



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

FAITH FOUNDATION NORTHWEST

December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Trustees
Faith Foundation Northwest

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Faith Foundation Northwest, which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Faith Foundation Northwest as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Faith Foundation Northwest and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Faith Foundation Northwest's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Faith Foundation Northwest's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Faith Foundation Northwest's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Moss Adams LLP

Yakima, Washington
June 14, 2022

Faith Foundation Northwest
Statements of Financial Position

ASSETS

	December 31,	
	2021	2020
ASSETS		
Cash and cash equivalents	\$ 3,735,308	\$ 2,394,471
Deposit accounts	78,408,879	66,224,877
Investments	4,834,608	8,612,789
Notes receivable	3,395,791	3,865,543
Other receivable	4,389	662
Property held for investment	124,000	124,000
Fixed assets, net	2,273	3,142
Total assets	\$ 90,505,248	\$ 81,225,484

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 106,721	\$ 104,885
PPP Loan payable	-	100,000
Church and other agency funds	80,862,155	71,987,400
Total liabilities	80,968,876	72,192,285
NET ASSETS		
Without donor restriction	2,712,687	2,460,373
With donor restriction	6,823,685	6,572,826
Total net assets	9,536,372	9,033,199
Total liabilities and net assets	\$ 90,505,248	\$ 81,225,484

Faith Foundation Northwest
Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Gross contribution revenue	\$ 30,508	\$ 8,653,709	\$ 8,684,217
Less amounts held for others	-	(8,657,820)	(8,657,820)
Contribution revenue	30,508	(4,111)	26,397
Gross investment income			
Investment income	39,914	1,509,252	1,549,166
Realized gains	80,731	2,482,885	2,563,616
Unrealized gains	95,635	2,026,540	2,122,175
Administrative fee	631,428	-	631,428
Total gross investment income	847,708	6,018,677	6,866,385
Less agency fund net investment income (expense)	-	(5,495,333)	(5,495,333)
Investment income	847,708	523,344	1,371,052
Other income (expense)	92,540	2,297	94,837
Less agency fund other income	-	(2,263)	(2,263)
Net assets released from restriction	268,408	(268,408)	-
Total support and revenue	1,239,164	250,859	1,490,023
EXPENSES			
Gross fund distributions	6,314,990	-	6,314,990
Less agency fund distributions	(6,050,416)	-	(6,050,416)
Fund distributions	264,574	-	264,574
Operating expenses	722,276	-	722,276
Total expenses	986,850	-	986,850
CHANGE IN NET ASSETS	252,314	250,859	503,173
NET ASSETS, beginning of year	2,460,373	6,572,826	9,033,199
NET ASSETS, end of year	\$ 2,712,687	\$ 6,823,685	\$ 9,536,372

Faith Foundation Northwest
Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Gross contribution revenue	\$ 135,967	\$ 5,893,207	\$ 6,029,174
Less amounts held for others	-	(5,806,327)	(5,806,327)
Contribution revenue	135,967	86,880	222,847
Gross investment income			
Investment income	36,673	1,599,040	1,635,713
Realized gains	43,178	1,468,736	1,511,914
Unrealized gains	239,279	6,671,513	6,910,792
Administrative fee	514,445	-	514,445
Total gross investment income	833,575	9,739,289	10,572,864
Less agency fund net investment income (expense)	-	(8,774,842)	(8,774,842)
Investment income	833,575	964,447	1,798,022
Other income (expense)	19,500	23,836	43,336
Less agency fund other income	-	-	-
Net assets released from restriction	296,532	(296,532)	-
Total support and revenue	1,285,574	778,631	2,064,205
EXPENSES			
Gross grants and scholarships	6,484,502	-	6,484,502
Less agency fund grants	(6,188,103)	-	(6,188,103)
Grants and scholarships	296,399	-	296,399
Operating expenses	687,644	-	687,644
Total expenses	984,043	-	984,043
CHANGE IN NET ASSETS	301,531	778,631	1,080,162
NET ASSETS, beginning of year	2,158,842	5,794,195	7,953,037
NET ASSETS, end of year	\$ 2,460,373	\$ 6,572,826	\$ 9,033,199

Faith Foundation Northwest

Statements of Functional Expenses

	Year Ended December 31, 2021		
	Program	Management and General	Total
Salaries, wages, and benefits	\$ 480,886	\$ 120,203	\$ 601,089
Professional fees	24,218	14,656	38,874
Office expense	29,341	28,325	57,666
Rent	9,792	2,448	12,240
Travel	2,230	1,009	3,239
Other	2,668	6,500	9,168
	<u>\$ 549,135</u>	<u>\$ 173,141</u>	<u>\$ 722,276</u>

	Year Ended December 31, 2020		
	Program	Management and General	Total
Salaries, wages, and benefits	\$ 476,557	\$ 118,533	\$ 595,090
Professional fees	17,232	11,684	28,916
Office expense	19,346	26,051	45,397
Rent	9,792	2,448	12,240
Travel	1,861	344	2,205
Other	2,463	1,333	3,796
	<u>\$ 527,251</u>	<u>\$ 160,393</u>	<u>\$ 687,644</u>

Faith Foundation Northwest
Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 503,173	1,080,162
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	869	869
Realized gain on investments	(2,563,616)	(1,511,914)
Unrealized gain on investments	(2,122,175)	(6,910,792)
Change in value of unitrust and annuities	-	293,665
Noncash contributions	(1,107,002)	(1,228,606)
Debt extinguishment	(92,506)	-
Increase (decrease) in cash due to changes in assets and liabilities		
Other receivable	(3,727)	(662)
Notes receivable	469,752	269,231
Accounts payable	1,836	81,945
Accrued expenses	-	(38,144)
Church and other agency funds	8,874,755	8,099,400
	<u>3,961,359</u>	<u>135,154</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment & deposit securities	38,085,970	46,324,667
Purchase of investments	(40,698,998)	(45,927,300)
	<u>(2,613,028)</u>	<u>397,367</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan	-	100,000
Payments on PPP loan	(7,494)	-
	<u>(7,494)</u>	<u>100,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,340,837	632,521
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH		
Beginning of year	<u>2,394,471</u>	<u>1,761,950</u>
CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH		
End of year	<u>\$ 3,735,308</u>	<u>\$ 2,394,471</u>

Faith Foundation Northwest

Notes to Financial Statements

Note 1 – Organization

Faith Foundation Northwest (formerly Northwest United Methodist Foundation) (the Foundation or FFNW) is a nonprofit organization incorporated in 1966. The Foundation provides financial assistance to local United Methodist (UM) churches, institutions or agencies of the Pacific Northwest Annual conference and Oregon/Idaho Conferences of the United Methodist Church, and to other qualified agencies or organizations as directed by donors. The Foundation seeks to further its common mission by improving their financial assistance and achieving economies of scale and other synergies through integrating their services.

The following are the services provided by the Organization:

- *Investment management services:* Unlike other secular and/or non-local investment options, the Foundation's portfolios directly benefit local churches and agencies. Investing churches/agencies benefit from the interest generated by secured, local church/agency loans. At the same time, borrowing churches/agencies benefit from these loans – loans with no acquisition or origination fees, and lower-than-market rates of interest; these loans make ministerial hopes a reality and reinforce our UM "connection."
- *Church loans:* The Foundation provides low-interest loans to help churches and agencies finance their mission dreams. From building new buildings, to paving parking lots, to upgrading buildings for daycare centers or outreach ministries, the Foundation offers churches a low-hassle, below-market option for funding improvements that can lead to enhanced ministry. These are recorded in the statement of financial position as notes receivable.
- *Church endowments and planned giving:* The Foundation provides assistance to churches to look to the future in establishing local giving in their church.
- *Charitable gift annuity and charitable remainder annuity trust program:* The Foundation will act as the trustee in administering a charitable gift annuity program for interested members.

Management and general activities include the functions necessary to provide support for the Foundation's program activities. They include activities that provide governance (Board of Directors), oversight of business management, financial recordkeeping, budgeting, legal services, human resource management, and similar functions that ensure an adequate working environment and an equitable employment program.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The Foundation maintains its accounting records on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board (FASB).

Use of estimates – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents consist of cash in bank accounts and highly liquid investments with maturities of three months or less at the date of acquisition unless the investments are held for meeting restrictions of a capital or endowment nature. The Foundation maintains cash balances at several financial institutions locally. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. The balance occasionally may exceed those limits. Cash equivalents, other securities, and limited amounts of cash held at brokerage accounts are protected under the Securities Investor Protection Corporation (SIPC) in the event of a broker-dealer failure, up to \$500,000 or protection for each brokerage account, with a limit of \$250,000 for claims of uninvested cash balances. Additional brokerage insurance, in addition to SIPC protection, is provided through underwriters in London. The SIPC insurance does not protect against market losses on investments. Cash and cash equivalents on the statement of financial position includes \$3,594,962 and \$2,228,234 of cash with donor restrictions as of December 31, 2021 and 2020, respectively.

Deposit accounts – Deposit accounts represent funds held under a U.S. deposit agreement between the Foundation and UMC Benefit Board, Inc. (Benefit Board). The Benefit Board accepts and invests monies on behalf of various persons and entities affiliated with the United Methodist Church. Benefit Board deposits funds in the Deposit Accounts Trust of the United Methodist Church. The Benefit Board makes all decisions regarding how, where and when the money is invested, and all other investment and other decisions related to the money. The Foundation may terminate the agreement with five (5) business days' written notice. The Benefit Board charges a prorated share of administration, custody and investment management fees associated with the invested money.

Basis of presentation – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions.

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 those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purposes for which the resource was restricted has been fulfilled, or both. These are reported as reclassifications between the applicable classes of net assets. For the years ended December 31, 2021 and 2020, \$564,178 and \$598,583, respectively, of net assets with donor restrictions is held for time or purpose and \$6,259,507 and \$5,974,243, respectively, is held in perpetuity.

Faith Foundation Northwest

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Investments – The Foundation is required to report investments with readily determinable fair values at fair value with gains and losses, net of external expenses associated with the management of investments, included in the statements of activities. Fair value is determined by the open market. As a result, investments are carried at fair value as of the financial statement date.

Investments are made according to the investment policies adopted by the Foundation's Board of Trustees. These policies provide guidelines for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside parties are contracted by the Foundation for the purpose of providing Board education, investment management, evaluation of investment advisors, and compliance with investment policies.

The Foundation pools primarily all its funds in order to obtain greater investment leverage and more efficient administration. The allocation of income, realized and unrealized gains or losses from pooled investments, is calculated based on the average percentage share of each fund's balance in the pool.

Investments in general are exposed to various risks, such as interest rate, market, and credit risk. It is reasonably possible, given the level of risk associated with the investments, that changes in the near term could materially affect the Foundation's account balances and the amounts reported in the financial statements.

Land held for investments is recorded at cost. It is reviewed for impairment on an annual basis.

Notes receivable – Notes receivable are valued at cost as interest rates on these loans approximate market rates. The Foundation provides loans primarily to United Methodist churches in Washington, Oregon, Idaho, and Alaska. These loans are generally for terms of 1 to 15 years, are secured by first mortgages on land and buildings, and bear interest at various rates ranging from 3.75% to 5.00%. Interest income is recorded in the period earned and is based on the outstanding loan balance. The Foundation reviews loan activity on a periodic basis and considers current economic conditions, historical loss experience and review of specific problem loans and other factors in determining the necessity of an allowance for loan losses. Loans are considered impaired when, based on all current information and events; it is probable the Foundation will not be able to collect all amounts due. The Foundation does not have an allowance for uncollectible notes receivable as they believe they are fully collectible.

Fixed assets – Fixed assets consist of computer equipment and software. Purchases are recorded at cost and donated property is recorded at fair value at the time it is received. Equipment is capitalized if it has a cost of \$1,000 and has a useful life of more than one year. Assets are depreciated by the straight-line method over estimated useful lives of five to seven years.

Church and other agency funds – The statement of activities includes the activity of funds managed for investors. These funds represent funds invested by third parties for temporary or indefinite period and are reflected on the statement of financial position as church and other agency funds. These funds are invested under two different arrangements: (1) Foundation-designated investment fund for which the Foundation makes all investment decisions related to these investments and pays monthly interest and (2) the owner-designated investment funds for which the Foundation manages specific securities and other investments under a separate agreement with the investor and remits the actual income to the investor.

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue and revenue recognition – The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Unconditional promises to give that are expected to be collected in futures years are recognized at fair value based on discounted cash flows, there were none as of December 31, 2021 and 2020. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at fair value using a current appraisal on the date of the gift and is generally made available for sale as soon as practicable. Contributions of investments are recorded at fair value on the date of receipt of donation and are typically converted to cash immediately thereafter.

Functional allocation of expenses – Expenses that can be identified with a specific program or support service are charged directly to that program. Other expenses incurred by the Foundation that apply to more than one functional category are allocated as follows:

- Salaries and wages, benefits and payroll taxes are allocated based on activity reports prepared by key personnel.
- Occupancy, depreciation and related expenses are allocated on a square foot basis dependent on the programs and supporting activities that occupy the space.
- Telephone and internet services, insurance, and supplies and miscellaneous expense that cannot be directly identified are allocated on the basis of employee headcount for each program and supporting activity.

Expenses are allocated on a reasonable basis that is consistently applied. Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Income taxes – The Foundation operates as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code; and as such, is generally exempt from federal taxation of income.

The Foundation did not engage in any activity unrelated to its tax-exempt purpose; accordingly, no provision for income taxes has been made in the accompanying financial statements. In accordance with requirements related to accounting for uncertainties in income taxes, the Foundation has determined they have no uncertain tax positions as of December 31, 2021 and 2020.

Concentration of agency funds – For the years ended December 31, 2021 and 2020, approximately 15% of the Church and other agency funds are from two organizations.

Faith Foundation Northwest

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Paycheck Protection Program (PPP) – During the year ended December 31, 2020, the Foundation applied for and was granted a loan under the federal PPP related to COVID-19 economic support and recovery. This loan, in the amount of \$100,000, was received by the Foundation in April 2020. The Foundation met all qualifications of the loan as of December 31, 2020. In accordance with Financial Accounting Standards Board Accounting Standard Codification 470, the Foundation recorded the \$100,000 as PPP Loan Payable in the statement of financial position as of December 31, 2020. The Foundation received formal forgiveness on the loan in May 2021 of approximately \$93,000 and the remaining difference was paid back by the Foundation at the same time as the forgiveness. The Foundation properly recognized the loan from PPP as other income on the statement activities in the year ended December 31, 2021.

Reclassification – Certain reclassifications were made to the 2020 financial statements to be in accordance with the 2021 presentation. The reclassifications have no effect on the change in net assets as previously reported.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. FFNW recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. FFNW's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

FFNW has evaluated subsequent events through June 14, 2022, which is the date the financial statements are available to be issued.

Note 3 – Unitrust and Annuity Obligations

A portion of the Foundation's investments result from deferred-giving vehicles subject to split-interest agreements. Two different types of agreements are currently maintained: charitable gift annuities and charitable remainder unitrusts.

Charitable gift annuities are donor restricted irrevocable gifts under which the Foundation agrees in turn to pay a life annuity to the donor, or to a designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the Foundation. Charitable remainder unitrust gifts are time-restricted contributions not available to the Foundation until after the death of the donor, who, while living, receives an annual payout from the trust based on the terms of the agreement.

The Foundation values deferred gifts of cash at face value and investments at market value. Contribution values are discounted on the basis of actuarial data contained in a software program commonly used by not-for-profit organizations. Discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred-giving arrangements.

Note 3 – Unitrust and Annuity Obligations (continued)

As an issuer of charitable gift annuities, the Foundation has maintained minimum reserves as required by Washington State.

The charitable trusts represent the assets of charitable remainder unitrusts that have been contributed to the Foundation. The trust assets are not currently available to be used by the Foundation and this is indicated by the recording of net assets with donor restriction and the related deferred liabilities. Each trust pays an annuity back to the donor based on a fixed percentage of the trust's assets as measured at fair market value. The present value of these annuities is recorded as a liability based on the estimated remaining life of the annuitant(s) and using the applicable discount rate.

When conditions under the trust have been met, the trust assets will be available to be used by the Foundation in accordance with the donor's wishes. A majority of these trusts require distributions to go to other organizations. These amounts are recorded as liabilities by the Foundation.

As of December 31, 2021 and 2020, the Foundation recorded \$772,980 and \$0 for unitrust and annuity obligations which are included in church and other agency funds on the statement of financial position. The Foundation recorded change in value of unitrust and annuity obligations of \$772,980 and \$0 for the years ended December 31, 2021 and 2020, which are included in agency fund net investment income (expense) on the statement of activities. Total assets designated for the unitrusts and annuities as of December 31, 2021 and 2020, were \$1,191,373 and \$1,903,295, respectively.

Note 4 – Fair Value of Assets

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active or inactive markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Registered investment companies (mutual funds) – Valued at the daily closing prices as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Plan are deemed to be actively traded. Mutual funds are registered with the U.S. Securities and Exchange Commission.

Faith Foundation Northwest

Notes to Financial Statements

Note 4 – Fair Value of Assets (continued)

Common stock – Common stocks are valued at the closing price reported on the major market on which the individual securities are traded. Common stocks are generally classified within Level 1 of the valuation hierarchy.

Certificates of deposit – Certificates of deposit are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Corporate bonds – Valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades that may be considered indicative of an active market. Because quoted market prices are not available for the specific security, fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, discounted cash flows, and other observable inputs.

Agency obligations – This liability is valued using the market approach and calculated by determining the sum of the average percentage share of each agency's fund balance, or net assets value, in the Foundation's pooled investments.

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics, or discounted cash flows. In certain cases, where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Fair values of assets and liabilities measured on a recurring basis at December 31 were as follows:

	Fair Value Measurements as of December 31, 2021			2021 Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Mutual funds	\$ 5,057	\$ -	\$ -	\$ 5,057
Common stock	42,008	-	-	42,008
Corporate bond		444,992		444,992
Certificates of deposit	-	4,342,551	-	4,342,551
Total assets in fair value hierarchy	<u>\$ 47,065</u>	<u>\$ 4,787,543</u>	<u>\$ -</u>	<u>4,834,608</u>
Total investments				<u>\$ 4,834,608</u>
Liabilities				
Church and other agency funds	<u>\$ -</u>	<u>\$ (80,862,155)</u>	<u>\$ -</u>	<u>\$ (80,862,155)</u>

Faith Foundation Northwest
Notes to Financial Statements

Note 4 – Fair Value of Assets (continued)

	Fair Value Measurements as of December 31, 2020			2020 Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Mutual funds	\$ 74,226	\$ -	\$ -	\$ 74,226
Common stock	4,637	-	-	4,637
Certificates of deposit	-	8,533,926	-	8,533,926
	<u>\$ 78,863</u>	<u>\$ 8,533,926</u>	<u>\$ -</u>	<u>8,612,789</u>
Total assets in fair value hierarchy				
				<u>\$ 8,612,789</u>
Total investments				<u>\$ 8,612,789</u>
Liabilities				
Church and other agency funds	\$ -	\$ (71,987,400)	\$ -	\$ (71,987,400)
	<u>\$ -</u>	<u>\$ (71,987,400)</u>	<u>\$ -</u>	<u>\$ (71,987,400)</u>

Note 5 – Notes Receivable

Notes receivable are made to local congregations for financing building construction and remodeling projects and are secured by corresponding church property. The notes carry an interest rate at an established number of points above prime rate the date the loan is approved by the executive committee, and payment terms are negotiated on an individual loan basis. Generally, the notes range from 1 to 15 years, with interest rates ranging from 3.75% to 5.00%. Notes receivables outstanding were \$3,395,791 and \$3,865,543 for the years ended December 31, 2021 and 2020, respectively.

A summary of expected future principal payments on the notes receivable is approximately, as follows:

Years Ending December 31,	Amount
2022	\$ 365,000
2023	326,000
2024	291,000
2025	260,000
2026	232,000
Thereafter	1,921,791
Total	<u>\$ 3,395,791</u>

Faith Foundation Northwest

Notes to Financial Statements

Note 6 – Endowment

The Foundation's endowment consists of approximately 58 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Foundation has interpreted the enacted version of UPMIFA for Washington State and determined that 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 is appropriate. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment, as applicable, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- The duration and preservation of the fund
- The purposes of the Foundation and donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net assets consist of the following as of December 31, 2021 and 2020:

	December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 6,823,685	\$ 6,823,685
Board-designated quasi-endowment funds	2,712,687	-	2,712,687
Net endowment assets	<u>\$ 2,712,687</u>	<u>\$ 6,823,685</u>	<u>\$ 9,536,372</u>

Faith Foundation Northwest
Notes to Financial Statements

Note 6 – Endowment (continued)

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 6,572,826	\$ 6,572,826
Board-designated quasi-endowment funds	2,460,373	-	2,460,373
Net endowment assets	<u>\$ 2,460,373</u>	<u>\$ 6,572,826</u>	<u>\$ 9,033,199</u>

Changes in endowment net assets for the years ended December 31, 2021 and 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2021	<u>\$ 2,460,373</u>	<u>\$ 6,572,826</u>	<u>\$ 9,033,199</u>
Investment return, net	944,083	523,378	1,467,461
Contributions	-	26,396	26,396
Appropriated for expenditure	(722,276)	(268,408)	(990,684)
Net transfers to (from) endowments	<u>30,507</u>	<u>(30,507)</u>	<u>-</u>
Endowment net assets, December 31, 2021	<u>\$ 2,712,687</u>	<u>\$ 6,823,685</u>	<u>\$ 9,536,372</u>
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2020	<u>\$ 2,158,842</u>	<u>\$ 5,794,195</u>	<u>\$ 7,953,037</u>
Investment return, net	921,927	988,281	1,910,208
Contributions	500	225,296	225,796
Appropriated for expenditure	(756,365)	(296,532)	(1,052,897)
Net transfers to (from) endowments	<u>135,469</u>	<u>(138,414)</u>	<u>(2,945)</u>
Endowment net assets, December 31, 2020	<u>\$ 2,460,373</u>	<u>\$ 6,572,826</u>	<u>\$ 9,033,199</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). FFNW has interpreted UPMIFA to permit spending from endowment funds with deficits of this nature in accordance with prudent measures required under law. There were no such deficits as of December 31, 2021 and 2020.

Return objectives and risk parameters – The current long-term return objective is to return 7 percent. Actual returns in any given year may vary from this amount.

Faith Foundation Northwest

Notes to Financial Statements

Note 6 – Endowment (continued)

The Foundation targets a diversified asset allocation that places an emphasis on fixed income securities and equity-based investments both domestic and international to achieve its long-term return objectives within prudent risk parameters.

Strategies employed for achieving objectives – The Foundation has adopted an investment policy, approved by the Board of Trustees, for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The investment policy establishes an achievable return objective through diversification of asset classes and the engagement of multiple portfolio managers.

To satisfy its long-term rate of return objectives, the Foundation 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).

Spending policy and how the investment objectives relate to spending policy – The Foundation calculates the amount of money annually distributed from its various endowed funds in accordance with donor agreements. In the absence of a donor agreement, the distributions are determined using the Foundation's spending policy. Accordingly, the Foundation expects its current policy to allow its endowment assets to grow over the longer term. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Note 7 – Liquidity and Availability

Financial assets available for general expenditures, without donor or other restrictions limiting their use, within one year as of December 31, 2021 and 2020, comprise the following:

	2021	2020
Financial assets		
Cash and cash equivalents	\$ 3,735,308	\$ 2,394,471
Other receivable	4,389	662
Notes receivable	3,395,791	3,865,543
Deposit accounts	78,408,879	66,224,877
Investments	4,834,608	8,612,789
	<u>90,378,975</u>	<u>81,098,342</u>
Financial assets, at year-end		
Less those unavailable for general expenditure within one year		
Amounts held for church and agency	80,089,175	71,987,400
Amounts held for unitrusts and annuities	772,980	-
Endowment investments	6,823,685	6,572,826
	<u>87,685,840</u>	<u>78,560,226</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,693,135</u>	<u>\$ 2,538,116</u>

Note 8 – Retirement Plan

All employees of the Foundation are included in the cumulative pension benefit fund, a defined contribution pension plan. Employer contributions are 9% of the employees' compensation, with no contribution required from the employees. All contributions are fully vested and are invested with the general board of pension and health benefits of the United Methodist Church. Plan contributions were approximately \$45,000 and \$48,000 for the years ended December 31, 2021 and 2020, respectively.

