



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

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Consolidated Financial Statements

Years Ended December 31, 2020 and 2019



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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, 2020 and 2019, 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, 2020 and 2019, 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.

Dixon Hughes Goodman LLP

Richmond, VA

June 25, 2021

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,421,150	\$ 6,733,730
Investments:		
Investor	79,648,508	70,682,225
Foundation	2,459,225	1,370,921
Total investments at fair value	<u>82,107,733</u>	<u>72,053,146</u>
Certificates of deposit at face value	750,000	3,000,000
Accrued interest receivable	133,731	168,460
Loans receivable, net, current portion	2,224,809	10,910,440
Other current assets	<u>61,039</u>	<u>57,246</u>
Total current assets	94,698,462	92,923,022
Loans receivables, net, less current portion	30,113,289	25,966,663
Capitalized costs, net	33,745	24,771
Property and equipment, net	24,283	36,427
Other assets	<u>64,794</u>	<u>15,803</u>
Total assets	<u>\$ 124,934,573</u>	<u>\$ 118,966,686</u>

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2020 and 2019

(Continued)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Cash equivalents payable to investors	\$ 18,026	\$ 604,450
Accounts payable and accrued expenses	113,902	23,582
Note payable - PPP loan	113,678	-
Investment funds payable to investors	79,648,508	70,682,225
Savings and investment certificates, current portion	<u>24,249,096</u>	<u>29,290,762</u>
Total current liabilities	104,143,210	100,601,019
Investment certificates, less current portion	16,727,092	15,481,961
Charitable gift annuities obligation	365,452	-
Third party annuities obligation	<u>139,900</u>	<u>149,359</u>
Total liabilities	<u>121,375,654</u>	<u>116,232,339</u>
Net assets:		
Without donor restrictions	2,808,940	2,268,876
With donor restrictions	<u>749,979</u>	<u>465,471</u>
Total net assets	<u>3,558,919</u>	<u>2,734,347</u>
Total liabilities and net assets	<u><u>\$ 124,934,573</u></u>	<u><u>\$ 118,966,686</u></u>

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Administrative fees	\$ 493,991	\$ -	\$ 493,991
Contributions	396,772	547,750	944,522
Fee income	12,508	-	12,508
Investment income, net	142,169	48,809	190,978
Miscellaneous income	45	-	45
Net interest income on loan program, after provision for loan losses of \$85,000	635,205	-	635,205
	<u>1,680,690</u>	<u>596,559</u>	<u>2,277,249</u>
Net assets released from restrictions:			
Payments for program services	312,051	(312,051)	-
Change in value of charitable gift annuities obligation	<u>(73,488)</u>	<u>-</u>	<u>(73,488)</u>
Total support and revenue	<u>1,919,253</u>	<u>284,508</u>	<u>2,203,761</u>
Expenses:			
Program services	915,009	-	915,009
Management and general	464,180	-	464,180
Total expenses	<u>1,379,189</u>	<u>-</u>	<u>1,379,189</u>
Change in net assets	540,064	284,508	824,572
Net assets, beginning of year	<u>2,268,876</u>	<u>465,471</u>	<u>2,734,347</u>
Net assets, end of year	<u>\$ 2,808,940</u>	<u>\$ 749,979</u>	<u>\$ 3,558,919</u>

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Administrative fees	\$ 461,799	\$ -	\$ 461,799
Contributions	10,000	88,202	98,202
Fee income	9,849	-	9,849
Investment income, net	207,737	13,434	221,171
Net interest income on loan program, after provision for loan losses of \$35,000	832,929	-	832,929
	<u>1,522,314</u>	<u>101,636</u>	<u>1,623,950</u>
Net assets released from restrictions:			
Payments for program services	51,075	(51,075)	-
Change in value of charitable gift annuities obligation	<u>(75,992)</u>	<u>-</u>	<u>(75,992)</u>
Total support and revenue	<u>1,497,397</u>	<u>50,561</u>	<u>1,547,958</u>
Expenses:			
Program services	649,533	-	649,533
Management and general	<u>528,214</u>	<u>-</u>	<u>528,214</u>
Total expenses	<u>1,177,747</u>	<u>-</u>	<u>1,177,747</u>
Change in net assets	319,650	50,561	370,211
Net assets, beginning of year	<u>1,949,226</u>	<u>414,910</u>	<u>2,364,136</u>
Net assets, end of year	<u>\$ 2,268,876</u>	<u>\$ 465,471</u>	<u>\$ 2,734,347</u>

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
Years Ended December 31, 2020 and 2019

	2020		
	Program Services	Management and General	Total
Personnel	\$ 425,500	\$ 212,750	\$ 638,250
Grants	380,801	-	380,801
Software support	45,713	47,569	93,282
Office administration	-	72,000	72,000
Professional fees	-	56,709	56,709
Insurance	9,412	44,961	54,373
Other operating expenses	24,713	16,017	40,730
Rent	20,600	10,300	30,900
Depreciation	8,270	3,874	12,144
	<u>\$ 915,009</u>	<u>\$ 464,180</u>	<u>\$ 1,379,189</u>
	2019		
	Program Services	Management and General	Total
Personnel	\$ 394,036	\$ 197,018	\$ 591,054
Grants	103,575	-	103,575
Software support	45,392	50,387	95,779
Office administration	-	78,000	78,000
Professional fees	-	117,329	117,329
Insurance	10,900	43,039	53,939
Other operating expenses	61,926	27,626	89,552
Rent	20,600	10,300	30,900
Depreciation	13,104	4,515	17,619
	<u>\$ 649,533</u>	<u>\$ 528,214</u>	<u>\$ 1,177,747</u>

See accompanying notes.

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 824,572	\$ 370,211
Adjustments to reconcile change in assets to net cash provided (used) by operating activities:		
Net realized and unrealized gains on investments	(148,164)	(201,219)
Reinvested interest on investment certificates	809,092	978,141
Loan loss provision	85,000	35,000
Depreciation expense	12,144	17,619
Loss on disposal of equipment	-	3,230
Change in operating assets and liabilities:		
Investor funds held for investment	(8,966,283)	(11,069,887)
Accrued interest receivable	34,729	(22,311)
Other assets	(52,784)	22,029
Accounts payable and accrued expenses	90,320	(980,301)
Cash equivalents payable to investors	(586,424)	(1,125,304)
Investment funds payable to investors	8,966,283	11,069,887
Charitable gift annuities/trust obligation	365,452	(82,838)
Third party annuities obligation	(9,459)	(12,423)
Net cash provided (used) by operating activities	<u>1,424,478</u>	<u>(998,166)</u>
Cash flows from investing activities:		
Change in certificates of deposit, net	2,250,000	(300,000)
Development of offering circular	(8,974)	(24,771)
Proceeds from the sale of investments	419,042	239,991
Purchase of investments	(1,359,182)	(102,623)
Loan principal disbursed to borrowers	(3,563,261)	(3,424,329)
Repayments made on loans receivable	8,017,266	3,246,867
Net cash provided (used) by investing activities	<u>5,754,891</u>	<u>(364,865)</u>
Cash flows from financing activities:		
Proceeds from note payable - PPP loan	113,678	-
Proceeds from issuance of investment certificates	5,146,370	10,742,740
Repayment of investment certificates	(7,642,409)	(7,221,736)
Proceeds from issuance of congregation savings certificates	4,671,196	8,886,449
Repayment of congregation savings certificates	(6,794,494)	(10,516,240)
Proceeds from issuance of statement savings certificates	465,563	422,268
Repayment of statement savings certificates	(451,853)	(637,644)
Net cash (used) provided by financing activities	<u>(4,491,949)</u>	<u>1,675,837</u>

The United Methodist Foundation of the Virginia Conference, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(Continued)

	<u>2020</u>	<u>2019</u>
Net increase in cash and cash equivalents	2,687,420	312,806
Cash and cash equivalents, beginning of year	<u>6,733,730</u>	<u>6,420,924</u>
Cash and cash equivalents, end of year	<u><u>\$ 9,421,150</u></u>	<u><u>\$ 6,733,730</u></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 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.

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.

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.

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, whereby the donor has stipulated the funds be maintained in perpetuity.

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.

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 reported 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, 2020 and 2019, the Company has no loans it considered impaired. The allowance for loan losses is \$228,000 and \$143,000 at December 31, 2020 and 2019, 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. All costs have been fully amortized as of December 31, 2018.

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

The Company is currently updating the offering circular. Legal costs of \$33,745 associated with this update have been capitalized as of December 31, 2020. Amortization will begin in 2021 when the update is finalized.

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 as part of the United Methodist Church Group Tax Exemption Ruling. 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.

The Organization has determined that there are no material unrecognized tax benefits or obligations as of December 31, 2020 and 2019.

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 consolidated 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.

Revenue recognition

The Foundation provides investment management services that include a single performance obligation which occurs over-time. Fees are billed monthly as a withdrawal from investors' accounts, in arrears, based upon the following fee schedule:

<u>Customer Balance</u>	<u>Basis Points</u>
Less than \$200,000	75
\$200,000.01 - \$500,000	72
\$500,000.01 - \$1,000,000	69
\$1,000,000.01 - \$2,000,000	66
\$2,000,000.01 - \$3,500,000	64
Greater than \$3,500,000	62

Investors' customer balance can be affected by a variety of factors, including the addition of new customer accounts and investment performance, which will be impacted daily by general market conditions. Accordingly, administrative fees are variable consideration and are constrained until the completion of the performance obligation at month-end. Administrative fees were \$493,991 and \$461,799 for the years ended December 31, 2020 and 2019, respectively.

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

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. Revenue whose restrictions are met in the same year is reflected as revenue without donor restriction.

Substantially all of the Company's revenue is derived from interest income on its loan portfolio, which is recognized as earned over time.

The following table disaggregates the Organization's revenue based on the timing of satisfaction of performance obligations for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Performance obligations satisfied at a point in time	\$ 1,419,741	\$ 1,162,151
Performance obligations satisfied over time	<u>493,991</u>	<u>461,799</u>
Total support and revenue	<u>\$ 1,913,732</u>	<u>\$ 1,623,950</u>

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.

Concentration

Financial instruments which potentially subject the Foundation and the Company to concentrations of credit risk consist primarily of cash, investments, and loans receivable. 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. Cash and cash equivalents may exceed insured limits from time-to-time.

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 consolidated statements of financial position.

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

3. Availability and Liquidity of Financial Assets

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 9,421,150	\$ 6,733,730
Foundation investments	2,459,225	1,370,921
Certificates of deposit	750,000	3,000,000
Accrued interest receivable	<u>133,731</u>	<u>168,460</u>
	12,764,106	11,273,111
Less:		
Cash equivalents payable to investors	(18,026)	(604,450)
Financial assets with donor restrictions	(749,979)	(465,471)
Board designated endowment funds	<u>(904,234)</u>	<u>(811,173)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 11,091,867</u>	<u>\$ 9,392,017</u>

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. Additionally, as described in Note 17, 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:

	<u>2020</u>		<u>2019</u>
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>
Money market funds	\$ 3,740,222	\$ 3,740,222	\$ 3,212,377
Equities, multiple sectors	39,797,798	53,733,095	38,868,703
U.S. Government securities	9,191,611	11,159,086	9,418,027
Corporate bonds, multiple sectors	4,549,708	4,906,447	4,240,914
Municipal bonds	9,887	10,634	9,887
Mutual funds, fixed and equity	5,434,693	5,706,997	4,635,008
Alternative investments	<u>2,685,128</u>	<u>2,851,252</u>	<u>2,741,177</u>
	<u>\$ 65,409,047</u>	<u>\$ 82,107,733</u>	<u>\$ 63,126,093</u>
			<u>\$ 72,053,146</u>

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

Investment income, including income on investor owned investments, consisted of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 1,418,205	\$ 1,724,802
Realized gains, net	1,048,233	775,264
Unrealized gains, net	6,306,385	10,168,951
Investment fees – Merrill Lynch	(309,426)	(295,015)
Investment fees – Foundation	<u>(493,991)</u>	<u>(461,799)</u>
Investment income	<u>\$ 7,969,406</u>	<u>\$ 11,912,203</u>

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

	<u>2020</u>	<u>2019</u>
Foundation owned investments:		
Without donor restrictions	\$ 142,169	\$ 207,737
With donor restrictions	<u>48,809</u>	<u>13,434</u>
Investment income on Foundation owned investments	190,978	221,171
Investor owned investments:		
Credited to the benefit of investment accounts held for investors	<u>7,778,428</u>	<u>11,691,032</u>
	<u>\$ 7,969,406</u>	<u>\$ 11,912,203</u>

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 Organization 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.

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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, 2020.

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:

	2020			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,740,222	\$ -	\$ -	\$ 3,740,222
Equities, multiple sectors	53,733,095	-	-	53,733,095
U.S. Government securities	11,159,086	-	-	11,159,086
Corporate bonds, multiple sectors	4,906,447	-	-	4,906,447
Municipal bonds	10,634	-	-	10,634
Mutual funds	5,706,997	-	-	5,706,997
Total assets at fair value	<u>\$ 79,256,481</u>	<u>\$ -</u>	<u>\$ -</u>	
Alternative investments (a)				<u>2,851,252</u>
				<u>\$ 82,107,733</u>

	2019			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,212,377	\$ -	\$ -	\$ 3,212,377
Equities, multiple sectors	46,685,332	-	-	46,685,332
U.S. Government securities	9,916,507	-	-	9,916,507
Corporate bonds	4,434,604	-	-	4,434,604
Municipal bonds	10,287	-	-	10,287
Mutual funds	4,674,835	-	-	4,674,835
Total assets at fair value	<u>\$ 68,933,942</u>	<u>\$ -</u>	<u>\$ -</u>	
Alternative investments (a)				<u>3,119,204</u>
				<u>\$ 72,053,146</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.

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Alternative investments are valued using the practical expedient at the Organization'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, 2020 are held for the following purposes:

	Administered on behalf of:		
	Investors	Foundation	Total
Regular accounts	\$ 78,756,733	\$ 484,039	\$ 79,240,772
Charitable gift annuities	891,775	728,969	1,620,744
Endowments	-	1,246,217	1,246,217
Total	<u>\$ 79,648,508</u>	<u>\$ 2,459,225</u>	<u>\$ 82,107,733</u>

Fair value of investments at December 31, 2019 are held for the following purposes:

	Administered on behalf of:		
	Investors	Foundation	Total
Regular accounts	\$ 69,785,496	\$ 217,765	\$ 70,003,261
Charitable gift annuities	896,729	-	896,729
Endowments	-	1,153,156	1,153,156
Total	<u>\$ 70,682,225</u>	<u>\$ 1,370,921</u>	<u>\$ 72,053,146</u>

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, 2020:

	Net Asset Value	Unit Detail	Unit Value
Balanced fund	\$ 54,424,308	3,084,904	\$ 17.6421
Stock fund	\$ 5,867,137	259,585	\$ 22.6020
Bond fund	\$ 1,114,015	109,270	\$ 10.1951
Balanced plus fund	\$ 19,081,528	1,136,102	\$ 16.7956

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Net asset value and unit detail of investments consist of the following at December 31, 2019:

	<u>Net Asset Value</u>	<u>Unit Detail</u>	<u>Unit Value</u>
Balanced fund	\$ 48,096,599	3,024,390	\$ 15.9029
Stock fund	\$ 5,311,669	266,397	\$ 19.9389
Bond fund	\$ 1,079,472	110,713	\$ 9.7502
Balanced plus fund	\$ 16,668,677	1,068,585	\$ 15.5988

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:

	<u>2020</u>	<u>2019</u>
Investment funds payable to investors, beginning of year	\$ 70,682,225	\$ 59,612,338
Funds received from investors	3,677,331	4,830,621
Distributions to investors	(2,633,969)	(5,550,507)
Investment return	8,726,338	12,547,287
Administrative fees, Merrill Lynch	(309,426)	(295,715)
Administrative fees, Foundation	(493,991)	(461,799)
Investment funds payable to investors, end of year	<u>\$ 79,648,508</u>	<u>\$ 70,682,225</u>

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 17, the Company will make loans only to borrowers 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.

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Company loans consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Construction/renovation loans, interest only	\$ 1,686,279	\$ 6,054,032
Mortgage loans, net of loan participations sold of \$6,659,228 and \$7,660,734 in 2020 and 2019, respectively	30,879,819	30,966,071
Allowance for loan losses	<u>(228,000)</u>	<u>(143,000)</u>
Total	32,338,098	36,877,103
Current portion	<u>(2,224,809)</u>	<u>(10,910,440)</u>
Long-term portion	<u>\$ 30,113,289</u>	<u>\$ 25,966,663</u>
Fixed rate (3.25% - 6.20%)	\$ 30,879,819	\$ 31,413,456
Variable rate (Wall Street Journal prime rate plus 0 to 75 basis points)	1,686,279	5,606,647
Allowance for loan losses	<u>(228,000)</u>	<u>(143,000)</u>
Total	<u>\$ 32,338,098</u>	<u>\$ 36,877,103</u>

There are outstanding loan commitments at December 31, 2020 and 2019 in the amount of \$1,577,098 and \$4,026,044, respectively.

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.

As of December 31, 2020, two debtors comprised 32% of gross loans receivable.

9. Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 66,990	\$ 66,990
Vehicles	70,655	70,655
Software	<u>7,275</u>	<u>7,275</u>
	144,920	144,920
Accumulated depreciation	<u>(120,637)</u>	<u>(108,493)</u>
Property and equipment, net	<u>\$ 24,283</u>	<u>\$ 36,427</u>

10. Note Payable – PPP loan

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act provides for the establishment of the Paycheck Protection Program (PPP), a new loan program under the Small Business Administration's 7(a) program providing loans to qualifying businesses. Additionally, loans originated under this program may be forgiven, in whole or in part, if certain criteria are met.

The Foundation received a PPP loan totaling \$113,678 and has elected to account for the funds received in accordance with ASC Topic 470, *Debt*. In order to be forgiven, funds from these loans may only be used to satisfy payroll costs, costs used to continue health care benefits, mortgage payments, rent, utilities, and interest on certain other debt obligations. The Foundation believes it has used the proceeds of the loan for qualifying expenses under the PPP. However, additional steps must be taken to apply for and receive forgiveness. The loan accrues interest at a rate of 1% and has an original maturity date of two years which can be extended to five years by mutual agreement of the Foundation and the lender. Payments are deferred during the deferral period, which began on the loan origination date and extends for 10 months beyond the last day of the Foundation's covered period. Any unforgiven portion of the PPP loan is payable in equal installments of principal and interest from the end of the deferral period through the scheduled maturity date. In addition, to the extent the loan is not forgiven, any interest accrued during the deferral period is due on the date of the first payment after the end of the deferral period. The Foundation has elected to classify the outstanding balance of the loan as a current liability in the accompanying consolidated balance sheet given it expects to receive forgiveness within the next operating cycle.

11. 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 2020 ranged from 0.65% to 1.45%. The interest rate in 2019 ranged from 1.60% to 1.90%. Statements savings certificates outstanding at December 31, 2020 and 2019 totaled \$1,047,260 and \$1,023,428, 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 2020 ranged from 0.65% to 1.45%. The interest rate for 2019 ranged from 1.60% to 1.90%. Congregational savings certificates outstanding at December 31, 2020 and 2019 totaled \$14,768,218 and \$16,742,811, 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 0.80% to 4.00% during 2020 and from 1.95% to 4.00% in 2019, depending upon the term of the certificate.

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

<u>Maturity</u>	<u>2020</u>	<u>2019</u>
Six month	\$ 2,211,247	\$ 1,522,686
One year	3,284,125	6,893,150
Two year	2,599,826	2,265,790
Three year	1,602,589	1,982,023
Four year	1,351,963	1,242,943
Five year	<u>14,110,960</u>	<u>13,099,892</u>
Total	<u>\$ 25,160,710</u>	<u>\$ 27,006,484</u>

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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 ranging from 3.00% to 4.00% during 2020 and 3.00% to 3.40% during 2019. 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, 2020 and 2019, the Company has \$369,635 and \$383,007, 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 17). 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.

12. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2020:

	<u>Temporary Restriction</u>	<u>Perpetual Restriction</u>	<u>Total</u>
Ministry and missional support grants, scholarships, and other charitable uses	\$ 407,996	\$ -	\$ 407,996
Endowment Funds (Note 18)	-	341,983	341,983
	<u>\$ 407,996</u>	<u>\$ 341,983</u>	<u>\$ 749,979</u>

Net assets with donor restrictions consist of the following at December 31, 2019:

	<u>Temporary Restriction</u>	<u>Perpetual Restriction</u>	<u>Total</u>
Ministry and missional support grants, scholarships, and other charitable uses	\$ 123,488	\$ -	\$ 123,488
Endowment Funds (Note 18)	-	341,983	341,983
	<u>\$ 123,488</u>	<u>\$ 341,983</u>	<u>\$ 465,471</u>

13. Charitable Gift Annuities Obligation

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.

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A summary of the change in value of the charitable gifts and annuities obligations for the years ended December 31, 2020 and 2019 is as follows:

	<u>Charitable Gifts Assets</u>	<u>Annuities Obligation</u>	<u>Charitable Gifts, net</u>
Balance, December 31, 2018	\$ 88,306	\$ 82,838	\$ 5,468
Transfer for the benefit of third party	<u>(88,306)</u>	<u>(82,838)</u>	<u>(5,468)</u>
Balance, December 31, 2019	\$ -	\$ -	\$ -
Additional investment	<u>728,969</u>	<u>365,452</u>	<u>363,517</u>
Balance, December 31, 2020	<u>\$ 728,969</u>	<u>\$ 365,452</u>	<u>\$ 363,517</u>

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.

14. 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 provide 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 estimates of the 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, 2020, a third party annuities obligation of \$505,352 (\$149,359 as of December 31, 2019) has been recorded and is reflected in the consolidated statements of financial position.

15. 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 2020 and 2019 employer contributions were \$44,258 and \$42,165, respectively.

16. Related Party Transactions

The following is a summary of transactions with the Virginia Annual Conference of the United Methodist Church (the "Conference"), which is affiliated with the Organization, for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Rent expense	\$ 30,900	\$ 30,900
Administrative services expense	<u>72,000</u>	<u>78,000</u>
	<u>\$ 102,900</u>	<u>\$ 108,900</u>

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The Foundation and the Conference entered into an Accounting Services Agreement in December 2019 related to the administrative services provided for a monthly fee of \$3,000. Either party may terminate this agreement with ninety days notice. No formal agreements exist between the Conference and the Company related to rent expense or administrative services.

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

	Conference		Board Members and Employees	
	2020	2019	2020	2019
Congregational savings	\$ 2,022,279	\$ 2,261,257	\$ -	\$ -
Statement savings	-	-	266,842	238,535
Investment	-	-	877,825	776,811
Total	<u>\$ 2,022,279</u>	<u>\$ 2,261,257</u>	<u>\$ 1,144,667</u>	<u>\$ 1,015,346</u>
Interest earned during year	<u>\$ 11,022</u>	<u>\$ 32,400</u>	<u>\$ 29,626</u>	<u>\$ 17,586</u>

17. 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, 2020 and 2019.

18. 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.

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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 changes in endowment net assets for the years ended December 31, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2018	\$ 715,456	\$ 341,983	\$ 1,057,439
Investment income	186,301	-	186,301
Contributions	10,000	-	10,000
Appropriation for expenditure	(100,584)	-	(100,584)
Endowment net assets, December 31, 2019	811,173	341,983	1,153,156
Investment income	109,504	-	109,504
Contributions	23,765	-	23,765
Appropriation for expenditure	(40,208)	-	(40,208)
Endowment net assets, December 31, 2020	<u>\$ 904,234</u>	<u>\$ 341,983</u>	<u>\$ 1,246,217</u>

All funds without donor restrictions above are comprised of board-designated endowment funds and all funds with donor restrictions 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 U.S. GAAP, deficiencies of this nature are reported in net assets without donor restrictions. There were no deficiencies as of December 31, 2020 and 2019.

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 2020 and 2019, the Board approved spending formula for the endowment provided for an annual spending rate of 3.8% and 4.0%, respectively, 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.

19. Line of Credit

The Company has a \$3,000,000 line of credit collateralized by all loans receivable. Interest is payable at the Prime Rate stated by The Wall Street Journal plus 0.50% (3.75% at December 31, 2020). The agreement expires in July 2021, subject to renewal. As of December 31, 2020 and 2019, the Company did not have any amounts outstanding on this line of credit.

20. Subsequent Events

The preparation of the consolidated financial statements includes an evaluation of subsequent events through June 25, 2021, which is the date that the consolidated financial statements were available to be issued.

21. Risks and Uncertainties

In March 2020, the World Health Organization declared the outbreak and spread of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering of certain nonessential businesses.

The COVID-19 pandemic has impacted the operational activities of the Foundation's business; however, the Foundation's financial performance remained stable throughout 2020. There is uncertainty in the nature and degree of its continued effects on the Foundation over time. The extent to which it will impact the Foundation going forward will depend on a variety of factors including the duration and continued spread of the outbreak, impact on the Foundation's investors, employees and vendors, as well as governmental, regulatory and private sector responses. Further, the pandemic may have a significant impact on management's accounting estimates and assumptions.