

**UNITED METHODIST FOUNDATION
OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019



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**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
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INDEPENDENT AUDITORS' REPORT

Board of Directors
United Methodist Foundation of Western Pennsylvania
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the United Methodist Foundation of Western Pennsylvania, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
United Methodist Foundation of Western Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Methodist Foundation of Western Pennsylvania as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Pittsburgh, Pennsylvania
May 21, 2021

UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash	\$ 254,115	\$ 757,226
Investments, at Fair Value	132,330,073	119,616,060
Beneficial Interest in Perpetual Trust, at Fair Value	638,649	604,471
Prepaid Expenses	7,607	3,291
Accounts Receivable	1,692	3,412
Mortgages Receivable	171,518	181,611
Property and Equipment, Net	255,851	277,680
Total Assets	\$ 133,659,505	\$ 121,443,751
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 88,299	\$ 125,757
Distributions Payable	746,681	897,882
Custodial Accounts	115,038,922	104,482,174
Annuities Payable	556,112	543,647
Total Liabilities	116,430,014	106,049,460
NET ASSETS		
Without Donor Restrictions	3,336,290	3,023,760
With Donor Restrictions	13,893,201	12,370,531
Total Net Assets	17,229,491	15,394,291
Total Liabilities and Net Assets	\$ 133,659,505	\$ 121,443,751

See accompanying Notes to Financial Statements.

UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
Investment Income - Total Return	\$ 4,590,392	\$ 475,567	\$ 5,065,959	\$ 3,891,336	\$ 661,064	\$ 4,552,400
Administrative Fees	889,776	-	889,776	820,294	-	820,294
Program Revenue	4,080	-	4,080	4,280	-	4,280
Contributions	-	161,600	161,600	300	10,897,952	10,898,252
Other Income	45,100	-	45,100	11,790	-	11,790
Total Revenues and Other Support	<u>5,529,348</u>	<u>637,167</u>	<u>6,166,515</u>	<u>4,728,000</u>	<u>11,559,016</u>	<u>16,287,016</u>
EXPENSES AND LOSSES						
Distribution of Investment Income and Principal	4,471,873	-	4,471,873	3,823,749	-	3,823,749
Operating - Salaries and Benefits	442,547	-	442,547	382,445	-	382,445
Operating - Other	224,774	-	224,774	238,976	-	238,976
Grant Program	470,061	-	470,061	106,303	-	106,303
Depreciation	21,829	-	21,829	19,636	-	19,636
Net Assets Released from Restrictions	(274,441)	274,441	-	(26,696)	26,696	-
Other Losses	-	-	-	4,770	-	4,770
Total Expenses and Losses	<u>5,356,643</u>	<u>274,441</u>	<u>5,631,084</u>	<u>4,549,183</u>	<u>26,696</u>	<u>4,575,879</u>
INCREASE IN NET ASSETS BEFORE UNREALIZED GAIN	172,705	362,726	535,431	178,817	11,532,320	11,711,137
Unrealized Gain on Owned Investments	<u>139,825</u>	<u>1,159,944</u>	<u>1,299,769</u>	<u>246,320</u>	<u>167,944</u>	<u>414,264</u>
INCREASE IN NET ASSETS	312,530	1,522,670	1,835,200	425,137	11,700,264	12,125,401
Net Assets - Beginning of Year	<u>3,023,760</u>	<u>12,370,531</u>	<u>15,394,291</u>	<u>2,598,623</u>	<u>670,267</u>	<u>3,268,890</u>
NET ASSETS - END OF YEAR	<u>\$ 3,336,290</u>	<u>\$ 13,893,201</u>	<u>\$ 17,229,491</u>	<u>\$ 3,023,760</u>	<u>\$ 12,370,531</u>	<u>\$ 15,394,291</u>

See accompanying Notes to Financial Statements.

UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,835,200	\$ 12,125,401
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	21,829	19,636
Unrealized Gain on Owned Investments	(1,299,769)	(414,264)
Loss on Disposal of Equipment	-	4,770
Contributions Restricted for Endowment	(160,600)	(10,897,952)
(Increase) Decrease in Assets:		
Prepaid Expenses	(4,316)	10,232
Accounts Receivable	1,720	588
Increase (Decrease) in Liabilities:		
Accounts Payable	(37,458)	61,896
Net Cash Provided by Operating Activities	356,606	910,307
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	-	(40,291)
Principal Payments on Mortgages Receivable	10,093	9,662
Increase (Decrease) in Distributions Payable	(151,201)	2,679
Investment Income - Adjustment to Total Return	(718,609)	(277,951)
Purchases of Foundation Investments	(160,600)	(10,897,952)
Cash and Investments Held as Custodian	(10,569,213)	(18,684,936)
Custodial Accounts	10,556,748	18,627,155
Annuities Payable	12,465	57,781
Net Cash Used by Investing Activities	(1,020,317)	(11,203,853)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for:		
Investment in Endowment	160,600	10,897,952
Net Cash Provided by Financing Activities	160,600	10,897,952
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(503,111)	604,406
Cash and Cash Equivalents - Beginning of Year	757,226	152,820
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 254,115	\$ 757,226

See accompanying Notes to Financial Statements.

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS

The United Methodist Foundation of Western Pennsylvania (the Foundation) provides, to individuals and organizations, appropriate opportunities to fund ministries undertaken in the name of Jesus Christ. This is accomplished by:

- Providing integrated educational programs and services of a financial nature that are based on the principles of Christian Stewardship.
- Providing services consistent with the Social Creed of the United Methodist Church for the development and administration of endowment funds.
- Providing individual consultation to donors as to planned giving opportunities available to accomplish their desired philanthropic goals.

These purposes are carried out by providing for the receipt, management, investment, reinvestment, and distribution of gifts, devices, bequests, and endowments.

The Foundation is a nonprofit corporation, serving the Western Pennsylvania region, whose sole corporate member is the Western Pennsylvania Annual Conference (the Conference) of the United Methodist Church.

A brief description of the various fund groups maintained by the Foundation and their nature and purpose follows:

Custodial Accounts and Annuities Payable

Custodial accounts and annuities payable represent funds invested for a temporary or indefinite period. The owners and/or beneficiaries of these funds must be United Methodist related organizations. These funds are reported as liabilities of the Foundation.

Custodial accounts may be subject to restrictions which require that the principal be invested in perpetuity and which specify the use of the income. Within custodial accounts the Foundation carries life insurance policies at current cash surrender values.

The Foundation administers gift annuities for the benefit of United Methodist related organizations, which stipulate that periodic payments be made from the gift to designated persons for the life of those persons. Upon receipt of the gift, the Foundation calculates the actuarial present value of the periodic payments and records this portion of the gift as annuities payable. The remaining amount of the gift, payable to the United Methodist related organization upon the death of the annuitant, is also included in Annuities Payable.

In 2019, after a review of the annuity program, the Board of Directors (the Board) determined that the Foundation will no longer enter into new annuity contracts. Existing contracts will be administered until the death of the annuitant and the transfer of the remaining assets to the beneficiary.

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS (CONTINUED)

Custodial Accounts and Annuities Payable (Continued)

The Foundation also accepts contributions in the form of charitable remainder annuity trusts and unitrusts. These are treated in a manner similar to the gift annuities, except that the amount of the periodic payment to the beneficiary may be recomputed annually and may be limited to the distribution of actual net income earned. At the end of the trust term, or upon the death of the beneficiary, any remaining balance is paid to the contributor's designated charitable remaindermen.

Net Assets Without Donor Restrictions

Net assets without donor restrictions (Note 9) represent funds that are available to support the Foundation's operations and programs as directed by the Board.

Net Assets With Donor Restrictions

Net assets with donor restrictions (Note 10) represent funds that are available to support the Foundation's operations and programs as directed by the donor.

All funds are invested in one of three ways:

The Core Balanced Fund provides for current income as well as long-term growth consistent with the conservation of principal. It invests in domestic and international stocks and bonds with a modest cash position for liquidity, with a target mix of 60% equities and 40% fixed income investments and may invest in alternative strategies as permitted within the Foundation's Statement of Investment Policy and Objectives (the Investment Policy).

Distributions of income from the Core Balanced Fund are calculated using a total return approach, which allows for the inclusion of capital appreciation/depreciation along with interest, dividends, and realized gains/losses in calculating the amount to be distributed. Under the total return method, a distribution percentage is determined by the Board, based in part on advice from the Foundation's Independent Outsourced Investment Office, as of the end of each calendar year. Such percentages by law must be between 2% and 7%.

The percentage selected (4.25% for 2020 and 2019), is then applied to the average unit value over the past 12 quarters to determine the fixed distribution amount for the following year. As a result, trends in investment income distributed do not necessarily follow movements in the market value of the underlying investments.

Unit values are net of broker fees and commissions, investment advisor fees and administrative service charges. Investment income is distributed on a pro rata basis to the unit holders as of the last day of each calendar quarter (March 31, June 30, September 30, December 31) and may be immediately reinvested by the unit holders. The valuation of the fund is performed daily.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS (CONTINUED)

Net Assets With Donor Restrictions (Continued)

The Aggressive Fund provides for long-term growth with a modest level of current income. It invests in domestic and international stocks and bonds with a target mix of 80% equities and 20% fixed income investments and may invest in alternative strategies as permitted within the Investment Policy. There are no regular distributions from the Aggressive Fund. The valuation of the fund is performed daily.

The Income and Growth Fund provides for current income with a moderate level of long-term growth. It invests in domestic and international stocks and bonds, with a target mix of 20% equities and 80% fixed income investments and may invest in alternative strategies as permitted within the Investment Policy. There are no regular distributions from the Income and Growth Fund. The valuation of the fund is performed daily.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Foundation's financial statement presentation is in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), Topic 958, *Not-for-Profit Entities*.

Net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in the Foundation's general operations and not subject to donor (or certain grantor) restrictions. The Board has designated, from net assets without donor restrictions, certain net assets for operating reserves and Board-designated endowments (see Note 9).

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both (see Note 10).

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Cash

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Investments

The Foundation carries investments in money market funds and marketable securities. As required by ASC Topic 958, the Foundation records its marketable securities with readily determinable fair values and all investments in debt securities at fair value. Unrealized gains and losses are included in the statement of activities and changes in net assets.

Investment income and gains restricted by donors are reported as increases in net assets without donor restriction if the restrictions are met in the reporting period in which the income and gains are recognized.

Mortgages Receivable

The Foundation occasionally holds mortgage-securing loans made to the Conference and the Executive Director of the Foundation (the Executive Director). Loans are made at rates and other terms which the Board believes approximate market rates and terms, are not being underwritten for secondary market purposes, and are held to maturity unless prepaid by the borrower. The Foundation limits its investments in such loans to a small percentage of assets. Mortgages receivable are recorded at net realizable value and are collateralized by the underlying property. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. As of December 31, 2020 and 2019, management has assessed that an allowance for credit losses was not necessary as all accounts are current and considered to be collectible.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Gains or losses resulting from the retirement or other disposition of assets are included in income. Expenditures for major renewals and improvements that extend the useful lives of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

The Foundation's policy is to capitalize items of property and equipment with a cost in excess of \$1,000. Property and equipment are reported net of accumulated depreciation.

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Custodial Accounts

The Foundation holds and manages investments which belong to the Conference and various United Methodist churches, institutions and agencies. These amounts have been reported as a liability for amounts held for others in accordance with ASC Topic 958. ASC Topic 958 established standards for transactions in which an entity (the donor) makes a contribution by transferring assets to a nonprofit organization or charitable trust (the recipient organization). The recipient organization accepts the assets from the donor and agrees to use those assets on behalf of, or transfer those assets, or the return on investment of those assets, or both to another entity (the beneficiary) that is specified by the donor.

Income Taxes

The Foundation operates as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and therefore has made no provision for any federal income tax expense. The Foundation has been classified as an organization that is not a private foundation under Section 509(a)(3) of the IRC. The Foundation is also exempt from Pennsylvania income taxes.

The Foundation follows the income tax standard for uncertain tax positions. This standard prescribes a recognition threshold and measurement principle for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

As a result of the application of the income tax standard, the Foundation evaluated its tax positions and determined that the following uncertain tax position existed as of December 31, 2020 and 2019: the Foundation received an "auto revocation notice" from the Internal Revenue Service (IRS) in December of 2019 stating that the Foundation's tax exempt status had been automatically revoked for failure to file an annual return. The Foundation believed that the notice represented a clerical error by the IRS, and the Foundation continued to operate in good faith in the manner that qualified it as a tax-exempt organization. After consultation with legal and tax advisors, the Foundation provided a timely response to the IRS notice, disagreeing with its determination on the basis that the Foundation is an integrated auxiliary of a church as defined in Treasury Regulation §1.6033-2(g)(1)(i) and §1.6033-2(h) and as such is not required to file annual returns. The Foundation received a response from the IRS in February 2021, confirming that the "auto revocation notice" was issued in error and should be disregarded. Accordingly, no provision has been made in the financial statements for any federal income tax liability as of December 31, 2020 and 2019.

Revenue Recognition

The Foundation charges an administrative fee to account holders based on a percentage of assets held in the Foundation's common trust funds. The administrative fee is assessed and collected quarterly and is recognized as income as it is assessed.

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

No amounts have been reflected in the financial statements for donated services. The Foundation pays for services requiring specific expertise.

Functional Expenses

The costs of program and supporting services activities have been summarized on a natural classification basis in the statements of activities and changes in net assets. Note 14 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Adoption of Accounting Principle

During August 2018, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2018-13 *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removes and modifies certain fair value disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2019. The Foundation's financial statements reflect the application of this guidance retrospectively for all periods presented.

Subsequent Events

Management's practice is to evaluate subsequent events through the date for which their approval regarding the issuance of the financial statements is granted. Subsequent events were evaluated through May 21, 2021, which is the date the financial statements were available to be issued.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Financial Assets, at Year-End	\$ 133,396,047	\$ 121,162,780
Less: Those Unavailable for General Expenditures		
Within One Year Due to:		
Held for Others - Distributions Payable	746,681	897,882
Held for Others - Custodial Accounts	115,038,922	104,482,174
Held for Others - Annuities Payable	556,112	543,647
Mortgage Receivable - Long-Term Maturities	160,974	171,518
Restricted by Donor	13,893,201	12,370,531
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 3,000,157	\$ 2,697,028

The Foundation maintains significant financial assets in checking accounts and investment brokerage accounts which can be used to fund operations as needed.

UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 INVESTMENTS

Investments consisted of the following as of December 31:

	Fair Value	
	2020	2019
Core Balanced Fund:		
Money Market Funds	\$ 5,006,298	\$ 7,963,214
Equity Securities	74,648,353	65,297,527
Fixed Income Securities	19,762,458	18,579,067
Government Securities - Fixed Income	16,238,434	16,651,712
Insurance	44,374	42,473
Alternative Investments	7,602,207	3,750,000
	<u>123,302,124</u>	<u>112,283,993</u>
Aggressive Fund:		
Money Market Funds	247,909	353,143
Equity Securities	5,440,343	4,677,989
Fixed Income Securities	604,255	403,141
Government Securities - Fixed Income	526,290	527,356
	<u>6,818,797</u>	<u>5,961,629</u>
Income and Growth Fund:		
Money Market Funds	150,924	75,988
Equity Securities	421,327	231,291
Fixed Income Securities	1,272,171	795,979
Government Securities - Fixed Income	364,730	267,180
	<u>2,209,152</u>	<u>1,370,438</u>
Total Investments	<u>\$ 132,330,073</u>	<u>\$ 119,616,060</u>

The unit value of the Core Balanced Fund comprises investments and cash, net of certain fees and distributions payable, divided by the outstanding units. The unit value of the Aggressive Fund comprises investments and cash, net of certain fees, divided by the outstanding units. The unit value of the Income and Growth Fund comprises investments and cash, net of certain fees, divided by the outstanding units. As of December 31, 2020 and 2019, units and unit values of the Core Balanced Fund, Aggressive Fund, and Income and Growth Fund were as follows:

	2020		
	Core Balanced	Aggressive	Income and Growth
Units	510,677.0214	42,460.1484	200,052.0367
Unit Value	\$ 238.9478	\$ 160.2334	\$ 12.0743
	2019		
	Core Balanced	Aggressive	Income and Growth
Units	507,374.9092	42,577.5181	120,774.0455
Unit Value	\$ 218.9582	\$ 139.7068	\$ 11.3220

UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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NOTE 5 FAIR VALUE MEASUREMENTS

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value of assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described on 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 methodology used for investments measured at fair value:

Money Market Funds: Valued at the net asset value of shares held by the Foundation at year-end.

Marketable Equity Securities: Valued using quoted stock prices from national exchanges at year-end.

Fixed Income Securities: Valued at the quoted market price from independent quotation bureaus at year-end.

Government Securities: Valued at the quoted market price from independent quotation bureaus at year-end.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Custodial Accounts: Valued using observable inputs that were obtained from the sources listed above.

The following table sets forth by level, within the fair value hierarchy, certain of the Foundation's financial assets and liabilities at fair value as of December 31, 2020:

	Total	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Money Market Funds	\$ 5,405,131	\$ 5,405,131	\$ -	\$ -
Equity Securities	80,510,023	80,510,023	-	-
Fixed Income Securities	21,638,884	11,253,463	10,385,421	-
Government Securities - Fixed Income	17,129,454	-	17,129,454	-
Insurance	44,374	-	-	-
Alternative Investments	7,602,207	-	-	-
Total Investments	132,330,073	97,168,617	27,514,875	-
Beneficial Interest in Perpetual Trust	638,649	-	-	638,649
Total Assets	<u>\$ 132,968,722</u>	<u>\$ 97,168,617</u>	<u>\$ 27,514,875</u>	<u>\$ 638,649</u>
LIABILITIES				
Custodial Accounts	\$ 115,038,922	\$ -	\$ 115,038,922	\$ -
Total Liabilities	<u>\$ 115,038,922</u>	<u>\$ -</u>	<u>\$ 115,038,922</u>	<u>\$ -</u>

Investments accounted for at net asset value per share or its equivalent as of December 31, 2020 are as follows:

Alternative Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Summit Partners Sustainable Opps L/S QP Fund	\$ 1,243,429	\$ -	Quarterly	30 Days
Partners Group Private Equity Master Fund	1,642,163	-	Quarterly	Tender Offer
CQS ABS Feeder Fund	611,969	-	Quarterly	95 Days
Hawk Ridge Partners Offshore	851,022	-	Quarterly	60 Days
Alkeon Growth Offshore	2,206,458	-	Quarterly	30 days
Black Stone Real Estate Income Trust	1,047,166	-	Monthly	30 days
	<u>\$ 7,602,207</u>	<u>\$ -</u>		

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NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, certain of the Foundation's financial assets and liabilities at fair value as of December 31, 2019:

	Total	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Money Market Funds	\$ 8,392,345	\$ 8,392,345	\$ -	\$ -
Equity Securities	70,206,807	70,206,807	-	-
Fixed Income Securities	19,778,187	9,958,728	9,819,459	-
Government Securities - Fixed Income	17,446,248	-	17,446,248	-
Insurance	42,473	-	-	-
Alternative Investments	3,750,000	-	-	-
Total Investments	119,616,060	88,557,880	27,265,707	-
Beneficial Interest in Perpetual Trust	604,471	-	-	604,471
Total Financial Assets	<u>\$ 120,220,531</u>	<u>\$ 88,557,880</u>	<u>\$ 27,265,707</u>	<u>\$ 604,471</u>
LIABILITIES				
Custodial Accounts	\$ 104,482,174	\$ -	\$ 104,482,174	\$ -
Total Liabilities	<u>\$ 104,482,174</u>	<u>\$ -</u>	<u>\$ 104,482,174</u>	<u>\$ -</u>

Investments accounted for at net asset value per share or its equivalent as of December 31, 2019 are as follows:

Alternative Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Summit Partners Sustainable Opps L/S QP Fund	\$ 750,000	\$ -	Quarterly	30 Days
Partners Group Private Equity Master Fund	1,500,000	-	Quarterly	Tender Offer
CQS ABS Feeder Fund	750,000	-	Quarterly	95 Days
Hawk Ridge Partners Offshore	750,000	-	Quarterly	60 Days
	<u>\$ 3,750,000</u>	<u>\$ -</u>		

Beneficial Interest in Perpetual Trust

The Foundation has a beneficial interest in an independent trust whose trustee has exclusive control of the management and investment of the assets. The principal of the trust is restricted and may not be invaded by the Foundation. Distributions of income from the trust are made annually and their use is not subject to donor restriction.

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NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Beneficial Interest in Perpetual Trust (Continued)

Significant unobservable inputs related to the beneficial interest in perpetual trust at December 31, 2020 and 2019 are as follows:

Instrument	Fair Value		Principal Valuation Technique	Unobservable Inputs
	2020	2019		
Beneficial Interest In Perpetual Trust	\$ 638,649	\$ 604,471	FMV of Trust Investments	Time Period of Trust

Purchases, sales, and transfers in and out of the beneficial interest in perpetual trust for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Purchases	\$ -	\$ -
Sales	-	-
Transfers In	-	-
Transfers Out	24,776	26,247

NOTE 6 MORTGAGES RECEIVABLE

Mortgages receivable consisted of the following:

See Note 13 Related Party Transactions, for additional mortgage information.

<u>Description</u>	2020	2019
Executive Director Mortgage - 15 Years at 4.375%; Matures June 2023	<u>\$ 171,518</u>	<u>\$ 181,611</u>

Mortgages receivable collections are scheduled as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 10,544
2022	11,015
2023	149,959
Total	<u>\$ 171,518</u>

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NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Buildings and Improvements	\$ 369,994	\$ 369,994
Furniture and Fixtures	90,666	98,881
	<u>460,660</u>	<u>468,875</u>
Less: Accumulated Depreciation	(204,809)	(191,195)
Total	<u>\$ 255,851</u>	<u>\$ 277,680</u>

NOTE 8 GIFT ANNUITIES

The Foundation entered into charitable gift annuities with donors who seek irrevocably to transfer assets to the Foundation in exchange for a guaranteed stream of fixed payments for life to specified annuitants, a current income tax deduction, and ultimately the gift of the remainder interest to a United Methodist cause of their choosing. These gift vehicles were established through a contractual agreement between the donor and the Foundation, and the payments to the annuitants become a general obligation of the Foundation.

Gift annuity liabilities totaled \$556,112 and \$543,647 as of December 31, 2020 and 2019, respectively. The present value of the annuities payable as of December 31, 2020 and 2019, utilizing a discount rate of 4.25% for both years ended December 31, 2020 and 2019, and the remaining life expectancy of each respective annuitant, was \$416,202 and \$442,688, respectively. Upon the death of an annuitant, the remaining principal is distributed to his or her designated charitable beneficiaries.

Occasionally annuitants outlive the stream of payments provided by the fair value of their gift annuities. The Foundation has established an Annuity Reserve Fund (see Note 9) to cover payments in excess of what the gift annuities' fair value is expected to provide. Such excess payments totaled \$7,534 and \$8,340 for the years ended December 31, 2020 and 2019. Future potential liability for these annuitants total \$26,487, estimated based on their current revised life expectancies.

NOTE 9 NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Operating	\$ 1,199,325	\$ 1,193,142
Board Designated Bequest Fund	189,157	284,228
Board Designated Endowment Fund	1,347,588	1,233,315
Board Designated Capital Reserve	172,404	165,143
Board Designated Annuity Reserve	154,017	147,932
Board Designated Ministry Opportunity Fund	273,799	-
Total	<u>\$ 3,336,290</u>	<u>\$ 3,023,760</u>

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NOTE 9 NET ASSETS WITHOUT DONOR RESTRICTIONS (CONTINUED)

The Bequest Fund represents bequests without donor restrictions received by the Foundation. The Board voted to hold these funds separately until a suitable usage was determined.

The Endowment Fund represents a contribution without donor restrictions received by the Foundation. The Board voted to use the fund earnings to establish a grant program to support various United Methodist agencies and programs. Changes in the Endowment Fund's net assets for years ended December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Endowment Fund Net Assets - Beginning of Year	\$ 1,233,315	\$ 1,043,207
Net Appreciation	161,632	236,411
Distributions for Expenditure	<u>(47,359)</u>	<u>(46,303)</u>
Endowment Fund Net Assets - End of Year	<u>\$ 1,347,588</u>	<u>\$ 1,233,315</u>

The Capital Reserve represents funds without donor restrictions designated by the Board for future capital projects and other expenditures as designated by the Board.

The Annuity Reserve represents funds without donor restrictions designated by the Board to provide additional assets for the annuity program to cover the payments in excess of what the gift annuities' fair value is expected to provide.

The Rev. Paul D. Taylor, Esq. Ministry Opportunity Fund represents funds without donor restrictions designated by the Board from surpluses of the operating budget after all other expenses and reserves have been met. Grants are made from the fund to support churches and ministries within, or associated with, the Conference in a manner that is consistent with the mission and strategic plan of the Foundation.

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction consisted of the following net asset composition by type of fund at December 31:

	<u>2020</u>	<u>2019</u>
Beneficial Interest in Perpetual Trust	\$ 638,649	\$ 604,471
Donor-Restricted Endowment Funds:		
Donor-Restricted Amounts Required to be Maintained in Perpetuity	10,818,918	10,818,918
Accumulated Investment Gains	<u>2,435,634</u>	<u>947,142</u>
Total	<u>\$ 13,893,201</u>	<u>\$ 12,370,531</u>

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NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

As of December 31, 2020 and 2019, the Foundation has a donor-designated endowment, the *Kelley Fund*, with funds totaling \$12,596 and \$11,542, respectively. This endowment resulted from a donor restricted contribution received by the Foundation and is therefore, classified and reported as a Net Asset with Donor Restrictions. This endowment is invested in the Core Balanced Fund. Spending is determined based on the quarterly distribution methodology described in Note 1 to be used in accordance with the restrictions of the donor.

As of December 31, 2020 and 2019, the Foundation has a donor-designated endowment, the *Wesleyan Heritage Fund*, with funds totaling \$151,583 and \$132,692, respectively. This endowment resulted from donor restricted contributions received by the Foundation and matching funds from the Foundation's Bequest Fund, which, when made, become subject to the same restrictions as the donor contributions. These collectively are classified and reported as Net Assets with Donor Restrictions. This endowment provides current and previous Board members with the opportunity to demonstrate financial stewardship leadership to individuals, churches, and agencies of the Western Pennsylvania Annual Conference. Distributions from income earned by the fund will be used to support ministry and missions consistent with the teachings of John and Charles Wesley at the discretion of the Board, subject to the limitation that the fund be maintained at a minimum level of \$100,000.

As of December 31, 2020 and 2019, the Foundation has a donor-designated endowment, the *Andrew W. and Jane Stewart Smith Seminary Scholarship Fund*, with funds totaling \$6,378,256 and \$5,632,288, respectively. This endowment resulted from a donor restricted contribution received by the Foundation in 2019 and is therefore classified and reported as a Net Asset with Donor Restrictions. This endowment is invested in the Core Balanced Fund. Spending is determined based on the quarterly distribution methodology described in Note 1 to be used in accordance with the restrictions of the donor.

As of December 31, 2020 and 2019, the Foundation has a donor-designated endowment, the *Andrew W. and Jane Stewart Smith Charitable Gift Fund*, with funds totaling \$6,153,259 and \$5,632,288, respectively. This endowment resulted from a donor restricted contribution received by the Foundation in 2019 and is therefore classified and reported as a Net Asset with Donor Restrictions. This endowment is invested in the Core Balanced Fund. Spending is determined based on the quarterly distribution methodology described in Note 1 to be used in accordance with the restrictions of the donor.

As of December 31, 2020 and 2019, the Foundation has a donor-designated endowment, the *Sperry Donor Advised Funds*, with funds totaling \$558,858 and \$357,250, respectively. This endowment resulted from donor restricted contributions received by the Foundation and is therefore classified and reported as a Net Asset with Donor Restrictions. This endowment is invested in the Core Balanced Fund. Spending is determined based on the quarterly distribution methodology described in Note 1 to be used in accordance with the restrictions of the donor.

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NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Changes in endowment net assets for the year ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Endowment Net Assets - Beginning of Year	\$ 11,766,060	\$ 120,748
Net Appreciation	1,576,557	747,809
Contributions	160,600	10,897,952
Distributions for Expenditure	<u>(248,665)</u>	<u>(449)</u>
Endowment Net Assets - End of Year	<u>\$ 13,254,552</u>	<u>\$ 11,766,060</u>

NOTE 11 RETIREMENT PLANS

The Foundation participates in two retirement plans for eligible employees which are maintained and administered by the General Board of Pensions of the United Methodist Church. The plan for clergy is a defined benefit plan with a defined contribution element. The plan for laity is a defined contribution plan. Contributions to the plans by the Foundation were \$27,042 and \$17,894 for the years ended December 31, 2020 and 2019, respectively.

NOTE 12 OPERATING LEASE

The Foundation leased office space to the Conference, a related party, under an operating lease with a term that expired June 30, 2020, at a monthly rental of \$850. Total rental income received was \$5,100 and \$10,200 for each of the years ended December 31, 2020 and 2019, respectively.

NOTE 13 RELATED PARTY TRANSACTIONS

A mortgage was issued on May 17, 2013 to the executive director to finance his housing in the amount of \$240,000 bearing interest at a rate of 3.75% and was set to mature in May 2018. During 2018, the Board refinanced the mortgage at an interest rate of 4.375% with a maturity of June 1, 2023. All unpaid principal and interest will be due as a balloon payment at the maturity date. This mortgage was issued from the Foundation's net assets without donor restriction and is held in the Bequest Fund.

The Foundation performs due diligence to ensure that the mortgage rates are competitive with the market and that all appropriate related documentation is obtained at the time each mortgage is issued or refinanced. In addition, the Foundation limits the amount of related party mortgages in the Core Balanced Fund.

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NOTE 13 RELATED PARTY TRANSACTIONS (CONTINUED)

Consistent with the Standards of the *Discipline* of the United Methodist Church, directors and staff of the Foundation waive any economic benefit in transactions with entities in which they have an interest. Such transactions are not material. Refer to Note 6 regarding the executive director mortgage and Note 12 regarding Conference sublet of office space. The Conference processes paychecks and remits payroll taxes for the Foundation. The Foundation reimburses the Conference for payroll expenses. In addition, the Foundation held investment funds for the Conference and its affiliates totaling \$55,195,128 and \$49,516,247 as of December 31, 2020 and 2019, respectively.

NOTE 14 FUNCTIONAL EXPENSES

The Foundation chooses to report expenses using natural activity classifications in its statement of activities and changes in net assets. If all expenses for the Foundation were allocated to the functional classes, the expenses would be reported as follows for the years ended December 31, 2020 and 2019:

2020			
	Program Services	Management and General	Total
Distribution of Investment Income and Principal	\$ 4,471,873	\$ -	\$ 4,471,873
Operating - Salaries and Benefits	283,784	158,763	442,547
Operating - Other	145,322	79,452	224,774
Grant Program	470,061		470,061
Depreciation	13,097	8,732	21,829
Total	<u>\$ 5,384,137</u>	<u>\$ 246,947</u>	<u>\$ 5,631,084</u>
2019			
	Program Services	Management and General	Total
Distribution of Investment Income and Principal	\$ 3,823,749	\$ -	\$ 3,823,749
Operating - Salaries and Benefits	229,992	152,453	382,445
Operating - Other	164,681	74,295	238,976
Grant Program	106,303	-	106,303
Depreciation	11,782	7,854	19,636
Total	<u>\$ 4,336,507</u>	<u>\$ 234,602</u>	<u>\$ 4,571,109</u>

The expenses that are allocated include salaries and benefits, education, travel, board and committee, office, professional, national association, and building expenses including depreciation. These expenses are allocated based on personnel costs.

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NOTE 15 OPERATING EXPENSES – OTHER

Operating - Other expenses consisted of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Education and Travel	\$ 6,603	\$ 16,557
Board and Committee	43,380	10,550
Office	56,493	58,826
Program	21,902	49,415
Professional Fees	43,750	43,999
National Association	1,203	8,289
Building Expenses	51,443	51,340
Total	<u>\$ 224,774</u>	<u>\$ 238,976</u>

