

UNITED METHODIST FOUNDATION OF MICHIGAN AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended December 31, 2019, 2018, and 2017

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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, 2019, 2018 and 2017, 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.

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, 2019, 2018 and 2017, 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 18-21 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, PLLC

Seber Tans, PLLC
Kalamazoo, Michigan
June 26, 2020

United Methodist Foundation of Michigan and Subsidiary
Consolidated Statements of Financial Position
December 31, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Cash and cash equivalents	\$ 7,362,271	\$ 3,531,148	\$ 5,591,982
Investments	105,707,504	87,382,526	98,422,708
Accrued income	265,514	242,957	246,526
Other assets	1,350	3,250	2,179
Mortgages and notes receivable	512,065	61,763	74,210
Property and equipment, net	17,118	23,740	23,780
Total Assets	<u>\$ 113,865,822</u>	<u>\$ 91,245,384</u>	<u>\$ 104,361,385</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 40,290	\$ 53,258	\$ 54,446
Notes payable	49,743	61,763	74,210
Funds held for other parties			
UMF collective investment funds	64,843,695	54,847,007	60,694,347
Pooled trust funds	10,807,841	8,236,304	9,253,571
Other managed funds	28,698,702	25,690,913	31,782,342
Total Liabilities	<u>104,440,271</u>	<u>88,889,245</u>	<u>101,858,916</u>
Net Assets Without Donor Restrictions			
Undesignated	1,188,075	631,282	649,636
Board designated for endowments	8,237,476	1,724,857	1,852,833
Total Net Assets	<u>9,425,551</u>	<u>2,356,139</u>	<u>2,502,469</u>
Total Liabilities and Net Assets	<u>\$ 113,865,822</u>	<u>\$ 91,245,384</u>	<u>\$ 104,361,385</u>

See Accompanying Notes to Financial Statements.

United Methodist Foundation of Michigan and Subsidiary
Consolidated Statements of Activities
For the Years Ended December 30, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Support and Revenue			
Contributions	\$ 30,407	\$ 84,889	\$ 114,225
Fund administrative fees	746,349	691,432	658,621
Other income	9,771	1,160	19,269
Total	<u>786,527</u>	<u>777,481</u>	<u>792,115</u>
Dividends and interest	2,602,231	2,717,119	2,537,523
Less dividends and interest allocated to funds held for other parties	<u>(2,470,496)</u>	<u>(2,649,158)</u>	<u>(2,476,315)</u>
Net Dividends and Interest	<u>131,735</u>	<u>67,961</u>	<u>61,208</u>
Realized and unrealized gain (loss) on investments	18,423,216	(9,847,690)	11,768,780
Less realized and unrealized (gain) loss on investments allocated to funds held for other parties	<u>(17,735,530)</u>	<u>9,674,132</u>	<u>(11,495,952)</u>
Net Realized and Unrealized Gain (Loss) on Investments	<u>687,686</u>	<u>(173,558)</u>	<u>272,828</u>
Net Support and Revenue	<u>1,605,948</u>	<u>671,884</u>	<u>1,126,151</u>
Expenses			
Program Expenses			
Investment management fees and other expenses	3,330,542	1,446,144	842,625
Less investment management fees and other expenses on funds held for other parties	<u>(3,235,077)</u>	<u>(1,361,289)</u>	<u>(689,903)</u>
Total Investment Management Fees	<u>95,465</u>	<u>84,855</u>	<u>152,722</u>
Other Program Expenses			
Salaries and benefits	314,354	354,937	342,020
Housing and utility allowances	55,000	55,000	55,000
Office expenses	48,262	48,009	28,208
Travel	33,761	38,266	51,543
Telephone	6,312	7,474	6,647
National association expense	5,984	7,498	6,504
Total Program Expenses	<u>559,138</u>	<u>596,039</u>	<u>642,644</u>
Supporting Services			
Salaries and benefits	97,239	108,248	124,598
Professional fees	79,419	48,780	68,456
Office expenses	37,392	38,285	32,445
Professional development	10,090	9,693	10,791
Depreciation	6,623	6,737	4,080
Promotion	4,675	4,889	5,529
Telephone	3,244	3,477	1,580
Board meetings	729	213	957
Resource materials	683	1,853	848
Total Supporting Services	<u>240,094</u>	<u>222,175</u>	<u>249,284</u>
Total Expenses	<u>799,232</u>	<u>818,214</u>	<u>891,928</u>
Change in Net Assets from Operations	806,716	(146,330)	234,223
Assets Merged from Acquisition of Operations	6,262,696	-	-
Total Change in Net Assets	7,069,412	(146,330)	234,223
Net Assets at Beginning of Year	<u>2,356,139</u>	<u>2,502,469</u>	<u>2,268,246</u>
Net Assets at End of Year	<u>\$ 9,425,551</u>	<u>\$ 2,356,139</u>	<u>\$ 2,502,469</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, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ 806,716	\$ (146,330)	\$ 234,223
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Depreciation	6,623	6,737	4,080
Unrealized (gain) loss on investments	(687,686)	173,558	(272,828)
Change in:			
Other assets	1,900	(1,071)	6,379
Accounts payable	(12,968)	(1,188)	(45,167)
Net Cash Provided by (Used in) Operating Activities	<u>114,585</u>	<u>31,706</u>	<u>(73,313)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net changes in managed funds:			
UMF collective investment funds	2,330,630	(969,504)	(1,184,428)
Pooled trust funds	585,625	(768,002)	358,743
Other managed trust funds	897,596	(346,423)	(1,915,397)
Net change in funds functioning as endowments	(97,313)	(1,914)	13,637
Payments for property and equipment	-	(6,697)	(17,841)
Payments received on note receivable	12,020	12,447	7,585
Net Cash Provided by (Used in) Investing Activities	<u>3,728,558</u>	<u>(2,080,093)</u>	<u>(2,737,701)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on note payable	<u>(12,020)</u>	<u>(12,447)</u>	<u>(8,386)</u>
Change in Cash	3,831,123	(2,060,834)	(2,819,400)
Cash at Beginning of Year	<u>3,531,148</u>	<u>5,591,982</u>	<u>8,411,382</u>
Cash at End of Year	\$ 7,362,271	\$ 3,531,148	\$ 5,591,982
Non-Cash Assets Merged from Acquisition of Operations	6,262,696	-	-

See Accompanying Notes to Financial Statements.

United Methodist Foundation of Michigan and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

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 including:

- To provide resources to United Methodists, United Methodist churches and organizations in Michigan that share common bonds and convictions 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.
- 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 Years Ended December 31, 2019, 2018 and 2017

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 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 – Net assets available for use in general and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulate time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. 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.

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.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

NOTE A – Summary of Significant Accounting Policies (Continued)

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.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of December 31, 2019, approximately \$7,136,500 of the Foundation's bank balances of approximately \$7,386,500 was exposed to custodial credit risk because they were uninsured and uncollateralized.

Risk

The Foundation utilizes various investment instruments, which are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in their values could occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Additionally, some investments held by the Foundation are invested in the securities of foreign companies, which involve special risks and considerations not typically associated with investing in securities of U.S. companies. These risks include devaluation of currencies and political and economic developments. Moreover, securities of many foreign companies and their markets may be less liquid and their prices more volatile than securities of comparable U.S. companies.

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, 2019, 2018, and 2017.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

NOTE A – Summary of Significant Accounting Policies (Continued)

Investments and Investment Allocation

Investments are stated at fair value based on quoted market prices. Investment income or loss attributable to funds held for 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 net assets without donor restrictions.

Investments are presented in the financial statements at fair value in accordance with accounting principles generally accepted in the United States of America. Changes in fair value are recorded as unrealized gains (losses). Realized gains (losses) are recorded upon the sale of the investments. Interest income is recognized under the accrual basis and dividend income is recognized on the ex-dividend date.

Investments are exposed to various risks such as interest rate, market and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

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.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

NOTE A – Summary of Significant Accounting Policies (Continued)

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.

Contributions

Contributions received are recorded as net assets with or without donor restrictions 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 net assets without donor restrictions if the restrictions expired in the fiscal year in which the contribution was received. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. The Foundation did not receive any donor restricted contributions in the years ended December 31, 2019, 2018 and 2017. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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, 2019, 2018, and 2017, no contributed services met the criteria for recognition.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a natural basis in the statement of activities. Expenses require allocation on a reasonable basis that is consistently applied. Occupancy expenses are allocated on a square footage basis. Personnel, payroll taxes and benefit expenses are allocated on the basis of estimated time and effort. Other expenses such as telephone and office expenses are allocated based on estimated usage.

Subsequent Events

Management has evaluated subsequent events through June 26, 2020, the date the consolidated financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which have negatively impacted investment value. Other financial impact could occur though such potential impact is unknown at this time.

**United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017**

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, Cash Equivalents and Investments

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. 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.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

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, 2019:

	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	\$ 44,710,952	\$44,710,952	\$ -	\$ -
Bond Fund				
Certificates of deposit	684,706	-	684,706	-
United States Treasury and government agency securities	561,388	-	561,388	-
Corporate bonds	21,230,629	-	21,230,629	-
Common & preferred stocks	1,792,658	1,792,658	-	-
Total UMF Bond Fund	<u>24,269,381</u>	<u>1,792,658</u>	<u>22,476,723</u>	<u>-</u>
POOLED TRUST FUND				
MCE-Investment accounts	880,054	-	880,054	-
United States Treasury and government agency securities	255,772	-	255,772	-
Corporate bonds	1,591,817	-	1,591,817	-
Common & preferred stocks	7,277,310	7,277,310	-	-
Total Pooled Trust Funds	<u>10,004,953</u>	<u>7,277,310</u>	<u>2,727,643</u>	<u>-</u>
OTHER MANAGED TRUST FUNDS				
United States Treasury and government agency securities	3,847,662	-	3,847,662	-
Corporate bonds	3,277,064	-	3,277,064	-
Common & preferred stocks	19,597,492	19,597,492	-	-
Total Other Managed Trust Funds	<u>26,722,218</u>	<u>19,597,492</u>	<u>7,124,726</u>	<u>-</u>
Totals	<u>\$ 105,707,504</u>	<u>\$73,378,412</u>	<u>\$32,329,092</u>	<u>\$ -</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

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, 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	20,573,646	1,528,505	19,045,141	-
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	8,022,003	6,156,233	1,865,770	-
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	24,606,464	17,261,412	7,345,052	-
Totals	\$ 87,382,526	\$59,126,563	\$28,255,963	\$ -

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

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 Years Ended December 31, 2019, 2018 and 2017

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 keep funds invested on a perpetual basis. Except for small grants made from these funds, the income earned from these funds is applied to operating expenses of the Foundation. As described in Note H, investible assets acquired in 2019 as a result of a merger have been designated for endowment. At December 31, 2019, 2018 and 2017, 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>2019</u>	<u>2018</u>	<u>2017</u>
Extension Fund	\$ 6,130,546	\$ -	\$ -
Endowment Fund	1,187,230	1,002,249	1,111,945
Reserve Fund	733,636	567,872	570,428
Stewardship Fund	37,324	32,001	35,373
Trella Rough Trust for Small Church Development	<u>148,740</u>	<u>122,735</u>	<u>135,087</u>
Total	<u>\$ 8,237,476</u>	<u>\$ 1,724,857</u>	<u>\$ 1,852,833</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

NOTE C – Endowment Funds (Continued)

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

	2019	2018	2017
Endowment net assets, beginning of year	\$ 1,724,857	\$ 1,852,833	\$ 1,638,374
Investment income	119,596	55,587	49,052
Net appreciation (realized and unrealized)	605,340	(141,005)	218,588
Total Investment Return	724,936	(85,418)	267,640
Contributions	54,741	50,110	42,625
Extension Fund investments acquired in merger	5,808,470	-	-
Appropriation of endowment assets for expenditure	(75,528)	(92,668)	(95,806)
Endowment net assets, end of year	<u>\$ 8,237,476</u>	<u>\$ 1,724,857</u>	<u>\$ 1,852,833</u>

NOTE D – 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:

	2019	2018	2017
Cash and cash equivalents	6.49%	3.87%	5.36%
Certificates of deposit	0.60%	1.00%	1.47%
MCE-Investment accounts	0.78%	0.96%	0.86%
United States Treasury and government agency securities	4.11%	4.97%	5.63%
Corporate bonds	23.01%	24.04%	20.26%
Common & preferred stock	64.71%	64.80%	66.10%
Other Assets	0.30%	0.36%	0.32%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

NOTE E – Property and Equipment

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

	2019	2018	2017
Office Equipment	\$ 35,764	\$ 100,482	\$ 93,785
Less: Accumulated depreciation	18,646	76,742	70,005
Property and Equipment, net	<u>\$ 17,118</u>	<u>\$ 23,740</u>	<u>\$ 23,780</u>

NOTE F – Facilities

The Foundation leases space under a 62-month non-cancellable lease agreement. The lease required 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 30, 2021. Rent expense under these agreements totaled \$36,356, \$37,536, and \$10,980 for the years ended December 31, 2019, 2018 and 2017, respectively.

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

2020	32,445
2021	28,882
2022	25,329
	<u>\$ 86,656</u>

NOTE G – Related Party

Included in the Foundation's investments and funds held for other parties are amounts held at and for 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, 2019, 2018 and 2017. Investments held by the Foundation for the Trust totaled approximately \$2,525,000, \$1,050,000, and \$1,750,000 as of December 31, 2019, 2018 and 2017, 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 \$124,000, \$114,000, and \$103,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE H – Merger and Acquisition of Operations

On July 8, 2019, the Foundation filed a Certificate of Merger that legally merged the Michigan Conference Capital Mission Fund of the United Methodist Church (the Extension Fund) into the Foundation, thereby causing the Foundation to acquire the Extension Fund's assets and operations. The Foundation also acquired the Extension Fund's subsidiary, the UMF Capital Mission Fund, LLC (the LLC) in the merger. The board has designated the investible assets of the Extension Fund and future income from those assets as an endowment fund as shown in Note C, all of which were invested in the UMF Collective Investment Funds as of December 31, 2019. As a result of the transaction, the Foundation also acquired mortgages receivable as describe in Note I.

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

NOTE I – Mortgages and Notes Receivable

As described in Note H, two mortgages receivable were acquired in 2019 as a result of legally merging the Michigan Conference Capital Mission Fund of the United Methodist Church into the Foundation.

Mortgages and notes receivable consisted of the following as of December 31:

	2019	2018	2017
Mortgage note receivable, secured by real estate, with a church in the original amount of \$750,000. The note provides for interest of 5% per year and calls for monthly principal payments of \$3,125, plus interest.	\$ 305,305	\$ ---	\$ ---
Mortgage note receivable, secured by real estate, with a church in the original amount of \$163,018. The note bears no interest and calls for monthly payments of \$250 through August 2020; then monthly payments of \$750 including 2.5% interest through December 2020; then monthly payments of \$1,250 including interest of 4.25% through December 2032 and a balloon payment on December 31, 2032.	157,017	---	---
Promissory note agreement with a church calling for monthly installments of \$801, including interest at 2.5% with any unpaid balance due on September 1, 2026. The Foundation has a note payable to an anonymous donor on behalf of the church bearing the same terms as the promissory note receivable.	49,743	61,763	74,210
Total Mortgages and Notes Receivable	<u>\$ 512,065</u>	<u>\$ 61,763</u>	<u>\$ 74,210</u>

Principal payments on mortgage and notes are receivable over future years as follows at December 31:

	2019	2018	2017
Receivable in less than 1 year	\$ 50,831	\$ 9,617	\$ 9,617
Receivable in one to five years	274,801	48,085	48,085
Receivable in six to ten years	138,627	4,061	16,508
Receivable in over ten years	47,806	---	---
	<u>\$ 512,065</u>	<u>\$ 61,763</u>	<u>\$ 74,210</u>

United Methodist Foundation and Subsidiary
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017

NOTE I – Cash Flow Information

The Organization had the following cash flow from investing activities:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment Activity:			
Purchases of Investments	<u>\$ 41,687,937</u>	<u>\$ 45,490,220</u>	<u>\$ 54,033,697</u>
Proceeds from Sale of Investments	<u>\$ 40,970,643</u>	<u>\$ 46,847,514</u>	<u>\$ 53,622,585</u>
Funds Held for Others:			
Additions and Transfers	<u>\$ 13,221,414</u>	<u>\$ 3,792,948</u>	<u>\$ 15,439,703</u>
Redemptions and Transfers	<u>\$ (8,042,241)</u>	<u>\$ (8,534,365)</u>	<u>\$ (17,701,740)</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>2019</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 7,362,271	\$ 3,531,148	\$ 5,591,982
Investments	<u>105,707,504</u>	<u>87,382,526</u>	<u>98,422,708</u>
Total financial assets	113,069,775	90,913,674	104,014,690
Less amounts not available to be used within one year			
Funds held for other parties	104,350,238	88,774,224	101,730,260
Board designated endowment	<u>8,237,476</u>	<u>1,724,857</u>	<u>1,852,833</u>
	<u>112,587,714</u>	<u>90,499,081</u>	<u>103,583,093</u>
Total available for operations	<u>\$ 482,061</u>	<u>\$ 414,593</u>	<u>\$ 431,597</u>

As described in Note C, the Board of Directors has set aside a board designated endowment with the intention that it be permanently invested and that income from the endowment be used only for specific purposes as voted by the Board. However, these funds are not donor restricted and therefore, the amount set aside for these purposes could be redirected to meet liquidity needs at the Board's discretion.

It is the Foundation's policy to structure its financial assets to be available as its general expenditures and liabilities become due.

SUPPLEMENTARY INFORMATION

**United Methodist Foundation of Michigan and Subsidiary
Schedules of Combining Financial Position
December 31, 2019, 2018 and 2017**

	Pooled Trust Fund	Other Managed Trust Funds	General Operating
ASSETS			
Cash and cash equivalents	\$ 785,020	\$ 1,932,341	\$ 140,230
Investments	10,004,953	26,722,218	8,844,821
Accrued income	17,868	44,143	-
Other assets	-	-	1,350
Property and equipment, net	-	-	17,118
Mortgages and notes receivable	-	-	512,065
Total Assets	\$ 10,807,841	\$ 28,698,702	\$ 9,515,584
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 40,290
Notes payable	-	-	49,743
Funds held for other parties			
UMF Funds	-	-	-
Pooled trust funds	10,807,841	-	-
Other managed funds	-	28,698,702	-
Total Liabilities	10,807,841	28,698,702	90,033
Net Assets Without Donor Restrictions:			
Unrestricted	-	-	1,188,075
Funds functioning as endowment	-	-	8,237,476
Total Net Assets	-	-	9,425,551
Total Liabilities and Net Assets	\$ 10,807,841	\$ 28,698,702	\$ 9,515,584

UMF Collective Investment Funds of Michigan LLC	Eliminations	2019 Total	2018 Total	2017 Total
\$ 4,504,680	\$ -	\$ 7,362,271	\$ 3,531,148	\$ 5,591,982
68,980,333	(8,844,821)	105,707,504	87,382,526	98,422,708
203,503	-	265,514	242,957	246,526
-	-	1,350	3,250	2,179
-	-	17,118	23,740	23,780
-	-	512,065	61,763	74,210
\$ 73,688,516	\$ (8,844,821)	\$ 113,865,822	\$ 91,245,384	\$ 104,361,385
\$ -	\$ -	\$ 40,290	\$ 53,258	\$ 54,446
-	-	49,743	61,763	74,210
73,688,516	(8,844,821)	64,843,695	54,847,007	60,694,347
-	-	10,807,841	8,236,304	9,253,571
-	-	28,698,702	25,690,913	31,782,342
73,688,516	(8,844,821)	104,440,271	88,889,245	101,858,916
-	-	1,188,075	631,282	649,636
-	-	8,237,476	1,724,857	1,852,833
-	-	9,425,551	2,356,139	2,502,469
\$ 73,688,516	\$ (8,844,821)	\$ 113,865,822	\$ 91,245,384	\$ 104,361,385

See Independent Auditors' Report.

**United Methodist Foundation of Michigan and Subsidiary
Schedule of Other Managed Trust Funds
December 31, 2019**

	<u>FAIR MARKET VALUE</u>
Agency Funds:	
Board of Pension of the West Michigan Conference of the United Methodist Church	\$ 16,747,331
West Michigan Conference Trustees Investment Fund	582,556
Bayshore Camp	5,849,249
Detroit Annual Conference Church Endowment	2,734,464
Camp Endowment	354,961
WMRP Endowment	914,199
Combined Fund	847,834
University United Methodist Church	<u>106,159</u>
Total Agency Funds	<u>28,136,753</u>
Trust Funds:	
Bellevue United Methodist Church - Madison Fund	57,538
Dale & Mary Holmes Trust	<u>504,411</u>
Total Trust Funds	<u>561,949</u>
TOTAL OTHER MANAGED TRUST FUNDS	<u><u>\$ 28,698,702</u></u>

See Independent Auditors' Report.

**United Methodist Foundation of Michigan and Subsidiary
Schedule of Funds Held for Investment - Financial Position
December 31, 2019**

FINANCIAL POSITION			
	AMORTIZED COST	ESTIMATED FAIR VALUE	GROSS UNREALIZED HOLDING GAINS(LOSSES)
UMF COLLECTIVE INVESTMENT FUNDS			
Stock Fund			
Cash and cash equivalents	\$ 2,734,585	\$ 2,734,585	\$ -
Common & preferred stocks	36,163,314	44,710,952	8,547,638
Total UMF Stock Fund	<u>38,897,899</u>	<u>47,445,537</u>	<u>8,547,638</u>
Bond Fund			
Cash and cash equivalents	1,368,308	1,368,308	-
Certificates of deposit	667,152	684,706	17,554
United States Treasury and government agency securities	562,242	561,388	(854)
Corporate bonds	20,779,456	21,230,629	451,173
Common & preferred stocks	1,391,008	1,792,658	401,650
Accrued income	203,503	203,503	-
Total UMF Bond Fund	<u>24,971,669</u>	<u>25,841,192</u>	<u>869,523</u>
Money Market Investment Account			
Cash and cash equivalents	<u>401,787</u>	<u>401,787</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 64,271,355</u>	<u>\$ 73,688,516</u>	<u>\$ 9,417,161</u>
POOLED TRUST FUND			
Cash and cash equivalents	\$ 785,020	\$ 785,020	\$ -
MCE-Investment accounts	880,054	880,054	-
United States Treasury and government agency securities	231,136	255,772	24,636
Corporate bonds	1,575,291	1,591,817	16,526
Common & preferred stocks	5,920,767	7,277,310	1,356,543
Accrued income	<u>17,868</u>	<u>17,868</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 9,410,136</u>	<u>\$ 10,807,841</u>	<u>\$ 1,397,705</u>
OTHER MANAGED TRUST FUNDS			
Cash and cash equivalents	\$ 1,932,341	\$ 1,932,341	\$ -
United States Treasury and government agency securities	3,752,954	3,847,662	94,708
Corporate bonds	3,165,978	3,277,064	111,086
Common & preferred stocks	15,727,272	19,597,492	3,870,220
Accrued income	<u>44,143</u>	<u>44,143</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 24,622,688</u>	<u>\$ 28,698,702</u>	<u>\$ 4,076,014</u>

See Independent Auditors' Report.

**United Methodist Foundation of Michigan and Subsidiary
Schedule of Funds Held for Investment - Financial Activity
December 31, 2019**

FINANCIAL ACTIVITY					
	UMF COLLECTIVE INVESTMENT FUNDS OF MICHIGAN, LLC				OTHER
	STOCK FUND	BOND FUND	MONEY MARKET INVESTMENT ACCOUNT	POOLED TRUST FUNDS	MANAGED TRUST FUNDS
INCOME FROM INVESTING OPERATIONS:					
Investment income	\$ 864,061	\$ 791,149	\$ 8,285	\$ 214,820	\$ 592,182
Net realized and unrealized gains (losses) on investments	9,998,587	1,169,432	-	1,698,528	4,868,981
Management and administrative fees	(483,324)	(221,555)	4	(112,900)	(2,417,249)
TOTAL INCOME FROM INVESTING OPERATIONS	10,379,324	1,739,026	8,289	1,800,448	3,043,914
FUND TRANSFERS					
Additions	6,311,485	4,467,967	303,752	1,796,770	352,653
Redemptions	(4,372,880)	(1,950,939)	(303,963)	(1,025,681)	(388,778)
NET ASSET VALUE - BEGINNING OF THE YEAR	35,127,608	21,585,138	393,709	8,236,304	25,690,913
NET ASSET VALUE - END OF THE YEAR	\$ 47,445,537	\$ 25,841,192	\$ 401,787	\$ 10,807,841	\$ 28,698,702
AVERAGE NET ASSET VALUE (NAV)	\$ 41,286,573	\$ 23,713,165	\$ 397,748	\$ 9,522,073	\$ 27,194,808
RETURN ON AVERAGE NAV:					
Income Return	2.09%	3.34%	2.08%	2.26%	2.18%
Capital Return	24.22%	4.93%	0.00%	17.84%	17.90%
Total Return	26.31%	8.27%	2.08%	20.10%	20.08%
EXPENSES ON AVERAGE NAV	1.17%	0.93%	0.00%	1.19%	8.89%

The Average Net Asset Value (NAV) was determined by dividing the sum of net assets at January 1, 2019 and December 31, 2019 by a factor of 2. Historical annual calculation of investment return calculated on a daily basis may differ.