

**GENERAL BOARD OF GLOBAL MINISTRIES OF
THE UNITED METHODIST CHURCH, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019

Note 12—Board-designated net assets

Certain net assets without donor restrictions at December 31, 2020 and 2019 have been designated by the Board of Directors of Global Ministries for the following purposes:

	<u>2020</u>	<u>2019</u>
Board designated for programs:		
Property and maintenance	\$ 4,508,707	\$ 4,649,780
Field projects	4,936,756	4,978,205
Missionary work	4,142,429	4,171,538
Special program emphasis	1,253,452	1,373,367
Regionalization Atlanta	479,572	479,572
Humanitarian relief	191,207	186,207
Advance office	246,776	261,776
Annuity fund	266,015	200,250
Mission education	7,140	86,199
Economic development	-	21,941
Total board designated for programs	<u>16,032,054</u>	<u>16,408,835</u>
Board designated for missionaries retirement including pension and health benefit costs	<u>16,583,260</u>	<u>12,401,550</u>
	<u>\$ 32,615,314</u>	<u>\$ 28,810,385</u>

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Note 13—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2020 and 2019 have been restricted by the donors for the following purpose restrictions:

	<u>2020</u>	<u>2019</u>
Subject to purpose restrictions:		
Restricted through General Conference	\$ 4,532,643	\$ 4,143,740
Scholarships and leadership training	4,006,963	3,879,174
Field projects	4,691,847	3,811,174
Advance special projects	2,809,022	2,974,817
Other	8,769	8,767
Total subject to purpose restrictions	<u>16,049,244</u>	<u>14,817,672</u>
Endowments and other perpetual gifts:		
Beneficial interest in Pennsylvania Forest	6,788,000	6,431,000
Beneficial interest in California Forests	-	28,851,000
Revolving loan fund	20,348,159	20,290,979
Perpetual trusts	31,833,760	30,007,757
Endowments (subject to spending policy and appropriation):		
Subject to purpose restrictions and appropriation	49,568,913	42,963,737
Subject to appropriation only	<u>53,445,017</u>	<u>46,732,311</u>
Total endowments	<u>103,013,930</u>	<u>89,696,048</u>
Total endowments and other perpetual gifts	<u>161,983,849</u>	<u>175,276,784</u>
Total net assets with donor restrictions	<u>\$ 178,033,093</u>	<u>\$ 190,094,456</u>

Net assets with donor restrictions for the years ended December 31, 2020 and 2019 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
Subject to purpose restrictions:		
Advanced special projects	\$ 5,278,504	\$ 5,464,393
Appropriation from endowments subject to purpose restrictions	3,191,146	3,048,711
General Conference	1,647,264	2,295,067
Scholarships and leadership training	38,618	141,790
Field Projects	<u>(71,461)</u>	<u>191,650</u>
	10,084,071	11,141,611
Subject to time restrictions:		
Appropriation from endowments for expenditure	<u>1,054,307</u>	<u>1,072,604</u>
Total net assets released from restrictions - operating	<u>\$ 11,138,378</u>	<u>\$ 12,214,215</u>
Subject to time restrictions:		
Released by donor - interest in the California Forests	<u>\$ 28,851,000</u>	<u>-</u>
Total net assets released from restrictions - nonoperating	<u>\$ 28,851,000</u>	<u>\$ -</u>

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Note 14—Endowment funds

Global Ministries' endowment consists of approximately 1,400 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Board of Directors of Global Ministries has interpreted the applicable state law as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, Global Ministries classifies as net assets with donor restrictions as follows:

- (a) The original value of gifts donated to the permanent endowment,
- (b) The original value of subsequent gifts to the permanent endowment, and
- (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Endowment net assets consist of the following as of December 31, 2020 and 2019.

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 59,597,994	\$ 59,597,994
Accumulated investment earnings	-	43,415,936	43,415,936
Endowment net assets	<u>\$ -</u>	<u>\$ 103,013,930</u>	<u>\$ 103,013,930</u>
	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 59,295,113	\$ 59,295,113
Accumulated investment earnings	-	30,400,935	30,400,935
Endowment net assets	<u>\$ -</u>	<u>\$ 89,696,048</u>	<u>\$ 89,696,048</u>

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Note 14—Endowment funds (continued)

Changes in endowment net assets for the years ended December 31, 2020 and 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2018	\$ -	\$ 64,421,406	\$ 64,421,406
Investment return, net	-	16,542,867	16,542,867
Contributions	-	12,853,090	12,853,090
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(4,121,315)	(4,121,315)
Endowment net assets, December 31, 2019	-	89,696,048	89,696,048
Investment return, net	-	17,260,454	17,260,454
Contributions	-	302,881	302,881
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(4,245,453)	(4,245,453)
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 103,013,930</u>	<u>\$ 103,013,930</u>

Underwater Endowment Funds – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the applicable state law requires Global Ministries to retain as a fund of perpetual duration. Global Ministries has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no underwater endowments as of December 31, 2020 and 2019.

Return Objectives and Risk Parameters – Global Ministries has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to 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 Global Ministries must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the board of directors, the endowment assets of Global Ministries are invested in the Multiple Asset Fund of Wespath.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, Global Ministries 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). Global Ministries 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy – Global Ministries has adopted distribution policy of 7% of the fair market value of an endowment fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than five years immediately preceding the year in which the appropriation for expenditure is made. Global Ministries has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

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Note 15—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 Global Ministries' assessment of available market information and appropriate valuation methodologies.

The following tables summarize the required fair value disclosures and measurements at December 31, 2020 and 2019 for assets measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

	Fair Value Measurements at Reporting Date Using			
	Assets (Liabilities) Measured at Fair Value	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
December 31, 2020				
Investments:				
Multiple Asset Fund (I Series) - Wespath*	\$ 212,580,519	\$ -	\$ -	\$ -
Extended Term Fixed Income Fund - Wespath*	19,749,602	-	-	-
U.S. Equity Fund - Wespath*	3,676,822	-	-	-
International Equity Fund - Wespath*	3,162,454	-	-	-
UMC Foundation*	2,949,073	-	-	-
Texas Methodist Foundation*	33,891,952	-	-	-
Short-term securities	41,549	41,549	-	-
U.S. government securities	83,607	83,607	-	-
Bond mutual funds	164,391	164,391	-	-
Equities	57,055	57,055	-	-
Total investments	<u>\$ 276,357,024</u>	<u>\$ 346,602</u>	<u>\$ -</u>	<u>\$ -</u>
Revolving loan fund held by UMDF*	\$ 20,348,159	\$ -	\$ -	\$ -
Beneficial interest in timberland forest	\$ 6,788,000	\$ -	\$ -	\$ 6,788,000
Perpetual trusts held by others	\$ 31,833,760	\$ -	\$ -	\$ 31,833,760
December 31, 2019				
Investments:				
Multiple Asset Fund - Wespath*	\$ 189,379,570	\$ -	\$ -	\$ -
UMC Foundation*	2,812,667	-	-	-
Texas Methodist Foundation*	29,431,722	-	-	-
Short-term securities	266,317	266,317	-	-
U.S. government securities	81,967	81,967	-	-
Bond mutual funds	235,746	235,746	-	-
Equities	21,719	21,719	-	-
Total investments	<u>\$ 222,229,708</u>	<u>\$ 605,749</u>	<u>\$ -</u>	<u>\$ -</u>
Revolving loan fund held by UMDF*	\$ 20,290,979	\$ -	\$ -	\$ -
Beneficial interest in timberland forest	\$ 35,282,000	\$ -	\$ -	\$ 35,282,000
Perpetual trusts held by others	\$ 30,007,757	\$ -	\$ -	\$ 30,007,757

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

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Note 15—Fair value of financial instruments

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

Investments – The fair value of short-term securities, U.S. government securities, bond mutual funds, and equities are determined using primarily Level 1 inputs in accordance with ASC 820.

Beneficial Interest in Timberland Forests – Fair value is based on the discounted present value of the estimated future cash flows (over 30 years) from timberland forests (see Note 7). Because no public market exists for these assets and an estimate of fair value is not practicable to obtain, the fair value is determined using primarily Level 3 inputs.

Perpetual Trusts Held by Others – Fair value is based on the fair value of the underlying investments. Because timing of realization is an unobservable input, the fair value is determined using primarily Level 3 inputs.

For entities that calculate net asset value (“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, 2020:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multiple Asset Fund (I Series) - Wespath ^(a)	\$ 212,580,519	none	daily	daily
Extended Term Fixed Income Fund - Wespath ^(b)	19,749,602	none	daily	daily
U.S. Equity Fund - Wespath ^(c)	3,676,822	none	daily	daily
International Equity Fund - Wespath ^(d)	3,162,454	none	daily	daily
UMC Foundation ^(e)	2,949,073	none	daily	3 days
Texas Methodist Foundation ^(f)	33,891,952	none	none	none
Revolving loan fund held by UMDF ^(g)	20,348,159	none	daily	daily

(a) Wespath’s Multiple Asset Fund (I series) is a composite of U.S. equity funds (35%), international equity funds (30%), fixed income funds (25%) and inflation protection funds (10%). The fund seeks to maximize long-term investment returns, including current income and capital appreciation, while reducing short-term risk by investing in a broad mix of investments.

(b) The objective of Wespath’s Extended Term Fixed Income Fund is to provide current income while preserving capital and providing exposure to long term interest rates by primarily investing in a diversified mix of fixed income instruments. The fund holds publicly traded U.S. fixed income securities, fixed income instruments denominated in currencies other than the U.S. dollar, and includes private debt securities.

(c) The objective of Wespath’s U.S. Equity Fund is to provide long-term capital appreciation from a broadly diversified portfolio of primarily U.S. stocks. The fund holds securities of publicly-traded U.S. based real estate investment trusts (“REIT”), limited partnership interests in private U.S. real estate and other private investments (venture capital, buyouts, etc.) of U.S. companies. The fund holds equity index futures of U.S. stock indexes.

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Note 15—Fair value of financial instruments (continued)

- (d) The objective of Wespath's International Equity Fund is to provide long-term capital appreciation primarily from a broadly diversified portfolio of foreign equities. The fund holds REIT and interests in private real estate and private equity partnerships located in foreign countries.
- (e) The objective of the UMC Foundation's Balanced Fund is to provide a reasonable level of current income and, simultaneously, to protect the purchasing power of the principal against inflation. The targeted allocation of the fund is 25% invested in a domestic fixed income fund, 35% in a domestic large capitalization equity portfolio, 10% in a domestic small/mid-capitalization equity portfolio, and 30% in an international equity portfolio. This fund is designed for those investors who are seeking a single fund to provide broad diversification, reasonable current income, and protection against inflation.
- (f) Investment with Texas Methodist Foundation as long term by UMDf on behalf of Global Ministries.
- (g) Loan Funds held by Global Ministries that were transferred to UMDf for investment management.

The following is a reconciliation of activity for 2020 and 2019 for assets measured at fair value based on significant unobservable information:

	Beneficial Interest in Timberland Forests	Perpetual Trusts Held by Others
Balance, January 1, 2019	\$ 29,664,000	\$ 26,311,382
Contribution	-	476,065
Net appreciation in fair value	5,618,000	3,220,310
Balance, December 31, 2019	35,282,000	30,007,757
Sale of 5.6721% Interest in the Collins Almanor forest (Note 7)	(3,605,380)	-
Transfer of beneficial interest in the California Forests (Note 16)	(25,245,620)	-
Net appreciation in fair value	357,000	1,826,003
Balance, December 31, 2020	<u>\$ 6,788,000</u>	<u>\$ 31,833,760</u>

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Note 16—Transfer of plan sponsorship of the Collins Pension Plan and Collins Health Benefits Trust

On March 10, 2020, Global Ministries signed an agreement (the “transfer agreement”) with Wespath to assume the sponsorship of the Collins Pension Plan and Collins Health Benefits Trust (collectively, the “Plans”). The Plans are “church plans” within the meaning of Section 3 (33) of the Employee Retirement Income Security Act of 1974 and Section 414(e) of the Internal Revenue Code of 1986. The Plans assets were maintained in the Trust and Health Trust (collectively, “Pension Trusts”) administered by Global Ministries.

Under the transfer agreement, Global Ministries will transfer to Wespath: (1) the sponsorship of the Plans, (2) all of Global Ministries’ rights and obligations under the Plans, and (3) ownership of all accounts and all cash in the bank of the Plans including all assets in the Pension Trusts and Wespath agreed to become the sponsor of the Plans and accept Global Ministries sponsorship rights and assumes the Plans’ obligations as of the closing date of the transaction. In addition, Global Ministries agreed that Wespath will have the right to amend or terminate the Health Trust and certain other agreements specified in the transfer agreement. Global Ministries will retain responsibility for certain employer functions which are enumerated in the transfer agreement.

After the closing date, Wespath as the Plans’ sponsor will: (1) manage the third-party administrator relationship, (2) review and determine whether changes to the Plans design are needed, with input from Global Ministries, (3) approve exceptions, with recommendations from Global Ministries, (4) pay vendors, claims and benefits under the Plans, and (5) support resolution of participant issues. In addition, Wespath is required to provide written notice to Global Ministries prior to amending the Plans. If an amendment would materially reduce benefits, Global Ministries may elect to provide additional funding to Wespath in an amount sufficient to eliminate the need to reduce the applicable benefits subject to certain provisions in the transfer agreement. Also, in accordance with the transfer agreement, since Global Ministries had historically utilized the annual income distributions from the California Forests to fund the actuarially determined annual required contributions of the Plans, Global Ministries agreed to transfer and convey to Wespath all of Global Ministries assignable and transferrable right, title and interests in the California Forests and all other forest agreements related to the California Forests in effect as of the closing date in order to provide a funding source for the obligations of the Plans.

In addition, the transfer agreement required Global Ministries to set aside funds in a separate Wespath account (the “reserve account”), to ensure that the assets provided to Wespath are sufficient to cover certain cost related to the transfer of the Plans and for the long-term funding of the Plans should the assets transfers under the transfer agreement prove to be insufficient to fund the long-term obligations of the Plans. The amount to be held in the reserve account is calculated as the difference between: (a) 105% of the Plans liabilities determined as the sum of the projected benefit obligation of the Collins Pension Plan and the accumulated postretirement benefit obligation of the Collins Health Benefits Trust and (b) the Plans assets in the Trusts and value of the California Forests interest using the discounted cash flow method as computed as of December 31, 2019. As of the closing date of the transaction, the computed required reserve account balance was \$24,825,324, which was fully funded by Global Ministries as of that date. The balance in the reserve account at December 31, 2020, was \$26,588,878 and is reported as restricted investments in the statement of financial position. Global Ministries has also agreed to provide Wespath with the irrevocable right to transfer assets from the reserve account in any amount reasonably determined by Wespath is necessary to satisfy any of the obligations of the Plans. Every two years, commencing on January 1, 2022, Wespath will recalculate the amount to be held in the reserve account. If based on the re-computation the reserve account is overfunded, Wespath will transfer to Global Ministries the overfund amount by May 8th of the applicable year. If as of January 1 of the applicable reserve account recalculation, the distributions from the California Forests have declined more than 30% from the distributions it received in the immediately prior two-year period, then Wespath will postpone the reserve account recomputation for two more years. When the obligations under the Plans have been fully satisfied Wespath will deliver the investments held in the reserve account to Global Ministries free of any encumbrances.

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**Note 16—Transfer of plan sponsorship of the Collins Pension Plan and Collins Health Benefits Trust
(continued)**

The transaction closed on August 14, 2020. Management has accounted for the transfer of Global Ministries sponsorship of the Plans to Wespath in accordance with ASC 715 *Compensation Retirement Benefits*.

The following sets forth actuarially determined financial information about the Plans as of July 31, 2020, prior to the transfer to Wespath:

Collins Pension Plan:

Benefit obligation at July 31, 2020	\$ (143,009,848)
Fair value of plan assets at July 31, 2020	<u>71,427,212</u>
Funded status	<u>\$ (71,582,636)</u>

Benefit obligation weighted average assumptions*:

Discount rate	2.50%
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**No other assumptions were changed for the July 31, 2020 actuarial valuation to determine the plan's benefit obligation as of July 31, 2020 compared to the December 31, 2019 actuarially determined benefit obligation disclosed in Note 9.*

Collins Health Benefits Trust:

Benefit obligation at July 31, 2020	\$ (19,845,894)
Fair value of plan assets at July 31, 2020	<u>39,352,420</u>
Funded status	<u>\$ 19,506,526</u>

Benefit obligation weighted average assumptions:

Discount rate	2.50%
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**No other assumptions were changed for the July 31, 2020 actuarial valuation to determine the plan's benefit obligation as of July 31, 2020 compared to the December 31, 2019 actuarially determined benefit obligation disclosed in Note 10.*

To following is a summary of the Plans obligations derecognized and assets transferred on August 14, 2020, the transaction closing date:

Collins Health Benefits Trust prepaid asset - Funded status	\$ (19,506,526)
Collins Pension Plan liability - Funded status	<u>71,582,636</u>
Net Plans' obligations derecognized	52,076,110
Present value of assets transferred to Wespath:	
Beneficial Interest in California Forests	<u>(25,245,620)</u>
Net gain on transfer of Plans' obligations	<u>\$ 26,830,490</u>

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Note 17—Paycheck Protection Program loan

On April 20, 2020, Global Ministries received a Paycheck Protection Program loan (“PPP loan”) in the amount of \$3,433,500. The PPP loan is granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if Global Ministries does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. Upon the issuance of updated guidance from the SBA, Global Ministries believed it had not substantially met all barriers for loan forgiveness and, therefore, returned \$1,458,760 in May 2020, and recorded the remaining receipt of the funds of \$1,974,740 as deferred revenue in the statement of financial position as of December 31, 2020. On May 3, 2021, after further evaluation by management, Global Ministries returned the full amount of \$1,974,740 of the PPP loan plus \$20,680 in accrued interest to the issuing bank.

Note 18—Contingencies

During 2020, an outbreak of a novel strain on coronavirus (“COVID-19”) emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen that could negatively impact Global Ministries revenue and operations for an indeterminable time period. Other financial impacts could occur that are unknown at this time.

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 2022, and the financial impact resulting from these potential separations on the Commission is unknown at this time.

In July 2021, the Dixie Fire began to rage through Northern California and has directly impacted the California Forests now owned by Wespeth. The Dixie Fire continues to burn, and no official assessment has been provided that would indicate the extent of damage or the impact to future cash flows from forestation of the California Forests. As of August 31, 2021, there are no estimates available on how the Dixie Fire will impact the 2021 and future annual income distributions from the California Forests and, therefore, Wespeth’s ability to fund the actuarially determined annual required contributions of the Plans. The funds in the reserve account were contractually set aside to cover such potential contingencies.

Note 19—Subsequent events

Subsequent events have been evaluated through August 31, 2021, the date these consolidated financial statements were available to be issued.