

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

FINANCIAL REPORT

December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

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

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, 2020 and 2019, and the related statements of activities, functional expenses, 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.

Auditor's 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 auditor's 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.

Opinion

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
June 24, 2021

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 749,056	\$ 861,905
Investments (Notes 4 and 6)	127,816,746	110,886,138
Accounts receivable	-	1,000
Prepaid expenses	28,799	23,268
Property and equipment, net (Note 3)	<u>56,004</u>	<u>60,401</u>
 Total assets	 <u>\$ 128,650,605</u>	 <u>\$ 111,832,712</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	\$ 122,611	\$ 104,947
Distributions payable	696,200	512,010
Custodial accounts held for others	50,964,283	44,178,232
Obligations under charitable gift annuities	306,873	539,059
Obligations under charitable remainder trusts	<u>2,148,852</u>	<u>1,964,522</u>
Total liabilities	<u>54,238,819</u>	<u>47,298,770</u>
 Net assets:		
Without donor restrictions	5,686,741	5,245,340
With donor restrictions	<u>68,725,045</u>	<u>59,288,602</u>
Total net assets	<u>74,411,786</u>	<u>64,533,942</u>
 Total liabilities and net assets	 <u>\$ 128,650,605</u>	 <u>\$ 111,832,712</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions	\$ 240,744	\$ 1,331,133	\$ 1,571,877
Net investment return	782,042	10,258,321	11,040,363
Administrative fees, custodial and annuity funds	367,890	-	367,890
Change in value of split-interest agreements	(127,743)	-	(127,743)
Net assets released from restrictions:			
Purpose restrictions accomplished	1,716,962	(1,716,962)	-
Administrative fees	478,342	(478,342)	-
Total revenues and other support	<u>3,458,237</u>	<u>9,394,150</u>	<u>12,852,387</u>
Expenses:			
United Methodist services	<u>2,467,794</u>	<u>-</u>	<u>2,467,794</u>
Supporting services			
Management and general	283,055	-	283,055
Fundraising	<u>266,146</u>	<u>-</u>	<u>266,146</u>
Total support services	<u>549,201</u>	<u>-</u>	<u>549,201</u>
Total expenses	<u>3,016,995</u>	<u>-</u>	<u>3,016,995</u>
Change in net assets	441,242	9,394,150	9,835,392
Net assets, beginning	5,245,340	59,288,602	64,533,942
Net asset transfers from affiliates	<u>159</u>	<u>42,293</u>	<u>42,452</u>
Net assets, ending	<u>\$ 5,686,741</u>	<u>\$ 68,725,045</u>	<u>\$ 74,411,786</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions	\$ 199,633	\$ 416,345	\$ 615,978
Net investment return	692,554	9,667,570	10,360,124
Administrative fees, custodial and annuity funds	336,393	-	336,393
Change in value of split-interest agreements	117,560	-	117,560
Net assets released from restrictions:			
Purpose restrictions accomplished	2,384,607	(2,384,607)	-
Administrative fees	452,130	(452,130)	-
Total revenues and other support	<u>4,182,877</u>	<u>7,247,178</u>	<u>11,430,055</u>
Expenses:			
United Methodist services	<u>2,647,760</u>	<u>-</u>	<u>2,647,760</u>
Supporting services			
Management and general	266,141	-	266,141
Fundraising	<u>269,432</u>	<u>-</u>	<u>269,432</u>
Total support services	<u>535,573</u>	<u>-</u>	<u>535,573</u>
Total expenses	<u>3,183,333</u>	<u>-</u>	<u>3,183,333</u>
Change in net assets	999,544	7,247,178	8,246,722
Net assets, beginning	4,240,706	51,896,430	56,137,136
Net asset transfers from affiliates	<u>5,090</u>	<u>144,994</u>	<u>150,084</u>
Net assets, ending	<u>\$ 5,245,340</u>	<u>\$ 59,288,602</u>	<u>\$ 64,533,942</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, 2020

	United Methodist Services	Management and General	Fundraising	Total
Distributions to agencies and others	\$ 2,220,218	\$ -	\$ -	\$ 2,220,218
Salaries and benefits	167,880	140,455	171,319	479,654
Occupancy	24,400	20,915	24,400	69,715
Information technology	14,092	28,185	28,185	70,462
Accounting	-	41,450	-	41,450
Office expense	2,920	2,556	1,826	7,302
Conferences and meetings	4,391	1,596	1,996	7,983
Insurance	4,016	18,743	4,016	26,775
Travel	4,192	524	5,762	10,478
Printing	4,291	-	10,011	14,302
Communications	2,540	2,117	3,810	8,467
Staff training	1,416	1,214	1,416	4,046
Advertising and promotion	3,195	-	7,456	10,651
Postage	2,244	3,142	3,591	8,977
Depreciation	-	20,872	-	20,872
Other	11,999	1,286	2,358	15,643
	<u>11,999</u>	<u>1,286</u>	<u>2,358</u>	<u>15,643</u>
Total expenses	<u>\$ 2,467,794</u>	<u>\$ 283,055</u>	<u>\$ 266,146</u>	<u>\$ 3,016,995</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, 2019

	United Methodist Services	Management and General	Fundraising	Total
Distributions to agencies and others	\$ 2,405,464	\$ -	\$ -	\$ 2,405,464
Salaries and benefits	153,903	127,184	158,636	439,723
Occupancy	20,566	17,628	20,566	58,760
Information technology	11,707	23,415	23,415	58,537
Accounting	-	34,978	-	34,978
Office expense	12,536	10,969	7,835	31,340
Conferences and meetings	11,812	4,295	5,369	21,476
Insurance	3,874	18,080	3,874	25,828
Travel	8,218	1,027	11,299	20,544
Printing	5,767	-	13,456	19,223
Communications	3,262	3,915	5,872	13,049
Staff training	2,573	1,838	2,940	7,351
Advertising and promotion	2,690	-	6,278	8,968
Postage	2,888	2,888	5,776	11,552
Depreciation	-	18,895	-	18,895
Other	2,500	1,029	4,116	7,645
	<u>2,647,760</u>	<u>266,141</u>	<u>269,432</u>	<u>3,183,333</u>
Total expenses	<u>\$ 2,647,760</u>	<u>\$ 266,141</u>	<u>\$ 269,432</u>	<u>\$ 3,183,333</u>

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

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,835,392	\$ 8,246,722
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	20,872	18,895
Net realized and unrealized gains on investments	(11,040,363)	(10,360,125)
Gain on disposal of fixed asset	-	(498)
Change in value of split interest agreements	627,960	454,831
(Increase) decrease in operating assets:		
Custodial accounts held for investment	(6,786,051)	(7,065,719)
Prepaid expense	(5,531)	(3,757)
Accounts receivable	1,000	(1,000)
Increase (decrease) in operating liabilities:		
Accounts payable	17,664	9,403
Custodial accounts held for others	6,786,051	7,065,719
Distribution payable	184,190	61,253
	<u>(358,816)</u>	<u>(1,574,276)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of fixed assets	(16,475)	(47,278)
Purchase of investments	(1,095,571)	(2,566,248)
Proceeds from sales and maturities of investments	1,991,377	3,907,207
	<u>879,331</u>	<u>1,293,681</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Net asset transfers from affiliates	42,452	150,084
Payments of obligations under annuity and charitable remainder trust agreements	(675,816)	(253,770)
Obligations incurred under annuity and charitable remainder trust agreements	-	33,232
	<u>(633,364)</u>	<u>(70,454)</u>
Net cash used in financing activities		
Net decrease in cash	(112,849)	(351,049)
Cash, beginning of year	<u>861,905</u>	<u>1,212,954</u>
Cash, end of year	<u>\$ 749,056</u>	<u>\$ 861,905</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, 2020

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.

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.

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.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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

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, 2020 and 2019, the market value of the designated fund was \$24,558 and \$25,835, 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. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from 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.

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.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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

Net assets (Continued)

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.

Reclassifications

Certain 2019 amounts have been reclassified to conform to the 2020 presentation.

Subsequent Events

The date through which events occurring after December 31, 2020 have been evaluated for possible adjustment to or disclosure in the financial statements is June 24, 2021, which is the date on which the financial statements were available to be issued.

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 714	\$ 70,508
Investments	<u>1,905,377</u>	<u>1,299,733</u>
	<u>\$ 1,906,091</u>	<u>\$ 1,370,241</u>

The Foundation charges an 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 2020 and 2019, administrative fees approximated \$846,000 and \$788,000, respectively. It is anticipated that administrative fees will approximate those of 2020 in the following twelve months.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 2. Availability and Liquidity (Continued)

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, 2020 and 2019, 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, 2020 and 2019, the market value of accounts that benefited the Foundation was approximately \$10,465,626 and \$9,105,768, respectively. Approximately, \$300,341 and \$285,817 of disbursements in 2020 and 2019, 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, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

The Foundation has a board-designated endowment of \$1,288,918 and \$1,123,842 as of December 31, 2020 and 2019, 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.

Note 3. Property and Equipment

Property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 6,551	\$ 4,981
Furniture and fixtures	71,631	56,726
Vehicles	<u>64,290</u>	<u>64,290</u>
	142,472	125,997
Less accumulated depreciation	<u>86,468</u>	<u>65,596</u>
	<u>\$ 56,004</u>	<u>\$ 60,401</u>

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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.
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.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 4. Long-Term Investments (Continued)

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>2020</u>	<u>2019</u>
Wespath Investment Funds:		
Fixed Income Fund	\$ 46,210,299	\$ 40,828,787
Short Term Investment Fund	2,069,584	2,088,301
Inflation Protection Fund	11,453,219	10,052,620
International Equity Fund	12,396,226	10,645,817
U.S. Equity Fund	48,492,835	41,046,656
Multiple Asset Fund	7,116,421	6,136,489
Fixed income:		
FNMA's, GNMA's, FHLMC's	<u>78,162</u>	<u>87,468</u>
	<u>\$ 127,816,746</u>	<u>\$110,886,138</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.
- 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.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 4. Long-Term Investments (Continued)

Moderate Balanced Fund - The Moderate 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>2020</u>	<u>2019</u>
Fixed Income Fund	\$ 4,204,299	\$ 4,184,993
Moderate Balanced Fund	107,076,167	91,965,915
Aggressive Balanced Fund	7,116,421	6,136,489
Conservative Balanced Fund	9,341,697	8,511,273
Other investments	<u>78,162</u>	<u>87,468</u>
	<u>\$ 127,816,746</u>	<u>\$ 110,886,138</u>

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 1,150,955	\$ 1,460,330
Unrealized appreciation	8,704,358	2,181,408
Net realized gains	<u>1,185,050</u>	<u>6,718,387</u>
Net investment return	<u>\$ 11,040,363</u>	<u>\$ 10,360,125</u>

In addition, net investment return allocated to custodial, unitrust, and annuity accounts was \$7,312,925 and \$6,748,549 during 2020 and 2019, respectively.

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.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 5. Endowment (Continued)

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, 2020, funds with original gift values of \$254,535, fair values of \$227,965, and deficiencies of \$26,570 were reported in net assets with donor restrictions. At December 31, 2019, funds with original gift values of \$532,767, fair values of \$493,632, and deficiencies of \$39,135 were reported in net assets with donor restrictions.

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

	2020		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,288,918	\$ -	\$ 1,288,918
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	40,454,181	40,454,181
Accumulated investment gains	-	<u>26,072,026</u>	<u>26,072,026</u>
	<u>\$ 1,288,918</u>	<u>\$66,526,207</u>	<u>\$ 67,815,125</u>
	2019		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,123,842	\$ -	\$ 1,123,842
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	39,417,495	39,417,495
Accumulated investment gains	-	<u>18,512,149</u>	<u>18,512,149</u>
	<u>\$ 1,123,842</u>	<u>\$57,929,644</u>	<u>\$ 59,053,486</u>

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 5. Endowment (Continued)

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

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, January 1, 2019	\$ 980,605	\$50,297,178	\$ 51,277,783
Investment return, including investment income, realized and unrealized gains	190,453	8,947,299	9,137,752
Contributions	13,840	394,414	408,254
Appropriation of endowment assets for expenditure	(61,131)	(1,409,682)	(1,470,813)
Other changes:			
Transfer to custodial account	-	(442,403)	(442,403)
Net asset transfers from affiliates	<u>75</u>	<u>142,838</u>	<u>142,913</u>
Endowment net assets, December 31, 2019	<u>\$ 1,123,842</u>	<u>\$57,929,644</u>	<u>\$ 59,053,486</u>
Endowment net assets, January 1, 2020	\$ 1,123,842	\$57,929,644	\$ 59,053,486
Investment return, including investment income, realized and unrealized gains	196,927	9,484,252	9,681,179
Contributions	5,411	997,601	1,003,012
Appropriation of endowment assets for expenditure	(37,312)	(1,924,375)	(1,961,687)
Other changes:			
Net asset transfers from affiliates	<u>50</u>	<u>39,085</u>	<u>39,135</u>
Endowment net assets, December 31, 2020	<u>\$ 1,288,918</u>	<u>\$66,526,207</u>	<u>\$ 67,815,125</u>

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.

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 6. Fair Value Measurements (Continued)

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The 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 Funds 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:

	2020	
	<u>Level 2</u>	<u>Total</u>
Fixed income	\$ 78,162	\$ 78,162
Total assets in the fair value hierarchy	<u>\$ 78,162</u>	78,162
Investments measured at NAV:		
Wespath Investment Funds ⁽¹⁾		<u>127,738,584</u>
Total assets at fair value		<u>\$ 127,816,746</u>

(Continued)

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 6. Fair Value Measurements (Continued)

	2019	
	<u>Level 2</u>	<u>Total</u>
Fixed income	\$ 87,468	\$ 87,468
Total assets in the fair value hierarchy	<u>\$ 87,468</u>	87,468
Investments measured at NAV: Wespath Investment Funds ⁽¹⁾		<u>110,798,670</u>
Total assets at fair value		<u>\$ 110,886,138</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 statements 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 \$30,351 and \$27,995 during 2020 and 2019, respectively.

Note 8. Operating Lease

The Foundation leases office space under a five-year operating lease, with an optional 5-year renewal term. Total rent expense incurred under operating leases totaled \$66,285 and \$44,715 for the years ended December 31, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

<u>December 31</u>	
2021	\$ 66,285
2022	66,285
2023	66,285
2024	<u>33,142</u>
	<u>\$ 231,997</u>

Note 9. Administrative Fees

The Foundation charged an annualized administrative fee equal to 0.75% of account value to each account during 2020 and 2019. 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, 2020 and 2019, the total administrative fee charged to all trusts, custodial, annuity, and unitrusts was \$846,232 and \$788,930, respectively.

UNITED METHODIST FOUNDATION OF WEST VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 10. Uncertainties

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The pandemic adversely affected global economic activity and greatly contributed to volatility in financial markets across the world. While conditions have stabilized domestically and in many parts of the world, the fluidity of this situation precludes management from making a reasonable estimate as to the ultimate adverse impact of the pandemic on the Foundation’s future results of operations, financial condition and liquidity at this time. Depending on the severity and length of the outbreak, this pandemic could present material uncertainty and risk with respect to the Foundation, including its performance, the liquidity of its investments, and on its overall financial condition.

Since 1972, The United Methodist 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 2020, 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 believe parts of the plan are 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. 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 because of the pandemic. It has been rescheduled for August 29 through September 6, 2022.

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 United Methodist 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.