

First Methodist Church of Fort Worth Foundation, Inc.

Financial Report
December 31, 2018

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Independent Auditor's Report

To the Board of Directors of
First Methodist Church of Fort Worth Foundation, Inc.

We have audited the accompanying financial statements of First Methodist Church of Fort Worth Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

The Board of Directors of
First Methodist Church of Fort Worth Foundation, Inc.

Emphasis of Matter

As discussed in Note 1, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses net asset classification requirements and the information presented in financial statements and notes regarding liquidity, financial performance and cash flows. The Foundation adopted ASU 2016-14 in year ended December 31 2018. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
May 15, 2019

First Methodist Church of Fort Worth Foundation, Inc.

Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 120,323	\$ 115,444
Oil and gas receivables	109,206	90,570
Contribution and other receivables	7,425	484
Interest receivable	152,689	132,157
Prepaid expenses	8,358	8,777
Investment securities	62,399,144	63,939,644
Mineral interests	825,884	827,277
Perpetual income interest in land not owned	1,068,000	1,068,000
Land held for investment	-	185,000
	TOTAL ASSETS	TOTAL ASSETS
	\$ 64,691,029	\$ 66,367,353
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 10,810	\$ 18,564
Assets held for others	175,459	178,459
Deferred income	11,719	11,719
	Total liabilities	Total liabilities
	197,988	208,742
NET ASSETS		
Without Donor Restriction		
Designated	7,452,940	7,104,120
Undesignated	53,809,715	55,681,094
With Donor Restriction	3,230,386	3,373,397
	Total net assets	Total net assets
	64,493,041	66,158,611
	TOTAL LIABILITIES AND NET ASSETS	TOTAL LIABILITIES AND NET ASSETS
	\$ 64,691,029	\$ 66,367,353

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

First Methodist Church of Fort Worth Foundation, Inc.

Statements of Activities

Years Ended December 31, 2018 and 2017

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Contributions	\$ 1,274,065	\$ -	\$ 1,274,065
Oil and gas royalties	697,641	-	697,641
Property rentals	289,923	-	289,923
Investment income	949,396	80,607	1,030,003
Gain on sale of land held for investment	47,262	-	47,262
Unrealized and realized gain (loss) on investment securities, net	(2,073,097)	(171,915)	(2,245,012)
Net assets released from restrictions Satisfaction of program restrictions	51,703	(51,703)	-
	1,236,893	(143,011)	1,093,882
Total revenues			
EXPENSES			
Program Expenses			
Contributions to Church	2,261,705	-	2,261,705
Supporting Services			
Wages and benefits	306,127	-	306,127
Office expense	103,677	-	103,677
Ad valorem taxes	31,682	-	31,682
Fundraising	6,178	-	6,178
Other	50,083	-	50,083
	2,759,452	-	2,759,452
Total expenses			
Change in net assets	(1,522,559)	(143,011)	(1,665,570)
NET ASSETS, beginning of year	62,785,214	3,373,397	66,158,611
NET ASSETS, end of year	\$ 61,262,655	\$ 3,230,386	\$ 64,493,041

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

2017		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 104,951	\$ 100,500	\$ 205,451
702,172	-	702,172
287,974	-	287,974
813,717	66,133	879,850
-	-	-
6,756,655	406,856	7,163,511
50,724	(50,724)	-
8,716,193	522,765	9,238,958
2,164,434	-	2,164,434
303,324	-	303,324
94,820	-	94,820
31,273	-	31,273
5,231	-	5,231
37,971	-	37,971
2,637,053	-	2,637,053
6,079,140	522,765	6,601,905
56,706,074	2,850,632	59,556,706
<u>\$ 62,785,214</u>	<u>\$ 3,373,397</u>	<u>\$ 66,158,611</u>

First Methodist Church of Fort Worth Foundation, Inc.

Statements of Cash Flows Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,665,570)	\$ 6,601,905
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net unrealized and realized (gain) loss on investment securities	2,245,012	(7,163,511)
Stock contribution	(1,179,232)	-
Gain on sale of land held for investment	(47,262)	-
Change in operating assets and liabilities		
Accounts receivable	(25,577)	43,399
Interest receivable	(20,532)	(35,144)
Prepaid expenses	419	(38)
Accounts payable and accrued expenses	(7,754)	15,112
Assets held for others	(3,000)	8,300
	(703,496)	(529,977)
Net cash used in operating activities	(703,496)	(529,977)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(18,405,216)	(15,217,539)
Proceeds from sale or maturity of investments	18,881,329	15,780,189
Proceeds from sale of land	232,262	-
	708,375	562,650
Net cash provided by investing activities	708,375	562,650
Net change in cash and cash equivalents	4,879	32,673
CASH AND CASH EQUIVALENTS, beginning of year	115,444	82,771
CASH AND CASH EQUIVALENTS, end of year	\$ 120,323	\$ 115,444

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

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The First Methodist Church of Fort Worth Foundation, Inc. (the Foundation) is organized to receive and preserve gifts and bequests that are intended to benefit First United Methodist Church of Fort Worth, Inc. (the Church) and to support and assist in carrying out the purpose and programs of the Church. Substantially all of the Foundation's support and revenues are a result of contributions from the members and supporters of the Church.

Management Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that are used.

Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, except investment income that is to be reinvested to investment principal.

Accounts Receivable

Accounts receivable primarily consist of oil and gas royalty income receivable related to the Foundation's mineral interests, and any known intentions to give where the contribution is received subsequent to year end. Management evaluates the allowance for doubtful accounts receivable based on prior experience, review of accounts, historical losses, existing economic conditions and other pertinent factors. At December 31, 2018 and 2017, the Foundation considers all accounts receivable to be fully collectible; therefore, no allowance for doubtful accounts is required.

Investment Securities

Investment securities are stated at fair value (see Note 3). Net gains and losses, which consist of realized and unrealized gains and losses, are reflected in the statements of activities.

Mineral Interests

Oil and gas mineral interests are recorded at their estimated fair value at the date of donation based on the present value of estimated future royalties from oil and gas reserves or purchase price. Revenue from the mineral interests is recorded based on the production date. The fair value of the oil and gas interests at December 31, 2018 and 2017 is estimated to be in excess of the recorded value.

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

Perpetual Income Interest in Land Not Owned

The Foundation has recorded a perpetual income interest in land not owned related to parking lots, which were deeded to the Church. The parking lots are leased during the weekdays under lease agreements and the value of the perpetual income interest asset was estimated based on the present value of its estimated future rental income using a discount rate of 10% at the date of donation. The fair value of the perpetual income interest asset is estimated to be in excess of the recorded value.

Impairment of Long-lived Assets

Management evaluates its long-lived assets and investments recorded at cost for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management determined that there were no impairments during the years ended December 31, 2018 and 2017, respectively.

Contributions

The Foundation reports gifts of cash and other assets as contributions at their estimated fair value at date of receipt. This support is recorded as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Federal Income Taxes

The Foundation is a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3); therefore, no provision for income taxes is included in the financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Uncertain Tax Positions

The Foundation recognizes in its financial statements the financial effect of a tax position, if that position is more likely than not to be sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. At December 31, 2018, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

New Accounting Standard Adopted

In fiscal year 2018, the Foundation adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*.

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

The requirements of ASU 2016-14 apply to the financial statements of all not-for-profit entities. This update reduced the net asset classifications from three classes (unrestricted, temporarily restricted and permanently restricted) to two classes (with donor restrictions and without donor restrictions). In addition, this statement added a liquidity disclosure to show the amount of financial assets available within one year from the balance sheet date and adds disclosures related to allocation methodologies

Accounts recognized in net assets related to the prior period have been reclassified to conform to the presentation requirements under ASU 2016-14. In addition investment fees previously recorded as an expense have been presented as a reduction of investment income. The reclassifications have no effect on total net assets or change in net assets.

Financial Statement Presentation

The Foundation is required to report information regarding its financial position according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets and revenues, other support, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restriction – Represent resources that are available for the support of operations of the Foundation and general support of the church.

Net assets with donor restriction – Include contributions and investment income expendable only for purposes specified or approved by the donor or to be held in perpetuity.

Functional Allocation of Expenses

The costs of providing the programs and supporting service of the Foundation have been summarized on a natural basis in the statement of activities. Functional expenses have been categorized as program and supporting services based on the nature of the activity performed, and, as such, no costs have been allocated across the functional expense categories. See additional information in Note 11.

Reclassification

Certain balances related to 2017 have been reclassified to conform to the 2018 presentation. The reclassifications had no effect on total net assets or change in net assets.

Subsequent Events

The Foundation evaluated all events or transactions that occurred after December 31, 2018 through May 15, 2019, the date these financial statements were available to be issued.

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

Note 2. Investment Securities

Investment securities consist of the following at December 31:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Short-term fund investments	\$ 349,411	\$ 349,411	\$ 1,572,141	\$ 1,572,141
Domestic corporate obligations	23,287,160	23,622,822	21,224,335	21,308,289
Equity mutual funds	2,308,527	2,971,979	2,654,649	2,762,537
Common stock	36,454,046	19,643,543	38,488,519	18,416,983
	<u>\$ 62,399,144</u>	<u>\$ 46,587,755</u>	<u>\$ 63,939,644</u>	<u>\$ 44,059,950</u>

Note 3. Fair Value Measurements

The Foundation records its investments in investment securities at fair value. Fair value is defined 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. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instrument or market and the instrument's complexity.

GAAP establishes 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 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are described below:

Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 inputs: Inputs (other than quoted market prices included within level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date. Inputs may include quoted prices for the identified instrument in an inactive market; prices for similar instruments; interest rates, credit risk, and similar data.

Level 3 inputs: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Fair value for these investments are determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Short-term fund investments and common stock are valued at the last sales prices on the largest securities exchange in which such securities have been traded on the valuation date.

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

Domestic corporate obligations are valued using information from the custodian, which is based on quoted prices available from well known brokers.

Equity mutual funds are valued at the daily closing price as reported by the fund.

The Foundation may have risk associated with its concentration of investments. The following summarizes the Foundation's investment securities using the fair value hierarchy by type of investment and industry representing identified risks to the portfolio at December 31, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Type of investment				
Domestic corporate obligations	\$ -	\$ 23,287,160	\$ -	\$ 23,287,160
Short-term fund investments	349,411	-	-	349,411
Equity mutual funds	2,308,527	-	-	2,308,527
Common stock	36,454,046	-	-	36,454,046
	<u>\$ 39,111,984</u>	<u>\$ 23,287,160</u>	<u>\$ -</u>	<u>\$ 62,399,144</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Industry				
Cash equivalents	\$ 349,411	\$ -	\$ -	\$ 349,411
Consumer discretionary	1,452,689	1,242,330	-	2,695,019
Consumer staples	3,361,546	2,983,053	-	6,344,599
Energy	2,454,027	3,075,299	-	5,529,326
Financials	7,020,190	4,401,393	-	11,421,583
Health care	7,247,571	1,907,286	-	9,154,857
Industrials	4,174,800	2,985,372	-	7,160,172
Information technology	6,873,023	3,088,114	-	9,961,137
Materials	2,239,545	494,576	-	2,734,121
Mutual funds - Equity	2,308,527	-	-	2,308,527
Retail services	1,051,379	508,776	-	1,560,155
Telecom services	579,276	1,490,502	-	2,069,778
Transportation	-	1,110,459	-	1,110,459
	<u>\$ 39,111,984</u>	<u>\$ 23,287,160</u>	<u>\$ -</u>	<u>\$ 62,399,144</u>

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

The table below summarizes the Foundation's portfolio investments using the fair value hierarchy by type of investment and industry representing identified risks to the portfolio at December 31, 2017.

Type of investment	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic corporate obligations	\$ -	\$ 21,224,335	\$ -	\$ 21,224,335
Short-term fund investments	1,572,141	-	-	1,572,141
Equity mutual funds	2,654,649	-	-	2,654,649
Common stock	38,488,519	-	-	38,488,519
	<u>\$ 42,715,309</u>	<u>\$ 21,224,335</u>	<u>\$ -</u>	<u>\$ 63,939,644</u>
Industry	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 1,572,141	\$ -	\$ -	\$ 1,572,141
Consumer discretionary	1,781,245	1,255,620	-	3,036,865
Consumer staples	4,152,816	1,876,627	-	6,029,443
Energy	3,552,529	2,320,658	-	5,873,187
Financials	8,821,041	4,283,026	-	13,104,067
Health care	4,467,858	2,819,787	-	7,287,645
Industrials	3,915,941	3,143,474	-	7,059,415
Information technology	8,175,808	1,844,098	-	10,019,906
Materials	2,846,575	496,740	-	3,343,315
Mutual funds - Equity	2,001,749	-	-	2,001,749
Retail services	818,629	515,435	-	1,334,064
Telecom services	608,977	2,157,097	-	2,766,074
Transportation	-	511,773	-	511,773
Total	<u>\$ 42,715,309</u>	<u>\$ 21,224,335</u>	<u>\$ -</u>	<u>\$ 63,939,644</u>

The valuation techniques used to determine fair value have been consistently applied during 2018 and 2017.

Note 4. Related Parties

Foundation contributions made to the Church are as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted cash contributions	\$ 2,140,112	\$ 2,064,202
Restricted cash contribution	121,593	100,232
	<u>\$ 2,261,705</u>	<u>\$ 2,164,434</u>

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

In 2014, the Foundation was classified as a Non-Functionally Integrated Type III Supporting Organization, which changed the procedures and amounts related to the contributions made to the Church. With this designation, a distribution requirement set by the IRS must be met by the Foundation. The calculation is to distribute annually a "distributable amount" which is equal to the greater of 85 percent of adjusted net income or three-and-a-half percent of the fair market value of its non-exempt use assets based on amounts from the previous year end. The distribution made per these requirements was \$2,140,112 and \$2,064,202 for the years ended December 31, 2018 and 2017, respectively.

Note 5. Net Assets with Donor Restrictions – Purpose and Time

Net assets with donor restrictions at December 31 are:

	2018			Total 2018
	Program Restricted	Time Restricted	Permanent Endowment	
Baker Scholarship	\$ 62,206	\$ -	\$ 113,079	\$ 175,285
Children's Endowment Fund	240,758	-	130,117	370,875
Dearden Bible Fund	6,666	-	-	6,666
Edwards Senior Adult Ministry Fund	74,289	-	-	74,289
Garden Endowment	167,447	-	86,573	254,020
Goostree Lectures	172,805	-	-	172,805
Hendrix	11,863	-	20,000	31,863
Houston Children's Fund	31,718	-	47,866	79,584
Johnston Youth Fund	94,517	-	-	94,517
Linguist Family Youth Fund	91,277	-	-	91,277
Mission Endowment Fund	441,578	-	313,354	754,932
REDDING Mission/Outreach	13,512	-	20,000	33,512
Methodist Justice Ministry	101,113	-	250,500	351,613
Music Endowment Fund	178,390	-	50,000	228,390
Jewella D Riley	66,696	-	30,000	96,696
Sue Sumner Confirmation Endowment	140,943	-	117,398	258,341
Tilley	18,445	-	10,000	28,445
W Longsworth PC Fund	17,326	-	21,181	38,507
Youth Fund	88,769	-	-	88,769
	<u>\$ 2,020,318</u>	<u>\$ -</u>	<u>\$ 1,210,068</u>	<u>\$ 3,230,386</u>

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

	2017			
	Program Restricted	Time Restricted	Permanent Endowment	Total 2017
Baker Scholarship	\$ 69,181	\$ -	\$ 113,079	\$ 182,260
Children's Endowment Fund	250,180	-	130,117	380,297
Dearden Bible Fund	6,835	-	-	6,835
Edwards Senior Adult Ministry Fund	76,890	-	-	76,890
Garden Endowment	174,831	-	86,573	261,404
Goostree Lectures	176,910	-	-	176,910
Hendrix	12,685	-	20,000	32,685
Houston Children's Fund	34,304	-	47,866	82,170
Johnston Youth Fund	98,904	-	-	98,904
Linguist Family Youth Fund	93,679	-	-	93,679
Mission Endowment Fund	480,444	-	313,354	793,798
REDDING Mission/Outreach	15,604	-	20,000	35,604
Methodist Justice Ministry	134,137	-	250,500	384,637
Music Endowment Fund	182,908	-	50,000	232,908
Jewella D Riley	70,592	-	30,000	100,592
Sue Sumner Confirmation Endowment	151,009	-	117,398	268,407
Tilley	19,706	-	10,000	29,706
W Longsworth PC Fund	19,744	-	21,181	40,925
Youth Fund	94,786	-	-	94,786
	<u>\$ 2,163,329</u>	<u>\$ -</u>	<u>\$ 1,210,068</u>	<u>\$ 3,373,397</u>

The earnings from the various permanent endowments are generally restricted for use on specified Church programs.

The Board of Directors has designated 50% of the oil and gas revenues received by the Foundation for addition to the corpus of the Foundation, which is based on the depleting nature of the Foundation's mineral interests. A total of \$6,452,940 and \$6,104,120 has been designated for this purpose as of December 31, 2018 and 2017, respectively.

The Foundation's Emergency Reserve Fund, included in designated net assets, was \$1,000,000 as of December 31, 2018 and 2017.

Note 6. Adoption of the State Uniform Prudent Management of Institutional Funds Act

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The State and the Foundation have both adopted UPMIFA. As a result of this interpretation, the Foundation classifies as net assets with donor restriction to be held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions to be held in perpetuity is classified as net assets with donor restrictions as temporarily restricted until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Foundation and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the organization; and
7. The investment policies of the organization.

A reconciliation of the endowment funds beginning and ending balances for the years ended December 31, 2018 and 2017 is as follows:

	Net assets without donor restrictions	Net assets with donor restrictions - purpose	Net assets with donor restrictions - held in perpetuity	Total Endowment Net Assets
Endowment net assets, December 31, 2016	\$ -	\$ 733,699	\$ 1,109,568	\$ 1,843,267
Interest and dividends	-	49,000	-	49,000
Net gain (realized and unrealized)	-	303,313	-	303,313
Total investment return	-	352,313	-	352,313
Contributions	-	-	100,500	100,500
Appropriation of endowment assets for expenditure	-	(36,076)	-	(36,076)
Endowment net assets, December 31, 2017	-	1,049,936	1,210,068	2,260,004
Interest and dividends	-	60,123	-	60,123
Net gain (realized and unrealized)	-	(128,217)	-	(128,217)
Total investment return	-	(68,094)	-	(68,094)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(36,677)	-	(36,677)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 945,165</u>	<u>\$ 1,210,068</u>	<u>\$ 2,155,233</u>

At December 31, 2018 and 2017, all endowment net assets were the result of donor restrictions, and there were no board designated amounts included in the endowment net assets.

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

Return Objectives and Risk Parameters

The Foundation's Board has adopted an Investment Policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets may include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board designated funds. This implies growing the corpus in real terms while at the same time protecting the assets from serious volatility. The Investment Policy expressly prohibits: short selling, margin trading, securities lending, private placements, commodity trading, futures and options contracts, derivatives of any type, thinly traded and non-marketable securities.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Board relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In these circumstances, unrestricted net assets will be used to satisfy the deficiency. There were no deficiencies of this nature that are reported in net assets without donor restrictions as of December 31, 2018 or 2017.

Note 7. Property Rentals

In 2000, the Foundation entered into an operating lease agreement to lease certain real property to unrelated parties. The lease provided for a term of 15 years and expired on September 30, 2015. An option to extend was signed for another five years starting on October 1, 2015 and ending September 30, 2020. Rental income under the operating lease was \$141,184 and \$141,185 for the years ended December 31, 2018 and 2017, respectively. In addition, the Foundation has an operating lease on other real estate requiring payments through March 2019 of \$12,116 per month. Total rental income under this lease was \$148,739 and \$146,789 for the years ended December 31, 2018 and 2017, respectively. The future minimum rentals on noncancelable leases for the next five years and in the aggregate follow:

<u>Year Ending December 31,</u>	
2019	\$ 176,973
2020	105,469
	<u>\$ 282,442</u>

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

Note 8. Lease Agreements

During 2018, the Foundation entered a month to month lease for office space requiring monthly payments of \$2,000. Lease expense incurred for the year ended December 31, 2018 under this lease was \$10,540. Expense of \$14,000 and \$24,000 for office space provided by the Church was incurred for the years ended December 31, 2018 and 2017, respectively.

Note 9. Retirement Plan

In 2004, the Foundation began a defined contribution retirement plan that includes all Foundation employees who meet the eligibility requirements as defined by the plan. The Foundation contributes 8% of each employee's compensation to the plan. Retirement expense approximated \$18,400 and \$18,800 for the years ended December 31, 2018 and 2017, respectively.

Note 10. Promises and Indications of Intentions to Give

In 2000, the Foundation received an indication of intention to give of \$1,000,000. The remaining conditional promise and indication to give of approximately \$328,000 has not been recognized in the financial statements at December 31, 2018, based upon the uncertainty of when and how much will be received.

Note 11. Functional Expenses

The Foundation's programmatic and supporting services are broken out as follows for years ended December 31:

	2018	2017
Program Expenses		
Contributions to Church	\$ 2,261,705	\$ 2,164,434
Total program expenses	2,261,705	2,164,434
Supporting Services		
Wages and benefits	306,127	303,324
Office expense	103,677	94,820
Ad valorem taxes	31,682	31,273
Fundraising	6,178	5,231
Other	50,083	37,971
Total supporting services	497,747	472,619
Total expenses	\$ 2,759,452	\$ 2,637,053

First Methodist Church of Fort Worth Foundation, Inc.

Notes to Financial Statements

Note 12. Liquidity

As a not-for-profit entity, the Foundation receives significant funding in the form of contributions and investment earnings, which may be restricted for a certain amount of time or to be used in a particular manner. The Foundation must maintain sufficient resources to meet those responsibilities to its contributors. Thus, financial assets may not be available for general expenditure within one year. As part of managing its financial assets, the Foundation ensures sufficient resources are available when obligations come due.

The following reflects the Foundation's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date. Amounts not available include donor-imposed restricted contributions.

Financial assets		
Cash and cash equivalents	\$	120,323
Oil and gas receivables		109,206
Contribution and other receivables		7,425
Interest receivable		152,689
Investment securities		<u>62,399,144</u>
Total financial assets, year end		62,788,787
Less		
Board-designated reserves		(7,452,940)
Net assets with donor restrictions		<u>(3,230,386)</u>
Total financial assets not available to be used within one year		<u>(10,683,326)</u>
Total financial assets available to meet general expenditures within one year	\$	<u><u>52,105,461</u></u>