

**GENERAL BOARD OF HIGHER EDUCATION
AND MINISTRY OF
THE UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

As of and for the Years Ended December 31, 2019 and 2018

And Report of Independent Auditor

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THE UNITED METHODIST CHURCH
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Report of Independent Auditor

To the Board of Directors
General Board of Higher Education and Ministry
The United Methodist Church
Nashville, Tennessee

To the Committee on Audit and Review
General Council on Finance and Administration
The United Methodist Church
Nashville, Tennessee

We have audited the accompanying financial statements of the General Board of Higher Education and Ministry of The United Methodist Church (“GBHEM”), which comprise the statements of financial position as of December 31, 2019 and 2018, 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.

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to GBHEM’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 GBHEM’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 General Board of Higher Education and Ministry of The United Methodist Church as of December 31, 2019 and 2018, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Cherry Bekaert LLP

Charlotte, North Carolina
June 30, 2020

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 250	\$ 250
Due from General Council on Finance and Administration short-term pooled investment fund	24,548,657	19,636,972
Accounts receivable, net	1,775	168,670
Investments	225,971,358	192,482,500
Due from related organizations	11,032,044	11,154,639
Other assets	793,507	781,133
Student loans receivable, net of allowance for doubtful accounts	13,433,591	13,929,744
Property and equipment, net	443,537	501,346
Funds held by outside trustees for the benefit of GBHEM	7,624,685	6,640,594
Total Assets	<u>\$ 283,849,404</u>	<u>\$ 245,295,848</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,846,558	\$ 6,870,941
Due to related organizations	11,373,356	9,793,958
Custodial funds payable	99,160,250	84,197,221
Total Liabilities	<u>118,380,164</u>	<u>100,862,120</u>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	443,537	501,346
Board designated	15,997,629	-
Undesignated	10,891,554	22,733,126
Total Without Donor Restrictions	<u>27,332,720</u>	<u>23,234,472</u>
With Donor Restrictions:		
Subject to purpose restrictions	80,160,004	71,686,912
Endowments	57,976,516	49,512,344
Total With Donor Restrictions	<u>138,136,520</u>	<u>121,199,256</u>
Total Net Assets	<u>165,469,240</u>	<u>144,433,728</u>
Total Liabilities and Net Assets	<u>\$ 283,849,404</u>	<u>\$ 245,295,848</u>

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
General Church Funds:						
World Service Fund allocation	\$ 5,292,181	\$ -	\$ 5,292,181	\$ 5,805,343	\$ -	\$ 5,805,343
Ministerial Education Fund	-	16,583,035	16,583,035	-	18,017,277	18,017,277
Black College Fund	-	8,967,449	8,967,449	-	9,641,892	9,641,892
HANA Scholarships	370,000	-	370,000	397,600	-	397,600
Young Clergy Initiative	-	1,461,643	1,461,643	-	1,601,235	1,601,235
Central Conference Theological Education	-	2,102,353	2,102,353	-	2,303,137	2,303,137
Special Offerings:						
Student Day	-	299,335	299,335	-	328,137	328,137
World Communion-Ethnic Minority Scholarships	-	202,761	202,761	-	219,431	219,431
World Communion-In-Service	-	86,897	86,897	-	94,042	94,042
Native American Awareness	-	95,246	95,246	-	124,273	124,273
Total General Church Funds	5,662,181	29,798,719	35,460,900	6,202,943	32,329,424	38,532,367
Interest on student loans	-	618,746	618,746	-	625,929	625,929
Investment return from GCFA short-term pooled investment fund, net	673,136	144,275	817,411	146,282	31,014	177,296
Investment return from Invested Fund draw for operations	-	2,316,786	2,316,786	980,743	2,423,614	3,404,357
Gift and other	326,942	1,241,781	1,568,723	512,874	1,382,004	1,894,878
Benefit Trust Distribution	713,491	-	713,491	821,342	-	821,342
Services received from General Council on Finance and Administration	23,969	-	23,969	23,365	-	23,365
Net assets released from restrictions	33,322,656	(33,322,656)	-	35,513,995	(35,513,995)	-
Total Operating Revenue	40,722,375	797,651	41,520,026	44,201,544	1,277,990	45,479,534
Operating Expenses:						
Program Services:						
Division of Higher Education	10,582,996	-	10,582,996	11,037,448	-	11,037,448
Office of Loans and Scholarships	4,463,414	-	4,463,414	4,500,168	-	4,500,168
Division of Ordained Ministry	17,386,300	-	17,386,300	19,096,427	-	19,096,427
Special Initiatives	3,559,280	-	3,559,280	5,519,450	-	5,519,450
General Board	958,973	-	958,973	777,982	-	777,982
Total Program Services	36,950,963	-	36,950,963	40,931,475	-	40,931,475
Management and General	4,209,226	-	4,209,226	3,790,082	-	3,790,082
Total Operating Expenses	41,160,189	-	41,160,189	44,721,557	-	44,721,557
Change in net assets from operations	(437,814)	797,651	359,837	(520,013)	1,277,990	757,977
Nonoperating Revenue (Expenses):						
Investment return, net	4,536,062	15,048,253	19,584,315	(2,142,850)	(5,904,763)	(8,047,613)
Change in value of funds held by outside trustees	-	984,091	984,091	-	(1,073,536)	(1,073,536)
Gifts held in perpetuity	-	107,269	107,269	-	141,102	141,102
Total Nonoperating Revenue (Expenses)	4,536,062	16,139,613	20,675,675	(2,142,850)	(6,837,197)	(8,980,047)
Change in net assets	4,098,248	16,937,264	21,035,512	(2,662,863)	(5,559,207)	(8,222,070)
Net assets, beginning of year	23,234,472	121,199,256	144,433,728	25,897,335	126,758,463	152,655,798
Net assets, end of year	\$ 27,332,720	\$ 138,136,520	\$ 165,469,240	\$ 23,234,472	\$ 121,199,256	\$ 144,433,728

The accompanying notes to the financial statements are an integral part of these statements.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2019

	Program Services					Supporting Services	Total
	Division of Higher Education	Office of Loans and Scholarships	Division of Ordained Ministry	Special Initiatives	General Board	Management and General	
Distributions to historically black colleges and universities	\$ 8,800,639	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,800,639
Distributions to theological schools	-	-	12,773,149	-	-	-	12,773,149
Special initiatives and other distributions	240,406	-	4,000	2,693,790	-	-	2,938,196
Scholarships	186,900	3,554,972	-	-	108,757	-	3,850,629
Events, training, and other program expenditures	261,816	3,992	2,676,291	423,593	516,362	25,554	3,907,608
Salaries and wages	633,324	312,316	1,188,683	262,859	148,051	2,055,784	4,601,017
Employee benefits	168,518	99,151	335,910	96,924	34,125	800,389	1,535,017
Administration provided by General Council on Finance and Administration	-	-	-	-	-	23,969	23,969
Rent and occupancy	-	-	-	-	-	251,691	251,691
Travel and meetings	139,180	4,847	273,158	24,447	47,077	196,850	685,559
Professional fees	118,292	269,809	106,209	16,504	77,075	160,575	748,464
Supplies	4,840	1,579	5,420	1,269	259	38,195	51,562
Telephone and web service	5,203	1,800	5,937	22,280	866	133,029	169,115
Postage, shipping, and freight	3,533	5,567	8,317	3,653	46	4,655	25,771
Repairs and maintenance	-	-	-	-	-	14,587	14,587
Insurance	-	-	-	-	-	95,755	95,755
Depreciation	-	-	-	-	-	57,809	57,809
Promotional and informational material	19,127	12,343	5,619	8,228	24,945	105,019	175,281
Software	-	-	-	-	-	191,072	191,072
Miscellaneous	1,218	197,038	3,607	5,733	1,410	54,293	263,299
Total Operating Expenses	\$ 10,582,996	\$ 4,463,414	\$ 17,386,300	\$ 3,559,280	\$ 958,973	\$ 4,209,226	\$ 41,160,189

The accompanying notes to the financial statements are an integral part of this statement.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services	Total
	Division of Higher Education	Office of Loans and Scholarships	Division of Ordained Ministry	Special Initiatives	General Board	Management and General	
Distributions to historically black colleges and universities	\$ 8,865,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,865,917
Distributions to theological schools	-	-	14,593,994	-	-	-	14,593,994
Special initiatives and other distributions	260,268	-	-	4,108,944	-	-	4,369,212
Scholarships	164,000	3,451,579	-	-	54,464	-	3,670,043
Events, training, and other program expenditures	542,316	-	2,311,717	309,950	433,036	-	3,597,019
Salaries and wages	765,594	376,073	1,329,315	246,285	154,826	1,868,863	4,740,956
Employee benefits	250,340	144,647	375,764	93,940	34,428	772,451	1,671,570
Administration provided by General Council on Finance and Administration	-	-	-	-	-	23,365	23,365
Rent and occupancy	-	-	-	-	-	249,794	249,794
Travel and meetings	140,063	20,440	327,873	76,797	68,274	177,016	810,463
Professional fees	20,215	338,757	119,562	265,672	20,000	82,160	846,366
Supplies	4,829	1,230	3,458	1,055	-	57,049	67,621
Telephone and web service	5,522	1,820	6,009	402,696	909	112,933	529,889
Postage, shipping, and freight	2,917	6,752	15,538	4,243	224	2,063	31,737
Repairs and maintenance	-	-	-	-	-	243	243
Insurance	-	-	-	-	-	90,888	90,888
Depreciation	-	-	-	-	-	89,814	89,814
Promotional and informational material	9,694	23,216	8,984	7,368	8,253	38,550	96,065
Software	-	-	-	-	-	154,289	154,289
Miscellaneous	5,773	135,654	4,213	2,500	3,568	70,604	222,312
Total Operating Expenses	\$ 11,037,448	\$ 4,500,168	\$ 19,096,427	\$ 5,519,450	\$ 777,982	\$ 3,790,082	\$ 44,721,557

The accompanying notes to the financial statements are an integral part of this statement.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 21,035,512	\$ (8,222,070)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	57,809	89,814
Realized and unrealized (gains) losses on sale of investments	(19,699,108)	6,411,855
Gifts restricted for long-term investment	(107,269)	(141,102)
Provision for doubtful accounts	196,096	125,291
Changes in operating assets and liabilities:		
Due from GCFA short-term pooled investment fund	(4,911,685)	(2,787,947)
Accounts receivable	166,895	(164,982)
Due to related organizations	1,579,398	1,951,484
Due from related organizations	122,595	34,656
Other assets	(12,374)	(32,704)
Student loans receivable	300,057	471,331
Funds held by outside trustees for the benefit of GBHEM	(984,091)	1,073,536
Accounts payable and accrued liabilities	975,617	(520,545)
Custodial funds payable	14,963,029	(5,917,442)
Net cash flows from operating activities	<u>13,682,481</u>	<u>(7,628,825)</u>
Cash flows from investing activities:		
Purchases of property and equipment	-	(1,778)
Purchases of investments held directly	(81,428,480)	(84,057,921)
Sales and maturities of investments held directly	67,638,730	91,547,422
Net cash flows from investing activities	<u>(13,789,750)</u>	<u>7,487,723</u>
Cash flows from financing activities:		
Proceeds from gifts restricted for long-term investment	107,269	141,102
Net cash flows from financing activities	<u>107,269</u>	<u>141,102</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	250	250
Cash and cash equivalents, end of year	<u>\$ 250</u>	<u>\$ 250</u>

The accompanying notes to the financial statements are an integral part of these statements.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2019 AND 2018

Note 1—Organization and nature of operations

The General Board of Higher Education and Ministry of The United Methodist Church (“GBHEM”) was created to assist in preparing persons to fulfill their ministry, ordained and lay, and to provide general oversight and care for institutions of higher education, including schools, colleges, universities, and theological seminaries of The United Methodist Church.

GBHEM appoints and/or ratifies members of the boards of directors for several entities, including The United Methodist Higher Education Foundation, Africa University, Inc. Tennessee, and American University. However, because GBHEM has no economic interest in any of these entities, the financial statements of GBHEM do not include the financial position or changes in net assets of these entities.

Funding for GBHEM’s operations is principally provided by allocations received from the General Funds of The United Methodist Church (the “Church”) (distributed through its General Conference) based on a four-year budget developed from projections of expected program costs. The allocation accounts for 85% of GBHEM’s total operating revenue in 2019 and 2018. GBHEM’s continued existence is dependent upon the Church’s future support. The Church’s future support is dependent upon contributions from its congregations (i.e., congregational participation in the apportionment covenant).

The World Service Fund (the “Fund”) is the basic benevolence fund of the Church. The Fund solicits and receives contributions from United Methodist churches and makes annual allocations to support the activities of various church agencies (including GBHEM) in accordance with the donors’ intent. Such amounts are recognized as revenue in the period the allocation is made, which generally corresponds with the period the donations are made.

The Ministerial Education Fund (“MEF”) is an apportioned fund with the purpose to enable the Church to unify and expand its program of financial support for the recruitment and education of ordained and diaconal ministers. Funds shall go directly for programs and services in theological education, the enlistment and continuing education of ordained and diaconal ministers, and courses of study. GBHEM receives 75% of the total MEF money raised in each annual conference.

The Black College Fund is an apportioned fund administered by GBHEM. The purpose of the fund is to provide financial support for current operating budgets and capital improvements of the Black colleges related administratively to the Church.

The Commission on Central Conference Theological Education and The Young Clergy Initiative Fund were approved at the 2012 General Conference and funded through the Fund. These funds are recognized as net assets with donor restrictions when received and released from restriction when used.

Sundays with General Church offerings are observed on a church wide basis. The General Council on Finance and Administration (“GCFA”), in consultation with the Connectional Table and the Council of Bishops, makes recommendations to the General Conference regarding these special offerings. Remitted funds are transferred by GCFA to the administering agencies.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2019 AND 2018

Note 2—Summary of significant accounting policies

The financial statements have been prepared on the accrual basis of accounting. GBHEM's significant accounting policies are described below.

Basis of Presentation – For reporting purposes, GBHEM's financial statements have been prepared to focus on the organization as a whole and classify balances and transactions into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of GBHEM and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of GBHEM. These net assets may be used at the discretion of GBHEM's management and Board of Directors. GBHEM has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The subclassifications are as follows:

Invested in Property and Equipment – Represents net assets invested in property and equipment, net of accumulated depreciation.

Board-Designated – Comprised of funds set aside by the Board of Directors to be used for specific activities within general guidelines established by GBHEM. There were \$15,997,629 of board-designated funds for the year ended December 31, 2019. There were no board designated funds for the year ended December 31, 2018.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and board-designated.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of GBHEM or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

GBHEM has chosen to provide further classification information about net assets with donor restrictions in the footnotes to the statements of financial position. The subclassifications are as follows:

Restricted for Loans and Scholarships – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted for loans and scholarship awards to United Methodist students.

Restricted for Support of Historical Black Colleges and Universities – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted primarily for support of historical black colleges and universities.

Restricted for Support of Ministerial Purposes – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted primarily for support of ministerial programs.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

Restricted for Support of Special Initiatives – Comprised of World Service Funds specifically set aside for Central Conference Theological Education (“CCTE”) and Young Clergy Initiative (“YCI”), and unspent income earned. The CCTE Fund shall be used in central conferences outside the United States and administered by GBHEM. The YCI Funds are to be used to focus on encouraging young adults who wish to respond to the call to ordained ministry. YCI funds are administered by GBHEM.

Restricted for Other Program Purposes – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted primarily for capital grants and improvements.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. 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 with donor restrictions based on explicit donor stipulation or by law, or if no such restriction exists, as net assets without donor restrictions. Expirations of temporary restrictions on net assets are reported as released from net assets with donor restrictions to net assets without donor restrictions. Investment returns from Invested Fund draw for operations represents the 3.75% approved draw of earnings from the invested funds plus additional funds approved by the Board of Directors for special initiatives. Investment returns from Invested Fund draw for operations represents the approved draw of earnings (3.75% in 2019 and 2018) from the investment portfolio managed by Ellwood and Associates plus additional funds approved by the Board of Directors for special initiatives. This is reported as operating income.

Contributions are recognized when cash, other assets or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Services Received from Personnel of an Affiliate – Services received from personnel of GCFA for which GCFA does not charge GBHEM has been measured at the cost recognized by GCFA in providing those services. The revenue and expense relating to those services received are presented in the related party Note 10 and totaled \$23,969 and \$23,365 for the years ended December 31, 2019 and 2018, respectively.

Use of Estimates – To prepare these financial statements in conformity with accounting principles generally accepted in the United States of America, management of GBHEM has made certain estimates and assumptions relating to the reporting of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Due from GCFA Short-Term Pooled Investment Fund – The amounts presented as due from GCFA short-term pooled investment fund in the accompanying financial statements represent GBHEM’s portion of the short-term investment portfolio managed by the GCFA on behalf of certain agencies and related organizations of the Church. The amount due from this fund effectively represents the amount of cash deposits that are available to GBHEM to be disbursed out of GCFA’s centralized cash management system. Since these deposits are legally invested in GCFA’s name and not in a separate demand account in GBHEM’s name, they are not classified as cash and cash equivalents, but rather are considered an amount due from GCFA. The short-term investment portfolio includes funds invested in demand deposits, corporate bonds, taxable municipal bonds, mutual funds, and notes from other United Methodist organizations. GCFA allocates interest earned on the portfolio to the participating entities. For the years ended December 31, 2019 and 2018, GCFA allocated \$817,411 and \$177,296 of interest income, respectively, to GBHEM. While interest income can be earned based on the performance of the pooled investment funds, GBHEM believes there is little to no risk exposure to losses due to the relationship with GCFA and policy under which the pooled funds are invested. The operating cash requirements of the general agencies are centrally managed by GCFA.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

When an agency has surplus funds, they are invested by GCFA in the short-term pooled investment fund. GCFA allocates interest earned to the agencies invested in the pool based upon their pro-rata share of the pool on a monthly basis. The overall return for the short-term pooled investment fund for the years ended December 31, 2019 and 2018 was 4.17% and 1.14%, respectively. The overall rate of return for each agency may vary due to fluctuating balances throughout the year and the timing of investment gains and losses. The allocation of funds in the short-term investment pool as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Texas Methodist Foundation loan fund	18.4%	19.5%
Mutual funds	2.4%	2.0%
Short-term collateralized loan fund	0.4%	0.4%
Fixed income	15.1%	20.9%
Corporate bonds	46.1%	47.1%
Cash	17.6%	10.1%
	<u>100.0%</u>	<u>100.0%</u>

Investments – Investments consist of common stock, U.S. government agency securities, bonds, and other investments. Investments held individually and as part of GBHEM’s general investment pool are valued at fair value as determined by the custodian. The fair value of publicly traded securities is determined based on quoted market prices. The fair value of other alternative investments and investments held by a custodian are determined by net asset value. Investment return consists of interest and dividends and realized and unrealized gains and losses, reported net of investment expenses.

Student Loans Receivable – GBHEM makes uncollateralized loans to students based on a first-come, first served basis until allocated funds are used. The current interest rates for The United Methodist (“UM”) Student Loan Program are 5% for a deferred loan if attending a non-UM school, 4% for a deferred loan if attending a UM school, or 3.75% for a non-deferred loan. The maximum amount a UM student can borrow is \$5,000 per year. If the loan is deferred, borrowers are allowed up to 10 years following a six-month grace period after their graduation or withdrawal from school to repay their loan. If the loan is non-deferred, the payment schedule begins within 45 days and borrowers are allowed up to 10 years to repay their loan. Both loan types require a \$50 minimum monthly payment. GBHEM provides an allowance for doubtful accounts based on a formula of past due accounts and current financial conditions. Account balances are written off after all collection efforts have been exhausted.

Payments are due on the first of the month and net 30 days. Payments are aged 30, 60, 90, and 120 days; appropriate contact is made with cosigner/borrower per delinquency level. Delinquent accounts are placed with a collection agency after 120 days. After 12 months in collection, the account may be assigned to an attorney. Simple interest is accrued on the principal balance from the date of the inception of the loan and does not cease until the full balance is paid. Interest continues to accrue on accounts placed with the collection agency; however, accrual ceases on a loan in default when assigned to an attorney for final collection attempts. GBHEM records all interest earned on student accounts as increases in net assets with donor restrictions.

A loan is in deferment under two circumstances: in school and hardship. For a deferred loan, student accounts remain under deferment as long as a student maintains at least a half-time status in school. Upon graduation, students receive a six-month grace period before the account goes into repayment. Students must verify enrollment annually. A borrower may apply for a six-month hardship deferment due to economic or health circumstances. The length of time for deferment due to military service or voluntary service in AmeriCorp is set based upon the dates of deployment.

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Note 2—Summary of significant accounting policies (continued)

A loan becomes impaired when assigned to an attorney. Up until that time, it is possible for an account to go to the collection agency where only the past due amount is pursued. After all past due payments are received, the loan balance is made current and placed back into regular billing. Determination for exception based upon consistent monthly payment is made on a case-by-case basis.

Property and Equipment – Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets, which range from 3 to 20 years. GBHEM capitalizes assets with a cost greater than \$2,500.

Income Taxes – GBHEM is covered under GCFA's group determination letter from the Internal Revenue Service indicating that it is a nonprofit corporation and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). GBHEM is also exempt from filing a form 990 due to its affiliation with a religious organization as described in Section 509(a) of the Code. GBHEM had no significant unrelated business income during the years ended December 31, 2019 and 2018.

GBHEM accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for GBHEM include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the GBHEM has determined that such tax positions do not result in an uncertainty requiring recognition.

Functional Classification of Expenses –The costs of providing the various programs and other activities of GBHEM have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Direct identifiable expenses are charged to programs and supporting services.

Financial Instruments – Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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Note 2—Summary of significant accounting policies (continued)

Current Pronouncement – FASB has issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. GBHEM adopted this standard during the year ended December 31, 2019 and has adjusted the presentation of the statements accordingly. The update had no impact on prior year net assets.

Note 3—Liquidity and availability of resources

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

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 250	\$ 250
Due from GCFA short-term pooled investment fund	24,548,657	19,636,972
Accounts receivable, net	1,775	168,670
Investments	225,971,358	192,482,500
Due from related organizations	11,032,044	11,154,639
Student loans receivable, net of allowance for doubtful accounts	13,433,591	13,929,744
Funds held by outside trustees for the benefit of GBHEM	7,624,685	6,640,594
Total financial assets	<u>282,612,360</u>	<u>244,013,369</u>
Less amounts not available to be used for general expenditures within one year:		
Custodial funds payable	99,160,250	84,197,221
Purpose restrictions	80,160,004	71,686,912
Endowment funds held in perpetuity and accumulated earnings	57,976,516	49,512,344
Financial assets not available to be used within one year	<u>237,296,770</u>	<u>205,396,477</u>
Financial assets available to meet general expenditures within one year	<u>\$ 45,315,590</u>	<u>\$ 38,616,892</u>

As part of GBHEM's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash in excess of daily requirements are invested in GCFA's short-term pooled investment fund. This fund established by the Board of Directors may be drawn upon, if necessary, to meet unexpected liquidity needs. In addition, the GBHEM's board of directors has designated a portion of its liquid financial assets, resulting from operations and not related to donor restrictions, to its operating reserve quasi endowment, which was \$15,997,629 as of December 31, 2019.

GBHEM has assets held as a custodian for other organizations and limited to use for donor-restricted purposes. Assets held as a custodian for other organizations and limited to use for purpose restrictions, which are more fully described in Notes 8, 12, and 13, are not available for general expenditure within the next year.

Student loans receivable have been funded using donor-restricted resources. The net assets with donor restrictions associated with the student loans receivable have been included within the total purpose restrictions not available to be used for general expenditures within one year.

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Note 4—Student loans receivable

At December 31, 2019 and 2018, student loans, net of allowance for doubtful accounts totaled \$13,433,591 and \$13,929,744, respectively.

Movements in the allowance of student loans for the years ended December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Allowance for doubtful accounts:		
Beginning of year	\$ 1,270,600	\$ 1,270,600
Write-offs	(196,096)	(125,291)
Provisions to expense	196,096	125,291
End of year	<u>\$ 1,270,600</u>	<u>\$ 1,270,600</u>

At December 31, 2019 and 2018, the following amounts were past due under the student loan program:

	<u>60 days</u>	<u>90 days</u>	<u>120 +</u>
2019	185,221	47,434	994,305
2018	116,590	90,751	1,281,014

Note 5—Investments

Investments at December 31 consist of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash, pending investment	\$ 4,018,246	\$ 4,018,245	\$ 5,741,164	\$ 5,741,164
Common and preferred stock	91,178,877	62,958,533	73,098,126	60,623,653
Equity mutual funds	40,585,875	33,465,840	33,663,862	33,280,532
U.S. government agency securities	3,424,238	3,648,001	7,618,719	7,924,116
U.S. government bonds	13,797,646	13,214,116	12,508,768	12,520,990
Other fixed income	9,887,354	11,915,778	9,788,382	11,291,605
Corporate bonds	23,898,247	23,060,124	17,882,121	18,011,610
U.S. Equity Index Fund (I Series) - Wespath	27,523,385	21,158,035	-	-
U.S. Equity Index Fund - Wespath	-	-	20,915,651	15,693,589
Real estate	11,657,490	11,657,490	11,265,707	11,265,707
	<u>\$ 225,971,358</u>	<u>\$ 185,096,162</u>	<u>\$ 192,482,500</u>	<u>\$ 176,352,966</u>

Investments include funds held and invested on behalf of other organizations as well as GBHEM funds (see Note 8).

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Note 5—Investments (continued)

Return on GBHEM's portion of the total investments of \$127,911,467 and \$108,275,382 for the years ended December 31, 2019 and 2018, respectively, was as follows:

	<u>2019</u>	<u>2018</u>
Investment return:		
Investment income	\$ 2,926,195	\$ 2,615,975
Gains (losses) on investments:		
Realized gains on sale of investments	5,390,021	3,744,326
Unrealized gains (losses) on investments	14,309,087	(10,156,181)
Gains (losses) on investments	19,699,108	(6,411,855)
Less investment management expenses	(724,202)	(847,376)
Investment return, net	21,901,101	(4,643,256)
Investment Return from Invested Fund Draw for Operations:		
Adjustment for investment income transferred to operations	(2,316,786)	(3,404,357)
Nonoperating Investment return, net	<u>\$ 19,584,315</u>	<u>\$ (8,047,613)</u>

Note 6—Property and equipment

Property and equipment at December 31, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 257,319	\$ 257,319
Buildings and improvements	2,409,572	2,409,572
Computer equipment	1,348,153	1,348,153
Furniture and fixtures	711,424	711,424
	4,726,468	4,726,468
Less accumulated depreciation	(4,282,931)	(4,225,122)
Total property and equipment, net	<u>\$ 443,537</u>	<u>\$ 501,346</u>

Depreciation expense, related to property and equipment, for the years ended December 31, 2019 and 2018 was \$57,809 and 89,814, respectively.

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Note 7—Employee benefits

Retirement Benefits – Full-time laypersons and clergy employed by GBHEM participate in the Retirement Plan for General Agencies. This defined contribution plan is administered by the Wespath Benefits and Investments (“Wespath”). GBHEM makes semi-monthly contributions to each eligible employee’s account held by Wespath based on 8% of annual employee compensation. Additionally, GBHEM matches up to 2% of each employee’s annual compensation to their United Methodist Personal Investment Plan (UMPIP). Total contributions made by GBHEM for both components during 2019 and 2018 were \$477,259 and \$485,774, respectively.

Healthcare and Life Insurance Benefits – The General Agencies of The United Methodist Church Benefit Plan (the “Plan”), which qualifies for treatment as a multiemployer plan under Accounting Standards Codification (ASC) 715, *Compensation – Retirement Benefits*, provides medical, dental, life, and long- and short-term disability defined benefits to participants of the 11 general agencies, all Bishops covered by the Episcopal Fund, and employees of other United Methodist related organizations. Effective January 1, 2004, Plan amendments were made to change the retiree benefits offered and increase the related premiums paid by retirees.

GBHEM provides health, dental, life, and other employee benefits for its active employees and health, dental, and life benefits to non-Medicare eligible retirees through the Plan. Retirees who are Medicare eligible, and who elect to enroll, are eligible for a Health Reimbursement Account (“HRA”) up to \$2,100 annually and \$2,000 annually for their spouse, if applicable. Unused reimbursement funds continue to roll-over to subsequent years until death of the retiree or their spouse, whichever is later.

All of GBHEM’s active employees are covered by the Plan. The cost of benefits are recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$620,891 and \$708,606 in 2019 and 2018, respectively, and the cost of benefits for retired employees was \$150,161 and \$187,875 in 2019 and 2018, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$76,725,000 and \$94,500,000 and the Plan’s unfunded expected postretirement benefit obligation was approximately \$106,750,000 and \$131,500,000 as of December 31, 2019 and 2018, respectively.

Wespath has transferred certain excess pension assets to the Benefit Trust established by the 1996 General Conference. Annually, the Benefit Trust allows a stated percentage, 6% for 2019 and 6% for 2018, of the fair market value of Benefit Trust assets at year-end to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retiree employee benefits. The fair value of the Benefit Trust’s assets (not plan assets) was approximately \$167,449,000 and \$146,625,000 as of December 31, 2019 and 2018, respectively. The total amount available for reimbursement in 2019 and 2018 was \$8,797,702 and \$9,948,300, respectively, of which GBHEM’s share was \$713,491 and \$821,342, respectively.

Note 8—Custodial funds payable

GBHEM holds funds in trust for others, representing investment amounts owned by various individuals, colleges and universities, and other affiliated entities of The United Methodist Church, but administered by GBHEM either separately or as a part of the general investment pool. GBHEM’s responsibilities for these funds are custodial in nature and consist of establishing and monitoring investment policies for these deposits and distributing the income earned or the principal at withdrawal in accordance with the depositor’s instructions. At December 31, 2019 and 2018, custodial funds payable totaled \$99,160,250 and \$84,197,221, respectively.

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Note 9—Real property held for the benefit of others

GBHEM holds legal title to certain real property in a fiduciary capacity without responsibility for capital expenditures or operating expenses. This property is used by several historically black educational institutions affiliated with the Church. As these properties are not owned by GBHEM for its own benefit, but are held as an accommodation to the institutions involved, they have been omitted from the financial statements.

Note 10—Related party transactions

GBHEM receives the majority of its revenue through apportionments from the General Funds of The United Methodist Church, which are administered by GCFA. In addition, GCFA provides various services to GBHEM, including general ledger processing and maintenance, cash management, and group insurance plan administration. As of and for the years ended December 31, 2019 and 2018, GBHEM had the following transactions with GCFA and other related parties:

	<u>2019</u>	<u>2018</u>
Statements of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 24,548,657	\$ 19,636,972
Due from related organizations - World Service Fund Allocation receivable	10,665,613	10,967,348
Due from related organizations - other	366,431	187,291
Funds held by UMC Board of Trustees for the benefit of the GBHEM	6,770,704	5,901,108
Due to related organizations - Africa University Inc., Tennessee	11,229,917	9,319,621
Due to related organizations - other	143,439	474,337
Custodial funds payable - Africa University, Inc., Tennessee	79,847,047	67,766,871
Statements of Activities:		
Revenue:		
General church funds	35,460,900	38,532,367
Interest income from GCFA	817,411	177,296
Change in value of funds held by outside trustees - Board of Trustees	984,091	(1,073,536)
Benefit trust distribution	713,491	821,342
Services received from GCFA	23,969	23,365
Expenses:		
Administration provided by GCFA	23,969	23,365
Employee benefits - group insurance expense	771,052	896,481

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Note 11—Fair value of financial instruments

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on GBHEM's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2019 and 2018 for assets and liabilities measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

	Fair Value Measurements at Reporting Date Using			
	Amounts Measured at Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Funds held by outside trustees for the benefit of GBHEM:	\$ 7,624,685	\$ -	\$ -	\$ 7,624,685
Investments:				
Cash pending investments	\$ 4,018,246	\$ 4,018,246	\$ -	\$ -
Common and preferred stock	91,178,877	91,178,877	-	-
Equity mutual funds	40,585,875	40,585,875	-	-
U.S. government agency securities	3,424,238	3,424,238	-	-
U.S. government bonds	13,797,646	13,797,646	-	-
Other fixed income	9,887,354	9,887,354	-	-
Corporate bonds	23,898,247	-	23,898,247	-
	186,790,483	\$ 162,892,236	\$ 23,898,247	\$ -
Investments reported at net asset value:				
U.S. Equity Index Fund (I Series) - Wespath	27,523,385			
TA Associates *	691,333			
Rockwood *	2,412,346			
Harrison Street *	7,118,516			
Stonelake *	1,331,051			
Griffis Residential *	104,244			
Total Investments	\$ 225,971,358			

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Note 11—Fair value of financial instruments (continued)

	Fair Value Measurements at Reporting Date Using			
	Amounts Measured at Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Funds held by outside trustees for the benefit of GBHEM:	\$ 6,640,594	\$ -	\$ -	\$ 6,640,594
Investments:				
Cash pending investments	\$ 5,741,164	\$ 5,741,164	\$ -	\$ -
Common and preferred stock	73,098,126	73,098,126	-	-
Equity mutual funds	33,663,862	33,663,862	-	-
U.S. government agency securities	7,618,719	7,618,719	-	-
U.S. government bonds	12,508,768	12,508,768	-	-
Other fixed income	9,788,382	9,788,382	-	-
Corporate bonds	17,882,121	-	17,882,121	-
	160,301,142	\$ 142,419,021	\$ 17,882,121	\$ -
Investments reported at net asset value:				
U.S. Equity Index Fund - Wespath *	20,915,651			
TA Associates *	2,344,536			
Rockwood *	1,798,048			
Harrison Street *	7,005,153			
Stonelake*	117,970			
Total Investments	\$ 192,482,500			

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments and Funds Held by Outside Trustees for the Benefit of GBHEM – The fair value of common stocks, government securities, and short-term investments are determined using primarily Level 1 inputs in accordance with ASC 820. The fair values of corporate bonds and funds held by outside trustees for the benefit of GBHEM are determined using primarily Level 2 and Level 3 inputs, respectively.

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Note 11—Fair value of financial instruments (continued)

For entities that calculate NAV per share (or its equivalent), the following table provides information about the probability of investments being sold at amounts different from NAV per share for the year ended December 31, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency ^(g)</u>	<u>Redemption Notice Period</u>
U.S. Equity Index Fund (I Series) - Wespath ^(a)	\$ 27,523,385	\$ -	daily	daily
TA Associates ^(b)	691,333	-	variable	30 days
Rockwood ^(c)	2,412,346	535,168	variable	variable
Harrison Street ^(d)	7,118,516	3,930,651	variable	variable
Stonelake ^(e)	1,331,051	2,437,500	variable	14 days
Griffis Residential ^(f)	104,244	2,850,000	variable	variable
	<u>\$ 39,180,875</u>			

- (a) A U.S. Equity Index Fund (USEIF-I) that invests and reinvests in a portfolio of common stocks as represented by the Russell 3000® index.
- (b) TA Associates is a direct real estate investment focused on value-added investment properties, which include office, industrial, and multi-family (apartments). This fund is well diversified geographically throughout the U.S.
- (c) Rockwood is a real estate manager that acquires, develops, finances, operates and sells property in major metropolitan areas of the U.S. and focuses on value-add real estate investments. They pursue assets that have lower and higher risk/return policies.
- (d) Harrison Street is an opportunistic real estate manager that focuses on niche real estate strategies in the U.S. Return is from capital appreciation typically sold once completed and leased. Investment typically has a theme, usually based on anomalies within a local market's supply and demand. This reduces the impact of returns of the real estate cycle.
- (e) Stonelake is an opportunistic real estate manager focused only on investing in properties in Texas. The fund will invest in different sectors of the Texas real estate market which includes industrial, office, multi-family and retail.
- (f) Griffis Residential is a real estate manager focused only on investing in apartment homes in thriving areas throughout Colorado, Texas, California, Oregon, and Washington.
- (g) Redemption frequency indicates how often GBHEM may redeem investments during the year.

The following is a reconciliation of activity for 2019 and 2018 for assets measured at fair value based on significant unobservable information:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 6,640,594	\$ 7,714,130
Change in fair value	1,370,311	(580,725)
Sales and redemptions	(386,220)	(492,811)
Balance, end of year	<u>\$ 7,624,685</u>	<u>\$ 6,640,594</u>

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Note 12—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2019 and 2018 have been restricted by the donors for the following purpose restrictions:

	<u>2019</u>	<u>2018</u>
Subject to purpose restriction:		
Loans and scholarships	\$ 59,514,920	\$ 53,387,415
Historical black colleges and universities	11,761,874	10,921,061
Ministerial purposes	5,383,365	4,462,306
Young clergy initiative	498,385	188,788
Central conference on theological education	2,580,013	2,368,757
Other program purposes	421,447	358,585
Total subject to purpose restriction	<u>80,160,004</u>	<u>71,686,912</u>
Endowments:		
Accumulated earnings on GBHEM's endowment fund	37,822,546	30,363,833
GBHEM endowment fund held in perpetuity	20,153,970	19,148,511
Total endowments	<u>57,976,516</u>	<u>49,512,344</u>
Total net assets with donor restrictions	<u>\$ 138,136,520</u>	<u>\$ 121,199,256</u>

The amounts currently being used as revolving loan funds are intended to be continually loaned to students and not released from restriction; however, the amounts are classified as net assets with donor restrictions because they are expendable.

Net assets with donor restrictions for the years ended December 31, 2019 and 2018 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 13—Endowment

GBHEM's endowment consists of individual funds established for a variety of purposes restricted by donors. Additionally, GBHEM's board of directors has established a quasi endowment operating reserve to ensure long-term financial sustainability of GBHEM and position them to respond to varying economic conditions and changes affecting GBHEM financial position and the ability of GBHEM to continuously carry out its mission by holding assets in place to be used to fund the on-going budget of GBHEM.

The Board of Directors of GBHEM has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, GBHEM classifies as donor-restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by GBHEM in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Note 13—Endowment (continued)

In accordance with applicable state laws, GBHEM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

As of December 31, 2019 and 2018, GBHEM had the following endowment net asset composition by type of fund:

	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 20,153,970	\$ 20,153,970
Accumulated investment gains	-	37,822,546	37,822,546
Board-designated quasi endowment	15,997,629	-	15,997,629
Endowment net assets, December 31, 2019	<u>\$ 15,997,629</u>	<u>\$ 57,976,516</u>	<u>\$ 73,974,145</u>

	December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 19,148,511	\$ 19,148,511
Accumulated investment gains	-	30,363,833	30,363,833
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 49,512,344</u>	<u>\$ 49,512,344</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). GBHEM has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019 and 2018, GBHEM had no underwater endowments.

Investment and Spending Policies – GBHEM has a policy of drawing up to an appropriation percentage for distribution annually of the previous 12 rolling quarter’s average quarter-end market values (3.75% in 2019 and 3.75% in 2018). In establishing this policy, GBHEM considered the long-term expected return on endowment assets. Accordingly, over the long term, GBHEM expects the current spending policy to allow its endowment to produce current income within the total return strategy.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2019 AND 2018

Note 13—Endowment (continued)

Return Objectives and Risk Parameters – GBHEM has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to GBHEM’s programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that GBHEM must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Executive Committee of the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide for the preservation of capital and income for support of programs while assuming a moderate level of investment risk. GBHEM expects its endowment funds, over time, to produce current income within the total return strategy. Actual returns may vary.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, GBHEM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). GBHEM targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2017	\$ -	\$ 53,508,556	\$ 53,508,556
Investment return, net	-	(2,809,573)	(2,809,573)
Contributions	-	141,102	141,102
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(1,327,741)	(1,327,741)
Endowment net assets, December 31, 2018	-	49,512,344	49,512,344
Investment return, net	2,688,590	9,531,738	12,220,328
Contributions and designations	13,309,039	107,269	13,416,308
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(1,174,835)	(1,174,835)
Endowment net assets, December 31, 2019	<u>\$ 15,997,629</u>	<u>\$ 57,976,516</u>	<u>\$ 73,974,145</u>

Note 14—Subsequent events

Management has evaluated subsequent events through June 30, 2020, the date the financial statements were available for issuance. Management has determined that there are no subsequent events requiring disclosure other than those included below.

The Protocol of Reconciliation and Grace Through Separation was introduced as legislation in early 2020 for the upcoming General Conference. This joins other legislative proposals that if adopted by the General Conference would provide an alternative way for churches to separate from the United Methodist Church. These proposals include a provision for new denominations to receive financial payments from the United Methodist Church and retain their real estate. The scheduled General Conference has been delayed until 2021, and the financial impact resulting from these potential separations on GBHEM is unknown at this time.

As a result of the spread of COVID-19 in early 2020, economic uncertainties have arisen, which are likely to negatively impact operating results of GBHEM. Other financial impacts could occur though such potential impact is unknown at this time.

SUPPLEMENTAL SCHEDULES

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
DISTRIBUTIONS TO HISTORICALLY BLACK COLLEGES AND UNIVERSITIES
AND THEOLOGICAL SCHOOLS

Schedule 1

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Distributions to Historically Black Colleges and Universities:		
Bennett College	\$ 563,558	\$ 865,568
Bethune-Cookman College	1,155,461	888,171
Clafin College	697,029	1,001,506
Clark Atlanta University	1,096,858	886,805
Dillard University	888,986	671,182
Huston-Tillotson College	870,897	650,297
Meharry Medical College	855,408	636,558
Paine College	567,730	875,892
Philander Smith College	622,333	844,883
Rust College	597,294	903,056
Wiley College	885,085	641,999
	<u>8,800,639</u>	<u>8,865,917</u>

Distribution of residual capital funds of \$1,560,000 in 2019 and capital funds of \$1,300,000 in 2018 were included in the above totals.

Distributions to Theological Schools:		
Boston School of Theology	734,946	760,477
Drew University, the Theological School	782,523	841,414
Duke University, the Divinity School	1,846,086	2,273,577
Emory University, Candler School of Theology	1,500,837	1,727,940
Gammon Theological Seminary	532,662	744,252
Garrett Evangelical Theological Seminary	1,063,455	1,300,622
Iliff School of Theology	673,776	808,378
Methodist Theological School of Ohio	857,143	932,840
Southern Methodist University, Perkins School of Theology	1,049,106	1,331,489
St. Paul School of Theology	781,750	941,187
School of Theology at Claremont	631,543	634,095
United Theological Seminary	1,116,678	1,061,969
Wesley Theological Seminary	1,202,644	1,235,754
	<u>12,773,149</u>	<u>14,593,994</u>
Total Distributions to Historically Black Colleges and Universities and Theological Schools	<u>\$ 21,573,788</u>	<u>\$ 23,459,911</u>

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
SCHEDULES OF INVESTMENTS AT FAIR VALUE FOR FUNDS
HELD FOR OTHERS

Schedule 2

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NEW YORK LOAN FUND	\$ (25,130)	\$ 21,493
NEW YORK LOAN FUND RECEIVABLE	(350,508)	(379,579)
INVESTMENT IN GIP - NY FUND	953,510	793,163
FRANCIS ASBURY LOAN	449,210	423,096
FRANCIS ASBURY LOAN FUND RECEIVABLE	(501,016)	(555,721)
FRANCIS ASBURY INVESTED FUND	718,886	597,995
BALTIMORE WASHINGTON CONF	4,261	4,261
GENERAL ENDOWMENT FUND-CLAFLIN COLLEGE	347,460	299,037
FORD FOUNDATION FUND-CLAFLIN COLLEGE	755,117	649,880
DAISY PEARSON FUND-CLAFLIN COLLEGE	183,419	157,856
STANTON ESTATE-CLAFLIN COLLEGE	15,263	13,135
ATKINS-DILLARD MALLALIEU FUND	319,099	274,628
UNIV OF WISC - LEAVITT FUND	39,059	33,616
UNIV OF KANSAS - ENGLE FUND	67,073	57,726
SPECHT FUND	26,873	23,127
STUDENT EMERGENCY LOAN FUND-PHILANDER SMITH	3,090	2,669
SUMMER SCHOLARSHIP ENDOWMENT-PHILANDER SMITH	73,364	63,194
ARTHUR A. HENRY SCHOLARSHIP FUND-PHILANDER SMITH	1,962	1,736
MARIE L. HUTH SCHOLARSHIP-PHILANDER SMITH	11,408	9,839
READER'S DIGEST SCHOLARSHIP-PHILANDER SMITH	7,224	6,218
NELSON-HARRIS SCHOLARSHIP-PHILANDER SMITH	17,163	14,771
FLORENCE CLEAVER SCHOLARSHIP-PHILANDER SMITH	4,885	4,204
FACULTY ENRICHMENT FUND-PHILANDER SMITH	142,358	122,977
M. W. DUNLAP TRUST-PHILANDER SMITH	9,111	7,853
BIBLE & RELIGIOUS EDUCATION FUND	1,038,483	893,755
AUSTIN COLLEGE	84,075	72,358
WILLSON LECTURESHIP FUND (DM/GBHEM)	170,516	146,710
CENTENARY COLLEGE OF LOUISIANA	144,712	124,544
EARLHAM COLLEGE	89,670	77,173
HENDRIX COLLEGE	138,967	119,599
LON MORRIS COLLEGE	145,699	125,341
LUBBOCK CHRISTIAN COLLEGE	84,086	72,367
LUBBOCK METHODIST HOSPITAL	123,600	106,374
NEBRASKA WESLEYAN	138,967	119,599
OKLAHOMA CITY UNIVERSITY	169,518	145,893
ST. PAUL SCHOOL OF THEOLOGY	90,659	78,024
SOUTH CENTRAL JURIS. CONF.	127,900	110,075
SOUTHERN METHODIST UNIVERSITY	11,366	9,783
SOUTHWESTERN COLLEGE	151,520	130,403

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
SCHEDULES OF INVESTMENTS AT FAIR VALUE FOR FUNDS
HELD FOR OTHERS (CONTINUED)

Schedule 2

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
SOUTHWESTERN UNIVERSITY	262,810	\$ 226,184
TEXAS WESLEYAN COLLEGE	326,972	281,404
UNION COLLEGE	87,379	75,201
WESLEY THEOLOGICAL SEMINARY	83,793	72,115
WEST TEXAS STATE UNIVERSITY	175,656	151,176
NORTHWEST TEXAS CONFERENCE	87,808	75,571
MT. VERNON PLACE LOAN FUND	439,811	374,322
HARRIS MEMORIAL COLLEGE ENDOWMENT	97,632	81,213
GAMMON BUILDING FUND	5,049,710	4,345,955
GAMMON THEOLOGICAL SEMINARY-GEN FD	524,440	452,305
GAMMON CRUSADE FUND	3,246,732	2,794,250
GARRETT TRUST SCHOLARSHIP FUND	1,249,552	1,066,036
MAVEETY SCHOLARSHIP FUND	172,688	147,102
BALTIMORE CONF. - FRANCIS ASBURY	270,048	232,413
BALTIMORE CONFERENCE SCHOLARSHIP	74,539	64,151
BALTIMORE CONF. - SOPHIA DIETSCH	292,317	251,578
DISCIPLESHIP MINISTRIES-Young People International Schp	139,423	115,977
ECMT FUNDS PAYABLE	24,585	24,585
IAMSCU FUND	197,113	195,070
NASCUMC OPERATING FUND	225,575	173,572
NASCUMC INVESTED FUND	301,740	250,998
AFRICA UNIVERSITY - ENDOWMENT	79,847,047	67,766,871
	<u>\$ 99,160,250</u>	<u>\$ 84,197,221</u>