

UNITED METHODIST FOUNDATION OF MICHIGAN AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS AND
CONSOLIDATING INFORMATION**

For the Years Ended December 31, 2018, 2017, and 2016

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
United Methodist Foundation of Michigan and Subsidiary
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United Methodist Foundation of Michigan and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated financial statements.

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note A to the financial statements, the “Organization” implemented Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, the “Organization” has adjusted the presentation in these financial statements. The ASU has been applied retrospectively to all periods presented and had no material impact on the classification of net assets. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United Methodist Foundation of Michigan and Subsidiary as of December 31, 2018, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information contained on pages 17-20 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Seber Tans, PLC
Kalamazoo, Michigan
March 31, 2019

United Methodist Foundation of Michigan and Subsidiary
Consolidated Statements of Financial Position
December 31, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
ASSETS			
Cash and cash equivalents	\$ 3,531,148	\$ 5,591,982	\$ 8,411,382
Investments	87,382,526	98,422,708	85,386,374
Accrued income	242,957	246,526	202,262
Other assets	3,250	2,179	8,558
Notes receivable	61,763	74,210	81,795
Property and equipment, net	<u>23,740</u>	<u>23,780</u>	<u>10,020</u>
Total Assets	<u>\$ 91,245,384</u>	<u>\$ 104,361,385</u>	<u>\$ 94,100,391</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 53,258	\$ 54,446	\$ 104,321
Notes payable	61,763	74,210	82,596
Funds held for other parties			
UMF collective investment funds	54,847,007	60,694,347	54,406,715
Pooled trust funds	8,236,304	9,253,571	8,658,351
Other managed funds	<u>25,690,913</u>	<u>31,782,342</u>	<u>28,580,162</u>
Total Liabilities	<u>88,889,245</u>	<u>101,858,916</u>	<u>91,832,145</u>
Net Assets Without Donor Restrictions			
Undesignated	631,282	649,636	629,872
Board Designated for endowments	<u>1,724,857</u>	<u>1,852,833</u>	<u>1,638,374</u>
Total Net Assets	<u>2,356,139</u>	<u>2,502,469</u>	<u>2,268,246</u>
Total Liabilities and Net Assets	<u>\$ 91,245,384</u>	<u>\$ 104,361,385</u>	<u>\$ 94,100,391</u>

See accompanying notes to financial statements.

United Methodist Foundation of Michigan and Subsidiary
Consolidated Statements of Activities
For the Years Ended December 30, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Support and Revenue			
Contributions	\$ 84,889	\$ 114,225	\$ 62,396
Fund administrative fees	691,432	658,621	623,544
Other income	1,160	19,269	10,879
Total	<u>777,481</u>	<u>792,115</u>	<u>696,819</u>
Dividends and interest	2,717,119	2,537,523	2,181,234
Less dividends and interest allocated to funds held for other parties	<u>(2,649,158)</u>	<u>(2,476,315)</u>	<u>(2,135,843)</u>
Net Dividends and Interest	<u>67,961</u>	<u>61,208</u>	<u>45,391</u>
Realized and unrealized gain (loss) on investments	(9,847,690)	11,768,780	5,770,355
Less realized and unrealized (gain) loss on investments allocated to funds held for other parties	<u>9,674,132</u>	<u>(11,495,952)</u>	<u>(5,685,296)</u>
Net Realized and Unrealized Gain (Loss) on Investments	<u>(173,558)</u>	<u>272,828</u>	<u>85,059</u>
Net Support and Revenue	<u>671,884</u>	<u>1,126,151</u>	<u>827,269</u>
Expenses			
Investment management fees and other expenses	1,446,144	842,625	787,218
Less investment management fees and other expenses on funds held for other parties	<u>(1,361,289)</u>	<u>(689,903)</u>	<u>(757,245)</u>
Total Investment Management Fees	<u>84,855</u>	<u>152,722</u>	<u>29,973</u>
Administrative Expenses			
Salaries and benefits	463,185	466,618	401,239
Professional fees	48,780	68,456	64,490
Office expenses	86,293	60,653	72,238
Housing and utility allowances	55,000	55,000	55,000
Travel	38,266	51,543	45,758
Professional development	9,693	10,791	12,158
Telephone	10,952	8,227	10,115
National association expense	7,498	6,504	6,158
Promotion	4,889	5,529	4,810
Depreciation	6,737	4,080	5,617
Board meetings	213	957	865
Resource materials	1,853	848	702
Total Administrative Expenses	<u>733,359</u>	<u>739,206</u>	<u>679,150</u>
Total Expenses	<u>818,214</u>	<u>891,928</u>	<u>709,123</u>
Change in Net Assets	<u>(146,330)</u>	<u>234,223</u>	<u>118,146</u>
Net Assets at Beginning of Year	<u>2,502,469</u>	<u>2,268,246</u>	<u>2,150,100</u>
Net Assets at End of Year	<u><u>\$ 2,356,139</u></u>	<u><u>\$ 2,502,469</u></u>	<u><u>\$ 2,268,246</u></u>

See accompanying notes to financial statements.

United Methodist Foundation of Michigan and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended December 30, 2018, 2017 and 2016

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ (146,330)	\$ 234,224	\$ 118,146
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	6,737	4,080	5,617
Unrealized (gain) loss on investments	173,558	(272,828)	(85,059)
Change in:			
Other assets	(1,071)	6,379	8,353
Accounts payable	(1,188)	(45,167)	88,794
Net Cash Provided (Used) by Operating Activities	<u>31,706</u>	<u>(73,312)</u>	<u>135,851</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net changes in managed funds:			
UMF collective investment funds	(969,504)	(1,184,429)	823,430
Pooled trust funds	(768,002)	358,743	167,905
Other managed trust funds	(346,423)	(1,915,397)	(541,827)
Net change in funds functioning as endowments	(1,914)	13,637	(41,729)
Payments for property and equipment	(6,697)	(17,841)	(3,549)
Increase in note receivable	-	-	(85,000)
Payments received on note receivable	12,447	7,585	2,404
Net Cash Provided (Used) by Investing Activities	<u>(2,080,093)</u>	<u>(2,737,702)</u>	<u>321,634</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from note payable	-	-	85,000
Payments on note payable	(12,447)	(8,386)	(1,602)
Net Cash Provided (Used) by Financing Activities	<u>(12,447)</u>	<u>(8,386)</u>	<u>83,398</u>
Change in Cash	(2,060,834)	(2,819,400)	540,883
Cash at Beginning of Year	<u>5,591,982</u>	<u>8,411,382</u>	<u>7,870,499</u>
Cash at End of Year	<u>\$ 3,531,148</u>	<u>\$ 5,591,982</u>	<u>\$ 8,411,382</u>

See accompanying notes to financial statements.

United Methodist Foundation of Michigan and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2018, 2017 and 2016

NOTE A – Summary of Significant Accounting Policies

Organization Purpose

The United Methodist Foundation of Michigan (the Foundation) is a non-profit corporation organized and existing under the laws of the state of Michigan. The Foundation is identified through its common religious faith with the United Methodist Church. The United Methodist Church is a Protestant denomination which was organized in 1968 through the union of the Methodist Church and the Evangelical United Brethren Church and is composed of approximately 38,500 organized churches throughout the United States and 4,000 outside the United States with approximately 9,000,000 members.

The Foundation's mission is to strengthen and enhance the ministry of the United Methodist Churches in Michigan. The Foundation's Articles of Incorporation provide the purposes of the Foundation and shall include:

To provide resources to United Methodists and United Methodist Churches within the Detroit and West Michigan Annual Conferences regarding charitable giving and estate planning principles;

To encourage stewardship of accumulated resources through promotional and educational opportunities, in cooperation with other conference units charged with stewardships concerns and;

To receive and administer gifts, trusts, devises, and conveyances, and the income therefrom, of real and personal property for United Methodist purposes.

The Foundation fulfills its mission by performing, among others, the following activities:

Act as trustee and administrator of gifts to churches, institutions, or causes of the United Methodist Church.

Solicit gifts for these institutions or causes in Michigan.

Develop educational and promotional resources for use within Michigan.

Receive bequests, gifts, and conveyances, the income of which is devoted to specific or general United Methodist purposes.

Provide consulting and resources for local congregations in securing their resources.

Offer United Methodists and other Michigan-based charitable organizations an opportunity for professional investment and fund management.

Tax Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)3 of the Internal Revenue Code and from state income taxes. Contributions to the Foundation are deductible as charitable contributions for federal income tax purposes. In addition, the Foundation has been determined not to be a private foundation within the meaning of Section 509 (a) of the Code.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE A – Summary of Significant Accounting Policies (Continued)

Basis of Consolidation

The consolidated financial statements include the accounts of the Foundation and its subsidiary, UMF Collective Investment Funds of Michigan, LLC (UMF Funds). All material intercompany accounts and transactions have been eliminated in consolidation.

UMF Funds was formed on May 26, 2011, as a nonprofit limited liability company organized and existing under the laws of the state of Delaware. UMF Funds was organized and operates to further the purposes of the Foundation by providing one or more investment funds or portfolios maintained for the collective investment of eligible participants. The Foundation is the sole member of the UMF Funds.

Basis of Presentation

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

The net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Foundation is required to report information regarding its financial position and activities in the following two classes of net assets:

Net assets without donor restrictions generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses on investments, less the expenses incurred in providing services, raising contributions, and performing administrative functions. Unrestricted net assets are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Foundation's Board of Directors (Board).

Net assets with donor restrictions generally result from contributions and other inflows of assets, which are held for specific purposes and are stipulated by the donor. Restricted net assets are released by the passage of time or by actions of the Foundation, pursuant to the donor's stipulations. The Foundation currently has no net assets with donor restrictions.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all checking and money market accounts to be cash equivalents.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE A – Summary of Significant Accounting Policies (Continued)

Financial Instruments

The Foundation's financial instruments consist of cash balances, certificates of deposit, Mission and Church Extension investment accounts, marketable securities, fixed income securities, accounts receivable and accounts payable. The Foundation's estimates of fair value approximate their carrying amounts as of December 31, 2018, 2017, and 2016.

Investments and Investment Allocation

Investments are stated at fair value based on quoted market prices. Investment income or loss attributable to funds held by others has been allocated to those assets. Certain investments and the related income can be specifically identified. All other investments allocate investment income in relation to their pro-rata interest. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) on Foundation assets is included in the increase or decrease in unrestricted net assets.

Property and Equipment

The Foundation follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$500. Assets are depreciated over their estimated useful lives on a straight-line basis.

Contributions

Contributions received are recorded as unrestricted or donor restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expired in the fiscal year in which the contribution was received. All other donor-restricted contributions are reported as increases in donor restricted net assets. The Foundation did not receive any donor restricted contributions in the years ended December 31, 2018, 2017 and 2016. When a restriction expires, donor restricted net assets are reclassified to unrestricted net assets.

Contributed Services

Donated services are recognized as contributions if services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. During the years ended December 31, 2018, 2017, and 2016, no contributed services met the criteria for recognition.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE A – Summary of Significant Accounting Policies (Continued)

Funds Held For Investment

UMF Collective Investment Funds

The Foundation serves as the administrator of The Stock Fund, The Bond Fund, The Balanced Fund (the "Funds") and the Collective Money Market Investment Account (the "MMIA"), which are successors to the UMF Stock Fund, UMF Bond Fund and the Money Market Investment Account administered by the Foundation prior to the formation of UMF Funds. The Funds and the MMIA are available exclusively for the collective investment and reinvestment by United Methodist churches and congregations and other charitable organizations located in Michigan. The Foundation may participate by investing its own eligible assets in the Funds and the MMIA. These assets include endowment funds and funds functioning as endowments. Each participant in the Funds and the MMIA must, at all times, be exempt from federal income taxation under Section 501(c)(3) or other applicable sections of the Internal Revenue Code. Individuals may not open a participant account or otherwise contribute funds to the Funds and the MMIA. All financial benefits of the Funds and the MMIA will be distributed exclusively to its eligible participants to be used solely for their tax-exempt purposes and participants must represent the funds will be so used.

Pooled Trust Fund

The Foundation serves as administrator of the Pooled Trust Fund, which is available for exclusive investment by the Foundation of assets it receives from contributions through charitable remainder trusts, other charitable trusts, funds operating as charitable trusts, or gift annuity contracts.

Other Managed Trust Funds

The Foundation serves as administrator of the Other Managed Trust Funds, which, from time to time, receives contributions and bequests from charitable donors who have directed or requested the Foundation use the donated funds for a specific purpose or to make payments to specific individuals or groups. The Foundation makes every effort to comply with such requests and generally treats each such contribution as if it were a charitable trust for which the Foundation acts as trustee.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a natural basis in the statement of activities. Classification of program and supporting services expenses are determined based on the actual dollar amount incurred, therefore management has determined no allocation is necessary. The investment management fees are program expenses and the remaining expenses are classified as supporting services.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE A – Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and had no material impact on the classification of net assets.

NOTE B – Financial Instruments and Fair Value Measurements

As described in Note A, the Foundation's estimates of the fair value of financial assets and liabilities approximate carrying value. Financial accounting standards establish a framework for measuring fair value. 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 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 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.

Cash and cash equivalents

The Foundation considers the carrying values of these financial instruments to approximate fair value because of the short period of time between origination of the instruments and their expected realization.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE B – Financial Instruments and Fair Value Measurements (Continued)

Investments

The Foundation's investment accounts include Level 1 and Level 2 securities. The Foundation's Level 1 securities consist of equity investments and equity mutual funds. The Foundation's Level 2 securities consist of certificates of deposits, Mission and Church Extension Trust Fund investment accounts, fixed income investments and fixed income mutual funds. The Foundation has no Level 3 investments.

The following table summarizes the valuation of the Foundation's financial instruments by the aforementioned valuation categories at December 31, 2018:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
UMF COLLECTIVE INVESTMENT FUNDS				
Stock Fund				
Common & preferred stocks	\$ 34,180,413	\$34,180,413	\$ -	\$ -
Bond Fund				
Certificates of deposit	803,611	-	803,611	-
United States Treasury and government agency securities	886,032	-	886,032	-
Corporate bonds	17,355,498	-	17,355,498	-
Common & preferred stocks	1,528,505	1,528,505	-	-
Total UMF Bond Fund	<u>20,573,646</u>	<u>1,528,505</u>	<u>19,045,141</u>	<u>-</u>
POOLED TRUST FUND				
MCE-Investment accounts	880,054	-	880,054	-
United States Treasury and government agency securities	237,783	-	237,783	-
Corporate bonds	747,933	-	747,933	-
Common & preferred stocks	6,156,233	6,156,233	-	-
Total Pooled Trust Funds	<u>8,022,003</u>	<u>6,156,233</u>	<u>1,865,770</u>	<u>-</u>
OTHER MANAGED TRUST FUNDS				
Certificates of deposit	104,815	-	104,815	-
United States Treasury and government agency securities	3,407,262	-	3,407,262	-
Corporate bonds	3,832,975	-	3,832,975	-
Common & preferred stocks	17,261,412	17,261,412	-	-
Total Other Managed Trust Funds	<u>24,606,464</u>	<u>17,261,412</u>	<u>7,345,052</u>	<u>-</u>
Totals	<u>\$ 87,382,526</u>	<u>\$ 59,126,563</u>	<u>\$ 28,255,963</u>	<u>\$ -</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE B – Financial Instruments and Fair Value Measurements (Continued)

The following table summarizes the valuation of the Foundation's financial instruments by the aforementioned valuation categories at December 31, 2017:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
UMF COLLECTIVE INVESTMENT FUNDS				
Stock Fund				
Common & preferred stocks	\$ 38,427,708	\$ 38,427,708	\$ -	\$ -
Bond Fund				
Certificates of deposit	1,425,916	-	1,425,916	-
United States Treasury and government agency securities	1,504,040	-	1,504,040	-
Corporate bonds	16,602,728	-	16,602,728	-
Common & preferred stocks	1,839,886	1,839,886	-	-
Total UMF Bond Fund	<u>21,372,570</u>	<u>1,839,886</u>	<u>19,532,684</u>	<u>-</u>
POOLED TRUST FUND				
MCE-Investment accounts	892,377	-	892,377	-
United States Treasury and government agency securities	248,815	-	248,815	-
Corporate bonds	793,437	-	793,437	-
Common & preferred Stocks	6,335,514	6,335,514	-	-
Total Pooled Trust Funds	<u>8,270,143</u>	<u>6,335,514</u>	<u>1,934,629</u>	<u>-</u>
OTHER MANAGED TRUST FUNDS				
Certificates of deposit	104,790		104,790	
United States Treasury and government agency securities	4,119,092	-	4,119,092	-
Corporate bonds	3,749,310	-	3,749,310	-
Common & preferred stocks	22,379,095	22,379,095	-	-
Total Other Managed Trust Funds	<u>30,352,287</u>	<u>22,379,095</u>	<u>7,973,192</u>	<u>-</u>
Totals	<u>\$ 98,422,708</u>	<u>\$ 68,982,203</u>	<u>\$ 29,440,505</u>	<u>\$ -</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE B – Financial Instruments and Fair Value Measurements (Continued)

The following table summarizes the valuation of the Foundation's financial instruments by the aforementioned valuation categories at December 31, 2016:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
UMF COLLECTIVE INVESTMENT FUNDS				
Stock Fund				
Common & preferred stocks	\$ 34,146,721	\$34,146,721	\$ -	\$ -
Bond Fund				
Certificates of deposit	535,785	-	535,785	-
United States Treasury and government agency securities	1,560,210	-	1,560,210	-
Corporate bonds	14,435,558	-	14,435,558	-
Common & preferred stocks	1,408,088	1,408,088	-	-
Total UMF Bond Fund	17,939,641	1,408,088	16,531,553	-
POOLED TRUST FUND				
MCE-Investment accounts	880,054	-	880,054	-
United States Treasury and government agency securities	269,592	-	269,592	-
Corporate bonds	897,107	-	897,107	-
Common & preferred stocks	5,989,859	5,989,859	-	-
Total Pooled Trust Funds	8,036,612	5,989,859	2,046,753	-
OTHER MANAGED TRUST FUNDS				
United States Treasury and government agency securities	2,100,500	-	2,100,500	-
Corporate bonds	1,787,907	-	1,787,907	-
Common & preferred stocks	21,374,993	21,374,993	-	-
Total Other Managed Trust Funds	25,263,400	21,374,993	3,888,407	-
Totals	\$ 85,386,374	\$62,919,661	\$22,466,713	\$ -

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE C – Endowment Funds

The Financial Accounting Standards Board (FASB) has issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also improves disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The Foundation has applied FSP FAS 117-1 to their endowment funds.

Gifts and operating gains and losses have been placed in a Board designated endowment. The Board intends to permanently invest the funds. Except for small grants made from these funds, the income earned from these funds is applied to operating expenses of the Foundation. At December 31, 2018, 2017 and 2016, these funds were invested in the UMF Collective Investment Funds.

Grants from income may be made for specific purposes as voted by the Board. The balances of Board-designated endowments at December 31 were as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Endowment Fund	\$ 1,002,249	\$ 1,111,946	\$ 998,319
Reserve Fund	567,872	570,428	479,966
Stewardship Fund	32,001	35,373	32,140
Trella Rough Trust for Small Church Development	<u>122,735</u>	<u>135,087</u>	<u>127,949</u>
Total	<u>\$ 1,724,857</u>	<u>\$ 1,852,834</u>	<u>\$ 1,638,374</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE C – Endowment Funds (Continued)

Changes in Board-designated endowments for the years ending December 31 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Endowment net assets, beginning of year	\$ 1,852,833	\$ 1,638,374	\$ 1,516,372
Investment income	55,587	49,052	36,047
Net appreciation (realized and unrealized)	<u>(141,005)</u>	<u>218,588</u>	<u>68,061</u>
Total Investment Return	(85,418)	267,640	104,108
Contributions	50,110	42,625	102,256
Appropriation of endowment assets for expenditure	<u>(92,668)</u>	<u>(95,806)</u>	<u>(84,362)</u>
Endowment net assets, end of year	<u>\$ 1,724,857</u>	<u>\$ 1,852,833</u>	<u>\$ 1,638,374</u>

NOTE D – Property and Equipment

As of December 31, fixed assets consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Office Equipment	\$ 100,482	\$ 93,785	\$ 75,945
Less: Accumulated depreciation	<u>76,742</u>	<u>70,005</u>	<u>65,925</u>
Property and Equipment, net	<u>\$ 23,740</u>	<u>\$ 23,780</u>	<u>\$ 10,020</u>

NOTE E – Facilities

The Foundation leased space, furniture and equipment from the West Michigan Conference of the United Methodist Church through October 31, 2017. Effective November 1, 2017, the Foundation began leasing space under a 62-month non-cancellable lease agreement. The lease requires monthly payments of \$1,950 through December 31, 2018, increasing by 2% annually thereafter. The Foundation leases additional office space in Brighton, Michigan, under a 36-month non-cancellable agreement. The lease requires monthly payments of \$675 through June 20, 2021. Rent expense under these agreements totaled \$37,536, \$10,980, and \$7,080 for the years ended December 31, 2018, 2017 and 2016, respectively.

Future minimum lease payments required under the non-cancellable lease agreement for the years ending December 31 are as follows:

2019	31,968
2020	32,445
2021	28,882
2022	<u>25,329</u>
	<u>\$ 118,624</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE F – Investment Concentration and Credit Risk

The Foundation's investment policy requires the investment portfolio to be widely diversified. Except for a large holding of United States Treasury securities, no more than 2.0% of the portfolio is represented by the securities of any one issuer. Except for the investment accounts of the Mission and Church Extension Trust Fund, which are held only by the Pooled Trust Fund, all corporate bonds and other debt securities held are of investment grade. There are no bond maturities extending beyond 2044 or bonds whose market values are materially in excess of maturity value.

The common stock portfolio, while diversified, is subject to general risks of a market decline. The decline could be caused by changing prospects for the economy as a whole, or particular companies, changing investor psychology, higher interest rates or other developments.

The Foundation's investments and cash and cash equivalents stratified by investment type as percentage of total assets at December 31:

	2018	2017	2016
Cash and cash equivalents	3.87%	5.36%	8.94%
Certificates of deposit	1.00%	1.47%	0.57%
MCE-Investment accounts	0.96%	0.86%	0.94%
United States Treasury and government agency securities	4.97%	5.63%	4.18%
Corporate bonds	24.04%	20.26%	18.19%
Common & preferred stock	64.80%	66.10%	66.86%
Other Assets	0.36%	0.32%	0.32%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

NOTE G – Church Note Receivable/ Payable

The Foundation entered into a promissory note agreement with an anonymous source on behalf of St. Paul's Church. The promissory note is payable to the anonymous donor in monthly installments of \$801.29, including interest at 2.50%, with any unpaid balance due on September 1, 2026. The Foundation has a note receivable with the church bearing the same payment terms as the promissory note.

NOTE H – Related Party

Included in the Foundation's investments and funds held for other parties are amounts held at and for the The Mission and Church Extension Trust Fund of the Michigan Area of the United Methodist Church (the Trust), a related nonprofit corporation. Investments held by the Trust on behalf of the Foundation totaled approximately \$880,000 as of December 31, 2018, 2017 and 2016. Investments held by the Foundation for the Trust totaled approximately \$1,050,000, \$1,750,000, and \$1,450,000 as of December 31, 2018, 2017 and 2016, respectively.

The Trust also reimburses the Foundation for payroll and other administrative expenses. Payroll and administrative expenses paid to the Foundation by the Trust are netted against the related expense and totaled approximately \$114,000, \$103,000, and \$96,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2018, 2017 and 2016

NOTE I – Cash Flow Information

The Organization had the following cash flow from investing activities:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Investment Activity:			
Purchases of Investments	<u>\$ 45,490,220</u>	<u>\$ 54,033,697</u>	<u>\$ 65,748,013</u>
Proceeds from Sale of Investments	<u>\$ 46,847,514</u>	<u>\$ 53,622,585</u>	<u>\$ 60,267,767</u>
Funds Held for Others:			
Additions and Transfers	<u>\$ 3,792,948</u>	<u>\$ 15,439,703</u>	<u>\$ 20,240,287</u>
Redemptions and Transfers	<u>\$ (8,534,365)</u>	<u>\$ (17,701,740)</u>	<u>\$ (17,121,380)</u>

NOTE J – Liquidity and Availability

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,531,148	\$ 5,591,982	\$ 8,411,382
Investments	<u>87,382,526</u>	<u>98,422,708</u>	<u>85,386,374</u>
Total financial assets	90,913,674	104,014,690	93,797,756
Less amounts not available to be used within one year			
Funds held for other parties	88,774,224	101,730,260	91,645,228
Board designated endowment	<u>1,724,857</u>	<u>1,852,833</u>	<u>1,638,374</u>
	<u>90,499,081</u>	<u>103,583,093</u>	<u>93,283,602</u>
Total available for operations	<u>\$ 414,593</u>	<u>\$ 431,597</u>	<u>\$ 514,154</u>

NOTE K – Subsequent Events

Effective January 1, 2019, the Executive Board of the Foundation became the controlling Board of The Mission and Church Extension Trust Fund of the Michigan Area of the United Methodist Church, a nonprofit corporation. Management maintains that this action will have no effect on the continuing operations of the Foundation.

Management has evaluated events subsequent from the date of the statement of financial position through the date of this report, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

United Methodist Foundation of Michigan and Subsidiary
Schedules of Combining Financial Position
December 31, 2018, 2017 and 2016

	Pooled Trust Fund	Other Managed Trust Funds	General Operating
ASSETS			
Cash and cash equivalents	\$ 199,395	\$ 1,034,744	\$ 122,959
Investments	8,022,003	24,606,464	2,259,448
Accrued income	14,906	49,705	-
Other assets	-	-	3,250
Property and equipment, net	-	-	23,740
Notes receivable	-	-	61,763
Total Assets	<u>\$ 8,236,304</u>	<u>\$ 25,690,913</u>	<u>\$ 2,471,160</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 53,258
Notes payable	-	-	61,763
Funds held for other parties			
UMF Funds	-	-	-
Pooled trust funds	8,236,304	-	-
Other managed funds	-	25,690,913	-
Total Liabilities	<u>8,236,304</u>	<u>25,690,913</u>	<u>115,021</u>
Net Assets Without Donor Restrictions:			
Unrestricted	-	-	631,282
Funds functioning as endowment	-	-	1,724,857
Total Net Assets	<u>-</u>	<u>-</u>	<u>2,356,139</u>
Total Liabilities and Net Assets	<u>\$ 8,236,304</u>	<u>\$ 25,690,913</u>	<u>\$ 2,471,160</u>

UMF Collective Investment Funds of Michigan LLC	Eliminations	2018 Total	2017 Total	2016 Total
\$ 2,174,050	\$ -	\$ 3,531,148	\$ 5,591,982	\$ 8,411,382
54,754,059	(2,259,448)	87,382,526	98,422,708	85,386,374
178,346	-	242,957	246,526	202,262
-	-	3,250	2,179	8,558
-	-	23,740	23,780	10,020
-	-	61,763	74,210	81,795
\$ 57,106,455	\$ (2,259,448)	\$ 91,245,384	\$ 104,361,385	\$ 94,100,391
\$ -	\$ -	\$ 53,258	\$ 54,446	\$ 104,321
-	-	61,763	74,210	82,596
57,106,455	(2,259,448)	54,847,007	60,694,347	54,406,715
-	-	8,236,304	9,253,571	8,658,351
-	-	25,690,913	31,782,342	28,580,162
57,106,455	(2,259,448)	88,889,245	101,858,916	91,832,145
-	-	631,282	649,636	629,872
-	-	1,724,857	1,852,833	1,638,374
-	-	2,356,139	2,502,469	2,268,246
\$ 57,106,455	\$ (2,259,448)	\$ 91,245,384	\$ 104,361,385	\$ 94,100,391

See Independent Auditors' Report.

**United Methodist Foundation of Michigan and Subsidiary
Schedule of Other Managed Trust Funds
December 31, 2018**

	<u>FAIR MARKET VALUE</u>
Agency Funds:	
Board of Pension of the West Michigan Conference of the United Methodist Church	\$ 15,446,490
West Michigan Conference Trustees Investment Fund	550,471
Bayshore Camp	5,064,759
Detroit Annual Conference Church Endowment	2,267,528
Camp Endowment	282,497
WMRP Endowment	764,688
Combined Fund	724,695
University United Methodist Church	<u>104,391</u>
Total Agency Funds	<u>25,205,519</u>
Trust Funds:	
Bellevue United Methodist Church - Madison Fund	52,145
Dale & Mary Holmes Trust	<u>433,249</u>
Total Trust Funds	<u>485,394</u>
TOTAL OTHER MANAGED TRUST FUNDS	<u><u>\$ 25,690,913</u></u>

See Independent Auditors' Report.

**United Methodist Foundation of Michigan and Subsidiary
Schedule of Funds Held for Investment - Financial Position
December 31, 2018**

FINANCIAL POSITION			
	AMORTIZED COST	ESTIMATED FAIR VALUE	GROSS UNREALIZED HOLDING GAINS(LOSSES)
UMF COLLECTIVE INVESTMENT FUNDS			
Stock Fund			
Cash and cash equivalents	\$ 947,195	\$ 947,195	\$ -
Common & preferred stocks	33,409,043	34,180,413	771,370
Total UMF Stock Fund	<u>34,356,238</u>	<u>35,127,608</u>	<u>771,370</u>
Bond Fund			
Cash and cash equivalents	833,146	833,146	-
Certificates of deposit	817,815	803,611	(14,204)
United States Treasury and government agency securities	905,375	886,032	(19,343)
Corporate bonds	17,807,314	17,355,498	(451,816)
Common & preferred stocks	1,354,175	1,528,505	174,330
Accrued income	178,346	178,346	-
Total UMF Bond Fund	<u>21,896,171</u>	<u>21,585,138</u>	<u>(311,033)</u>
Money Market Investment Account			
Cash and cash equivalents	<u>393,709</u>	<u>393,709</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 56,646,118</u>	<u>\$ 57,106,455</u>	<u>\$ 460,337</u>
POOLED TRUST FUND			
Cash and cash equivalents	\$ 199,395	\$ 199,395	\$ -
MCE-Investment accounts	880,054	880,054	-
United States Treasury and government agency securities	233,282	237,783	4,501
Corporate bonds	764,126	747,933	(16,193)
Common & preferred stocks	6,042,861	6,156,233	113,372
Accrued income	14,906	14,906	-
TOTAL NET ASSETS	<u>\$ 8,134,624</u>	<u>\$ 8,236,304</u>	<u>\$ 101,680</u>
OTHER MANAGED TRUST FUNDS			
Cash and cash equivalents	\$ 1,034,744	\$ 1,034,744	\$ -
Time certificates	105,000	104,815	(185)
United States Treasury and government agency securities	3,452,441	3,407,262	(45,179)
Corporate bonds	3,907,459	3,832,975	(74,484)
Common & preferred stocks	17,392,404	17,261,412	(130,992)
Accrued income	49,705	49,705	-
TOTAL NET ASSETS	<u>\$ 25,941,753</u>	<u>\$ 25,690,913</u>	<u>\$ (250,840)</u>

See Independent Auditors' Report.

**United Methodist Foundation of Michigan and Subsidiary
Schedule of Funds Held for Investment - Financial Activity
December 31, 2018**

FINANCIAL ACTIVITY					
	UMF COLLECTIVE INVESTMENT FUNDS OF MICHIGAN, LLC			POOLED TRUST FUNDS	OTHER MANAGED TRUST FUNDS
	STOCK FUND	BOND FUND	MONEY MARKET INVESTMENT ACCOUNT		
INCOME FROM INVESTING OPERATIONS:					
Investment income	\$ 967,063	\$ 781,185	\$ 6,385	\$ 243,375	\$ 651,149
Net realized and unrealized gains (losses) on investments	(2,773,527)	(709,629)	-	(553,146)	(5,637,831)
Management and administrative fees	(387,519)	(210,788)	(146)	(119,855)	(642,981)
TOTAL INCOME FROM INVESTING OPERATIONS	(2,193,983)	(139,232)	6,239	(429,626)	(5,629,663)
FUND TRANSFERS					
Additions	1,871,641	968,075	4,664	423,460	525,108
Redemptions	(4,700,723)	(1,808,997)	(26,669)	(1,011,102)	(986,874)
NET ASSET VALUE - BEGINNING OF THE YEAR	40,150,673	22,565,292	409,475	9,253,572	31,782,342
NET ASSET VALUE - END OF THE YEAR	\$ 35,127,608	\$ 21,585,138	\$ 393,709	\$ 8,236,304	\$ 25,690,913
AVERAGE NET ASSET VALUE (NAV)	\$ 37,639,141	\$ 22,075,215	\$ 401,592	\$ 8,744,938	\$ 28,736,628
RETURN ON AVERAGE NAV:					
Income Return	2.57%	3.54%	1.59%	2.78%	2.27%
Capital Return	-7.37%	-3.21%	0.00%	-6.33%	-19.62%
Total Return	-4.80%	0.33%	1.59%	-3.55%	-17.35%
EXPENSES ON AVERAGE NAV	1.03%	0.95%	0.04%	1.37%	2.24%

The Average Net Asset Value (NAV) was determined by dividing the sum of net assets at January 1, 2018 and December 31, 2018 by a factor of 2. Historical annual calculation of investment return calculated on a daily basis may differ.