning of year	**2,864,645**	1,765,407
Cash and cash equivalents, end of year	**$ 6,420,924**	$ 2,864,645

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 subsidiaries Virginia United Methodist Development Company, LLC and Virginia United Methodist Real Estate Management 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 that supports its sole member, The United Methodist Foundation of the Virginia Conference, Inc. The Company, which was formed on June 4, 2014 (date of inception), 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 the Virginia Conference for the acquisition, development, construction, refinancing, expansion or renovations of buildings and facilities.

The Company raises capital to fund these loans by offering savings and investment certificates. The Company is subject to provisions of an offering circular dated February 24, 2016, filed with the State Corporation Commission of the Commonwealth of Virginia.

The Company is governed by a Board of Managers appointed by the Foundation's Board of Directors. The Company pays a management fee to the Foundation for personnel, office, and occupancy related expenses. The Foundation's consolidated financial statements include the accompanying Company financial statements.

Virginia United Methodist Real Estate Management Company, LLC, (RemCo) is a not-for-profit limited liability company which supports its sole Member, The United Methodist Foundation of the Virginia Conference, Inc. RemCo was formed on March 23, 2017, (date of inception) to manage and operate a separate entity to receive and manage gifts of real estate, hold title to real estate and/or operate the Member's real estate holdings and, thereby, further the exempt purposes of the Member.

RemCo is governed by a Board of Stewards appointed by the Foundation's Board of Directors. RemCo pays the Foundation, as may be needed, to cover the costs for personnel, office and occupancy related expenses.

The Foundation and subsidiaries are collectively referred to herein as the Organization.

2. Summary of Significant Accounting Policies

Basis of presentation and classification of net assets

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

> **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the Boards for use in the Organization's operations. Expenses are reported as reductions in this classification.
>
> **Net assets with donor restrictions**: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.
>
> Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. Revenue whose restrictions are met in the same year is reflected as revenue without donor restriction.

Revenues and support are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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 net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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. Mortgage loans will typically be amortized over a period of thirty years with a five-year balloon.

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, collateral value, and economic conditions. 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 90 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, 2018 and 2017, the Company has no loans it considered impaired. The allowance for loan losses is $108,000 and $69,000 at December 31, 2018 and 2017, 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
Software	3 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 capitalized costs

The Company was amortizing its investment in the offering circular over two years using the straight-line method. Amortization expense was $1,927 and $11,723 for 2018 and 2017, respectively. Accumulated amortization was $21,566 at December 31, 2017. All costs have been fully amortized as of December 31, 2018.

Advertising costs

Advertising costs are expensed when incurred.

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 and RemCo are not subject to federal or state income tax because they are disregarded entities for tax purposes, and as such, they are treated as subsidiaries of the Foundation.

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, 2018, cash and cash equivalents exceeded insured limits in the amount of $5,635,336.

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 statements of financial position.

See Note 8 regarding the concentration of credit risk with respect to loans receivable.

Functional expenses

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a square footage basis; and other costs are allocated based on management's estimate regarding usage.

New accounting pronouncement

The Organization has adopted FASB Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The 2017 financial statements have been adjusted to reflect retrospective application of the new accounting guidance. The retrospective application resulted in $341,983 and $24,499 permanently and temporarily restricted net assets, respectively, being reported as net assets with donor restrictions totaling $366,482 as of December 31, 2017.

3. Availability and Liquidity of Financial Assets

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	$ 6,420,924
Foundation investments	1,307,070
Certificates of deposit	2,700,000
Accrued interest receivable	146,149
	10,574,143
Less:	
Cash equivalents payable to investors	(1,729,754)
Financial assets with donor restrictions	(414,910)
Board designated endowment funds	(715,456)
Financial assets available to meet general expenditures over the next twelve months	$ 7,714,023

The Organization's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. During the year ended December 31, 2018, the Company invested in certificates of deposit with varying maturities no longer than one year. Additionally, as described in Note 16, the Company is required to maintain a minimum cash reserve of at least 10% of the outstanding principal amount of issued investment certificates.

4. Investments

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

	2018		2017	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Money market funds	**$ 2,559,909**	**$ 2,559,909**	$ 3,117,116	$ 3,117,116
Equities, multiple sectors	**38,940,288**	**37,431,135**	36,374,129	42,867,966
U.S. Government securities	**9,254,529**	**9,598,779**	8,635,659	9,393,215
Corporate bonds, multiple sectors	**4,917,986**	**4,745,432**	4,978,709	4,971,868
Municipal bonds	**9,887**	**9,920**	-	-
Mutual funds, fixed and equity	**4,141,114**	**3,955,172**	4,143,635	4,139,876
Alternative investments	**2,332,327**	**2,619,061**	3,622,901	2,849,754
	$ 62,156,040	**$ 60,919,408**	$ 60,872,149	$ 67,339,795

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

	2018	2017
Interest and dividend income	**$ 1,505,121**	$ 1,279,226
Realized gains, net	**2,923,903**	4,462,127
Unrealized (losses) gains, net	**(8,513,278)**	3,362,116
Investment fees – Merrill Lynch	**(323,516)**	(238,913)
Investment fees – Foundation	**(459,309)**	(480,809)
Investment (loss) income	**$ (4,867,079)**	$ 8,383,747

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

	2018	2017
Without donor restrictions	**$ (67,835)**	$ 199,949
With donor restrictions	**(4,129)**	717
Credited to the benefit of investment accounts held for investors	**(4,795,115)**	8,183,081
Investment (loss) income	**$ (4,867,079)**	$ 8,383,747

5. 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, 2018.

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

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	**$ 2,559,909**	**$ -**	**$ -**	**$ 2,559,909**
Equities, multiple sectors	**37,431,135**	**-**	**-**	**37,431,135**
U.S. Government securities	**9,598,779**	**-**	**-**	**9,598,779**
Corporate bonds, multiple sectors	**4,745,432**	**-**	**-**	**4,745,432**
Municipal bonds	**9,920**	**-**	**-**	**9,920**
Mutual funds	**3,955,172**	**-**	**-**	**3,955,172**
Total assets at fair value	**$ 58,300,347**	**$ -**	**$ -**	
Alternative investments (a)				**2,619,061**
				$ 60,919,408

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 3,117,116	$ -	$ -	$ 3,117,116
Equities, multiple sectors	42,867,966	-	-	42,867,966
U.S. Government securities	9,393,215	-	-	9,393,215
Corporate bonds	4,971,868	-	-	4,971,868
Mutual funds	4,139,876	-	-	4,139,876
Total assets at fair value	$ 64,490,041	$ -	$ -	
Alternative investments (a)				2,849,754
				$ 67,339,795

(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.

Fair value of investments at December 31, 2018 are held for the following purposes:

	Administered on behalf of:		
	Investors	**Foundation**	**Total**
Regular accounts	**$ 59,154,162**	**$ 161,325**	**$ 59,315,487**
Charitable gift annuities	**458,176**	**88,306**	**546,482**
Endowments	**-**	**1,057,439**	**1,057,439**
Total	**$ 59,612,338**	**$ 1,307,070**	**$ 60,919,408**

Fair value of investments at December 31, 2017 are held for the following purposes:

	Administered on behalf of:		
	Investors	**Foundation**	**Total**
Regular accounts	$ 65,203,222	$ 222,047	$ 65,425,269
Charitable gift annuities	505,078	114,774	619,852
Endowments	-	1,294,674	1,294,674
Total	$ 65,708,300	$ 1,631,495	$ 67,339,795

6. 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, 2018:

	Net Asset Value	Unit Detail	Unit Value
Balanced fund	**$ 40,879,283**	**3,066,744**	**$ 13.3299**
Stock fund	**$ 4,520,446**	**285,893**	**$ 15.8117**
Bond fund	**$ 1,093,617**	**119,690**	**$ 9.1370**
Balanced plus fund	**$ 13,879,580**	**1,036,130**	**$ 13.3956**

Net asset value and unit detail of investments consist of the following at December 31, 2017:

	Net Asset Value	Unit Detail	Unit Value
Balanced fund	$ 44,798,214	3,067,152	$ 14.6058
Stock fund	$ 5,203,114	294,542	$ 17.6651
Bond fund	$ 1,577,684	169,590	$ 9.3029
Balanced plus fund	$ 15,140,931	1,055,575	$ 14.3438

7. Investment Funds Held for Investor

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

	2018	2017
Investment funds payable to investors, beginning of year	**$ 65,708,300**	$ 54,958,020
Funds received from investors	**3,356,171**	6,590,671
Distributions to investors	**(4,671,785)**	(4,026,265)
Investment return	**(4,011,920)**	8,902,803
Administrative fees, Merrill Lynch	**(309,529)**	(238,913)
Administrative fees, Foundation	**(458,899)**	(478,016)
Investment funds payable to investors, end of year	**$ 59,612,338**	$ 65,708,300

8. 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, equipment, and assigned cash collateral. In accordance with the provisions of the offering circular described in Note 16, the Company will make loans only to Methodist affiliates in Virginia. Adverse economic conditions in Virginia could correspondingly result in 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:

	2018	2017
Construction/renovation loans	**$ 7,878,134**	$ 4,147,616
Mortgage loans, net of loan participations sold of $8,140,995 and $7,582,346 in 2018 and 2017, respectively	**28,964,507**	23,265,694
Allowance for loan losses	**(108,000)**	(69,000)
Total	**$ 36,734,641**	$ 27,344,310
Fixed rate (3.25% - 5.70%)	**$ 29,767,612**	$ 23,789,057
Variable rate (Wall Street Journal prime rate plus 75 basis points)	**7,075,029**	3,624,253
Allowance for loan losses	**(108,000)**	(69,000)
Total	**$ 36,734,641**	$ 27,344,310

There are outstanding loan commitments at December 31, 2018 in the amount of $4,946,251.

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 Company had one outstanding Irrevocable Letter of Credit at December 31, 2017 to the Board of Supervisors for Fairfax County in the amount of $234,413 for a conservation easement. The Company had pledged certificates of deposit totaling $234,413, at December 31, 2017 with its bank which support this Letter of Credit. The Letter of Credit was released by Virginia Department of Transportation on January 24, 2018.

As of December 31, 2018, three debtors comprised 39% of net loans receivable.

9. Property and Equipment

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

	2018	2017
Furniture and equipment	$ **66,990**	$ 54,991
Vehicles	**70,655**	70,655
Software	**25,528**	25,528
	163,173	151,174
Accumulated depreciation	**(105,897)**	(76,950)
Property and equipment, net	$ **57,276**	$ 74,224

10. 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 2018 ranged from 1.60% to 1.70%. The interest rate in 2017 ranged from 1.25% to 2.65%. Statements savings certificates outstanding at December 31, 2018 and 2017 totaled $1,219,797 and $1,801,936, 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 2018 ranged from 1.60% to 1.70%. The interest rate for 2017 was 1.60%. Congregational savings certificates outstanding at December 31, 2018 and 2017 totaled $18,038,943 and $13,559,702, 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 months to five years with interest rates ranging from 1.25% to 4.00% during 2018 and from 1.25% to 3.25% in 2017, depending upon the term of the certificate.

The Company has investment certificates outstanding as summarized below as of December 31:

Maturity	2018	2017
Six month	$ **3,188,530**	$ 984,317
One year	**5,291,401**	3,525,053
Two year	**2,333,092**	1,681,783
Three year	**1,832,561**	1,537,933
Four year	**1,140,941**	981,127
Five year	**9,073,480**	5,480,319
Total	$ **22,860,005**	$ 14,190,532

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% to 3.40% during 2018 and 3.00% to 3.25% during 2017. 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, 2018 and 2017, the Company has $ 365,405 and $339,177, respectively, 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 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 16). The investment, savings and retirement certificates are not bank deposits and are not issued by, nor obligated by 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.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2018:

	Temporary Restriction	Perpetual Restriction	Total
Ministry and missional support grants, scholarships, and other charitable uses	**$ 72,927**	**$ -**	**$ 72,927**
Endowment Funds (Note 17)	**-**	**341,983**	**341,983**
	$ 72,927	**$ 341,983**	**$ 414,910**

Net assets with donor restrictions consist of the following at December 31, 2017:

	Temporary Restriction	Perpetual Restriction	Total
Ministry and missional support grants, scholarships, and other charitable uses	$ 24,499	$ -	$ 24,499
Endowment Funds (Note 17)	-	341,983	341,983
	$ 24,499	$ 341,983	$ 366,482

12. Charitable Gift Annuities Obligation

At December 31, 2018 and 2017, 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.

A summary of the change in value of the charitable gifts and annuities obligations for the years ended December 31, 2018 and 2017 is as follows:

	Charitable Gifts Assets	Annuities Obligation	Charitable Gifts, net
Balance, December 31, 2016	$ 169,556	$ 135,714	$ 33,842
Annuity payments	(98,177)	(31,002)	(67,175)
Investment return	3,395	-	3,395
Additional investment	40,000	-	40,000
Increase in obligation	-	12,539	(12,539)
Balance, December 31, 2017	**114,774**	**117,251**	**(2,477)**
Annuity payments	**(105,759)**	**(29,225)**	**(76,534)**
Investment return	**218**	**-**	**218**
Additional investment	**79,073**	**-**	**79,073**
Decrease in obligation	**-**	**(5,188)**	**5,188**
Balance, December 31, 2018	**$ 88,306**	**$ 82,838**	**$ 5,468**

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.

13. 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, 2018, a third party annuities obligation of $161,782 ($149,974 as of December 31, 2017) has been recorded and is reflected in the consolidated statements of financial position.

14. 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 2018 and 2017 employer contributions were $42,166 and $30,453, respectively.

15. 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:

	2018	2017
Rent expense	**$ 30,900**	$ 30,000
Administrative services expense	**72,000**	60,000
	$ 102,900	$ 90,000

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:

	Conference		Board Members	
	2018	2017	2018	2017
Congregational savings	**$ 1,904,781**	$ 1,823,446	**$ -**	$ -
Statement savings	**-**	-	**234,766**	334,392
Investment	**-**	-	**240,333**	93,604
Total	**$ 1,904,781**	$ 1,823,446	**$ 475,099**	$ 427,996
Interest earned during year	**$ 31,336**	$ 24,559	**$ 8,762**	$ 7,570

16. 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, 2018 and 2017.

17. 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 U.S. GAAP, 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 summaries the changes in endowment net assets for the years ended December 31, 2018 and 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2016	$ 884,416	$ 341,983	$ 1,226,399
Investment income	165,967	-	165,967
Contributions	10,000	-	10,000
Appropriation for expenditure	(107,692)	-	(107,692)
Endowment net assets, December 31, 2017	**952,691**	**341,983**	**1,294,674**
Investment loss	**(57,365)**	**-**	**(57,365)**
Contributions	**10,000**	**-**	**10,000**
Appropriation for expenditure	**(189,870)**	**-**	**(189,870)**
Endowment net assets, December 31, 2018	**$ 715,456**	**$ 341,983**	**$ 1,057,439**

All funds without donor restrictions above are comprised of board-designated endowment funds and all funds with donor restriction are permanently donor-restricted.

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 net assets without donor restrictions. There were no deficiencies as of December 31, 2018 and 2017.

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 2018 and 2017, the Board approved spending formula for the endowment provided for an annual spending rate of 4.0% 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 that the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is treated an 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.

18. Subsequent Events

The preparation of the consolidated financial statements includes an evaluation of subsequent events through August 7, 2019, which is the date that the consolidated financial statements were available to be issued.