# WESLEYAN IMPACT PARTNERS*

IGNITING IMAGINATION

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2022 AND 2021
AND FOR THE YEARS ENDED
DECEMBER 31, 2022, 2021, AND 2020
AND INDEPENDENT AUDITORS' REPORT

*FORMERLY KNOWN AS WESLEYAN INVESTIVE

# Wesleyan Investive

**Financial Statements as of December 31, 2022 and 2021 and for the Years Ended December 31, 2022, 2021, and 2020 and Independent Auditors' Report**

MAXWELL & LOCKE & RITTER

# Wesleyan Investive

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# Independent Auditors' Report

To the Board of Directors of
Wesleyan Investive:

## Opinion

We have audited the accompanying financial statements of Wesleyan Investive (formerly The United Methodist Development Fund) (a nonprofit organization) ("WI"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years ended December 31, 2022, 2021, and 2020, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WI as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years ended December 31, 2022, 2021, and 2020, 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WI 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 WI's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditors' 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 auditors' 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 WI'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 WI'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.

Maxwell Locke & Ritter LLP

Austin, Texas
March 22, 2023

# Wesleyan Investive

## Statements of Financial Position
## December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 12,269,743 | $ 10,863,223 |
| Investments | 5,862,027 | 18,843,431 |
| Accrued interest receivable | 696,845 | 703,391 |
| Prepaid expenses and other assets | 36,775 | 120,465 |
| Mortgage loan receivables, less allowance for loan losses of $3,250,000 and $3,500,000 (Note 6), respectively | 96,912,186 | 91,968,408 |
| Total | $ 115,777,576 | $ 122,498,918 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 287,257 | $ 325,153 |
| Investment obligations | 77,873,242 | 86,288,449 |
| Amounts held on behalf of the General Board of Global Ministries (Note 8) | 2,164,240 | 784,153 |
| Total liabilities | 80,324,739 | 87,397,755 |
| Net assets: | | |
| Without donor restrictions | 35,409,696 | 35,074,709 |
| Without donor restrictions - Board-designated endowment | 23,191 | 16,073 |
| With donor restrictions | 19,950 | 10,381 |
| Total net assets | 35,452,837 | 35,101,163 |
| Total | $ 115,777,576 | $ 122,498,918 |

See notes to financial statements.

## Wesleyan Investive

### Statements of Activities
### Years Ended December 31, 2022, 2021, and 2020

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| **Change in net assets without donor restrictions:** | | | |
| Interest income on mortgage loans | $ 4,261,064 | $ 4,419,044 | $ 4,551,768 |
| Interest expense on investment obligations | 1,433,366 | 1,526,930 | 1,590,163 |
| Net interest income | 2,827,698 | 2,892,114 | 2,961,605 |
| Reduction in provision for mortgage loan losses | 250,000 | - | - |
| Net interest income after provision for mortgage loan losses | 3,077,698 | 2,892,114 | 2,961,605 |
| Non-interest income (expense), net: | | | |
| Contributions | 2,754 | 7,082 | 44,235 |
| Other income | 334,566 | 91,142 | 42,895 |
| Grants expense | - | (100,000) | - |
| Other expenses | (2,121,937) | (1,806,971) | (1,874,862) |
| Total non-interest expense, net | (1,784,617) | (1,808,747) | (1,787,732) |
| Total interest and non-interest income, net | 1,293,081 | 1,083,367 | 1,173,873 |
| Realized and unrealized gains (losses) on investments | (950,976) | 157,303 | 1,042,991 |
| Change in net assets without donor restrictions | 342,105 | 1,240,670 | 2,216,864 |
| **Change in net assets with donor restrictions:** | | | |
| Contributions | 10,897 | 10,259 | - |
| Realized and unrealized gains (losses) on investments | (1,328) | 122 | - |
| Change in net assets with donor restrictions | 9,569 | 10,381 | - |
| **Change in net assets** | 351,674 | 1,251,051 | 2,216,864 |
| **Net assets, beginning of year** | 35,101,163 | 33,850,112 | 31,633,248 |
| **Net assets, end of year** | $ 35,452,837 | $ 35,101,163 | $ 33,850,112 |

See notes to financial statements.

## Wesleyan Investive

### Statements of Functional Expenses
### Years Ended December 31, 2022, 2021, and 2020

| | 2022 | | |
|---|---|---|---|
| | Program | Support | |
| | Loans and Investor Services | General and Administrative | 2022 Total |
| Interest on investment obligations | $ 1,433,366 | $ - | $ 1,433,366 |
| Salaries, wages, and benefits | 781,654 | 333,346 | 1,115,000 |
| Promotional programs | 576,581 | 70,576 | 647,157 |
| Administrative | 36,667 | 181,645 | 218,312 |
| Professional fees | 85,096 | 35,642 | 120,738 |
| Loan and investment system | 13,888 | - | 13,888 |
| Offering circular | 6,467 | - | 6,467 |
| State registration fees | 375 | - | 375 |
| Total expenses | $ 2,934,094 | $ 621,209 | $ 3,555,303 |

| | 2021 | | |
|---|---|---|---|
| | Program | Support | |
| | Loans and Investor Services | General and Administrative | 2021 Total |
| Interest on investment obligations | $ 1,526,930 | $ - | $ 1,526,930 |
| Salaries, wages, and benefits | 761,959 | 338,041 | 1,100,000 |
| Promotional programs | 411,442 | 21,875 | 433,317 |
| Administrative | 20,950 | 114,536 | 135,486 |
| Professional fees | 71,320 | 44,634 | 115,954 |
| Grants | 100,000 | - | 100,000 |
| Loan and investment system | 13,888 | - | 13,888 |
| Offering circular | 7,551 | - | 7,551 |
| State registration fees | 775 | - | 775 |
| Total expenses | $ 2,914,815 | $ 519,086 | $ 3,433,901 |

See notes to financial statements.

# Wesleyan Investive

## Statements of Functional Expenses (continued)
## Years Ended December 31, 2022, 2021, and 2020

| | 2020 | | |
|---|---|---|---|
| | Program | Support | |
| | Loans and Investor Services | General and Administrative | 2020 Total |
| Interest on investment obligations | $ 1,590,163 | $ - | $ 1,590,163 |
| Salaries, wages, and benefits | 784,030 | 315,970 | 1,100,000 |
| Promotional programs | 401,831 | 24,014 | 425,845 |
| Administrative | 15,966 | 121,892 | 137,858 |
| Professional fees | 103,168 | 45,786 | 148,954 |
| Loan and investment system | 14,387 | - | 14,387 |
| Offering circular | 2,850 | - | 2,850 |
| State registration fees | 7,127 | - | 7,127 |
| Network services | 37,841 | - | 37,841 |
| Total expenses | $ 2,957,363 | $ 507,662 | $ 3,465,025 |

See notes to financial statements.

## Wesleyan Investive

### Statements of Cash Flows
### Years Ended December 31, 2022, 2021, and 2020

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | |
| Change in net assets | $ 351,674 | $ 1,251,051 | $ 2,216,864 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Realized and unrealized losses (gains) on investments | 952,304 | (159,667) | (1,046,135) |
| Reduction in provision for loan losses | (250,000) | - | - |
| Non-cash interest accrued | 1,430,566 | 1,526,905 | 1,586,420 |
| Changes in assets and liabilities that provided (used) cash: | | | |
| Accrued interest receivable | 6,546 | (109,478) | (248,267) |
| Prepaid expenses and other assets | 83,690 | (98,115) | (2,230) |
| Accounts payable and accrued expenses | (37,896) | 5,614 | 249,385 |
| Net cash provided by operating activities | 2,536,884 | 2,416,310 | 2,756,037 |
| **Cash Flows from Investing Activities:** | | | |
| Proceeds from maturities and sale of investments | 12,050,000 | 4,500,000 | 2,003,146 |
| Purchases of investments | (20,900) | (3,465,261) | (11,260,000) |
| Mortgage loan repayments received | 8,904,071 | 9,939,570 | 6,084,111 |
| Mortgage loans made to churches | (12,452,292) | (6,184,296) | (4,369,720) |
| Net cash provided by (used in) investing activities | 8,480,879 | 4,790,013 | (7,542,463) |
| **Cash Flows from Financing Activities:** | | | |
| Proceeds from issuance of term notes (investment obligations) | 3,079,633 | 8,263,948 | 14,676,870 |
| Repayments of investment obligations | (12,925,406) | (8,492,822) | (8,087,693) |
| Proceeds (repayments) of amounts held on behalf of others- General Board of Global Ministries | 234,530 | (826,691) | (146,522) |
| Net cash (used in) provided by financing activities | (9,611,243) | (1,055,565) | 6,442,655 |
| **Net change in cash and cash equivalents** | 1,406,520 | 6,150,758 | 1,656,229 |
| **Cash and cash equivalents, beginning of year** | 10,863,223 | 4,712,465 | 3,056,236 |
| **Cash and cash equivalents, end of year** | $ 12,269,743 | $ 10,863,223 | $ 4,712,465 |
| **Supplemental Disclosure -** | | | |
| Cash paid for interest | $ 601,377 | $ 657,418 | $ 898,341 |

See notes to financial statements.

## 1. Organization and Nature of Operations

Wesleyan Investive (formerly The United Methodist Development Fund) ("WI") is incorporated as a nonprofit organization which, until December 31, 2018, was under the control of the General Board of Global Ministry ("GBGM"), an agency of the United Methodist Church. Commencing on January 1, 2017, GBGM transferred day to day management of all WI activities to Texas Methodist Foundation ("TMF"), a non-profit organization. On January 1, 2019, the parties entered into two agreements, and WI reorganized their entity under the laws of the State of Texas. A minority of directors on the WI's Board of Directors also serve on the TMF's Board of Directors, to aid in aligning the two ministries. TMF's officers and staff continue to manage WI's activities under the governance of the WI Board of Directors (the "Board"), which is further discussed in Note 10.

WI provides first mortgage loans to Wesleyan-related churches and other Wesleyan-related organizations for the purchase, construction, expansion, or major improvement of churches, parsonages, or mission buildings. WI's primary activities include the sale of its investment obligations to Wesleyan-related individuals and organizations and the lending of those funds to local churches and other Wesleyan-related organizations. Beginning in 2012, WI began administering GBGM's loan program, which is further discussed in Note 8.

## 2. Summary of Significant Accounting Policies

**Basis of Presentation -** The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification.

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

Without Donor Restrictions - These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use, or at the discretion of the Board for WI's use. As of December 31, 2022 and 2021, the Board had designated $23,191 and $16,073, respectively, for the Legacy Endowment Fund in recognition of the contributions of leaders to the mission of WI.

With Donor Restrictions - These net assets are subject to donor-imposed stipulations which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently. WI has not received any permanently restricted contributions. As of December 31, 2022 and 2021, donor-restricted net assets were restricted for the Tom Locke Innovative Leaders Award Endowment Fund to foster innovation and entrepreneurship in the spiritual landscape particularly for those who demonstrated the ability to see beyond existing models (Note 11).

**Use of Estimates -** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**Fair Value Measurements -** Fair value is 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. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 - Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

**Cash and Cash Equivalents -** Cash and cash equivalents include interest-bearing time deposits and demand notes with original maturities of three months or less, except for short-term investments held by WI's investment managers as part of a long-term strategy.

**Investments -** Investments are reported at fair value in the statements of financial position. Investment transactions are recorded on the trade date and investment income is recorded in the statements of activities when earned. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of the investment. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods.

**Mortgage Loan Receivables and Interest Income -** Mortgage loan receivables are stated at the outstanding principal balances, less the allowance for loan losses. Such loans are made primarily to United Methodist churches and are secured by a first lien on single purpose religious structures. While the mortgagors and the collateral are widely disbursed geographically, the mortgagors are United Methodist organizations, which rely on contributions to service such debt. Interest, due monthly, accrues at rates up to 7.75% (Note 6) and is calculated using the simple-interest method on principal amounts outstanding. Interest is recognized over the terms of the mortgage loans and recorded as interest income on mortgage loans in the statements of activities.

The accrual of interest on loans is discontinued when there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected. Loans for which interest is more than 90 days past due are individually reviewed to determine if the additional accrual of interest is warranted. Generally, all interest income accrued, but not collected, for loans that are placed on non-accrual status, is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received or after the borrower establishes a reasonable basis to expect future payments.

**Allowance for Loan Losses -** An allowance for loan losses is established to reflect management's best estimate of the losses inherent in the mortgage portfolio. Management establishes the allowance based on a variety of factors, such as loan payment history, current financial information, local economic conditions, geographic location, demographic changes, and other relevant factors. In establishing the adequacy of the allowance for loan losses, management performs periodic reviews of the mortgage portfolio. Loans are risk-weighted based upon a past due (aging) schedule. All loans which are at least 90 days past due are evaluated individually for collectability and a risk factor is assigned to each. This generally results in an allocation of the allowance for these loans.

Risk factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays or shortfalls generally are not classified as impaired. Management determines the significance of payment delays and 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.

A loan is considered to be impaired when, based on current information and events, it is probable that WI will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans include loans that have been modified in a troubled debt restructuring and loans placed on nonaccrual status. Impairment is measured on a loan-by-loan basis based on the fair value of the collateral, since all loans are mortgage dependent.

Troubled debt restructurings generally result from WI's loss mitigation activities and occur when a concession is granted to a borrower that is experiencing financial difficulty in order to minimize the financial loss and avoid foreclosure or repossession of collateral. Once modified in a troubled debt restructuring, a loan is generally considered impaired until its contractual maturity, regardless of the borrower performance under the modified terms. While the modified loan may return to accrual status if it meets WI's criteria to do so, nevertheless, the loan will continue to be evaluated for the allowance for loan losses and the loan will continue to be reported as being impaired in the financial statements.

Impaired loans are classified as nonperforming and, consequently, income is only recognized on these loans when actually received from the borrower. Partial payments of contractual amounts due on impaired loans are treated as interest income on a cash basis until such time as the loan is restored to performing status. WI's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons. There were no charge-offs of any loans and no foreclosures during the years ended December 31, 2022, 2021, and 2020.

As of December 31, 2022 and 2021, $5,457,742 and $5,491,471, respectively, of mortgage loans were guaranteed by conferences of the United Methodist Church. Mortgage loans committed but not funded as of December 31, 2022 and 2021 totaled $2,867,207 and $1,996,581, respectively.

**Investment Obligations -** WI's outstanding investment obligations consist of one to five-year Term Notes (the "Term Notes"), GBGM loan fund (Note 8), Flexible Investment Notes, and IRA Notes, as well as untendered Certificates of Participation. Investment obligations are carried at cost. Since no public market exists (or is expected to develop) for WI's investment obligations, an estimate of fair value is not practical to obtain. However, because of the relatively short duration of the obligations and annual reset for new obligations, fair value is not believed to be significantly different than carrying value.

**Contributions -** All contributions are recorded at their fair value and are considered to be available for operations of WI unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or purpose is accomplished, the related net assets are reclassified to net assets without donor restrictions. This is reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire within the same fiscal year in which the contributions are received. Conditional promises to give, defined as those with a measurable performance or other barrier and a right to return, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Advertising Costs -** Advertising costs are expensed as incurred and were not significant during the years ended December 31, 2022, 2021, and 2020.

**Federal Income Taxes -** WI is a nonprofit organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent of any unrelated business income. WI did not incur any significant tax liabilities due to unrelated business income during the years ended December 31, 2022, 2021, and 2020. WI is not required to file a Form 990 tax return in the United States ("U.S.") federal jurisdiction, as a public charity/association of churches.

**Recently Issued Accounting Pronouncement -** In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including trade receivables and other commitments to extend credit held by a reporting entity at each reporting date. Entities are required to replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The amendment is effective using a modified retrospective approach for fiscal years beginning after December 15, 2022 and early adoption is permitted. WI is currently evaluating the impact the amendment will have on its financial statements.

## 3. Liquidity and Availability of Financial Assets

WI's financial assets available within one year for general expenditure were as follows as of December 31:

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 12,269,743 | $ 10,863,223 |
| Investments | 5,862,027 | 18,843,431 |
| Mortgage loan receivables due within one year | 5,099,416 | 4,683,261 |
| Total financial assets available within one year | 23,231,186 | 34,389,915 |
| Less amounts unavailable for general expenditure within one year: | | |
| Liquidity reserve | (6,229,859) | (6,903,076) |
| Board-designated endowment | (23,191) | (16,073) |
| Total financial assets available to management for general expenditure within one year | $ 16,978,136 | $ 27,470,766 |

The Board has established a policy to maintain at least 8%, as of December 31, 2022 and 2021, of outstanding investment obligations in cash, cash equivalents, and investments as a liquidity reserve. This policy meets the minimum requirements established by the various state regulatory agencies which generally require a minimum of 8% of outstanding obligations (6% in cash and cash equivalents and investments, and no more than 2% in a line of credit).

WI's officers and staff work closely with the Board's Loan and Investment Committee to track the purchases and renewals of WI's notes, anticipated redemptions based on historical performance, gains and losses from investments, anticipated loan payments in the current period, and unfunded loan commitments. WI invests its funds to meet cash flow requirements set out in the policy of the North American Securities Administration Association adopted by the various states' regulatory bodies. Investments generally have minimal redemption restrictions (Note 5) and are kept short-term to meet any cash flow needs and to minimize interest rate risk. WI also has an available line of credit of $10,000,000 (Note 9).

## 4. Concentrations of Credit Risk

Financial instruments that potentially subject WI to credit risk consist of cash and cash equivalents, investments, and mortgage loan receivables. WI places its cash and cash equivalents with a limited number of high-quality financial institutions and may exceed the amount of insurance provided on such deposits. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position. WI provides mortgage loans solely to churches which draw their origin from the Wesleyan Reform movement as expressed through several denominations. A church borrower's ability to repay their mortgage obligation is dependent on their parishioners' financial support of the local church. Factors such as unemployment, aging congregations, and declining church attendance can result in a reduction in a church borrower's contribution income, which could impair their ability to repay their mortgage loan obligation.

As of December 31, 2022 and 2021, two investors accounted for 36% and 34%, respectively, of investment obligations.

## 5. Investments

WI's investment portfolio is primarily invested in the Wespath Short-Term Investment Fund ("STIF-I - Wespath"), the Wespath Fixed Income Fund ("FIF-I - Wespath"), and the Wespath Multiple Asset Fund ("MAF-I - Wespath"). The cost and estimated fair value of investments were as follows as of December 31, 2022:

| | Cost | Fair Value | Realized Gains | Unrealized Gains (Losses) |
|---|---|---|---|---|
| STIF-I - Wespath | $ 1,000,991 | $ 1,017,354 | $ 55,344 | $ (29,339) |
| FIF-I - Wespath | 1,647,508 | 1,627,085 | 182,350 | (502,132) |
| MAF-I - Wespath | 3,046,158 | 3,217,588 | - | (658,527) |
| | $ 5,694,657 | $ 5,862,027 | $ 237,694 | $ (1,189,998) |

The cost and estimated fair value of investments were as follows as of December 31, 2021:

| | Cost | Fair Value | Realized Gains | Unrealized Gains (Losses) |
|---|---|---|---|---|
| STIF-I - Wespath | $ 10,495,646 | $ 10,541,350 | $ 4,175 | $ (22,878) |
| FIF-I - Wespath | 3,992,158 | 4,446,867 | 363,351 | (472,508) |
| MAF-I - Wespath | 3,025,261 | 3,855,214 | - | 287,527 |
| | $ 17,513,065 | $ 18,843,431 | $ 367,526 | $ (207,859) |

As of December 31, 2022 and December 31, 2021, all investments were measured at fair value using the net asset value per share ("NAV") (or its equivalent) as a practical expedient, and have therefore not been classified in the fair value hierarchy.

Additional information about investments measured at NAV was as follows as of December 31, 2022 and 2021:

| | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|
| STIF-I - Wespath | None | No limits | None |
| FIF-I - Wespath | None | No limits | Up to 15 days |
| MAF-I - Wespath | None | No limits | Up to 15 days |

The investment objective of the STIF-I - Wespath is to preserve capital while earning current income higher than that of money market funds. The STIF-I - Wespath exclusively holds funds of the sweep account. The sweep account holds short-term fixed income investments.

The investment objective of FIF-I - Wespath is to earn current income while preserving capital by primarily investing in a diversified mix of fixed income securities. The FIF-I - Wespath seeks to achieve its investment objective by investing primarily in fixed income securities such as U.S. and non-U.S. government bonds, agency bonds, corporate bonds, emerging market debt, and securitized products. The corporate bonds held are primarily of companies that are domiciled in the U.S. and that are rated investment grade or high yield. FIF-I - Wespath also holds loan participation interests secured by mortgages and other types of loan participations originated through the PSP Lending Program, which invests in affordable housing and community development facilities in the U.S., as well as institutions focused on microfinance opportunities in developing countries.

The investment objective of the MAF-I - Wespath is to attain current income and capital appreciation by investing in a broad mix of investments. The MAF-I - Wespath is a fund of funds which seeks to achieve its investment objective by holding an allocation primarily among four other I Series Funds (including U.S. Equity Fund-I Series, International Equity Fund-I Series, Fixed Income Fund-I Series, Inflation Protection Fund-I Series) in accordance with pre-specified allocation targets.

As of December 31, 2022 and 2021, the effective duration of the STIF-I - Wespath was 0.2 and 0.3 of a year, respectively. As of December 31, 2022 and 2021, the effective duration of the FIF-I - Wespath was 5.7 and 6.6 years, respectively.

## 6. Mortgage Loan Receivables

Mortgage loans made by WI are subject to prepayments, as such, expected future cash flows may differ from contractual amounts. However, future mortgage payments scheduled to be collected on outstanding mortgage loans as of December 31, 2022 and 2021 were as follows:

| Amount Due Within | 2022 | 2021 |
|---|---|---|
| 1 year | $ 5,099,416 | $ 4,683,261 |
| 2 years | 5,350,550 | 4,991,028 |
| 3 years | 6,495,619 | 5,692,048 |
| 4 years | 6,304,023 | 6,254,172 |
| 5 years | 6,394,521 | 6,111,993 |
| Thereafter | 70,518,057 | 67,735,906 |
| | 100,162,186 | 95,468,408 |
| Allowance for loans losses | (3,250,000) | (3,500,000) |
| | $ 96,912,186 | $ 91,968,408 |

Mortgage loans are generally approved for terms ranging from 10 to 20 years, but occasionally, to accommodate a particular situation, a term of up to 30 years may be approved. WI's Board may increase or decrease the interest rates of a loan when the loan contracts permit or decrease the rate without regard to the contractual rate where appropriate, in relation to the prevailing rates and economic conditions.

Mortgage loans bore annual interest rates ranging as follows, as of December 31:

| Interest Rate | 2022 | 2021 |
|---|---|---|
| 0.00% | $ 186,868 | $ 190,118 |
| 1.00% | 1,138,187 | - |
| 1.50% | - | 1,349,091 |
| 2.15% | 3,876 | - |
| 2.20% | 1,349,091 | - |
| 3.25% | - | 542,016 |
| 3.50% | - | 27,622 |
| 3.70% | - | 312,085 |
| 3.75% | - | 1,235,261 |
| 3.95% | 7,762,043 | 7,617,897 |
| 4.00% | 12,981,805 | 278,906 |
| 4.25% | 8,816,299 | 5,556,374 |
| 4.50% | 36,603,537 | 43,605,977 |
| 4.70% | 1,862,082 | 1,825,473 |
| 4.75% | 18,220,156 | 19,579,309 |
| 4.95% | 90,935 | 2,479,016 |
| 5.00% | 827,190 | 2,917,331 |
| 5.20% | - | 1,325,000 |
| 5.25% | 304,883 | 132,887 |
| 5.50% | 7,345,754 | 4,898,807 |
| 5.75% | 76,765 | 475,778 |
| 6.25% | 26,561 | - |
| 6.49% | 224,992 | 244,734 |
| 6.50% | 96,085 | 154,783 |
| 6.95% | 670,890 | 718,829 |
| 7.00% | 330,379 | - |
| 7.25% | - | 1,114 |
| 7.75% | 1,243,808 | - |
| | $100,162,186 | $ 95,468,408 |

As discussed in Note 2, WI individually reviews each impaired mortgage loan balance as well as each mortgage loan balance where all or a portion of the balance exceeds 90 days past due. Based on the assessment of the borrower's current creditworthiness, WI estimates the portion, if any, of the balance that will not be collected. Additionally, on the aggregate remaining loan receivables, WI estimates an additional allowance covering those amounts not specifically identified.

During the years ended December 31, 2022, 2021, and 2020, changes in the allowance for loan losses were as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Balance, beginning of year | $ 3,500,000 | $ 3,500,000 | $ 3,500,000 |
| Reduction of allowance | (250,000) | - | - |
| Balance, end of year | $ 3,250,000 | $ 3,500,000 | $ 3,500,000 |

WI's allowance for loan losses does not include any provision for potentially uncollectible loans made from the GBGM loan fund as management believes these mortgage loans receivable are collectible. WI has not charged off interest on any loans during the years ended December 31, 2022, 2021, and 2020.

As of December 31, 2022 and 2021, the allowance for loan losses established on mortgage loans evaluated individually and mortgage loans evaluated collectively are as follows:

| | 2022 | 2021 |
|---|---|---|
| Ending balance: Individually evaluated for impairment | $ 14,372,397 | $ 13,506,571 |
| Allowance for loan losses | (2,039,107) | (2,461,264) |
| Ending balance: Collectively evaluated for impairment | 85,789,789 | 81,961,837 |
| Allowance for loan losses | (1,210,893) | (1,038,736) |
| Ending balance | $ 96,912,186 | $ 91,968,408 |

The following table presents an aging analysis of WI's loans as of December 31, 2022:

| 31 - 60 Days Past Due | 60 - 89 Days Past Due | Recorded Investment > 90 Days and Accruing | Total Past Due | Non-accruals | Current | Total Loans |
|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ 186,868 | $ 99,975,318 | $100,162,186 |

The following table presents an aging analysis of WI's loans as of December 31, 2021:

| 31 - 60 Days Past Due | 60 - 89 Days Past Due | Recorded Investment > 90 Days and Accruing | Total Past Due | Non-accruals | Current | Total Loans |
|---|---|---|---|---|---|---|
| $ - | $ - | $ 1,138,396 | $ 1,138,396 | $ 190,178 | $ 94,139,834 | $ 95,468,408 |

WI does not consider the delinquencies to be significant in the context of total outstanding mortgage loans due to WI, in consideration of the allowance for loan losses as of December 31, 2022 and 2021.

The following presents WI's impaired loans as of December 31, 2022:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Mortgage loans | $ 8,862,150 | $ 8,862,150 | $ - | $ 8,355,230 | $ 445,900 |
| With an allowance recorded: | | | | | |
| Mortgage loans | 5,510,247 | 5,510,247 | 2,039,197 | 5,584,254 | 240,945 |
| Total | $14,327,397 | $14,372,397 | $ 2,039,197 | $13,939,484 | $ 686,846 |

The following presents WI's impaired loans as of December 31, 2021:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Mortgage loans | $ 7,848,310 | $ 7,848,310 | $ - | $ 8,243,778 | $ 375,450 |
| With an allowance recorded: | | | | | |
| Mortgage loans | 5,658,261 | 5,658,261 | 2,461,264 | 5,737,258 | 171,947 |
| Total | $13,506,571 | $13,506,571 | $ 2,461,264 | $13,981,036 | $ 547,397 |

No additional funds are committed to be advanced in connection with impaired loans as of December 31, 2022 and 2021.

WI offers a variety of loan modifications to borrowers, and modifications are dependent upon the individual circumstances surrounding the loan. Certain loan modifications are considered to be troubled debt restructurings when the borrower is experiencing financial difficulty and WI grants the borrower a concession. These loans are evaluated collectively for impairment in the estimate for the allowance for loan losses. The modification categories offered can generally be described in the following categories:

**Rate Modification -** A modification in which the interest rate is changed.

**Term Modification -** A modification in which the maturity date, timing of payment, or frequency of payment is changed.

**Payment Modification -** A modification in which the dollar amount of the payment is changed.

**Combination Modification -** Any other type of modification, including the use of multiple categories above.

The following table presents troubled debt restructurings as of December 31, 2022:

| | Accrual Status | Nonaccrual Status | Total Troubled Debt Restructurings |
|---|---|---|---|
| Mortgage loans | $ 5,324,625 | $ - | $ 5,324,625 |

The following table presents troubled debt restructurings as of December 31, 2021:

| | Accrual Status | Nonaccrual Status | Total Troubled Debt Restructurings |
|---|---|---|---|
| Mortgage loans | $ 4,355,195 | $ - | $ 4,355,195 |

One loan with a principal balance of $1,138,187 was restructured by lowering the interest rate from 4% to 1% during the year ended December 31, 2022. There were no loans restructured during the year ended December 31, 2021. There were no restructured loans with a payment default which occurred within 12 months of the restructuring date during the years ended December 31, 2022 and 2021.

## 7. Investment Obligations

The amounts outstanding as of December 31, 2022 and 2021, including reinvested interest by type of obligation, are as follows:

| | 2022 | 2021 |
|---|---|---|
| One-year term notes | $ 13,537,618 | $ 13,213,978 |
| Two-year term notes | 5,273,709 | 6,231,010 |
| Three-year term notes | 12,749,355 | 17,038,794 |
| Four-year term notes | 4,657,115 | 5,321,367 |
| Five-year term notes | 13,451,163 | 13,439,313 |
| GBGM loan fund (Note 8) | 18,581,160 | 19,750,700 |
| Flexible Investment Notes | 6,405,975 | 7,879,630 |
| IRA Notes | 3,217,147 | 3,413,657 |
| | $ 77,873,242 | $ 86,288,449 |

Term Notes bear interest at rates established at their issuance. At December 31, 2022 and 2021, the Term Notes bore interest as follows:

| | 2022 | |
|---|---|---|
| | Interest Rate Per Annum | Weighted Average Interest Rate |
| One-year term notes | 1.00 - 3.55% | 1.76% |
| Two-year term notes | 1.30 - 3.70% | 1.50% |
| Three-year term notes | 1.65 - 3.80% | 2.13% |
| Four-year term notes | 1.90 - 3.80% | 2.75% |
| Five-year term notes | 1.75 - 3.90% | 2.90% |

| | 2021 | |
|---|---|---|
| | Interest Rate Per Annum | Weighted Average Interest Rate |
| One-year term notes | 1.05 - 1.15% | 1.05% |
| Two-year term notes | 1.30 - 1.95% | 1.61% |
| Three-year term notes | 1.65 - 3.00% | 2.33% |
| Four-year term notes | 1.90 - 3.45% | 2.75% |
| Five-year term notes | 1.75 - 3.45% | 2.87% |

At the maturity date of a Term Note, an investor may redeem principal and unpaid accumulated interest by written demand. If demand for payment is not made, where permitted by state regulations, the Term Note will be extended for continuous identical terms at the then prevailing interest rate offered for similar Term Notes until demand for payment upon the extended maturity date is made. In accordance with the provisions of Term Notes and where permitted by state regulations, WI reserves the right to repay the principal amount of Term Notes in five equal annual installments beginning 30 days after the maturity date (such deferral is not available to residents of Alabama, Arkansas, California, Georgia, Idaho, Michigan, Missouri, Oklahoma, Pennsylvania, and Wisconsin).

As of December 31, 2022, the Term Notes' maturity amounts were as follows:

| | |
|---|---|
| Year Ending December 31, | |
| 2023 | $ 23,931,438 |
| 2024 | 9,322,883 |
| 2025 | 13,910,745 |
| 2026 | 894,977 |
| 2027 | 1,608,916 |
| Total | $ 49,668,959 |

During the years ended December 31, 2022 and 2021, Flexible Investment Notes ("Notes") bore interest at a rate of 1.20% and 0.70% per annum, respectively. The Board may increase or decrease the rate of interest from time to time, upon 30 days' written notice to the holders of such Notes. The Notes are payable on demand; however, in accordance with the provisions of the Notes and where permitted by state regulations, WI reserves the right to require 30 days' written notice and to repay the principal amount of the Notes in five equal annual installments (such deferral is not available to residents of Alabama, Arkansas, California, Georgia, Idaho, Michigan, Missouri, Oklahoma, Pennsylvania, and Wisconsin).

IRA Notes are those which are intended by the purchaser for his/her personal individual retirement account. During the years ended December 31, 2022 and 2021, IRA Notes bore interest at a rate of 2.75% and 1.80% per annum, respectively. The Board may increase or decrease the rate of interest from time to time, upon 30 days' written notice to the holders of such IRA Notes. IRA Notes are repayable at any time upon 30 days' written notice by the holder.

Effective April 1, 1996, WI recalled all of its outstanding Certificates of Participation (the "Certificates") for redemption and, as of September 30, 1996, outstanding Certificates no longer earned interest. The Certificates may be redeemed for the principal amount of the Certificates plus interest accrued through September 30, 1996, and a premium of 2.50% of the principal in accordance with the provisions of the Certificates. As of December 31, 2022 and 2021, there were untendered Certificates of $26,581.

WI may recall any of its investment obligations upon six months' written notice to the investor and the payment of a 1.50% premium of the face amount of the investment.

## 8. GBGM Loan Fund

During 2012, GBGM transferred a portion of its loan funds to WI for the purpose of making "missional" loans. The GBGM loan fund is comprised of funds available to make loans and the outstanding loan balances on these GBGM loans as of December 31, 2022 and 2021 were $2,164,240 and $784,153, respectively. These loans were reported as a liability for amounts held on behalf of GBGM.

Outstanding loan balances are included with mortgage loan receivables in the statements of financial position. As of December 31, 2022, there were thirteen mortgage loan receivables outstanding with a total balance of $2,156,994. As of December 31, 2021, there were ten mortgage loan receivables outstanding with a total balance of $781,966. Interest on mortgage loans issued from the GBGM loan fund are reported as increases to both the GBGM mortgage loan receivables and the liability for amounts held on behalf of GBGM, and are not reported in the statements of activities of WI. Since these assets are held for the benefit of GBGM, WI has not established an allowance for potential losses on loans made from GBGM funds.

## 9. Line of Credit

WI has a $10,000,000 revolving line of credit (the "Line of Credit") with a financial institution which bears interest at the AMERIBOR-Term 30 rate plus 1.75%, (6.15% and 1.90% at December 31, 2022 and 2021, respectively). There were no advances outstanding at December 31, 2022 or 2021. The Line of Credit matures on June 30, 2024 and is secured by substantially all of WI's assets, including investments and loans receivable, and requires WI to meet certain financial covenants, including unrestricted tangible net assets and interest coverage ratio.

## 10. Agreement with TMF

On January 1, 2019, WI entered into an Employee Sharing Agreement and an Administrative Services Agreement with TMF. Under the Administrative Services Agreement and the Employee Sharing Agreement, TMF causes its employees to conduct the day-to-day business of WI in the sale of WI's investment obligations, the management of WI's loan portfolio, the administrative procedure for reviewing loan applications and extending and documenting new loans, management of WI's investments, investor relations, accounting, regulatory compliance, and marketing. The two agreements provide to TMF certain operational authority to discharge its management responsibilities. That authority includes, among other things, the authority to install and utilize new hardware and software computer systems, to develop new operational policies and procedures, and to establish and maintain reasonable accounting and reporting systems and internal controls designed to help WI protect its assets. Under the two agreements, TMF does not have authority to bind WI. WI retains its authority over matters handled by TMF and exercises decision-making authority with respect to the making of loans and raising of funds, including the sale of investment obligations.

The Boards of Directors of TMF and WI have determined that these two agreements, and the operational efficiencies they have achieved, advance the exempt purposes and missional priorities of the two entities.

As of December 31, 2022 and 2021, TMF's balance included in investment obligations totaled $9,805,361 and $9,580,243, respectively.

Administrative expenses, which are primarily for services rendered by TMF, are reimbursed by WI under agreement with TMF. During the years ended December 31, 2022 and 2021, WI incurred expenses totaling $1,200,000 and $1,185,000, respectively, related to administrative expenses with TMF. As of December 31, 2022 and 2021, WI has investments in TMF money market funds totaling $9,172,255 and $5,166,787, respectively.

## 11. Locke Innovative Leader Award

Starting in 2021, WI's Board authorized the creation of this annual award program - up to five awards are given out per cycle. An award ceremony and cohorts of past and present awardees are convened throughout the year as part of this program. Its programmatic purpose is rooted in a strong belief that investment in bold, enterprising leaders with inventive approaches to ministry not only advances the church but creates communities of genuine human flourishing.

As of December 31, 2022 and 2021, the program expenses were $415,596 and $290,769, respectively.

## 12. Related Party Transactions

WI holds cash and cash equivalents, from organizations affiliated with certain Board members totaling $1,647,054 and $2,686,674 as of December 31, 2022 and 2021, respectively. WI has investment obligations with a Board member affiliated with GBGM totaling $18,581,160 and $19,750,700 as of December 31, 2022 and 2021, respectively. WI also holds amounts on behalf of GBGM.

## 13. Subsequent Events

WI has evaluated subsequent events through March 22, 2023, the date the financial statements were available to be issued.

In January 2023, WI changed its name to Wesleyan Impact Partners Inc.