

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(FORMERLY THE UNITED METHODIST FOUNDATION OF
WESTERN PENNSYLVANIA AND THE UNITED METHODIST
STEWARDSHIP FOUNDATION)
(A NOT-FOR-PROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020



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**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
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YEARS ENDED DECEMBER 31, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United Methodist Foundation of Pennsylvania
Pittsburgh, Pennsylvania

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the United Methodist Foundation of Pennsylvania, which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Methodist Foundation of Pennsylvania as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the United Methodist Foundation of Pennsylvania and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the United Methodist Foundation of Pennsylvania's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 United Methodist Foundation of Pennsylvania's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about United Methodist Foundation of Pennsylvania's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Pittsburgh, Pennsylvania
May 18, 2022

UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash	\$ 892,917	\$ 254,115
Prepaid Expenses	16,159	7,607
Accounts Receivable	-	1,692
Current Portion of Mortgages Receivable	11,015	10,544
Total Current Assets	920,091	273,958
LONG-TERM ASSETS		
Investments, at Fair Value	192,781,693	132,330,073
Mortgages Receivable, Net of Current Portion	149,959	160,974
Beneficial Interest in Perpetual Trust, at Fair Value	644,820	638,649
Property and Equipment, Net	234,022	255,851
Total Long-Term Assets	193,810,494	133,385,547
Total Assets	\$ 194,730,585	\$ 133,659,505
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 141,921	\$ 88,299
Distributions Payable	777,101	746,681
Total Current Liabilities	919,022	834,980
LONG-TERM LIABILITIES		
Custodial Accounts	173,428,299	115,038,922
Annuities Payable	1,069,937	556,112
Total Liabilities	175,417,258	116,430,014
NET ASSETS		
Without Donor Restrictions	4,209,274	3,336,290
With Donor Restrictions	15,104,053	13,893,201
Total Net Assets	19,313,327	17,229,491
Total Liabilities and Net Assets	\$ 194,730,585	\$ 133,659,505

See accompanying Notes to Financial Statements.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021		2020		Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	
REVENUES AND OTHER SUPPORT					
Investment Income - Total Return	\$ 4,775,245	\$ 595,947	\$ 5,371,192	\$ 4,590,392	\$ 5,065,959
Administrative Fees	1,140,810	-	1,140,810	889,776	889,776
Program Revenue	5,750	-	5,750	4,080	4,080
Contributions	793,258	73,458	866,716	-	161,600
Other Income	7,615	-	7,615	45,100	45,100
Total Revenues and Other Support	<u>6,722,678</u>	<u>669,405</u>	<u>7,392,083</u>	<u>5,529,348</u>	<u>6,166,515</u>
EXPENSES AND LOSSES					
Distribution of Investment Income and Principal	4,631,432	-	4,631,432	4,471,873	4,471,873
Operating - Salaries and Benefits	462,443	-	462,443	442,547	442,547
Operating - Other	302,636	-	302,636	224,774	224,774
Grant Program	887,839	-	887,839	470,061	470,061
Depreciation	21,829	-	21,829	21,829	21,829
Net Assets Released from Restrictions	(365,653)	365,653	-	(274,441)	-
Total Expenses and Losses	<u>5,940,526</u>	<u>365,653</u>	<u>6,306,179</u>	<u>5,356,643</u>	<u>5,631,084</u>
INCREASE IN NET ASSETS BEFORE UNREALIZED GAIN					
Unrealized Gain on Owned Investments	782,152	303,752	1,085,904	172,705	535,431
	90,832	907,100	997,932	139,825	1,299,769
INCREASE IN NET ASSETS	872,984	1,210,852	2,083,836	312,530	1,835,200
Net Assets - Beginning of Year	3,336,290	13,893,201	17,229,491	3,023,760	15,394,291
NET ASSETS - END OF YEAR	<u>\$ 4,209,274</u>	<u>\$ 15,104,053</u>	<u>\$ 19,313,327</u>	<u>\$ 3,336,290</u>	<u>\$ 17,229,491</u>

See accompanying Notes to Financial Statements.

UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,083,836	\$ 1,835,200
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	21,829	21,829
Unrealized Gain on Owned Investments	(997,932)	(1,299,769)
Contributions Restricted for Endowment	(5,200)	(160,600)
Inherent Consideration Related to Business Combination	(798,013)	-
(Increase) Decrease in Assets:		
Prepaid Expenses	(7,977)	(4,316)
Accounts Receivable	1,692	1,720
Increase (Decrease) in Liabilities:		
Accounts Payable & Accrued Expenses	15,160	(37,458)
Net Cash Provided by Operating Activities	313,395	356,606
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal Payments on Mortgages Receivable	10,544	10,093
Increase (Decrease) in Distributions Payable	30,420	(151,201)
Investment Income - Adjustment to Total Return	322,214	(718,609)
Purchases of Foundation Investments	(72,708)	(160,600)
Cash and Investments Held as Custodian	(7,076,255)	(10,569,213)
Custodial Accounts	7,141,365	10,556,748
Annuities Payable	(65,110)	12,465
Cash Acquired in Business Combination	29,737	-
Net Cash Provided (Used) by Investing Activities	320,207	(1,020,317)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for:		
Investment in Endowment	5,200	160,600
Net Cash Provided by Financing Activities	5,200	160,600
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	638,802	(503,111)
Cash and Cash Equivalents - Beginning of Year	254,115	757,226
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 892,917	\$ 254,115
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Combination of Business Assets:		
Investments	\$ (52,633,110)	\$ -
Prepaid Expenses	(575)	-
Accounts Payable and Accrued Expenses	38,462	-
Custodial Accounts Payable	51,248,012	-
Annuities Payable	578,935	-
Assets and Liabilities Acquired in Business Combination, Net of Cash	\$ (768,276)	\$ -

See accompanying Notes to Financial Statements.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS

The United Methodist Foundation of Pennsylvania 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.

To carry out these purposes more effectively, and to increase the geographic scope of its services, on October 1, 2021, the United Methodist Foundation of Western Pennsylvania (UMFWPA) and the United Methodist Stewardship Foundation (UMSF) combined to form the United Methodist Foundation of Pennsylvania (the Foundation) (see Note 3).

The Foundation is a nonprofit corporation servicing the Western Pennsylvania Conference (WPA Conference) and Susquehanna Area Conference (SA Conference) of the United Methodist Church (Conferences).

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.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS (CONTINUED)

Custodial Accounts and Annuities Payable (Continued)

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.

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 10) 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 11) represent funds that are available to support the Foundation's operations and programs as directed by the donor.

Investment Funds and Pools

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 2021 and 2020), 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.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS (CONTINUED)

Investment Funds and Pools (Continued)

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.

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.

The Equity, Fixed, and Cash Pools, acquired in the combination with UMSF, provide for a mixture of current income and long-term growth. The pools invest in a mixture of domestic and international stocks and bonds with a modest cash position for liquidity. The pools are managed pursuant to UMSF's Statement of Investment Policy and Objectives. Income distributions vary by account holder, with the Board setting a default total return of 4% in the absence of a specific election by the account holder.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), which involve the application of accrual accounting.

Basis of Presentation

Net assets and related revenues, expenses, gains and losses 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 10).

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 11).

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.

It is the Foundation's intent to hold these investments for the long term. As such, they are reported as Long-Term Assets on the Statements of Financial Position.

Mortgages Receivable

The Foundation occasionally holds mortgage-securing loans made to the Conferences 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.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages Receivable (Continued)

As of December 31, 2021 and 2020, 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.

Custodial Accounts

The Foundation holds and manages investments which belong to the Conferences 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 and operates as a 509(a)(3)(B)(i) supporting organization. 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 and in light of its tax-exempt status, the Foundation evaluated its tax positions and determined it had no uncertain tax positions as of December 31, 2021 and 2020.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions

Contributions are recognized when the Foundation receives an unconditional promise to give. Contributions that are restricted by the donor may be reported as increases in net assets without donor restrictions, if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions 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 and reported in the statement of activities as net assets released from restrictions. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Administrative Fees

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

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.

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 18, 2022, which is the date the financial statements were available to be issued.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 3 BUSINESS COMBINATION

On October 1, 2021, the UMFWPA combined with UMSF for the purpose of increasing the effectiveness and geographic scope of services of the Foundation.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of combination:

Consideration Paid	<u><u>\$ -</u></u>
Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:	
Cash and Cash Equivalents	\$ 29,737
Investments	52,633,110
Prepaid Expenses	575
Accounts Payable and Accrued Expenses	(38,462)
Annuities Payable	(578,935)
Custodial Accounts Payable	<u>(51,248,012)</u>
Total Identifiable Net Assets	<u>798,013</u>
Inherent Contribution Received	<u><u>\$ (798,013)</u></u>

On the Statement of Activities and Changes in Net Assets, the inherent contribution received is recorded in contributions as the excess of fair value of net assets acquired over consideration paid in the combination of UMSF and UMFWPA and increases net assets without donor restrictions by \$791,599 (see Note 10), and net assets with donor restrictions by \$6,414 (see Note 11).

NOTE 4 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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:

	<u>2021</u>	<u>2020</u>
Financial Assets, at Year-End	\$ 194,480,404	\$ 133,396,047
Less: Those Unavailable for General Expenditures Within One Year Due to:		
Held for Others - Distributions Payable	777,101	746,681
Held for Others - Custodial Accounts	173,428,299	115,038,922
Held for Others - Annuities Payable	1,069,937	556,112
Mortgage Receivable - Long-Term Maturities	149,959	160,974
Restricted by Donor	<u>15,104,053</u>	<u>13,893,201</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 3,951,055</u></u>	<u><u>\$ 3,000,157</u></u>

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 PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 INVESTMENTS

Investments consisted of the following as of December 31:

	Fair Value	
	2021	2020
Core Balanced Fund:		
Money Market Funds	\$ 4,427,532	\$ 5,006,298
Equity Securities	86,867,521	74,648,353
Fixed Income Securities	20,813,302	19,762,458
Government Securities - Fixed Income	12,877,068	16,238,434
Insurance	46,419	44,374
Alternative Investments	8,568,264	7,602,207
	<u>133,600,106</u>	<u>123,302,124</u>
Aggressive Fund:		
Money Market Funds	262,099	247,909
Equity Securities	6,423,255	5,440,343
Fixed Income Securities	716,041	604,255
Government Securities - Fixed Income	369,106	526,290
	<u>7,770,501</u>	<u>6,818,797</u>
Income and Growth Fund:		
Money Market Funds	238,688	150,924
Equity Securities	506,409	421,327
Fixed Income Securities	1,464,121	1,272,171
Government Securities - Fixed Income	417,610	364,730
	<u>2,626,828</u>	<u>2,209,152</u>
Equity, Fixed and Cash Pools:		
Money Market Funds	1,763,486	-
Equity Securities	32,454,410	-
Fixed Income Securities	7,080,812	-
Government Securities - Fixed Income	7,485,550	-
	<u>48,784,258</u>	<u>-</u>
Total Investments	<u>\$ 192,781,693</u>	<u>\$ 132,330,073</u>

NOTE 6 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.

**UNITED METHODIST FOUNDATION OF PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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

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NOTE 6 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, 2021:

	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	\$ 6,691,805	\$ 6,691,805	\$ -	\$ -
Equity Securities	126,251,595	126,251,595	-	-
Fixed Income Securities	30,074,276	10,582,991	19,491,285	-
Government Securities - Fixed Income	21,149,334	-	21,149,334	-
Insurance	46,419	-	-	46,419
Alternative Investments	8,568,264	-	-	8,568,264
Total Investments	192,781,693	143,526,391	40,640,619	8,614,683
Beneficial Interest in Perpetual Trust	644,820	-	-	644,820
Total Assets	<u>\$ 193,426,513</u>	<u>\$ 143,526,391</u>	<u>\$ 40,640,619</u>	<u>\$ 9,259,503</u>
LIABILITIES				
Custodial Accounts	\$ 173,428,299	\$ -	\$ 173,428,299	\$ -
Total Liabilities	<u>\$ 173,428,299</u>	<u>\$ -</u>	<u>\$ 173,428,299</u>	<u>\$ -</u>

Investments accounted for at net asset value per share or its equivalent as of December 31, 2021 are as follows:

Alternative Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Summit Partners Sustainable Opps L/S QP Fund	\$ 1,530,106	\$ -	Quarterly	30 Days
Partners Group Private Equity Master Fund	2,052,416	-	Monthly	Tender Offer
CQS ABS Feeder Fund	678,125	-	Quarterly	95 Days
Hawk Ridge Partners Offshore	977,155	-	Quarterly	95 Days
Alkeon Growth Offshore	1,990,661	-	Monthly	30 Days
Black Stone Real Estate Income Trust	1,339,801	-	Monthly	1 Day
	<u>\$ 8,568,264</u>	<u>\$ -</u>		

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NOTE 6 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, 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	-	-	44,374
Alternative Investments	7,602,207	-	-	7,602,207
Total Investments	132,330,073	97,168,617	27,514,875	7,646,581
Beneficial Interest in				
Perpetual Trust	638,649	-	-	638,649
Total Financial Assets	<u>\$ 132,968,722</u>	<u>\$ 97,168,617</u>	<u>\$ 27,514,875</u>	<u>\$ 8,285,230</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 6 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Significant unobservable inputs related to the beneficial interest in perpetual trust at December 31, 2021 and 2020 are as follows:

Instrument	Fair Value		Principal Valuation Technique	Unobservable Inputs
	2021	2020		
Beneficial Interest In Perpetual Trust	\$ 644,820	\$ 638,649	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, 2021 and 2020 are as follows:

	2021	2020
Purchases	\$ -	\$ -
Sales	-	-
Transfers In	-	-
Transfers Out	28,550	24,776

NOTE 7 MORTGAGES RECEIVABLE

Mortgages receivable consisted of the following:

See Note 14 Related Party Transactions, for additional mortgage information.

<u>Description</u>	2021	2020
Executive Director Mortgage - 15 Years at 4.375%; Matures June 2023	<u>\$ 160,974</u>	<u>\$ 171,518</u>

Mortgages receivable collections are scheduled as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 11,015
2023	149,959
Total	<u>\$ 160,974</u>

In April 2022, the Executive Director refinanced his mortgage with a commercial lender. As a result, the Foundation received payment in full on the outstanding balance.

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NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Buildings and Improvements	\$ 369,994	\$ 369,994
Furniture and Fixtures	90,667	90,666
	<u>460,661</u>	<u>460,660</u>
Less: Accumulated Depreciation	(226,639)	(204,809)
Total	<u>\$ 234,022</u>	<u>\$ 255,851</u>

NOTE 9 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 \$1,069,937 and \$556,112 as of December 31, 2021 and 2020, respectively. The present value of the annuities payable as of December 31, 2021 and 2020, utilizing a discount rate of 4.0% to 4.25% for both years ended December 31, 2021 and 2020, and the remaining life expectancy of each respective annuitant, was \$1,252,611 and \$416,202, 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 10) to cover payments in excess of what the gift annuities' fair value is expected to provide. Such excess payments totaled \$20,423 and \$7,534 for the years ended December 31, 2021 and 2020. Future potential liability for these annuitants total \$467,157, as of December 31, 2021, estimated based on their current revised life expectancies.

NOTE 10 NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Net Operating Assets	\$ 1,556,670	\$ 1,199,325
Board-Designated Bequest Fund	171,629	189,157
Board-Designated Endowment Fund	1,447,381	1,347,588
Board-Designated Capital Reserve	177,568	172,404
Board-Designated Annuity Reserve	493,057	154,017
Board-Designated Ministry Opportunity Fund	68,594	273,799
Board-Designated United Methodist Stewardship Foundation Fund	<u>294,375</u>	<u>-</u>
Total	<u>\$ 4,209,274</u>	<u>\$ 3,336,290</u>

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NOTE 10 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>2021</u>	<u>2020</u>
Endowment Fund Net Assets - Beginning of Year	\$ 1,347,588	\$ 1,233,315
Net Appreciation	148,693	161,632
Distributions for Expenditure	<u>(48,900)</u>	<u>(47,359)</u>
Endowment Fund Net Assets - End of Year	<u>\$ 1,447,381</u>	<u>\$ 1,347,588</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 Conferences in a manner that is consistent with the mission and strategic plan of the Foundation.

The United Methodist Stewardship Foundation Fund, acquired in the combination with UMSF, represents funds without donor restrictions designated by the Board to support churches, ministries, and programming in the SA Conference in a manner that is consistent with the mission and strategic plan of the Foundation.

NOTE 11 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>2021</u>	<u>2020</u>
Beneficial Interest in Perpetual Trust	\$ 644,820	\$ 638,649
Donor-Restricted Endowment Funds:		
Donor-Restricted Amounts Required to be Maintained in Perpetuity	10,824,118	10,818,918
Accumulated Investment Gains	<u>3,635,115</u>	<u>2,435,634</u>
Total	<u>\$ 15,104,053</u>	<u>\$ 13,893,201</u>

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NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

As of December 31, 2021 and 2020, the Foundation has a donor-designated endowment, the *Kelley Fund*, with funds totaling \$13,513 and \$12,596, 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, 2021 and 2020, the Foundation has a donor-designated endowment, the *Wesleyan Heritage Fund*, with funds totaling \$156,225 and \$151,583, 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 Conferences. 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, 2021 and 2020, the Foundation has a donor-designated endowment, the *Andrew W. and Jane Stewart Smith Seminary Scholarship Fund*, with funds totaling \$7,034,596 and \$6,378,256, 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, 2021 and 2020, the Foundation has a donor-designated endowment, the *Andrew W. and Jane Stewart Smith Charitable Gift Fund*, with funds totaling \$6,608,891 and \$6,153,259, 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, 2021 and 2020, the Foundation has a donor-designated fund, the *Sperry Donor Advised Funds*, with funds totaling \$572,836 and \$558,858, respectively. This fund resulted from donor-restricted contributions received by the Foundation and is therefore classified and reported as a Net Asset with Donor Restrictions. The donor advisor works with the Foundation to recommend potential grant recipients. The Board takes these recommendations under advisement when approving grants from the fund.

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NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

As of December 31, 2021, the Foundation has a donor-designated fund, the *SAC Stewardship Education Fund*, with funds totaling \$66,433. This fund resulted from donor-restricted contributions received by the Foundation and is therefore classified and reported as a Net Asset with Donor Restrictions.

As of December 31, 2021, the Foundation has a donor-designated endowment, the *Phyllis Bowers Endowment Fund*, with funds totaling \$6,739. This endowment resulted from donor-restricted contributions received by the Foundation and is therefore classified and reported as a Net Asset with Donor Restrictions. The endowment is invested in the Equity, Fixed, and Cash Pools. Spending is determined based on the total return described in Note 1 to be used in accordance with the restrictions of the donors.

Changes in endowment net assets for the year ended December 31, 2021 and 2020 were as follows:

	2021	2020
Endowment Net Assets - Beginning of Year	\$ 13,254,552	\$ 11,766,060
Net Appreciation	1,468,326	1,576,557
Contributions	72,708	160,600
Distributions for Expenditure	(336,353)	(248,665)
Endowment Net Assets - End of Year	\$ 14,459,233	\$ 13,254,552

NOTE 12 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 \$25,083 and \$27,042 for the years ended December 31, 2021 and 2020, respectively.

NOTE 13 OPERATING LEASE

The Foundation leased office space to the WPA 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 for the year ended December 31, 2020.

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NOTE 14 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. Payment in full was received on this mortgage in April 2022.

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.

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 7 regarding the executive director mortgage and Note 13 regarding WPA Conference sublet of office space. The WPA Conference processes paychecks and remits payroll taxes for the Foundation. The Foundation reimburses the WPA Conference for payroll expenses. In addition, the Foundation held investment funds for the Conferences and their affiliates totaling \$69,469,139 and \$55,195,128 as of December 31, 2021 and 2020, respectively.

NOTE 15 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, 2021 and 2020:

2021			
	Program Services	Management and General	Total
Distribution of Investment Income and Principal	\$ 4,631,432	\$ -	\$ 4,631,432
Operating - Salaries and Benefits	298,845	163,598	462,443
Operating - Other	198,901	103,735	302,636
Grant Program	887,839	-	887,839
Depreciation	13,097	8,732	21,829
Total	<u>\$ 6,030,114</u>	<u>\$ 276,065</u>	<u>\$ 6,306,179</u>
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>

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NOTE 15 FUNCTIONAL EXPENSES (CONTINUED)

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.

NOTE 16 OPERATING EXPENSES – OTHER

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

	<u>2021</u>	<u>2020</u>
Education and Travel	\$ 8,471	\$ 6,603
Board and Committee	27,079	43,380
Office	115,384	56,493
Program	42,114	21,902
Professional Fees	52,882	43,750
National Association	1,323	1,203
Building Expenses	55,383	51,443
Total	<u>\$ 302,636</u>	<u>\$ 224,774</u>

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