

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018



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**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
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YEARS ENDED DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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 26, 2020

UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash	\$ 757,226	\$ 152,820
Investments, at Fair Value	119,616,060	89,395,909
Beneficial Interest in Perpetual Trust, at Fair Value	604,471	549,519
Prepaid Expenses	3,291	13,523
Mortgages Receivable	181,611	191,273
Accounts Receivable	3,412	4,000
Property and Equipment, Net	277,680	261,795
Total Assets	\$ 121,443,751	\$ 90,568,839
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 125,757	\$ 63,861
Distributions Payable	897,882	895,203
Custodial Accounts	104,482,174	85,855,019
Annuities Payable	543,647	485,866
Total Liabilities	106,049,460	87,299,949
NET ASSETS		
Without Donor Restrictions	3,023,760	2,598,623
With Donor Restrictions	12,370,531	670,267
Total Net Assets	15,394,291	3,268,890
Total Liabilities and Net Assets	\$ 121,443,751	\$ 90,568,839

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, 2019 AND 2018

	2019			2018		
	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	\$ 3,891,336	\$ 661,064	\$ 4,552,400	\$ 3,088,339	\$ 36,056	\$ 3,124,395
Administrative Fees	820,294	-	820,294	672,302	-	672,302
Program Revenue	4,280	-	4,280	14,500	-	14,500
Contributions	300	10,897,952	10,898,252	125	950	1,075
Other Income	11,790	-	11,790	10,200	-	10,200
Total Revenues and Other Support	<u>4,728,000</u>	<u>11,559,016</u>	<u>16,287,016</u>	<u>3,785,466</u>	<u>37,006</u>	<u>3,822,472</u>
EXPENSES AND LOSSES						
Distribution of Investment Income and Principal	3,823,749	-	3,823,749	3,055,223	-	3,055,223
Operating - Salaries and Benefits	382,445	-	382,445	353,671	-	353,671
Operating - Other	238,976	-	238,976	238,911	-	238,911
Grant Program	106,303	-	106,303	50,250	-	50,250
Depreciation	19,636	-	19,636	24,557	-	24,557
Net Assets Released from Restrictions	(26,696)	26,696	-	(26,451)	26,451	-
Other Losses	4,770	-	4,770	-	-	-
Total Expenses and Losses	<u>4,549,183</u>	<u>26,696</u>	<u>4,575,879</u>	<u>3,696,161</u>	<u>26,451</u>	<u>3,722,612</u>
INCREASE IN NET ASSETS BEFORE UNREALIZED GAIN (LOSS)	178,817	11,532,320	11,711,137	89,305	10,555	99,860
Unrealized Gain (Loss) on Owned Investments	<u>246,320</u>	<u>167,944</u>	<u>414,264</u>	<u>(149,093)</u>	<u>(85,396)</u>	<u>(234,489)</u>
INCREASE (DECREASE) IN NET ASSETS	425,137	11,700,264	12,125,401	(59,788)	(74,841)	(134,629)
Net Assets - Beginning of Year	<u>2,598,623</u>	<u>670,267</u>	<u>3,268,890</u>	<u>2,658,411</u>	<u>745,108</u>	<u>3,403,519</u>
NET ASSETS - END OF YEAR	<u><u>\$ 3,023,760</u></u>	<u><u>\$ 12,370,531</u></u>	<u><u>\$ 15,394,291</u></u>	<u><u>\$ 2,598,623</u></u>	<u><u>\$ 670,267</u></u>	<u><u>\$ 3,268,890</u></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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 12,125,401	\$ (134,629)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	19,636	24,557
Unrealized (Gain) Loss on Owned Investments	(414,264)	234,489
Loss on Disposal of Equipment	4,770	-
Contributions Restricted in Perpetuity	(10,897,952)	-
(Increase) Decrease in Assets:		
Prepaid Expenses	10,232	(1,125)
Accounts Receivable	588	(4,000)
Increase (Decrease) in Liabilities:		
Accounts Payable	61,896	61,172
Net Cash Provided by Operating Activities	910,307	180,464
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(40,291)	-
Principal Payments on Mortgages Receivable	9,662	197,810
Increase in Distribution Payable	2,679	360,598
Investment Income - Adjustment to Total Return	(277,951)	(823,373)
Purchases of Foundation Investments	(10,897,952)	-
Cash and Investments Held as Custodian	(18,684,936)	(11,882,889)
Custodial Accounts	18,627,155	12,133,408
Annuities Payable	57,781	(250,519)
Net Cash Used by Investing Activities	(11,203,853)	(264,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for:		
Investment in Endowment	10,897,952	-
Net Cash Provided by Financing Activities	10,897,952	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	604,406	(84,501)
Cash and Cash Equivalents - Beginning of Year	152,820	237,321
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 757,226	\$ 152,820

See accompanying Notes to Financial Statements.

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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 (Note 4) 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, pursuant to a Memorandum of Agreement, 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 WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS (CONTINUED)

Custodial Accounts and Annuities Payable (Continued)

In 2019, after a review of the annuity program, 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 11) represent funds that are available to support the Foundation's operations and programs as directed by the board of directors (the Board).

Net Assets With Donor Restrictions

Net assets with donor restrictions (Note 12) 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 2019, 4.30% for 2018), 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 WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 ORGANIZATION, ACTIVITIES, AND OPERATIONS (CONTINUED)

Net Assets With Donor Restrictions (Continued)

The Core Balanced Fund (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.

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 11).

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 12).

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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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, 2019 and 2018, 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, 2019 AND 2018**

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, 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 believes that this notice represents a clerical error by the IRS, and the Foundation has operated and continues to operate in good faith in the manner that has qualified it as a tax-exempt organization. After consultation with legal and tax advisors, the Foundation timely responded 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 is awaiting a further response from the IRS, but it believes strongly that the IRS notice is in error and fully anticipates that its tax-exempt status will be reinstated retroactively. Accordingly, no provision has been made in the financial statements for any federal income tax liability. There were no uncertain tax positions as of December 31, 2018.

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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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 16 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 Principles

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation's financial statements reflect the application of Topic 606 guidance for the year ended December 31, 2019. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not impact the Foundation's reported historical revenue.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. This ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Foundation's financial statements reflect the application of this guidance for the year ended December 31, 2019. No cumulative-effect adjustment to net assets was recorded because the adoption did not impact the Foundation's reported historical revenues.

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 26, 2020, which is the date the financial statements were available to be issued.

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
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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:

	<u>2019</u>	<u>2018</u>
Financial Assets, at Year-End	\$ 121,162,780	\$ 90,293,521
Less: Those Unavailable for General Expenditures Within One Year Due to:		
Held for Others - Custodial Accounts	104,482,174	85,855,019
Held for Others - Distributions Payable	897,882	895,203
Held for Others - Annuities Payable	543,647	485,866
Mortgage Receivable - Long-Term Maturities	171,518	181,611
Restricted by Donor	<u>12,370,531</u>	<u>670,267</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 2,697,028</u>	<u>\$ 2,205,555</u>

NOTE 4 SUMMARY OF CUSTODIAL ACCOUNTS AND ANNUITIES PAYABLE

The relative significance of the custodial accounts and annuities payable and the related activities for the years ended December 31, 2019 and 2018 is displayed as follows.

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents	\$ 638,050	\$ 10,943
Investments at Fair Value - Custodial Accounts	104,777,946	86,769,554
Investments at Fair Value - Annuities	<u>543,647</u>	<u>485,866</u>
Total Assets	<u>\$ 105,959,643</u>	<u>\$ 87,266,363</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 35,940	\$ 30,275
Distributions Payable	897,882	895,203
Custodial Accounts	104,482,174	85,855,019
Annuities Payable	<u>543,647</u>	<u>485,866</u>
Total Liabilities	105,959,643	87,266,363
NET ASSETS		
Total Liabilities and Net Assets	<u>\$ 105,959,643</u>	<u>\$ 87,266,363</u>

UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
(A NOT-FOR-PROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 SUMMARY OF CUSTODIAL ACCOUNTS AND ANNUITIES PAYABLE (CONTINUED)

	<u>2019</u>	<u>2018</u>
REVENUES AND OTHER SUPPORT		
Investment Income - Total Return	\$ 3,650,128	\$ 2,985,715
Total Revenue and Other Support	3,650,128	2,985,715
EXPENSES		
Distribution of Investment Income and Principal	3,650,128	2,985,715
Total Expenses	3,650,128	2,985,715
INCREASE IN NET ASSETS BEFORE UNREALIZED GAIN (LOSS)	-	-
Unrealized Gain (Loss)	-	-
INCREASE (DECREASE) IN NET ASSETS	-	-
Net Assets - Beginning of Year	-	-
NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 INVESTMENTS

Investments consisted of the following as of December 31:

	<u>Fair Value</u>	
	<u>2019</u>	<u>2018</u>
Core Balanced Fund:		
Money Market Funds	\$ 7,963,214	\$ 5,685,621
Equity Securities	65,297,527	46,781,024
Fixed Income Securities	18,579,067	13,436,582
Government Securities - Fixed Income	16,651,712	17,642,111
Insurance	42,473	40,613
Alternative Investments	3,750,000	-
	<u>112,283,993</u>	<u>83,585,951</u>
Aggressive Fund:		
Money Market Funds	353,143	223,023
Equity Securities	4,677,989	3,628,711
Fixed Income Securities	403,141	339,662
Government Securities - Fixed Income	527,356	685,712
	<u>5,961,629</u>	<u>4,877,108</u>
Income and Growth Fund:		
Money Market Funds	75,988	77,394
Equity Securities	231,291	150,921
Fixed Income Securities	795,979	457,934
Government Securities - Fixed Income	267,180	246,601
	<u>1,370,438</u>	<u>932,850</u>
Total Investments	<u>\$ 119,616,060</u>	<u>\$ 89,395,909</u>

**UNITED METHODIST FOUNDATION OF WESTERN PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 INVESTMENTS (CONTINUED)

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, 2019 and 2018, units and unit values of the Core Balanced Fund, Aggressive Fund, and Income and Growth Fund were as follows:

	2019		
	<u>Core Balanced</u>	<u>Aggressive</u>	<u>Income and Growth</u>
Units	507,374.9092	42,577.5181	120,774.0455
Unit Value	\$ 218.9582	\$ 139.7068	\$ 11.3220
	2018		
	<u>Core Balanced</u>	<u>Aggressive</u>	<u>Income and Growth</u>
Units	432,163.5573	42,696.5579	89,553.4095
Unit Value	\$ 190.7797	\$ 113.9443	\$ 10.3909

During the period January 1, 2020 to May 26, 2020, both domestic and international financial markets have experienced significant declines and volatility. These losses have not been reflected in the financial statements for the year ended December 31, 2019 as these events occurred subsequent to year-end and are still developing.

NOTE 6 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. Distributions totaled \$26,247 and \$26,000, during the years ended December 31, 2019 and 2018, respectively.

NOTE 7 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 the next page.

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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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

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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

Beneficial Interest in Perpetual Trust: The beneficial interest in perpetual trust primarily includes underlying investments which are readily quoted in active markets. The majority of the underlying investments use Level 1 and Level 2 inputs, but since the trust itself is not readily marketable, significant inputs are considered to be unobservable in active markets. Since the Foundation's ownership in this trust is represented by an undivided interest in these investments, not in the underlying assets themselves, and the undivided interest is not publicly traded itself nor can it be valued based on observable direct or indirect inputs as defined by the Codification, the Foundation has reported the beneficial interest in perpetual trust as a Level 3 asset.

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	<u>119,616,060</u>	<u>88,557,880</u>	<u>27,265,707</u>	<u>-</u>
Beneficial Interest in Perpetual Trust	604,471	-	-	604,471
Total 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>

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NOTE 7 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, 2018:

	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	\$ 5,986,038	\$ 5,986,038	\$ -	\$ -
Equity Securities	50,560,656	50,560,656	-	-
Fixed Income Securities	14,234,178	4,560,908	9,673,270	-
Government Securities - Fixed Income	18,574,424	-	18,574,424	-
Insurance	40,613	-	-	-
Total Investments	89,395,909	61,107,602	28,247,694	-
Beneficial Interest in Perpetual Trust	549,519	-	-	549,519
Total Financial Assets	<u>\$ 89,945,428</u>	<u>\$ 61,107,602</u>	<u>\$ 28,247,694</u>	<u>\$ 549,519</u>
LIABILITIES				
Custodial Accounts	\$ 85,855,019	\$ -	\$ 85,855,019	\$ -
Total Liabilities	<u>\$ 85,855,019</u>	<u>\$ -</u>	<u>\$ 85,855,019</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>		

The Foundation had no investments accounted for at net asset value per share or its equivalent as of December 31, 2018.

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NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a roll forward of the Beneficial Interest in Perpetual Trust (Note 6), measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	<u>2019</u>	<u>2018</u>
Balance - Beginning of Year	\$ 549,519	\$ 616,636
Payments		
Disbursements	(26,247)	(26,000)
Administrative Expenses	(7,924)	(7,608)
Total Payments	<u>(34,171)</u>	<u>(33,608)</u>
Investment Income		
Taxable Interest	9,930	9,088
Dividends	4,161	7,642
Total Investment Income	<u>14,091</u>	<u>16,730</u>
Investment Change	<u>75,032</u>	<u>(50,239)</u>
Balance - End of Year	<u>\$ 604,471</u>	<u>\$ 549,519</u>

NOTE 8 MORTGAGES RECEIVABLE

Mortgages receivable consisted of the following:

See Note 15 Related Party Transactions, for additional mortgage information.

<u>Description</u>	<u>2019</u>	<u>2018</u>
Executive Director Mortgage - 15 Years at 4.38%; Matures June 2023	<u>\$ 181,611</u>	<u>\$ 191,273</u>

Mortgages receivable collections are scheduled as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 10,093
2021	10,544
2022	11,015
2023	149,959
Total	<u>\$ 181,611</u>

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NOTE 9 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31,

	<u>2019</u>	<u>2018</u>
Buildings and Improvements	\$ 369,994	\$ 369,994
Furniture and Fixtures	98,881	129,125
	<u>468,875</u>	<u>499,119</u>
Less: Accumulated Depreciation	(191,195)	(237,324)
Total	<u>\$ 277,680</u>	<u>\$ 261,795</u>

NOTE 10 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 \$543,647 and \$485,866 as of December 31, 2019 and 2018, respectively. The present value of the annuities payable as of December 31, 2019 and 2018, utilizing a discount rate of 4.25% for both years ended December 31, 2019 and 2018, and the remaining life expectancy of each respective annuitant, was \$442,668 and \$457,568, 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 11) to cover payments in excess of what the gift annuities' fair value is expected to provide. Such excess payments totaled \$8,340 and \$11,645 for the years ended December 31, 2019 and 2018. Future potential liability for these annuitants total \$33,354, estimated based on their current revised life expectancies.

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NOTE 11 NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Operating	\$ 1,193,142	\$ 1,010,977
Board Designated Bequest Fund	284,228	271,906
Board Designated Endowment Fund	1,233,315	1,043,207
Board Designated Capital Reserve	165,143	132,898
Board Designated Annuity Reserve	147,932	139,635
Total	<u>\$ 3,023,760</u>	<u>\$ 2,598,623</u>

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>2019</u>	<u>2018</u>
Endowment Fund Net Assets - Beginning of Year	\$ 1,043,207	\$ 1,152,127
Net Appreciation (Depreciation)	236,411	(58,670)
Distributions for Expenditure	(46,303)	(50,250)
Endowment Fund Net Assets - End of Year	<u>\$ 1,233,315</u>	<u>\$ 1,043,207</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.

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NOTE 12 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>2019</u>	<u>2018</u>
Beneficial Interest in Perpetual Trust:	\$ 604,471	\$ 549,519
Donor-Restricted Endowment Funds:		
Donor-Restricted Amounts Required to be Maintained in Perpetuity	11,000,152	102,600
Accumulated Investment Gains	765,908	18,148
Total	<u>\$ 12,370,531</u>	<u>\$ 670,267</u>

As of December 31, 2019 and 2018, the Foundation has a donor-designated endowment, the *Kelley Fund*, with funds totaling \$11,542 and \$10,056, 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, 2019 and 2018, the Foundation has a donor-designated endowment, the *Wesleyan Heritage Fund*, with funds totaling \$132,692 and \$110,692, 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, 2019, the Foundation has a donor-designated endowment, the *Andrew W. and Jane Stewart Smith Seminary Scholarship Fund*, with funds totaling \$5,632,288. 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.

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NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

As of December 31, 2019, the Foundation has a donor-designated endowment, the *Andrew W. and Jane Stewart Smith Charitable Gift Fund*, with funds totaling \$5,632,288. 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, 2019, the Foundation has a donor-designated endowment, the *Sperry Donor Advised Funds*, with funds totaling \$357,250. 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.

Changes in endowment net assets for the year ended December 31, 2019 and 2018 were as follows:

	2019	2018
Endowment Net Assets - Beginning of Year	\$ 120,748	\$ 128,472
Net Appreciation (Depreciation)	747,809	(8,223)
Contributions	10,897,952	950
Distributions for Expenditure	(449)	(451)
Endowment Net Assets - End of Year	\$ 11,766,060	\$ 120,748

NOTE 13 RETIREMENT PLAN

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 \$17,894 and \$15,609 for the years ended December 31, 2019 and 2018, respectively.

NOTE 14 OPERATING LEASE

The Foundation leases office space to the Conference, a related party, under an operating lease with a term that expires June 30, 2020, at a monthly rental of \$850. Total rental income received was \$10,200 for each of the years ended December 31, 2019 and 2018.

Future minimum sublease receipts total \$5,100 for the year ending December 31, 2020.

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NOTE 15 RELATED PARTY TRANSACTIONS

The Foundation issued a mortgage to the Conference on August 24, 2012 in the amount of \$172,106 for the Conference's Washington District Parsonage which bore interest at a rate of 3.50% and was set to mature in September 2027. The Foundation issued a second mortgage to the Conference on April 2, 2013 in the amount of \$302,432 for the Conference's Butler District Parsonage which bore interest at a rate of 3.25% and was set to mature in April 2028. These mortgages, assets of the Core Balanced Fund, were paid in full during the year ended December 31, 2018.

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.

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 8 regarding the executive director mortgage and Note 14 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 \$49,516,247 and \$42,164,658 as of December 31, 2019 and 2018, respectively.

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NOTE 16 FUNCTIONAL EXPENSE CLASSIFICATIONS

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, 2019 and 2018:

2019			
	Program Services:		
	Investment Administration	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	\$ 4,336,507	\$ 234,602	\$ 4,571,109
2018			
	Program Services:		
	Investment Administration	Management and General	Total
Distribution of Investment Income and Principal	\$ 3,055,223	\$ -	\$ 3,055,223
Operating - Salaries and Benefits	208,781	144,890	353,671
Operating - Other	157,387	81,524	238,911
Grant Program	50,250	-	50,250
Depreciation	14,735	9,822	24,557
Total	\$ 3,486,376	\$ 236,236	\$ 3,722,612

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 17 OPERATING – OTHER EXPENSES

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

	2019	2018
Education and Travel	\$ 16,557	\$ 18,660
Board and Committee	10,550	24,738
Office	58,826	82,357
Program	49,415	24,351
Professional Fees	43,999	43,091
National Association	8,289	7,291
Building Expenses	51,340	38,423
Total	\$ 238,976	\$ 238,911

