

**THE PRIMITIVE METHODIST
INVESTMENT FOUNDATION, INC.**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

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**Kronick
Kalada
Berdy & Co.**
A Professional Corporation

Certified Public Accountants

Officers/Shareholders

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INDEPENDENT AUDITORS' REPORT

Donald M. Kronick, CPA
Joseph J. Kalada, CPA
Paul Berdy, CPA
William R. Lazor, CPA/PFS, CFE

Board of Directors
The Primitive Methodist Investment Foundation, Inc.
Swoyersville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of The Primitive Methodist Investment Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 The Primitive Methodist Investment Foundation, Inc. as of December 31, 2019, 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.

Kronick Kalada Berdy & Co

Kingston, Pennsylvania
August 17, 2020

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Cash and cash equivalents	\$ 54,573	\$ 86,242	\$ 44,980
Interest receivable	2,705	3,274	3,116
Contributions receivable	-	-	30,801
Other assets	928	361	2,285
Investments	6,229,935	6,668,560	7,516,537
Loans receivable, net	1,089,832	1,141,600	1,150,986
Note receivable, net	161,948	178,448	-
Equipment, net	<u>3,388</u>	<u>4,542</u>	<u>3,989</u>
Total assets	<u>\$ 7,543,309</u>	<u>\$ 8,083,027</u>	<u>\$ 8,752,694</u>
Liabilities and net deficit			
Deposits	\$ 8,688,490	\$ 10,273,062	\$ 10,635,705
Accrued liabilities	<u>132,738</u>	<u>132,636</u>	<u>27,900</u>
Total liabilities	<u>8,821,228</u>	<u>10,405,698</u>	<u>10,663,605</u>
Net Assets (Deficit)			
Without donor restrictions	(1,397,820)	(2,443,354)	(2,030,991)
With donor restrictions	<u>119,901</u>	<u>120,683</u>	<u>120,080</u>
Total net deficit	<u>(1,277,919)</u>	<u>(2,322,671)</u>	<u>(1,910,911)</u>
Total liabilities and net deficit	<u>\$ 7,543,309</u>	<u>\$ 8,083,027</u>	<u>\$ 8,752,694</u>

See notes to financial statements

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	2019	2018	2017
Changes in net assets without donor restrictions			
Revenues and other support:			
Interest on loans outstanding	\$ 63,436	\$ 66,306	\$ 59,164
Investment income, net	2,223,149	608,987	40,166
Release from restrictions	2,881	3,166	3,648
Total revenues and other support without donor restrictions	<u>2,289,466</u>	<u>678,459</u>	<u>102,978</u>
Operating expenses			
Loan Program			
Interest on deposits	278,171	274,589	209,988
Interest expense	-	-	8,530
Wages	35,433	37,600	31,300
Professional services	33,223	123,064	19,734
Office expenses	4,479	4,796	6,175
Scholarships	2,881	3,166	3,648
Payroll taxes	2,527	2,693	2,142
Office rental	3,600	3,600	2,700
Depreciation	1,683	1,631	2,019
Contributions	-	4,168	1,950
Insurance expense	851	1,406	1,407
Bad debt recovery	(7,000)	(2,718)	(5,000)
	<u>355,848</u>	<u>453,995</u>	<u>284,593</u>
Management and general, board expense	3,571	5,282	7,052
Fundraising, advertising expense	2,189	166	1,292
Total operating expenses	<u>361,608</u>	<u>459,443</u>	<u>292,937</u>
Operating income (loss)	1,927,858	219,016	(189,959)
Reclassification of contributions	-	(30,524)	-
Net unrealized gains (losses) on investments	(882,007)	(633,915)	1,562,489
Increase (decrease) in net assets without donor restrictions	<u>1,045,851</u>	<u>(445,423)</u>	<u>1,372,530</u>
Changes in net assets with donor restrictions			
Contributions	-	121	346
Investment income	1,782	6,184	5,529
Reclassification of contributions	-	30,524	-
Release from restrictions	(2,881)	(3,166)	(3,648)
Increase (decrease) in net assets with donor restrictions	<u>(1,099)</u>	<u>33,663</u>	<u>2,227</u>
Change in net assets	1,044,752	(411,760)	1,374,757
Net Deficit, beginning	<u>(2,322,671)</u>	<u>(1,910,911)</u>	<u>(3,285,668)</u>
Net Deficit, ending	<u>\$ (1,277,919)</u>	<u>\$ (2,322,671)</u>	<u>\$ (1,910,911)</u>

See notes to financial statements

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Loan Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Interest on deposits	\$ 278,171			\$ 278,171
Wages	35,433			35,433
Professional services	33,223			33,223
Office expenses	4,479			4,479
Scholarships	2,881			2,881
Payroll taxes	2,527			2,527
Office rental	3,600			3,600
Depreciation	1,683			1,683
Insurance expense	851			851
Bad debt recovery	(7,000)			(7,000)
Board expense		\$ 3,571		3,571
Advertising expense			\$ 2,189	2,189
	<u>\$ 355,848</u>	<u>\$ 3,571</u>	<u>\$ 2,189</u>	<u>\$ 361,608</u>

See notes to financial statements

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Loan Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Interest on deposits	\$ 274,589			\$ 274,589
Wages	37,600			37,600
Professional services	123,064			123,064
Office expenses	4,796			4,796
Scholarships	3,166			3,166
Payroll taxes	2,693			2,693
Office rental	3,600			3,600
Depreciation	1,631			1,631
Contributions	4,168			4,168
Insurance expense	1,406			1,406
Bad debt recovery	(2,718)			(2,718)
Board expense		\$ 5,282		5,282
Advertising expense			\$ 166	166
	<u>\$ 453,995</u>	<u>\$ 5,282</u>	<u>\$ 166</u>	<u>\$ 459,443</u>

See notes to financial statements

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Loan Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Interest on deposits	\$ 209,988			\$ 209,988
Interest expense	8,530			8,530
Wages	31,300			31,300
Professional services	19,734			19,734
Office expenses	6,175			6,175
Scholarships	3,648			3,648
Payroll taxes	2,142			2,142
Office rental	2,700			2,700
Depreciation	2,019			2,019
Contributions	1,950			1,950
Insurance expense	1,407			1,407
Bad debt recovery	(5,000)			(5,000)
Board expense		\$ 7,052		7,052
Advertising expense			\$ 1,292	1,292
	<u>\$ 284,593</u>	<u>\$ 7,052</u>	<u>\$ 1,292</u>	<u>\$ 292,937</u>

See notes to financial statements

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	2019	2018	2017
Cash flows from operating activities			
Change in net assets	\$ 1,044,752	\$ (411,760)	\$ 1,374,757
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Net unrealized losses (gains)	882,007	633,915	(1,562,489)
Realized losses (gains) on sales of investments	(2,036,088)	(372,637)	108,853
Depreciation	1,683	1,631	2,019
Provision for loan losses	64,566	71,566	74,566
Changes in assets and liabilities			
Contributions receivable	-	30,801	1,762
Interest receivable	569	(158)	2,102
Other assets	(567)	1,924	(2,000)
Accrued liabilities	102	104,736	908
Net cash provided by (used in) operating activities	(42,976)	60,018	478
Cash flows from investing activities			
Purchase of investments	(7,237,183)	(2,311,537)	(36,789)
Proceeds from sales of investments	8,716,114	2,668,432	349,931
Short-term investments	113,775	229,804	(397,572)
Loans receivable, net	(12,798)	(62,180)	(287,666)
Notes receivable, net	16,500	(178,448)	-
Purchase of equipment	(529)	(2,184)	(509)
Net cash provided by (used in) investing activities	1,595,879	343,887	(372,605)
Cash flows from financing activities			
Net increase (decrease) in deposits	(1,584,572)	(362,643)	630,454
Net decrease in loans purchased on margin	-	-	(355,765)
Net cash (used in) provided by financing activities	(1,584,572)	(362,643)	274,689
Increase (decrease) in cash and cash equivalents	(31,669)	41,262	(97,438)
Cash and cash equivalents, beginning	86,242	44,980	142,418
Cash and cash equivalents, ending	\$ 54,573	\$ 86,242	\$ 44,980
Supplemental disclosure of cash flow information			
Interest paid	\$ 278,171	\$ 274,589	\$ 218,518

See notes to financial statements

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

NOTE 1 Nature of operations and summary of significant accounting policies

Nature of operations

The Primitive Methodist Investment Foundation, Inc. (the "Foundation") is a not-for-profit organization incorporated in the Commonwealth of Pennsylvania. It is established to promote and support the religious, missionary and charitable activities of the Primitive Methodist Church in the United States of America (the "PM Church") by establishing an investment fund to make monies available for such religious, missionary and charitable purposes, to furnish aid and assistance by gift, donation, loan or otherwise, as the Board of Directors may deem advisable.

Basis of accounting and presentation

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

To recognize limitations and restrictions placed on the use of resources available to the Foundation, resources are classified for accounting and financial reporting purposes into two categories established according to their nature and purposes. The net assets of the Foundation are reported in two categories as follows:

- Net assets without donor restrictions are resources not subject to donor-imposed restrictions or law.
- Net assets with donor restrictions are resources whose use by the Foundation is limited by donor-imposed restrictions that either expire by the passage of time, can be fulfilled by actions of the Foundation, or require the corpus to be maintained in perpetuity.

Revenue recognition

The Foundation recognizes revenue from investments and interest earned on outstanding loans. Revenue is recognized on a monthly basis when earned.

The Foundation recognizes contributions as support with donor restrictions if they are received with donor imposed restrictions that limit the use of the donated assets. When a donor-imposed restriction is met or the passage of time expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and presented in the accompanying statements of activities as net assets released from restrictions. Donated land, buildings, and equipment are recognized as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all cash investments and highly liquid investments to be cash equivalents except money market funds included in the investment portfolio, which are included in investments.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Cash and cash equivalents are carried at cost which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the determination of operating income (loss) unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the determination of operating income (loss) unless the investments are trading securities.

The Foundation's investments are comprised of a variety of financial instruments and are managed by various investment managers with the oversight of an investment advisor. The fair values reported in the statements of financial position are subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Loans and interest receivable

Loans are stated at the amount of unpaid principal less a valuation allowance for possible loan losses (Notes 5 and 6). Interest income on loans, except those classified as non-interest bearing, is based upon the outstanding principal amounts recognized using the simple interest method.

Loans receivable are being collected over terms from less than one year to 30 years, at interest rates that are fixed. The interest rate was 6.0 percent at December 31, 2019, 2018 and 2017. Substantially all loans receivable are collateralized by deed of trust on real properties (principally church buildings and parsonages) located throughout the United States.

Non-interest bearing loans

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid interest is reversed against interest income. Interest income is subsequently recognized only to the extent cash payments are received.

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A non-interest bearing loan may be returned to an accruing status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

Impaired loans

Loans are considered to be impaired when, in management's judgment and based on current information, full collection of principal and interest becomes doubtful. A loan is also considered impaired if its terms are modified in a troubled debt restructuring. Impaired loans are placed in nonperforming status, and future payments are applied to principal until such time as collection of the obligation is no longer doubtful.

When the Foundation identifies a loan as impaired, the impairment is measured based on the present value of future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the liquidation of collateral. In these cases, the current fair value of the collateral is used, less selling cost when foreclosure is probable.

In the event that the net realizable liquidation value of the collateral is less than the principal balance of the underlying loan, the anticipated deficiency balance is charged off.

To return to performing status, loans must be fully current, and continued timely payments must be a reasonable expectation. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Allowance for loan losses

The Foundation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. The fair value of impaired loans is estimated using one of several methods including collateral value and discounted cash flows. When the impaired loan is valued using the underlying collateral, the Foundation records the impaired loan as Level 2. When an appraised value is not available and other methods are used to determine the loan's fair value, the Foundation records the loan as Level 3.

An allowance for loan losses is maintained at a level considered adequate to absorb loan losses. In determining the allowance for loan losses, management considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with general economic and real estate market conditions. In addition, management also considers its ability to work with delinquent borrowers through other units of the PM Church, guarantees, and such other relevant factors that, in management's judgement, deserve recognition. The Foundation utilizes a two-tier approach: (1) identification of impaired loans and the establishment of specific loss allowances on such loans; and (2) establishment of general loss allowances on the remainder of its loan portfolio. The Foundation maintains a loan review system that allows for a periodic review of its

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

loan portfolio and the early identification of potential impaired loans. The system takes into consideration, among other things: delinquency status, size of loans, type and estimate fair value of collateral, and financial condition of borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. General loan loss allowances are based on a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, and management's judgement. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated future cash flows. The allowance is increased (decreased) by a provision for loan losses, which is reported in the statements of activities, and reduced by charge-offs, net of recoveries.

Equipment and depreciation

Equipment is carried at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the equipment.

Deposits

Deposits consist of cash deposited by members and affiliates of the PM Church. The interest rate accruing on deposits was 2.65%, 2.50%, and 2.00% at December 31, 2019, 2018 and 2017, respectively. The rate is subject to semi-annual adjustments. Interest on investment deposits accrues from date of deposit to date of withdrawal. Interest is disbursed semi-annually or may be left on deposit at the depositor's request.

Loans for investments purchased on margin

The Foundation has the option to obtain a line of credit up to 50.0 percent of the fair market value of their investments. Interest is charged monthly at a variable rate (ranging from 7.0 percent to 7.5 percent from January 2017 to December 2019) on the outstanding balance. The loans are secured by the investments. There were no borrowings outstanding on lines of credit as of December 31, 2019, 2018 and 2017.

Use of estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE PRIMITIVE METHODIST INVESTMENT FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

Functional expenses

The costs of providing a loan program and other activities are summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among programs and supporting services benefited. The financial statements also report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, some expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated on the basis of estimates of time and effort.

Income taxes

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes on its exempt income under Section 501(c)(3) of the IRC.

The Foundation accounts for uncertainty in income taxes by prescribing a recognition threshold of more likely than not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. Management believes it is no longer subject to income tax examinations for years prior to 2016.

Recently issued accounting pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASU) No. 2016-02, *Leases (Topic 842)*, which will require leases to be recorded as an asset on the statement of financial position for the right to use the leased asset and a liability for the corresponding lease obligation for leases with terms of more than twelve months. ASU No. 2016-02 also requires specific quantitative and qualitative disclosures about leasing arrangements to enable financial statement users to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for non-public companies for fiscal years beginning after December 15, 2021. The Company is evaluating the impact the pronouncement may have on the financial statements.

Recently adopted accounting pronouncements

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve account guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluation whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Foundation retrospectively adopted the guidance in ASU No. 2018-08 for its year ending December 31, 2019. There was no impact on our statements of financial position, statements of activities, functional expenses or cash flows.

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The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASC 606 supersedes nearly all U.S. GAAP on revenue recognition and eliminated industry specific guidance. The underlying principle of ASC 606 is to recognize revenue when a customer obtains control of promised goods or services at an amount that reflects the consideration that is expected to be received in exchange for those goods or services. We adopted ASC 606 on January 1, 2019, utilizing the modified retrospective method of transaction. As a result, the financial information for reporting periods beginning on or after January 1, 2019 are presented in accordance with ASC 606. Comparative financial information for reporting periods beginning prior to January 1, 2019 has not been adjusted and continues to be reported in accordance with the Foundation's revenue recognition policies prior to the adoption of ASC 606. The Company did not record a cumulative adjustment related to the adoption of ASC 606, and the effects of the adoption were not significant. There was no impact on our statements of financial position, statements of activities, functional expenses or cash flows.

NOTE 2 Investments

The cost and fair values of investments at December 31, 2019 and 2018 and 2017, are as follows:

<u>December 31, 2019</u>	<u>Cost</u>	<u>Net Unrealized Gains/(Losses)</u>	<u>Fair Value</u>
Short-term investments	\$ 61,498	\$ -	\$ 61,498
Mutual funds			
Equity	343,179	26,232	369,411
Fixed income	1,845,639	12,738	1,858,377
Alternatives	208,770	(6,923)	201,847
Total mutual funds	<u>2,397,588</u>	<u>32,047</u>	<u>2,429,635</u>
Exchange-traded funds (ETFs)	912,128	208,281	1,120,409
Common and preferred stocks	1,741,073	463,895	2,204,968
Corporate bonds	135,689	15,136	150,825
Government securities	252,669	9,931	262,600
	<u>\$ 5,500,645</u>	<u>\$ 729,290</u>	<u>\$ 6,229,935</u>

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December 31, 2018	Cost	Net Unrealized Gains/(Losses)	Fair Value
Short-term investments	\$ 167,769	\$ -	\$ 167,769
Mutual funds			
Equity	100,000	(6,126)	93,874
Fixed income	884,434	(14,701)	869,733
Alternatives	220,382	(5,650)	214,732
Total mutual funds	1,204,816	(26,477)	1,178,339
Exchange-traded funds (ETFs)	1,083,453	(6,068)	1,077,385
Common and preferred stocks	2,282,871	1,610,428	3,893,299
Corporate bonds	132,704	293	132,997
Government securities	216,857	1,914	218,771
	<u>\$ 5,088,470</u>	<u>\$ 1,580,090</u>	<u>\$ 6,668,560</u>

December 31, 2017	Cost	Net Unrealized Gains/(Losses)	Fair Value
Short-term investments	\$ 397,572	\$ -	\$ 397,572
Mutual funds, equity	100,000	5,124	105,124
Exchange-traded funds (ETFs)	1,086,719	339,053	1,425,772
Common and preferred stocks	3,721,180	1,866,889	5,588,069
	<u>\$ 5,305,471</u>	<u>\$ 2,211,066</u>	<u>\$ 7,516,537</u>

NOTE 3 Fair value measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

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- Level 2 Inputs to the valuation methodology include
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018 and 2017.

Short-term investments: Depository accounts valued based on models using observable market inputs.

Common and preferred stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds and U.S. government and agency bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Mutual funds and exchange traded funds (ETFs): Valued at the daily closing price as reported by the fund. Mutual funds and ETFs held by the Foundation are open-end mutual funds and ETFs that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds and ETFs held by the Foundation are deemed to be actively traded.

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The fair values of the Foundation 's investments were measured with the following inputs at December 31:

	Assets at fair value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 61,498			\$ 61,498
Mutual funds				
Equity	369,411			369,411
Fixed income	1,858,377			1,858,377
Alternatives	201,847			201,847
Exchange-traded funds (ETFs)	1,120,409			1,120,409
Common and preferred stocks	2,204,968			2,204,968
Corporate bonds		\$ 150,825		150,825
Government securities		262,600		262,600
Total	<u>\$5,816,510</u>	<u>\$ 413,425</u>	<u>\$ -</u>	<u>\$6,229,935</u>

	Assets at fair value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 167,769			\$ 167,769
Mutual funds				
Equity	93,874			93,874
Fixed income	869,733			869,733
Alternatives	214,732			214,732
Exchange-traded funds (ETFs)	1,077,385			1,077,385
Common and preferred stocks	3,893,299			3,893,299
Corporate bonds		\$ 132,997		132,997
Government securities		218,771		218,771
Total	<u>\$6,316,792</u>	<u>\$ 351,768</u>	<u>\$ -</u>	<u>\$6,668,560</u>

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	Assets at fair value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 397,572			\$ 397,572
Mutual funds, equity	105,124			105,124
Exchange-traded funds (ETFs)	1,425,772			1,425,772
Common and preferred stocks	5,588,069			5,588,069
Total	\$7,516,537	\$ -	\$ -	\$7,516,537

The composition of investment income is as follows:

	2019	2018	2017
Interest and dividend income	\$ 231,026	\$253,617	\$ 159,383
Realized gains (losses), net	2,036,088	372,637	(108,853)
Investment fees	(42,183)	(11,083)	(4,835)
Net investment income	\$2,224,931	\$615,171	\$ 45,695

There were no financial assets or financial liabilities measured at fair value using level 3 inputs.

NOTE 4 Note receivable

On November 15, 2018, the Foundation entered into a noninterest bearing promissory note for \$179,948 from the PM Church. The note is to be repaid in 180 consecutive monthly installments of \$1,000 commencing November 15, 2018. The balance of the note receivable was \$161,948 and \$178,448 at December 31, 2019 and 2018, respectively.

NOTE 5 Loans receivable, net

The Foundation's loan portfolio consists of loans to churches and entities associated with the PM Church, and these loans were made out of a pool of funds invested with the Foundation through the Loan Program. The Foundation approves these loans based upon specific Board approved criteria, and most loans are secured by the individual entity's real and personal property.

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The purpose of the Foundation's Loan Program is to make first-lien mortgage loans to church congregations, districts, mission institutions, and extension agencies within the PM Church for the purchase, construction, expansion, or major improvements of churches, parsonages, or mission buildings or the refinancing of loans made for those purposes. Terms of the loans range from less than one year to 30 years. At December 31, 2019, the Foundation's loan portfolio had interest rates of 6.00%.

Major classifications of loans are as follows at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Term loans	\$ 1,154,398	\$ 1,213,166	\$ 1,225,552
Less: Allowance for loan losses	<u>(64,566)</u>	<u>(71,566)</u>	<u>(74,566)</u>
Loans receivable, net	<u>\$ 1,089,832</u>	<u>\$ 1,141,600</u>	<u>\$ 1,150,986</u>

The Foundation considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the original terms of the loan agreement. Impaired loans may include loans which are not accruing. Nonaccrual loans are those in which the collection of interest is not probable and all cash flows are recorded as reductions in principal. Amounts of impaired loans that are not probable of collection are charged off immediately. At December 31, 2019, 2018 and 2017, the Foundation has one loan it considered as impaired.

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2019, 2018 and 2017:

December 31, 2019

	<u>30-89 Days</u>	<u>Greater than 89 days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>Loans Receivable Greater than 90 days and Accruing</u>
Term loans	<u>\$ -</u>	<u>\$ 135,371</u>	<u>\$ 135,371</u>	<u>\$ 1,019,027</u>	<u>\$ 1,154,398</u>	<u>\$ 69,905</u>

December 31, 2018

	<u>30-89 Days</u>	<u>Greater than 89 days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>Loans Receivable Greater than 90 days and Accruing</u>
Term loans	<u>\$ -</u>	<u>\$ 141,471</u>	<u>\$ 141,471</u>	<u>\$ 1,071,695</u>	<u>\$ 1,213,166</u>	<u>\$ 69,905</u>

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December 31, 2017

	<u>30-89 Days</u>	<u>Greater than 89 days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>Loans Receivable Greater than 90 days and Accruing</u>
Term loans	\$ -	\$ 74,566	\$ 74,566	\$ 1,150,986	\$ 1,225,552	\$ -

There is one term loan impaired for which no allowance for credit losses is recognized. The recorded investment and the unpaid principal balance of the impaired term loan was \$69,905 at December 31, 2019 and 2018. There was no interest income recognized while this loan was impaired. There were no impaired loans for which no allowance for credit losses is recognized at December 31, 2017.

There is one term loan impaired for which an allowance for credit losses is recognized. The recorded investment and the unpaid principal balance of the impaired term loan was \$64,566, \$71,566, and 74,566 at December 31, 2019, 2018, and 2017, respectively. The allowance for credit losses on this impaired loan was \$64,566, \$71,566, and \$74,566 at December 31, 2019, 2018, and 2017, respectively. There was no interest income recognized while this loan was impaired.

NOTE 6 Allowance for loan losses

A summary of changes in the allowance for loan losses is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 71,566	\$ 74,566	\$ 79,566
Addition provision (reduction)	<u>(7,000)</u>	<u>(3,000)</u>	<u>(5,000)</u>
Ending balance	<u>\$ 64,566</u>	<u>\$ 71,566</u>	<u>\$ 74,566</u>

The ending balance in the allowance for loan losses is attributed to one loan evaluated individually. The balance of the loan at December 31, 2019, 2018 and 2017 was \$64,566, \$71,566, and \$74,566, respectively.

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NOTE 7 Related party transactions

The Foundation's main activities involve related churches of the PM Church. These churches deposit or borrow cash from the Foundation at their own discretion. All deposits payable or loans receivable are due to or from related parties and these assets and liabilities contribute to the Foundation's interest revenue and expense.

NOTE 8 Business risks

The Foundation has net deficits of approximately \$1,278,000, \$2,323,000, and \$1,911,000 at December 31, 2019, 2018, and 2017, respectively. The deficits are primarily the result of investment losses in prior years. The Foundation's primary obligations are deposit liabilities that have no restrictions on when the depositor can demand payment, and a margin loan that is subject to availability of credit based on the fair value of the Foundation's investment portfolio. Demands for return of deposits and payment on the margin loan could adversely affect the Foundation's ability to meet its obligations depending on the availability of investments to meet those demands. The Foundation continues to monitor its investments and expected cash flow needs to sustain future operations.

NOTE 9 Endowment

The Foundation's endowment consists of approximately 11 individual donor-restricted funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted Pennsylvania law 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. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (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 permanently restricted net assets is classified as unrestricted net assets based on the existence of donor restrictions or by law. The Foundation considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of 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 Foundation, and (7) the investment policies of the Foundation.

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The Foundation has adopted an investment policy for endowment assets that intends to follow a consistent and disciplined investment management approach that attempts to maximize total return over a long-term period with extreme positions and opportunistic management styles being avoided, portfolio volatility managed by controlling the asset allocation decisions and an emphasis on quality portfolio investments, low asset turnover, and diversification within asset classes.

Subject to any restrictions placed on the gift to the fund by the donor, the Endowment Fund Trustees will determine the disbursements from the fund. Unless otherwise specified by the donative instrument, the Endowment Fund Trustees will only disburse income from the fund. For the purposes hereunder, income shall be as defined by 15 Pa. C.S. Section 5548 of the Pennsylvania Non-Profit Corporation Law, and shall include dividends, interest, and other income, including net realized and unrealized capital gains as set forth in said statute. Subject to the restrictions of the donor, the Endowment Fund Trustees will have sole discretion as to the investment of endowment fund assets.

From time to time, the fair value of invested assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2019, 2018, and 2017.

Changes in endowment net assets at December 31 are as follows:

	Net assets with donor restrictions
Endowment net assets, January 1, 2017	\$ 120,346
Contributions	77
Investment income, net	2,405
Disbursements	<u>(2,748)</u>
Endowment net assets, December 31, 2017	120,080
Contributions	-
Investment income, net	3,015
Disbursements	<u>(2,412)</u>
Endowment net assets, December 31, 2018	120,683
Contributions	-
Investment income, net	2,099
Disbursements	<u>(2,881)</u>
Endowment net assets, December 31, 2019	<u>\$ 119,901</u>

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NOTE 10 Liquidity and availability of resources

The Foundation's primary program is the loans and Hybrid Savings Accounts ("Loan Program").

Loans and Hybrid Savings Account Program

The Foundation receives deposits into the hybrid savings accounts to fund its Loan Program. The Foundation's principal sources of cash for repayment of the hybrid savings accounts' principal and interest are loan payments, interest earned on those loans, unrestricted income from other investments, proceeds from deposits, and other unrestricted assets and funds of the Foundation. Deposits made by members with the Foundation are used as working capital for loans to churches, investor withdrawals and current operations of the Foundation. Deposits in excess of working capital needs are forwarded to the Foundation's investment manager to be invested in compliance with the Foundation's Investment Policy Statement (IPS).

The Foundation insulates its investors from market fluctuations in that the Foundation accepts all market risk. From an investor's point of view, their investment with the Foundation is a fixed income investment with a defined variable rate of interest.

Approximately half of the funds invested with the Foundation are owned by Primitive Methodist churches and organizations of those churches, and are long-term investments. Individual investors - typically church members of various Primitive Methodist churches - account for the remainder of funds invested with the Foundation. Liquidity risk is minimized by the long-term investment nature of the organizational investors. The Foundation states that, "Funds invested are available to the investor upon demand."

The Foundation interest rate offered its investors on Hybrid Savings Accounts is governed by a floor rate equal to the, "3-Month Treasury Bill interest rate plus .25% (25 bpts) subject to the Foundation Board review on a quarterly basis." This policy ensures that investors will always be offered a competitive interest rate for short-term investing.

All Foundation loans made to Primitive Methodist churches in the U.S. are secured by the real and personal property of the church receiving the loan. All loans made to Guatemalan Primitive Methodist churches are guaranteed by the Guatemalan Conference of the Primitive Methodist Church. All loans made to Dominican Republic churches are secured by real and personal property of the church receiving the loan. Promissory notes, inclusive of defined real property collateral for the loans to Primitive Methodist churches in the U.S. are on file with the Foundation. All outstanding promissory notes for Foundation loans to churches bear interest at 6.0%.

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Administrative Functions

Contributions and unrestricted fund appropriations fund the general and administrative costs of the Foundation. The Foundation maintains unrestricted investments, which may be used to fund general expenditures of the Foundation. The Foundation receives contributions with and without donor restrictions. Because donor restrictions require funds to be used in a particular manner or in a future period, the Foundation maintains these restricted funds so that they are available to meet those responsibilities as they are required to be met. Accordingly, these financial assets are not available to the Foundation for its general expenditures. General expenditures may be incurred for program or general and administrative purposes.

Funds Available for General Expenditures

The Foundation's financial assets at December 31 (reduced by amounts that are not available for general use because of contractual, donor-imposed, or internal restrictions) available within one year after this date to satisfy liabilities at this date and for future general expenditure are in the following table.

	2019	2018	2017
Financial assets:			
Cash and cash equivalents	\$ 54,573	\$ 86,242	\$ 44,980
Interest receivable	2,705	3,274	3,116
Investments	119,901	120,683	120,080
Contributions receivable	-	-	30,801
Loans receivable, net	1,089,832	1,141,600	1,150,986
Note receivable, net	161,948	178,448	-
Total financial assets	<u>1,428,959</u>	<u>1,530,247</u>	<u>1,349,963</u>
Adjustments:			
Loans receivable due after one year	(1,054,618)	(1,089,832)	(1,141,600)
Note receivable due after one year	(149,948)	(161,948)	-
Endowments	<u>(119,901)</u>	<u>(120,683)</u>	<u>(120,080)</u>
	<u>\$ 104,492</u>	<u>\$ 157,784</u>	<u>\$ 88,283</u>

As described in Note 1, the Foundation has the option to obtain a line of credit up to 50% of the fair market value of their investments, which it could draw upon in the event of an unanticipated liquidity event.

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Subsequent to December 31, 2019, the global coronavirus pandemic has threatened the U.S. and global economies. This has affected the U.S. and global equity markets, as well as consumer confidence, and the broad U.S. and global stocks market have fallen significantly since December 31, 2019. It is uncertain how this downturn in the financial markets and consumer confidence may affect the operations, investments, funding and contribution income of the Foundation in the near future. While the Foundation believes it has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on many factors.

Continuation of current conditions could impair the ability of borrowers to repay outstanding loans and increase the Foundation's allowance for credit losses, impair the collateral values, or cause an outflow of deposits. The Foundation's ability to meet its obligations for deposits might be impaired. The decline in the U.S. and global equity markets could result in a decrease in asset management fees and investment income available for drawdown from the Foundation's endowment.

NOTE 11 Contingency

In November 2019, the Foundation reached a Consent Agreement and Order (the "Order") with the Pennsylvania Department of Banking and Securities (PADBS), which requires the Foundation to register with the PADBS and effect a rescission offer to its members who purchased securities from the Foundation before August 31, 2019. The rescission offer will be sent to Foundation members allowing them to receive their full investment back plus 6%. The rescission offer will describe the Foundation reorganization as a "Church Extension Fund" (the "CEF") and will include an Offering Circular (the "OC") defining the organization and the new securities it will offer as a CEF. As a CEF, the Foundation will no longer be able to issue Hybrid Savings Accounts to its members. It will replace those existing accounts with Demand Notes earning interest much like the Hybrid Savings Account. The Foundation is uncertain of the outcome therefore no additional liability has been recorded.

NOTE 12 Subsequent events

Management evaluated subsequent events through August 17, 2020, the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus ("COVID-19") was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Foundation beginning in March 2020, due to state government imposed shutdowns of businesses and other results of the illness. While the Foundation expects this matter may negatively impact its results, the extent of the impact of the COVID-19 on the Foundation's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for the Foundation's services, all of which are highly uncertain and cannot be predicted.