

**UNITED METHODIST FOUNDATION, INC.
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE

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Independent Auditor's Report

To the Unitholders and the Board of Directors
of United Methodist Foundation, Inc.
Garner, North Carolina

We have audited the accompanying consolidated financial statements of United Methodist Foundation, Inc. and Affiliate (collectively, the "Foundation"), which comprise the consolidated statements of net assets as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and functional expenses 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.

Auditor's 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 audit 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 auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



To the Unitholders and the Board of Directors
of United Methodist Foundation, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Methodist Foundation, Inc. and Affiliate as of December 31, 2019 and 2018, and the consolidated results of their operations and changes in their net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crosslin, PLLC

Nashville, Tennessee
June 30, 2020

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF NET ASSETS

	December 31,	
	2019	2018
ASSETS		
Investments, unitholders (Notes C, E, and F)	\$ 210,305,254	\$ 178,881,903
Investments, unrestricted (Notes C, E, and F)	1,605,197	1,392,836
Cash, restricted (Note D)	7,021	3,990
Cash, unrestricted	1,208,988	548,572
Accrued interest and dividends receivable	399,393	365,409
Investments, restricted (Notes D and F)	147,845	142,497
Other assets	13,891	14,305
Total assets	\$ 213,687,589	\$ 181,349,512
LIABILITIES		
Liabilities to Unitholders	425,630	-
Other liabilities	\$ 50,482	\$ 44,028
Total liabilities	476,112	44,028
NET ASSETS		
Net assets without donor restrictions	2,351,987	1,911,850
Net assets with donor restrictions	210,859,490	179,393,634
Total net assets	213,211,477	181,305,484
Total liabilities and net assets	\$ 213,687,589	\$ 181,349,512
ANALYSIS OF NET ASSETS		
Represented by:		
Balanced Fund, unitholders, with donor restrictions, units at cost, 34,214,743 and 33,862,159 units outstanding at December 31, 2019 and 2018, respectively (Note E)	\$ 107,500,347	\$ 105,651,919
Balanced Fund, without donor restrictions, units at cost, 242,329 and 240,944 units outstanding at December 31, 2019 and 2018, respectively (Note E)	1,238,523	1,231,475
Fixed Income Fund, unitholders, with donor restrictions, units at cost, 8,370,922 and 6,778,960 units outstanding at December 31, 2019 and 2018, respectively (Note E)	8,462,311	6,856,363
Fixed Income Fund, without donor restrictions, units at cost, 169,972 and 167,086 units outstanding at December 31, 2019 and 2018, respectively (Note E)	174,005	171,088
Short Term Fund, unitholders, with donor restrictions, units at cost, 206,720 and 461,313 units outstanding at December 31, 2019 and 2018, respectively (Note E)	206,720	461,313
Capital gain (loss) reserved:		
Balanced Fund, unitholders, with donor restrictions	68,750,535	64,749,463
Balanced Fund, without donor restrictions	96,823	67,779
Fixed Income Fund, unitholders, with donor restrictions	(14,070)	4,576
Fixed Income Fund, without donor restrictions	(2,331)	(1,789)
Unrealized appreciation (depreciation) of investments:		
Balanced Fund, unitholders, with donor restrictions	25,741,291	1,584,364
Balanced Fund, without donor restrictions	97,162	(73,989)
Fixed Income Fund, unitholders, with donor restrictions	57,514	(60,685)
Fixed Income Fund, without donor restrictions	1,015	(1,728)
Specific Investment Funds (Note D), with donor restrictions	154,842	146,321
	212,464,687	180,786,470
Other net assets without donor restrictions	746,790	519,014
Total net assets	\$ 213,211,477	\$ 181,305,484

See notes to consolidated financial statements.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2019	2018
Investment income, unitholder funds:		
Income:		
Interest	\$ 2,121,697	\$ 1,683,117
Dividends	2,701,034	2,618,258
	4,822,731	4,301,375
Expenses:		
Investment fees	780,663	760,299
Administrative fees	1,165,427	1,115,534
	1,946,090	1,875,833
Net investment income, unitholder funds	2,876,641	2,425,542
Change in other net assets without donor restrictions:		
Income:		
Administrative fee income	1,165,427	1,115,534
Other income	136,108	92,889
	1,301,535	1,208,423
Expenses:		
Salary and related expenses	821,068	775,693
Other general and administrative expenses	252,691	523,343
	1,073,759	1,299,036
Net change in other net assets without donor restrictions	227,776	(90,613)
Restricted income, Specific Investment Funds:		
Income:		
Realized and unrealized gains	5,349	1,690
Income from property held for sale	19,620	2,269
Commissions on property sales	40,500	6,125
Donated property revenue	-	85,425
	65,469	95,509
Expenses:		
Other general and administrative expenses	56,948	20,109
Net restricted income, Specific Investment Funds	8,521	75,400
Realized and unrealized gains (losses) on investments:		
Realized gains from securities transactions (excluding short-term):		
Proceeds from sales	85,405,497	111,377,103
Cost of securities sold	81,394,568	103,386,105
Net realized gains	4,010,929	7,990,998
Change in unrealized appreciation (depreciation) of investments:		
Beginning	1,447,962	21,418,487
Ending	25,896,982	1,447,962
Change in unrealized appreciation (depreciation) of investments	24,449,020	(19,970,525)
Net realized and unrealized gains (losses) on investments	28,459,949	(11,979,527)
Net increase (decrease) in net assets resulting from operations	\$ 31,572,887	\$ (9,569,198)

See notes to consolidated financial statements.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2019	2018
Investment activities:		
Net investment income, unitholder funds	\$ 2,876,641	\$ 2,425,542
Net realized gains on investments	4,010,929	7,990,998
Change in unrealized appreciation (depreciation) of investments	24,449,020	(19,970,525)
Net gains from restricted assets	8,521	75,400
Net change in net assets without donor restrictions	227,776	(90,613)
 Net increase (decrease) in net assets resulting from operations	 31,572,887	 (9,569,198)
Unitholder transactions:		
Dividends paid to unitholders from net investment income	(2,876,641)	(2,425,542)
Unit transactions (exclusive of amounts allocated to investment income):		
Balanced Fund:		
Net asset value of 489,050 and 421,964 units issued for reinvestment of dividends at December 31, 2019 and 2018, respectively	2,708,671	2,291,956
Net asset value of 1,319,125 and 2,852,480 new units issued at December 31, 2019 and 2018, respectively	7,316,893	15,428,304
Payment for redemption of 1,454,206 and 1,626,478 units at December 31, 2019 and 2018, respectively	(8,170,089)	(8,714,548)
Fixed Income Fund:		
Net asset value of 162,161 and 127,806 units issued for reinvestment of dividends at December 31, 2019 and 2018, respectively	163,911	127,894
Net asset value of 2,918,470 and 1,162,041 new units issued at December 31, 2019 and 2018, respectively	2,950,587	1,165,169
Payment for redemption of 1,485,783 and 1,136,219 units at December 31, 2019 and 2018, respectively	(1,505,633)	(1,135,567)
Short-Term Fund:		
Net asset value of 4,058 and 5,693 units issued for reinvestment of dividends at December 31, 2019 and 2018, respectively	4,058	5,693
Net asset value of 10,000 and 197,365 new units issued at December 31, 2019 and 2018, respectively	10,000	197,365
Payment for redemption of 268,651 and 595,414 units at December 31, 2019 and 2018, respectively	(268,651)	(595,414)
 Increase in net assets from unitholder transactions	 3,209,747	 8,770,852
 Net increase (decrease) in net assets	 31,905,993	 (3,223,888)
 Net assets, beginning	 181,305,484	 184,529,372
 Net assets, ending	 \$ 213,211,477	 \$ 181,305,484

See notes to consolidated financial statements.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2019		
	Unitholder Funds	Other Net Assets Without Donor Restrictions	Specific Investment Funds
Unitholder funds expenses:			
Investment fees	\$ 780,663	\$ -	\$ -
Administrative fees	1,165,427	-	-
 Total unitholder funds expenses	 1,946,090	 -	 -
Salary and related expenses:			
Salaries and wages	-	647,790	-
Employee benefits	-	173,278	-
 Total salary and related expenses	 -	 821,068	 -
Other general and administrative expenses:			
Transfers	-	47,928	-
Marketing and consulting	-	61,366	-
Rent	-	55,418	-
Depreciation and maintenance	-	4,208	-
Grants and awards	-	3,554	-
Software	-	19,059	-
Travel	-	25,960	236
Other office and miscellaneous	-	26,678	56,712
Dues and subscriptions	-	8,520	-
 Total other general and administrative expenses	 -	 252,691	 56,948
 Total expenses	 \$ 1,946,090	 \$ 1,073,759	 \$ 56,948

See notes to consolidated financial statements.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2018		
	Unitholder Funds	Other Net Assets Without Donor Restrictions	Specific Investment Funds
Unitholder funds expenses:			
Investment fees	\$ 760,299	\$ -	\$ -
Administrative fees	1,115,534	-	-
Total unitholder funds expenses	1,875,833	-	-
Salary and related expenses:			
Salaries and wages	-	617,564	-
Employee benefits	-	158,129	-
Total salary and related expenses	-	775,693	-
Other general and administrative expenses:			
Transfers	-	327,146	-
Marketing and consulting	-	56,349	-
Rent	-	52,390	-
Depreciation and maintenance	-	3,314	-
Grants and awards	-	1,687	-
Software	-	22,154	-
Travel	-	25,212	355
Miscellaneous	-	27,445	19,754
Dues and subscriptions	-	7,646	-
Total other general and administrative expenses	-	523,343	20,109
Total expenses	\$ 1,875,833	\$ 1,299,036	\$ 20,109

See notes to consolidated financial statements.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

United Methodist Foundation, Inc. (“UMF”) was established in 1955 by the North Carolina Conference, Southeastern Jurisdiction, of The United Methodist Church, Inc. to provide a management-investment pool for long-term and permanent funds of the North Carolina Conference and of local churches, institutions, and ministries of the Church. UMF was also established to encourage and receive planned gifts in support of local churches, institutions, and special ministries of The United Methodist Church and to assist donors in placing their gifts.

Principles of Consolidation

The consolidated financial statements include the accounts of UMF and its affiliated supporting organization, UMF Real Estate Foundation, Inc. (the “REF”), (collectively the “Foundation”). The supporting organization was established in 2009 as a tax-exempt organization to serve as a holding entity for properties held for sale that are gifted by donors. Upon sale, proceeds are invested in UMF, with income restricted per donor instructions. The financial statements of these organizations are presented on a consolidated basis because UMF Real Estate Foundation, Inc. is operated and controlled by UMF and because its charitable purposes are consistent with UMF’s mission. Intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

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

Valuation of Investments

Investments are presented in the consolidated financial statements at fair value in accordance with accounting principles generally accepted in the United States of America. Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short sales positions and call options written, for which the last quoted asked price is used. Government-sponsored entities are stated at cost plus accrued interest, which approximates fair value. Fair value of government money market funds are based on quoted market prices.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Securities Transactions, Interest and Dividends

Securities transactions are recorded on a trade-date basis and are carried at fair value. Dividend income is recorded on the ex-dividend date and interest income is recognized under the accrual basis. Realized gains and losses on securities transactions are reported on the first-in, first-out basis.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management has evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Tax positions for the Foundation include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

Credit Risk

The Foundation places its cash in institutions which management believes are high quality financial institutions at balances which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes it is not exposed to any significant concentration risk on cash.

Functional Expenses

The costs of providing supporting services have been summarized on a functional basis in the consolidated statements of operations.

Reclassifications

Certain reclassifications have been made to the 2018 amounts in the consolidated financial statements to conform to the presentation adopted for 2019.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncement

Effective January 1, 2019, the Foundation adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance requires the Foundation to recognize revenue to depict the transfer of goods or services to members in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services. The new guidance also requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with members. The ASU has been applied retrospectively to all periods presented. The adoption of this new standard did not result in a material impact to the Foundation's financial statements. There was no significant effect on the financial statements related to the adoption of this new standard which would require a cumulative effect adjustment to net assets at the date of adoption.

B. LIQUIDITY AND AVAILABILITY OF RESOURCES

The table below represents financial assets available for general expenditures within one year at December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Investments, unitholders	\$210,305,254	\$178,881,903
Investments, unrestricted	1,605,197	1,392,836
Cash, restricted	7,021	3,990
Cash, unrestricted	1,208,988	548,572
Accrued interest and dividends receivable	399,393	365,409
Investments, restricted	147,845	142,497
Other receivables	<u>1,010</u>	<u>562</u>
Total financial assets	<u>213,674,708</u>	<u>181,335,769</u>
Less amounts not available to be used for general expenditures within one year:		
Investments, unitholders	210,305,254	178,881,903
Cash, restricted	7,021	3,990
Investments, restricted	<u>147,845</u>	<u>142,497</u>
Financial assets not available to be used for general expenditures within one year	<u>210,460,120</u>	<u>179,028,390</u>
Financial assets available to be used for general expenditures within one year	<u>\$ 3,214,588</u>	<u>\$ 2,307,379</u>

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

C. INVESTMENTS, UNITHOLDERS

The aggregate values of unitholder investments, along with net unrealized appreciation (depreciation) at December 31, 2019 and 2018, are as follows:

	<u>2019</u>		
	<u>Cost</u>	<u>Unrealized Appreciation</u>	<u>Fair Value</u>
Cash and money funds	\$ 5,335,997	\$ -	\$ 5,335,997
Common stocks	97,723,502	24,136,653	121,860,155
Government and government sponsored entity bonds	27,563,058	861,828	28,424,886
Corporate and international bonds	43,183,606	795,333	43,978,939
Mortgage and asset-backed securities	6,309,729	30,837	6,340,566
Exchange traded and closed end funds	5,531,284	58,664	5,589,948
Municipal bonds	<u>366,292</u>	<u>13,668</u>	<u>379,960</u>
	<u>\$186,013,468</u>	<u>\$25,896,983</u>	<u>\$211,910,451</u>
	<u>2018</u>		
	<u>Cost</u>	<u>Unrealized Appreciation/ (Depreciation)</u>	<u>Fair Value</u>
Cash and money funds	\$ 3,711,472	\$ -	\$ 3,711,472
Common stocks	100,044,756	1,737,125	101,781,881
Government and government sponsored entity bonds	25,600,044	(13,224)	25,586,820
Corporate and international bonds	28,726,315	(88,342)	28,637,973
Mortgage and asset-backed securities	15,477,213	(19,213)	15,458,000
Exchange traded and closed end funds	4,898,467	(157,928)	4,740,539
Municipal bonds	<u>368,510</u>	<u>(10,456)</u>	<u>358,054</u>
	<u>\$178,826,777</u>	<u>\$ 1,447,962</u>	<u>\$180,274,739</u>

The Foundation invests in a combination of equity securities, fixed income securities, money market funds and other investment securities. Investments are exposed to various risks, such as interest rate, credit, and market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term would materially affect the Foundation's investment balances reported in the consolidated statements of net assets.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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C. INVESTMENTS, UNITHOLDERS - Continued

Market Risk

Market risk arises primarily from changes in the market value of financial instruments. Theoretically, the Foundation's exposure is equal to the notional value of contracts purchased and unlimited on such contracts sold short. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Foundation's overall exposure to market risk. The Foundation attempts to control its exposure to market risk through various analytical monitoring techniques.

Concentrations of Credit Risk

The Foundation is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Foundation may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Foundation's policy to review, as necessary, the credit standing of each counterparty.

In the normal course of its business, the Foundation enters into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications and guarantees against specified potential losses in connection with their activities as an agent of, or providing services to the Foundation. The Foundation's maximum exposure under these agreements is unknown, as this may involve future claims that could be made against the Foundation that have not yet occurred. The Foundation expects the risk of any future obligation under these arrangements to be remote and has not recorded any contingent liability in the consolidated financial statements for these potential indemnifications.

D. SPECIFIC INVESTMENT FUNDS

The Foundation has established separate funds for an endowment and other properties to record the investment of funds upon which certain donor restrictions have been placed. Since the assets and earnings on these investments are not available to all unitholders, they have been accounted for as restricted assets and net assets with donor restrictions.

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
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E. UNITHOLDER FUNDS

The Foundation provides three investment alternatives for its unitholders. One alternative is the Balanced Fund, which utilizes an investment allocation strategy of 65% equities and 35% fixed income securities. The second alternative is the Fixed Income Fund, which utilizes an investment allocation strategy of 99% fixed income and 1% equities. The third alternative is the Short-Term Fund, which 100% of the investments are held in a money market account.

The net asset value per outstanding unit for the Balanced Fund was \$5.90 and \$5.08 at December 31, 2019 and 2018, respectively. The net asset value per outstanding unit for the Fixed Income Fund was \$1.02 and \$1.00 at December 31, 2019 and 2018, respectively. The net asset value per outstanding unit for the Short-Term Fund was \$1.00 at both December 31, 2019 and 2018.

F. FAIR VALUE MEASUREMENTS

Guidance provided by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The type of investments included in Level 1 includes listed equities. As required by the guidance provided by the FASB, the Foundation does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Level 2 - Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. Investments within this category would generally include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

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F. FAIR VALUE MEASUREMENTS - Continued

Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments within this category would generally include equity and debt positions in private companies and general and limited partnership interests in corporate private equity and real estate funds, debt funds, certain funds of hedge funds and distressed debt.

In determining fair value, the Foundation uses various valuation approaches within the FASB ASC 820 (Fair Value Measurement and Disclosures) fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy:

Cash and Money Funds

Cash and money funds are in active markets and classified within Level 1 of the valuation hierarchy.

Common Stocks

Equity securities listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

Government and Government Sponsored Entity Bonds

Investments in debt securities include government and government sponsored entity bonds. These securities may be valued based on a discounted cash flow analysis, the inputs for which are coupon, yield and expected maturity date. These investments are classified within Level 2 of the valuation hierarchy.

Corporate and International Bonds

Investments in debt securities include corporate and international bonds. These securities may be valued based on a discounted cash flow analysis, the inputs for which are coupon, yield and expected maturity date. Fixed income investments are classified within Level 2 of the valuation hierarchy.

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F. FAIR VALUE MEASUREMENTS - Continued

Municipal Bonds

Investments in municipal bonds represent debt securities issued by state and local governments. Factors which may be considered for valuation include credit quality, prevailing interest rates, or whether the bond is trading in a primary or secondary market. These investments are classified within Level 2 of the valuation hierarchy.

Mortgage and Asset-Backed Securities

Investments in mortgage and asset-backed securities represent securities constructed utilizing pools of securitized loans and assets. Factors which may be considered for valuation include issuer, sector, coupon, maturity or average life, ratings, collateral performance and credit enhancement. These investments are classified within Level 2 of the valuation hierarchy.

Mutual Funds

Investments in mutual funds represent fixed income mutual funds which are listed on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Exchange Traded and Closed End Funds

Investments in exchange traded and closed end funds represent securities which are traded on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Investments, Restricted

Unitholder investments with donor restrictions include both charitable remainder trusts and charitable gift annuities. Such investments are shown as restricted assets and net assets with donor restrictions on the consolidated statements of net assets and are generally classified within Level 1 of the valuation hierarchy. Contributions of land that are included in the consolidated financial statements are based on fair value and are measured using a sales comparison method, which falls within Level 3 of the valuation hierarchy. The following is a reconciliation of Level 3 activity for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$115,425	\$ 30,000
Contributions of land	<u>-</u>	<u>85,425</u>
Balance at end of year	<u>\$115,425</u>	<u>\$115,425</u>

UNITED METHODIST FOUNDATION, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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F. FAIR VALUE MEASUREMENTS - Continued

The tables below present the balances of financial assets measured at fair value on a recurring basis by level at December 31, 2019 and 2018.

	2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments, including unitholder investments:				
Cash and money funds	\$ 5,335,997	\$ 5,335,997	\$ -	\$ -
Common stocks:				
Financials	21,335,894	21,335,894	-	-
Information technology	23,471,452	23,471,452	-	-
Energy	5,208,827	5,208,827	-	-
Consumer staples	8,028,615	8,028,615	-	-
Consumer discretionary	11,962,299	11,962,299	-	-
Health care	14,474,295	14,474,295	-	-
Industrials	13,934,610	13,934,610	-	-
Materials	6,492,358	6,492,358	-	-
Real estate	529,217	529,217	-	-
Telecommunication services	9,045,848	9,045,848	-	-
Utilities	2,669,018	2,669,018	-	-
Miscellaneous	5,744,257	5,744,257	-	-
Government and government sponsored entity bonds	28,424,886	-	28,424,886	-
Corporate and international bonds	43,978,939	-	43,978,939	-
Mortgage and asset-backed securities	6,340,566	-	6,340,566	-
Exchanged traded and closed end funds	4,553,413	4,553,413	-	-
Municipal bonds	379,960	-	379,960	-
	<u>211,910,451</u>	<u>132,786,100</u>	<u>79,124,351</u>	<u>-</u>
Investments, restricted:				
Cash and money funds	32,420	32,420	-	-
Land	115,425	-	-	115,425
	<u>147,845</u>	<u>32,420</u>	<u>-</u>	<u>115,425</u>
	<u>\$212,058,296</u>	<u>\$132,818,520</u>	<u>\$79,124,351</u>	<u>\$115,425</u>

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F. FAIR VALUE MEASUREMENTS - Continued

	2018			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments, including unitholder investments:				
Cash and money funds	\$ 3,711,472	\$ 3,711,472	\$ -	\$ -
Common stocks:				
Financials	18,476,052	18,476,052	-	-
Information technology	16,206,014	16,206,014	-	-
Energy	4,997,561	4,997,561	-	-
Consumer staples	7,267,132	7,267,132	-	-
Consumer discretionary	10,409,949	10,409,949	-	-
Health care	13,723,504	13,723,504	-	-
Industrials	10,428,622	10,428,622	-	-
Materials	5,333,943	5,333,943	-	-
Real estate	520,336	520,336	-	-
Telecommunication services	9,105,085	9,105,085	-	-
Utilities	2,416,955	2,416,955	-	-
Miscellaneous	2,896,728	2,896,728	-	-
Government and government sponsored entity bonds	25,586,820	-	25,586,820	-
Corporate and international bonds	28,637,973	-	28,637,973	-
Mortgage and asset-backed securities	15,458,000	-	15,458,000	-
Exchanged traded and closed end funds	4,740,539	4,740,539	-	-
Municipal bonds	358,054	-	358,054	-
	<u>180,274,739</u>	<u>110,233,892</u>	<u>70,040,847</u>	<u>-</u>
Investments, restricted:				
Cash and money funds	27,072	27,072	-	-
Land	115,425	-	-	115,425
	<u>142,497</u>	<u>27,072</u>	<u>-</u>	<u>115,425</u>
	<u>\$180,417,236</u>	<u>\$110,260,964</u>	<u>\$70,040,847</u>	<u>\$115,425</u>

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G. RELATED PARTY TRANSACTIONS

Although the North Carolina Conference, Southeastern Jurisdiction, of The United Methodist Church, Inc. (the “Conference”) is not consolidated with the Foundation for financial reporting purposes, they share certain common board representation. The Conference holds investments at the Foundation representing approximately 59% of the unitholder net assets of the Foundation at both December 31, 2019 and 2018. Investment and administrative fees charged to the Conference during 2019 and 2018, based on assets under management, were \$1,043,476 and \$1,002,016, respectively.

The Foundation began leasing office space from the Conference in 2010 after the relocation from Raleigh to Garner; rent expense related to this lease was \$54,538 and \$51,941 for the years ended December 31, 2019 and 2018, respectively. Future minimum lease payments total \$32,723 for the year ended December 31, 2020.

The Foundation’s senior advisor for legacy giving also serves as the president of the REF. In July of 2018, the employee donated a condo that he and his wife owned to the REF. The proceeds from the sale were to be added to the employee’s Charitable Remainder Unitrust (“CRUT”). The employee and spouse are the initial beneficiaries of the CRUT distributions. This condo remains held for sale and the Foundation staff provides administrative services in processing rental income proceeds and paying property-related expenses.

H. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 30, 2020, the date the financial statements were available for issuance, and has determined that there was one subsequent event requiring disclosure as follows:

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the pandemic continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. As of the date of this report, the Foundation’s investment portfolio has incurred a significant decline since December 31, 2019. Because the values of the Foundation’s investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and related impact on the Foundation’s liquidity cannot be determined at this time. The pandemic may have a continued material adverse impact on economic and market conditions, triggering a period of economic slowdown.

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H. SUBSEQUENT EVENTS - Continued

While expected to be temporary, the Foundation cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the Foundation's results of future operations, financial position, and liquidity in fiscal year 2020.