

**UNITED METHODIST FOUNDATION  
OF WEST VIRGINIA, INC.**

**FINANCIAL REPORT**

**December 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
United Methodist Foundation of West Virginia, Inc.  
Charleston, West Virginia

### **Opinion**

We have audited the accompanying financial statements of United Methodist Foundation of West Virginia, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, 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 Foundation as of December 31, 2022 and 2021, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation 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. Management is also responsible 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 Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's 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 auditor's 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 the Foundation'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 the Foundation'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.

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia  
July 12, 2023

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2022 and 2021**

<b>ASSETS</b>	2022	2021
Cash	\$ 1,197,741	\$ 1,435,892
Investments (Notes 4 and 6)	120,154,353	144,871,702
Prepaid expenses	30,794	27,794
Operating lease right-of-use assets (Note 8)	410,652	-
Property and equipment, net (Note 3)	52,244	69,042
Total assets	\$ 121,845,784	\$ 146,404,430
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 172,776	\$ 145,643
Distributions payable	711,150	638,120
Operating lease liabilities (Note 8)	410,652	-
Custodial accounts held for others	52,712,907	62,148,254
Obligations under charitable gift annuities	247,721	255,438
Obligations under charitable remainder trusts	1,663,452	2,166,217
Total liabilities	55,918,658	65,353,672
<b>NET ASSETS</b>		
Without donor restrictions	5,521,162	6,826,196
With donor restrictions	60,405,964	74,224,562
Total net assets	65,927,126	81,050,758
Total liabilities and net assets	\$ 121,845,784	\$ 146,404,430

The Notes to Financial Statements are an integral part of these statements.

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Other Support:			
Contributions	\$ 359,729	\$ 274,975	\$ 634,704
Net investment return	(1,101,086)	(11,488,033)	(12,589,119)
Administrative fees, custodial and annuity funds	435,165	-	435,165
Change in value of split-interest agreements	(139,814)	-	(139,814)
Net assets released from restrictions:			
Purpose restrictions accomplished	2,112,248	(2,112,248)	-
Administrative fees	521,184	(521,184)	-
	<u>2,187,426</u>	<u>(13,846,490)</u>	<u>(11,659,064)</u>
 Expenses:			
Program services			
United Methodist services	2,717,297	-	2,717,297
Supporting services			
Management and general	429,968	-	429,968
Fundraising	352,547	-	352,547
Total support services	<u>782,515</u>	<u>-</u>	<u>782,515</u>
	<u>3,499,812</u>	<u>-</u>	<u>3,499,812</u>
 Change in net assets	(1,312,386)	(13,846,490)	(15,158,876)
Net assets, beginning	6,826,196	74,224,562	81,050,758
Net asset transfers from affiliates	<u>7,352</u>	<u>27,892</u>	<u>35,244</u>
Net assets, ending	<u>\$ 5,521,162</u>	<u>\$ 60,405,964</u>	<u>\$ 65,927,126</u>

The Notes to Financial Statements are an integral part of these statements.

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenues and Other Support:			
Contributions	\$ 596,236	\$ 2,400,839	\$ 2,997,075
Net investment return	420,739	5,646,511	6,067,250
Administrative fees, custodial and annuity funds	459,469	-	459,469
Change in value of split-interest agreements	72,396	-	72,396
Gain on trade-in of vehicle	9,414	-	9,414
Net assets released from restrictions:			
Purpose restrictions accomplished	2,047,440	(2,047,440)	-
Administrative fees	584,160	(584,160)	-
	<u>4,189,854</u>	<u>5,415,750</u>	<u>9,605,604</u>
Expenses:			
Program services			
United Methodist services	2,423,875	-	2,423,875
Supporting services			
Management and general	340,757	-	340,757
Fundraising	292,742	-	292,742
Total support services	<u>633,499</u>	<u>-</u>	<u>633,499</u>
Total expenses	<u>3,057,374</u>	<u>-</u>	<u>3,057,374</u>
Change in net assets	1,132,480	5,415,750	6,548,230
Net assets, beginning	5,686,741	68,725,045	74,411,786
Net asset transfers from affiliates	<u>6,975</u>	<u>83,767</u>	<u>90,742</u>
Net assets, ending	<u><u>\$ 6,826,196</u></u>	<u><u>\$ 74,224,562</u></u>	<u><u>\$ 81,050,758</u></u>

The Notes to Financial Statements are an integral part of these statements.

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended December 31, 2022**

	<u>United Methodist Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Distributions to agencies and others	\$ 2,491,211	\$ -	\$ -	\$ 2,491,211
Salaries and benefits	143,638	239,397	215,456	598,491
Amortization of right-to-use asset	18,263	24,350	18,263	60,876
Information technology	14,779	29,558	29,558	73,895
Accounting	-	39,566	-	39,566
Office expense	7,042	7,042	6,036	20,120
Conferences and meetings	2,665	10,658	13,323	26,646
Insurance	4,094	19,105	4,094	27,293
Travel	9,424	2,693	14,809	26,926
Printing	7,255	1,209	15,719	24,183
Communications	2,444	2,933	4,399	9,776
Staff training	2,883	2,471	2,883	8,237
Advertising and promotion	6,589	-	15,373	21,962
Postage	3,514	4,217	6,325	14,056
Depreciation	-	28,581	-	28,581
Legal	-	13,212	-	13,212
Interest expense	1,622	2,164	1,623	5,409
Other	1,874	2,812	4,686	9,372
	<u>1,874</u>	<u>2,812</u>	<u>4,686</u>	<u>9,372</u>
Total expenses	<u>\$ 2,717,297</u>	<u>\$ 429,968</u>	<u>\$ 352,547</u>	<u>\$ 3,499,812</u>

The Notes to Financial Statements are an integral part of these statements.



**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2021**

	<u>United Methodist Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Distributions to agencies and others	\$ 2,158,185	\$ -	\$ -	\$ 2,158,185
Salaries and benefits	167,980	176,561	183,721	528,262
Occupancy	24,417	24,418	20,930	69,765
Information technology	12,131	24,261	24,262	60,654
Accounting	-	36,320	-	36,320
Office expense	14,834	12,980	9,271	37,085
Conferences and meetings	19,203	6,983	8,729	34,915
Insurance	4,035	18,830	4,035	26,900
Travel	5,701	713	7,838	14,252
Printing	5,692	949	12,333	18,974
Communications	2,793	2,327	4,189	9,309
Staff training	1,180	1,011	1,180	3,371
Advertising and promotion	3,922	-	9,150	13,072
Postage	2,668	3,735	4,269	10,672
Depreciation	-	27,468	-	27,468
Other	1,134	4,201	2,835	8,170
	<u>1,134</u>	<u>4,201</u>	<u>2,835</u>	<u>8,170</u>
Total expenses	<u>\$ 2,423,875</u>	<u>\$ 340,757</u>	<u>\$ 292,742</u>	<u>\$ 3,057,374</u>

The Notes to Financial Statements are an integral part of these financial statements.

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (15,158,876)	\$ 6,548,230
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	28,581	27,468
Net realized and unrealized losses (gains) on investments	12,716,431	(6,526,719)
Gain on disposal of fixed assets	-	(9,414)
Change in value of split interest agreements	(389,632)	171,195
(Increase) decrease in operating assets:		
Custodial accounts held for investment	9,435,347	(11,183,971)
Prepaid expense	(3,000)	1,005
Operating lease assets	(410,652)	-
Increase (decrease) in operating liabilities:		
Accounts payable	27,133	23,032
Custodial accounts held for others	(9,435,347)	11,183,971
Distribution payable	73,030	(58,080)
Operating lease liability	410,652	-
	<u>(2,706,333)</u>	<u>176,717</u>
 <b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(11,783)	(47,568)
Proceeds from sales of fixed assets	-	16,476
Purchase of investments	-	(1,052,250)
Proceeds from sales and maturities of investments	2,565,570	1,707,985
	<u>2,553,787</u>	<u>624,643</u>
 <b>FINANCING ACTIVITIES</b>		
Net asset transfers from affiliates	35,244	90,742
Payments of obligations under annuity and charitable remainder trust agreements	(187,778)	(205,266)
Obligations incurred under annuity and charitable remainder trust agreements	66,929	-
	<u>(85,605)</u>	<u>(114,524)</u>
Net cash used in financing activities	<u>(85,605)</u>	<u>(114,524)</u>
Net increase (decrease) in cash	(238,151)	686,836
CASH, beginning	<u>1,435,892</u>	<u>749,056</u>
CASH, ending	<u>\$ 1,197,741</u>	<u>\$ 1,435,892</u>

The Notes to Financial Statements are an integral part of these statements.

# UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

### Note 1. Description of Organization and Summary of Significant Accounting Policies

#### Description of organization

The United Methodist Foundation of West Virginia, Inc. (the Foundation) was established by the West Virginia Conference of the United Methodist Church in 1974. The Foundation serves most of West Virginia and Garrett County, Maryland. The mission of the Foundation is to create a culture of generosity by raising, managing, and distributing funds for charitable and religious purposes, with a special interest on United Methodist causes.

#### Basis of accounting

The financial statements have been prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America.

#### Recent accounting pronouncements

Effective January 1 2022, the Foundation adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize all right-of-use (ROU) assets with corresponding lease liabilities on the statement of financial position and disclose key information about leasing arrangements. The Foundation adopted the applicable provisions of Topic 842 as of January 1, 2022, using the modified retrospective approach. Management determined this adoption has no impact on prior statements or beginning net assets.

#### Cash

Cash consists primarily of demand deposits. Cash with donor-imposed restrictions that limit its use to long-term investment is classified as long-term investments. The Foundation places its cash with high-credit quality financial institutions. At times, the balances in such institutions may exceed the FDIC limit.

#### Long-term investments

Long-term investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 6 for discussion of fair value measurements.

#### Office furniture and equipment

Office furniture and equipment are recorded at cost at the date of purchase, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years. Property and equipment purchases of more than \$1,000 are capitalized and depreciated.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

**Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)**

Custodial accounts held for others

Custodial accounts held for others represent deposits held by the Foundation on behalf of others for investment purposes. These accounts are governed by agreements whereby the funds may be withdrawn by the depositor or directed to another custodian upon delivery of written notice to the Foundation in accordance with the terms of the underlying agreement. The income from these deposits is added to the principal balance or distributed in accordance with the underlying agreement. Upon withdrawal, the depositor is entitled to the market value in the account.

Leases

The Foundation determines if an arrangement is or contains a lease at inception. Leases are included in ROU assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Foundation does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Split-interest agreements

The Foundation has beneficial interests in various donor-established charitable remainder trusts and charitable gift annuities. Assets received under such agreements are recorded at fair value, the liability to the beneficiary is recorded at the present value of the estimated future payments to be distributed over the term of the trust, and a contribution is recorded as the difference between the initial fair value and liability and is classified according to donor restrictions. In subsequent periods, income earned on trust assets, capital gains and losses, and distributions paid to the beneficiaries are reflected in the trust's asset and liability accounts. Adjustments to the liability account to reevaluate the present value of estimated payments to beneficiaries, changes in assumptions, and changes in fair value of assets are recognized in the statements of activities as a change in value of split-interest agreements. The Foundation uses mortality and discount rates established by the Internal Revenue Service to compute the estimates of present value. A designated fund has been established by the Foundation in the event that payments made to an annuitant exceed the original amount contributed by the donor and any investment income earned. As of December 31, 2022 and 2021, the market value of the designated fund was \$20,408 and \$25,594, respectively.

Contributions

Contributions are measured at fair value on the date received and are reported as net assets without donor restrictions or net assets with donor restrictions, depending on the existence of any donor-imposed restrictions.

Transfers of assets to the Foundation from an organization determined to be financially interrelated, whereby the organization specifies itself as the beneficiary, have been accounted for as equity transactions. Such transfers are presented as "net asset transfers from affiliates" in the accompanying statements of activities.

(Continued)

# UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

### Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

#### Functional allocation of expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited based on estimates of time and effort devoted to each function.

#### Net assets

The Foundation has classified its net assets and its revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Below is a summary of these classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, either by purpose or time, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

#### Use of estimates

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

#### Income taxes

United Methodist Foundation of West Virginia, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as other than a private foundation. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

#### Subsequent events

The date through which events occurring after December 31, 2022 have been evaluated for possible adjustment to or disclosure in the financial statements is July 12, 2023, which is the date on which the financial statements were available to be issued.

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

**Note 2. Availability and Liquidity**

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

	<u>2022</u>	<u>2021</u>
Investments	\$ 2,071,645	\$ 2,368,302

The Foundation charges an annual administrative fee, calculated monthly, equal to 0.75% of the total market value of all funds invested with the Foundation. Administrative fees are available to meet the cash needs of the Foundation as necessary. During 2022 and 2021, administrative fees approximated \$956,000 and \$1,044,000, respectively. It is anticipated that administrative fees will approximate those of 2022 in the following twelve months.

Additionally, the Foundation employs a total return spending policy that established an amount of investment return that is available to support current needs. As of December 31, 2022 and 2021, the Board approved spending policy for the endowment funds provides for an annual spending rate of 3.5% of a rolling twelve quarter average fair market value of each relevant account, aimed to maximize funds available for missions consistent with the preservation of capital. At December 31, 2022 and 2021, the market value of accounts that benefited the Foundation was approximately \$8,919,000 and \$11,030,000, respectively. Approximately, \$341,000 and \$318,000 of disbursements in 2022 and 2021, respectively, were available to meet current needs. It is expected that over the following twelve months, a comparable amount of funds will be available for general expenditure.

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 12 months of expected expenditures. To achieve these targets, future cash flows are forecasted and monitored quarterly. During the years ended December 31, 2022 and 2021, the level of liquidity and reserves was managed within the policy requirements.

The Foundation has a board-designated endowment of \$1,165,380 and \$1,440,684 as of December 31, 2022 and 2021, respectively, with an annual spending rate of 3.5 percent that is included as part of the Board's annual budget for general expenditure. Funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 3. Property and Equipment**

Property and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 6,551	\$ 6,551
Furniture and fixtures	80,015	73,876
Vehicles	<u>76,583</u>	<u>76,583</u>
	163,149	157,010
Less accumulated depreciation	<u>110,905</u>	<u>87,968</u>
	<u>\$ 52,244</u>	<u>\$ 69,042</u>

**Note 4. Long-Term Investments**

The function of the Foundation is to provide for the effective and economical receipt, investment and disbursement of funds held to benefit local churches, institutions and other ministries. This is accomplished primarily by pooling the various funds for purposes of investment. Although funds within the Foundation each have specific purposes and may each have unique rules governing their management, the overall intent is to provide a sound, long-term base for the development and funding of ministry throughout the Foundation.

Consistent with the purpose of the Foundation, the investment goals are to provide for the long-term growth of assets while providing for increase in future income. The Trustees of the Foundation are responsible for setting and directing the investment policy and for monitoring the disbursement of funds to ensure that distributions are consistent with established guidelines and procedures for each fund. The Trustees have delegated the responsibility of overseeing the management of the Foundation's assets to a Finance and Investment Committee.

While there are numerous "trusts" and "accounts" managed by the Foundation within the total assets, for investment and analytical purposes, distinct portions or subdivisions of the assets are recognized and desirable. Certain assets are given with the understanding that they are designated for the use of one or more charitable agency or agencies. Other assets are either undesignated or designated for the furtherance of administrative activities rather than for the use of specified agencies or local churches. These subdivisions will have different investment objectives.

From an overall perspective, the Finance and Investment Committee has established several objectives for the Foundation's investment program. Those objectives are:

1. **Capital Appreciation.** The primary objective shall be the long-term growth of the Fund's assets. It is recognized that short-term fluctuations may result in the loss of capital earned on occasion. However, in the absence of contributions and withdrawals, the asset value of the Fund should grow in the long run and earn rates of return greater than those of an appropriate market index through capital appreciation and reinvestment of dividends.

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**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 4. Long-Term Investments (Continued)**

2. Generating income to provide for current needs as directed by donors and as designated by the Board of Trustees for grants to agencies it serves or for the administration of the Foundation.
3. Maintaining and enhancing principal for generating future income and for conserving principal entrusted to the Foundation for perpetual support to the agencies/churches and purposes it serves. Asset growth, exclusive of contributions and withdrawals, should exceed the rate of inflation as measured by the Consumer Price Index (CPI).
4. Providing for possible emergency needs of the agencies it serves and/or the administration of the Foundation.
5. Safety of Capital. The final objective shall be to preserve the value of the Foundation's assets by earning a positive return over the investment time horizon.

Substantially all of the Foundation's assets are invested in investment funds of Wespath Institutional Investments (Wespath), a division of Wespath Benefits and Investments, a general agency of the United Methodist Church. Wespath's mission is to assist eligible institutional investors in meeting their investment objectives while adhering to the Social Principles of the United Methodist Church. Investments consisted of the following:

	<u>2022</u>	<u>2021</u>
Wespath Investment Funds:		
Fixed Income Fund	\$ 46,081,924	\$ 54,747,590
Short Term Investment Fund	1,511,584	1,579,186
Inflation Protection Fund	11,501,105	14,032,734
International Equity Fund	11,814,236	13,258,623
U.S. Equity Fund	42,621,207	53,438,500
Multiple Asset Fund	6,580,624	7,755,954
Fixed income:		
FNMA's, GNMA's, FHLMC's	<u>43,673</u>	<u>59,115</u>
	<u>\$ 120,154,353</u>	<u>\$ 144,871,702</u>

The significant investment objectives and strategies of the Wespath Funds are as follows:

- Fixed Income Fund seeks to earn current income while preserving capital by primarily investing in a diversified mix of fixed income instruments.
- Short Term Investment Fund seeks to preserve capital while earning current income higher than money market funds through exposure to short-term fixed income securities.
- Inflation Protection Fund invests approximately 80-90% of its assets in fixed income instruments and gains exposure to the commodities market by holding futures, with up to 10% invested in a combination of real assets and alternative investments.
- International Equity Fund is comprised primarily of non-U.S. equities and equity index futures and seeks a favorable long-term rate of return from a broadly diversified portfolio of non-U.S. equities of developed and lesser developed (emerging market) countries.

(Continued)



**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 4. Long-Term Investments (Continued)**

- U.S. Equity Fund seeks to attain long-term capital appreciation available from a broadly diversified portfolio of primarily U.S. domiciled publicly owned companies, and to a lesser extent, U.S. privately owned companies, U.S. private real estate and U.S. equity index futures.
- Multiple Asset Fund is a balanced, broadly diversified, multiple-asset-class fund of funds that seeks to attain current income and capital appreciation by investing in four other Wespath funds: 40% U.S. Equity Fund, 25% International Equity Fund, 25% Fixed Income Fund, and 10% Inflation Protection Fund.

To facilitate the pooling of funds with different investment objectives, these investments are allocated among four internal investment pools maintained by the Foundation, as follows:

**Fixed Income Fund** – This Fixed Income Fund has a targeted asset allocation of 100% fixed income, and is invested in the Wespath Fixed Income and Short Term Investment Funds.

**Moderate Balanced Fund** - The Moderated Balanced Fund has a targeted asset allocation of 50% equity and 50% fixed income, and is invested in the Wespath Fixed Income, Inflation Protection, International Equity, and U.S. Equity Funds.

**Conservative Balanced Fund** - The Conservative Balanced Fund has a targeted asset allocation of 40% equity and 60% fixed income, with holdings in the Wespath Fixed Income, Inflation Protection, International Equity, and U.S. Equity Funds.

**Aggressive Balanced Fund** – The Aggressive Balanced Fund has a targeted asset allocation of 65% equity and 35% fixed income, and is currently invested in the Wespath Multiple Asset Fund and cash equivalents.

Investments by investment pool, are as follows:

	<u>2022</u>	<u>2021</u>
Fixed Income Fund	\$ 3,032,017	\$ 3,160,077
Moderate Balanced Fund	99,381,419	117,023,447
Aggressive Balanced Fund	6,580,624	7,755,954
Conservative Balanced Fund	11,116,620	16,873,109
Other investments	<u>43,673</u>	<u>59,115</u>
	<u>\$ 120,154,353</u>	<u>\$ 144,871,702</u>

Net investment return reported in the accompanying statement of activities consists of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 1,669,305	\$ 1,320,058
Unrealized appreciation (depreciation)	(14,878,622)	2,264,112
Net realized gains	<u>620,198</u>	<u>2,483,080</u>
Net investment return (loss)	<u>\$ (12,589,119)</u>	<u>\$ 6,067,250</u>

In addition, net investment return allocated to custodial, unitrust, and annuity accounts was \$(10,425,526) and \$3,727,056 during 2022 and 2021, respectively.

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 5. Endowment**

The Foundation's investments include endowment funds established by donors for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds held by the Foundation include certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

The Board of Trustees of the Foundation has interpreted the West Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the permanent endowment and (b) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation has not adopted a general spending rate policy to govern endowment appropriations, but rather looks to the provisions of each donor agreement to determine annual disbursements from each fund.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2022, funds with original gift values of \$6,397,604, fair values of \$5,925,265, and deficiencies of \$472,339 were reported in net assets with donor restrictions. At December 31, 2021, funds with original gift values of \$223,247, fair values of \$186,797, and deficiencies of \$36,451 were reported in net assets with donor restrictions.

Endowment net asset composition by type of fund are as follows:

	<b>2022</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 1,165,380	\$ -	\$ 1,165,380
Board-designated budget reserve funds	1,013,524	-	1,013,524
Board-designated grant reserve funds	532,960	-	532,960
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	43,165,360	43,165,360
Accumulated investment gains	-	15,351,100	15,351,100
	<u>\$ 2,711,864</u>	<u>\$58,516,460</u>	<u>\$61,228,324</u>

(Continued)

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 5. Endowment (Continued)**

	<b>2022</b>		
	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Board-designated endowment funds	\$ 1,440,684	\$ -	\$ 1,440,684
Board-designated budget reserve funds	1,059,983	-	1,059,983
Board-designated grant reserve funds	742,782	-	742,782
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	42,899,309	42,899,309
Accumulated investment gains	-	29,076,464	29,076,464
	<u>\$ 3,243,449</u>	<u>\$71,975,773</u>	<u>\$75,219,222</u>

Changes in endowment net assets for the years ended December 31, 2022 and 2021 are as follows:

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets, January 1, 2021	\$ 1,288,918	\$66,526,207	\$67,815,125
Investment return, including investment income, realized and unrealized gains	110,938	4,898,138	5,009,076
Contributions	108,960	2,362,711	2,471,671
Appropriation of endowment assets for expenditure	(77,386)	(1,893,700)	(1,971,086)
Other changes:			
Transfers in from operating account	1,811,719	-	1,811,719
Net asset transfers from affiliates	300	82,417	82,717
Endowment net assets, December 31, 2021	<u>\$ 3,243,449</u>	<u>\$71,975,773</u>	<u>\$ 75,219,222</u>
Endowment net assets, January 1, 2022	\$ 3,243,449	\$71,975,773	\$ 75,219,222
Investment return, including investment income, realized and unrealized gains	(545,442)	(11,637,991)	(12,183,433)
Contributions	15,206	239,946	255,152
Appropriation of endowment assets for expenditure	(147,099)	(2,087,373)	(2,234,472)
Other changes:			
Transfers in from operating account	145,750	-	145,750
Net asset transfers from affiliates	-	26,104	26,104
Endowment net assets, December 31, 2022	<u>\$ 2,711,864</u>	<u>\$58,516,459</u>	<u>\$ 61,228,323</u>

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 6. Fair Value Measurements**

The framework for measuring fair value 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 fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity 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 Foundation's investment in Wespath Funds (the Funds) is valued at net asset value (NAV) as reported by the Funds on a daily basis where the Foundation has the ability to redeem on a near term basis at NAV. The NAV, as provided by the Funds, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the Fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. The Foundation has no unfunded commitments with regard to these funds.

Assets measured at fair value on a recurring basis consisted of the following at December 31:

	<b>2022</b>	
	<b>Level 2</b>	<b>Total</b>
Fixed income	\$ 43,673	\$ 43,673
Total assets in the fair value hierarchy	\$ 43,673	43,673
Investments measured at NAV:		
Wespath Investment Funds <sup>(1)</sup>		120,110,680
Total assets at fair value		\$ 120,154,353

(Continued)

**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 6. Fair Value Measurements (Continued)**

	<b>2021</b>	
	<b>Level 2</b>	<b>Total</b>
Fixed income	\$ 59,115	\$ 59,115
Total assets in the fair value hierarchy	<u>\$ 59,115</u>	59,115
Investments measured at NAV:		
Wespath Investment Funds <sup>(1)</sup>		<u>144,812,587</u>
Total assets at fair value		<u>\$ 144,871,702</u>

(1) Investments in Wespath Investment Funds that are measured at net asset value per share equivalent are not classified in the fair value hierarchy. The fair value amounts presented are intended to reconcile the fair value hierarchy to the line item presented in the statement of financial position.

**Note 7. Retirement Plan**

The Foundation participates in a defined contribution retirement plan which covers substantially all full-time employees of the United Methodist Church and its affiliates. The Foundation makes monthly contributions to the Plan based on 9% of regular salary of participants. The Foundation's pension expense was \$37,937 and \$32,233 during 2022 and 2021, respectively.

**Note 8. Leases**

The Foundation evaluated current contracts to determine which met the criteria of a lease. The "right-of-use" (ROU) assets represent the Foundation's right to use underlying assets for the lease term, including any renewal options that are reasonably certain to be exercised and the lease liabilities represent the Foundation's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The Foundation has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of December 31, 2022 was 1.44%.

The Foundation leases office space under a five-year operating lease, with an optional 5-year renewal term. For the year ended December 31, 2022, total operating lease cost was \$60,876. As of December 31, 2022, the weighted-average remaining lease term for the Foundation's operating leases was approximately 7.5 years.

Cash paid for operating leases for the year ended December 31, 2022 and 2021 was \$66,285.

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**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 8. Leases (Continued)**

Future minimum lease payments are as follows:

	Operating Lease
2023	\$ 66,285
2024	66,285
2025	66,285
2026	66,285
2027	66,285
2028	66,285
2029	33,142
	430,852
Less interest	20,200
Present value of lease liabilities	\$ 410,652

**Note 9. Administrative Fees**

The Foundation charged an annualized administrative fee equal to 0.75% of account value to each account during 2022 and 2021. Administrative fees charged to trust funds are reported under net assets released from restrictions, and administrative fees charged to custodial, annuity, and unitrust accounts are reported as a separate revenue item in the accompanying statement of activities. For the year ended December 31, 2022 and 2021, the total administrative fee charged to all trusts, custodial, annuity, and unitrusts was \$956,349 and \$1,043,629, respectively.

**Note 10. Uncertainties**

Since 1972, The United Methodist Church (Church) has struggled to have a unified position on homosexuality. Following the 2016 General Conference, the Council of Bishops (Council) appointed a commission (Commission) to help the denomination address a growing unrest. The Commission presented its report on May 4, 2018, and the Council called a special session of the General Conference in February 2019, at which the General Conference, by a narrow margin, passed “the traditional plan,” which maintains the Church’s current position on homosexuality and adds punitive measures to those who disobey it. Many experts believed parts of the plan were unconstitutional. These issues were addressed by the Judicial Council (the Church’s Supreme Court) at its meeting in April 2020. The Judicial Council upheld a majority of the action along with legislation allowing congregations to negotiate exits from the denomination while retaining their property and financial assets. While some churches have decided to exit the denomination to become independent or to join other denominations, we have not experienced churches in the West Virginia Conference leaving in large numbers.

It appears the Denomination will continue to wrestle with issues of inclusion of LGBTQI persons. The 2020 General Conference Session that would have addressed these questions among other general legislative matters was postponed twice because of the pandemic and is scheduled for April 23 through May 3, 2024.

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**UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2022**

**Note 10. Uncertainties (Continued)**

The Foundation is a legally separate entity from the United Methodist Church, so the changes and decisions have no specific legal effect on the Foundation. We have communicated directly to our constituents, and more broadly through church-wide communication, that the potential changes in the Church will not affect our ability to serve individual churches. However, because the Foundation has a special emphasis on serving the United Methodist Church, the possibility exists that the Foundation could be affected by denominational change. The impact of this change is unknown. Accordingly, the Foundation cannot determine the future impact this will have on our statements of financial position or statements of activities.