

**GENERAL COMMISSION ON  
RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH**

**FINANCIAL STATEMENTS**

*As of and for the Years Ended December 31, 2018  
and 2017*

*And Report of Independent Auditor*

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
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## Report of Independent Auditor

The Board of Directors  
General Commission on Religion and Race of  
The United Methodist Church  
Washington, DC

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

We have audited the accompanying financial statements of the General Commission on Religion and Race of The United Methodist Church (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 Commission on Religion and Race of The United Methodist Church as of December 31, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Charlotte, North Carolina  
June 18, 2019

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2018 AND 2017

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Due from General Council on Finance and Administration short-term pooled investment fund	\$ 3,190,367	\$ 3,755,155
Investments in The United Methodist Church Foundation	172,661	184,032
Accrued World Service Fund allocation	644,831	638,542
Accounts receivable	30,099	1,620
Prepaid expenses	10,479	23,835
Other assets	6,518	6,518
Property and equipment, net	69,200	79,609
<b>Total Assets</b>	<b>\$ 4,124,155</b>	<b>\$ 4,689,311</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 123,604	\$ 100,955
Accrued expenses	105,007	55,650
Deferred rent	2,801	18,136
<b>Total Liabilities</b>	<b>231,412</b>	<b>174,741</b>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	69,200	79,609
Board-designated	232,185	232,185
Undesignated	2,344,151	3,060,697
Total without Donor Restrictions	2,645,536	3,372,491
With Donor Restrictions:		
Subject to purpose restrictions	1,079,546	963,048
Endowments	167,661	179,031
Total with Donor Restrictions	1,247,207	1,142,079
<b>Total Net Assets</b>	<b>3,892,743</b>	<b>4,514,570</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,124,155</b>	<b>\$ 4,689,311</b>

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

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Allocation from World Service Fund	\$ 1,693,834	\$ 573,201	\$ 2,267,035	\$ 1,682,470	\$ 569,353	\$ 2,251,823
Distribution from Benefit Trust	148,741	-	148,741	70,785	-	70,785
Services received from General Council on Finance and Administration	23,310	-	23,310	48,669	-	48,669
Grant income	-	30,000	30,000	-	-	-
Interest income from General Council on Finance and Administration short-term pooled investment fund	41,732	-	41,732	174,361	-	174,361
Investment return, net	-	(11,370)	(11,370)	-	20,681	20,681
Other income	36	-	36	239	-	239
Net assets released from restrictions	486,703	(486,703)	-	352,810	(352,810)	-
<b>Total Revenue and Support</b>	<b>2,394,356</b>	<b>105,128</b>	<b>2,499,484</b>	<b>2,329,334</b>	<b>237,224</b>	<b>2,566,558</b>
Expenses:						
Program Services:						
Core action fund program	481,115	-	481,115	251,121	-	251,121
Communication	422,200	-	422,200	435,538	-	435,538
Ministry	841,218	-	841,218	1,058,589	-	1,058,589
UMC 50th Anniversary	5,588	-	5,588	-	-	-
Meeting services and other projects	502,032	-	502,032	5,000	-	5,000
Supporting Services:						
Management and general	869,158	-	869,158	953,507	-	953,507
<b>Total Expenses</b>	<b>3,121,311</b>	<b>-</b>	<b>3,121,311</b>	<b>2,703,755</b>	<b>-</b>	<b>2,703,755</b>
Change in net assets	(726,955)	105,128	(621,827)	(374,421)	237,224	(137,197)
Net assets, beginning of year	3,372,491	1,142,079	4,514,570	3,746,912	904,855	4,651,767
<b>Net assets, end of year</b>	<b>\$ 2,645,536</b>	<b>\$ 1,247,207</b>	<b>\$ 3,892,743</b>	<b>\$ 3,372,491</b>	<b>\$ 1,142,079</b>	<b>\$ 4,514,570</b>

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

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2018

	Program Services				Meeting Services and Other Projects	Supporting Services	2018 Total
	Core Action Fund	Communication	Ministry	UMC 50th Anniversary		Management and General	
Grants	\$ 410,863	\$ 12,182	\$ -	\$ 5,588	\$ 85,358	\$ 18,000	\$ 531,991
Salaries and wages	-	182,878	489,094	-	-	401,626	1,073,598
Employee benefits	-	64,603	159,623	-	-	135,485	359,711
Administration provided by General Council on Finance and Administration	-	-	-	-	-	35,310	35,310
Administration paid to General Board of Church and Society	-	6,779	14,395	-	-	20,336	41,510
Rent and occupancy paid to General Board of Church and Society	-	24,025	73,790	-	-	73,790	171,605
Travel and meetings	21,797	39,387	89,384	-	349,455	31,922	531,945
Professional fees	37,463	35,750	4,500	-	66,219	103,231	247,163
Supplies	-	231	740	-	-	4,891	5,862
Printing	-	27,267	3,350	-	1,000	-	31,617
Telephone and web service	-	4,042	2,544	-	-	2,450	9,036
Postage, shipping, and freight	-	1,805	2,931	-	-	2,205	6,941
Repairs and maintenance	10,992	9,799	821	-	-	16,700	38,312
Insurance	-	-	-	-	-	9,494	9,494
Depreciation	-	-	-	-	-	10,409	10,409
Promotional and informational material	-	13,452	46	-	-	2,614	16,112
Other	-	-	-	-	-	695	695
	<u>\$ 481,115</u>	<u>\$ 422,200</u>	<u>\$ 841,218</u>	<u>\$ 5,588</u>	<u>\$ 502,032</u>	<u>\$ 869,158</u>	<u>\$ 3,121,311</u>

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

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services	2017 Total
	Core Action Fund	Communication	Ministry	Meeting Services and Other Projects	Management and General	
Grants	\$ 173,214	\$ 43,096	\$ 59,527	\$ 5,000	\$ 16,852	\$ 297,689
Salaries and wages	-	102,043	384,251	-	302,375	788,669
Employee benefits	-	27,954	112,027	-	113,222	253,203
Administration provided by General Council on Finance and Administration	-	-	-	-	60,669	60,669
Administration paid to General Board of Church and Society	-	12,064	2,314	-	35,482	49,860
Rent and occupancy paid to General Board of Church and Society	16,824	25,237	84,122	-	45,141	171,324
Travel and meetings	830	31,478	300,920	-	260,319	593,547
Professional fees	60,018	106,263	81,463	-	49,084	296,828
Supplies	-	25	1,981	-	6,100	8,106
Printing	-	21,199	1,305	-	4,468	26,972
Telephone and web service	235	592	3,011	-	662	4,500
Postage, shipping, and freight	-	2,056	4,470	-	1,880	8,406
Repairs and maintenance	-	7,363	17,693	-	4,935	29,991
Insurance	-	-	-	-	22,885	22,885
Depreciation	-	-	-	-	10,173	10,173
Promotional and informational material	-	56,168	5,505	-	14,667	76,340
Other	-	-	-	-	4,593	4,593
	<u>\$ 251,121</u>	<u>\$ 435,538</u>	<u>\$ 1,058,589</u>	<u>\$ 5,000</u>	<u>\$ 953,507</u>	<u>\$ 2,703,755</u>

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

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
STATEMENTS OF CASH FLOWS**

*YEARS ENDED DECEMBER 31, 2018 AND 2017*

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (621,827)	\$ (137,197)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	10,409	10,173
Realized and unrealized (gains) losses on investments	14,503	(18,639)
Change in operating assets and liabilities:		
Due from General Council on Finance and Administration short-term pooled investment fund	564,788	194,062
Accrued World Service Fund allocation	(6,289)	(45,574)
Accounts receivable	(28,479)	(1,620)
Prepaid expenses	13,356	4,965
Other assets	-	(6,518)
Accounts payable	22,649	(20,954)
Accrued expenses	49,357	29,939
Deferred rent	(15,335)	(6,594)
Net cash flows from operating activities	<u>3,132</u>	<u>2,043</u>
<b>Cash flows from investing activities:</b>		
Net purchases of investments in The United Methodist Church Foundation	<u>(3,132)</u>	<u>(2,043)</u>
Net cash flows from investing activities	<u>(3,132)</u>	<u>(2,043)</u>
Net change in cash and cash equivalents	-	-
Cash and equivalents, beginning of year	-	-
Cash and equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

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



# GENERAL COMMISSION ON RELIGION AND RACE OF THE UNITED METHODIST CHURCH

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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### **Note 1—Nature of the organization**

The General Commission on Religion and Race (the “Commission”) is a general agency of The United Methodist Church (the “Church”) established for the purpose of coordinating denominational concerns and providing a channel of assistance to ensure that ethnic and racial minority group members of the Church will have equal opportunities for service, representation, and voice on every level of the Church’s life and ministry.

Funding for the Commission’s projects is principally provided by allocations received from the General Funds of The United Methodist Church World Service Fund, based on a four-year budget developed from projections of expected program costs. The allocation accounts for 91% and 88% of the Commission’s total revenues in 2018 and 2017, respectively. The Commission’s continued existence is dependent upon the Church’s future financial support. The Church’s financial support of the Commission is dependent upon contributions from its congregations (i.e., congregational participation in the apportionment covenant).

### **Note 2—Summary of significant accounting policies**

The financial statements of the Commission have been prepared on the accrual basis of accounting. The Commission’s significant accounting policies followed are described below.

*Basis of Presentation* – To help ensure the observance of limitations and restrictions placed on the use of resources, the Commission maintains its accounts internally in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives of the Commission. Separate accounts are maintained for each fund.

For reporting purposes, however, the Commission’s financial statements have been prepared to focus on the organization as a whole. Resources are classified into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Commission 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 objectives of the Commission. These net assets may be used at the discretion of the Commission’s management and the Board of Directors. The Commission has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The sub classifications are as follows:

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

*Board-Designated* – Represents resources set aside by the Board of Directors to be used for specific activities within guidelines established by the Board of Directors.

*Undesignated* – Represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and designated for specific activities.

*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 the Commission or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

*DECEMBER 31, 2018 AND 2017*

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**Note 2—Summary of significant accounting policies (continued)**

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.

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 restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

*Allocation from World Service Fund* – The World Service Fund (the “Fund”) is the basic benevolence fund of the Church. The Fund makes annual allocations to support the activities of the various organizations of the Church. Such amounts are recognized as revenue in the accompanying financial statements in the period for which the allocation is made. Certain World Service Funds are reported as temporarily restricted, as the restrictions placed on them by General Conference are more specific than the broad limits of its mission as described in the *Book of Discipline*.

The Accrued World Service Fund Allocation represents the apportionment income recorded as income for December that will be credited to the Commission’s portion of the General Council on Finance and Administration (“GCFA”) short-term pooled investment fund the following month.

*Services Received from Personnel of an Affiliate* – Services received from personnel of an affiliate for which the affiliate does not charge the Commission have been measured at the cost recognized by the affiliate in providing those services. The revenue and expense relating to those services received are presented in Note 7 and totaled \$23,310 and \$48,669 for the years ended December 31, 2018 and 2017, respectively.

*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 the Commission’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 the Commission 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 Commission’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, 2018 and 2017, GCFA allocated \$41,732 and \$174,361 of interest income, respectively, to the Commission. While interest income can be earned based on the performance of the pooled investment funds, the Commission 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 COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**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, 2018 and 2017 was 1.14% and 4.38%, 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Texas Methodist Foundation loan fund	19.5%	20.5%
Mutual funds	2.0%	2.5%
Short-term collateralized loan fund	0.4%	0.4%
Fixed income	20.9%	9.0%
Corporate bonds	47.1%	47.0%
Cash	10.1%	20.6%
	<u>100.0%</u>	<u>100.0%</u>

*Investment in The UMC Foundation* – The Commission is a participant investor, placing its investment funds with The UMC Foundation for their management. The UMC Foundation has established, for accounting purposes, an initial unit value for an accounting unit of the participants’ accounts based on the participants’ net assets divided by the unit value. At all times, the total value of the participants’ net assets, divided by the total of all participants’ units, will equal the unit value. The unit value of the net assets will be determined on each valuation date. The valuation date is the last business day of each calendar month.

*Property and Equipment* – Property and equipment are stated at cost, net of accumulated depreciation. The Commission depreciates furniture, equipment, and leasehold improvements on a straight-line basis with a modified half-year convention over their estimated useful lives of three, five, and twenty years, respectively. The modified half-year convention treats property placed in service or retired during the first half of the year as being made on the first day of the year. Thus, a full-year’s depreciation under this method is allowed on property placed in service in the first six months, and no depreciation is allowed on property placed in service in the second six months.

*Functional Expenses* – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort

*Grant Commitments* – Revocable grants are awarded through the Minority Group Self Determination Fund to support various projects. Grants awarded are charged to expense as grant requirements are met. At December 31, 2018 and 2017, there were no undisbursed commitments on revocable grants.

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

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**Note 2—Summary of significant accounting policies (continued)**

*Use of Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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 those estimates.

*Income Taxes* – The Commission is covered under the 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, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Commission 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.

The Commission 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 the Commission include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

*Future Pronouncements* – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the year ending December 31, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

The FASB 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. This ASU is effective for the year ending December 31, 2019.

The Commission is currently in the process of evaluating the impact that these pronouncements will have on its financial statements.

*Reclassifications* – The Commission reclassified certain expenses between program and supporting services in the 2017 statement of functional expenses in order to accurately reflect the nature of the expenses.

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 3—Liquidity and availability of resources**

The table below represents financial assets available for general expenditures within one year at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Due from GCFA short-term pooled investment fund	\$ 3,190,367	\$ 3,755,155
Investments in The United Methodist Church Foundation	172,661	184,032
Accrued World Service Fund allocation	644,831	638,542
Accounts receivable	<u>30,099</u>	<u>1,620</u>
Total financial assets	<u>4,037,958</u>	<u>4,579,349</u>
Less amounts not available to be used for general expenditures within one year:		
Subject to donor purpose restrictions and accumulated earnings on endowments	1,138,566	1,033,438
Funds to be held in perpetuity	108,641	108,641
Board-designated funds	<u>232,185</u>	<u>232,185</u>
Financial assets not available to be used within one year	<u>1,479,392</u>	<u>1,374,264</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,558,566</u>	<u>\$ 3,205,085</u>

As part of the Commission'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 the GCFA's short-term pooled investment fund. This fund established by the Commission may be drawn upon, if necessary, to meet unexpected liquidity needs.

The Commission has certain board-designated and donor-restricted assets limited to use, which are more fully described in Notes 10 and 11, respectively, and are not available for general expenditure within one year in the normal course of operations. However, board-designated assets established by the Board of Directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 4—Property and equipment**

Property and equipment consisted of the following at December 31:

	<b>2018</b>	<b>2017</b>
Furniture	\$ 155,019	\$ 155,019
Equipment	65,378	65,378
Leasehold improvements	146,194	146,194
	<u>366,591</u>	<u>366,591</u>
Less accumulated depreciation	(297,391)	(286,982)
Furniture, equipment, and leasehold improvements, net	<u>\$ 69,200</u>	<u>\$ 79,609</u>

Depreciation expense totaled \$10,409 and \$10,173 in 2018 and 2017, respectively.

**Note 5—Investments**

The Commission's investments at December 31, 2018 and 2017 consist of the following:

	<b>2018</b>		<b>2017</b>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
The UMC Foundation	<u>\$ 172,661</u>	<u>\$ 178,300</u>	<u>\$ 184,032</u>	<u>\$ 168,643</u>

Investment return consists of the following for the years ended December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Dividend and interest income	\$ 3,133	\$ 2,042
Realized gains on investments	6,524	3,561
Unrealized gains (losses) on investments	(21,027)	15,078
Investment return, net	<u>\$ (11,370)</u>	<u>\$ 20,681</u>

**Note 6—Fair value of investments**

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Commission's assessment of available market information and appropriate valuation methodologies.

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 6—Fair value of investments (continued)**

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, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
The UMC Foundation *	<u>\$ 172,661</u>	none	daily	3 days

\* The objective of the 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 35% invested in a fixed income fund, 30% in a domestic large capitalization equity portfolio, 10% in a domestic small/mid-capitalization equity portfolio, and 25% 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.

**Note 7—Related party transactions**

The Commission 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 the Commission, such as general ledger processing and maintenance, cash management, and group insurance administration. The Commission had the following transactions with GCFA and related entities:

	<u>2018</u>	<u>2017</u>
Statements of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 3,190,367	\$ 3,755,155
Investments in The UMC Foundation	172,661	184,032
Accrued World Service Fund allocation	644,831	638,542
Accounts receivable - United Methodist Communications	30,000	-
Statements of Activities:		
Revenue:		
Allocation from World Service Fund	2,267,035	2,251,823
Distribution from Benefit Trust	148,741	70,785
Services received from GCFA	23,310	48,669
Interest income from GCFA short-term pooled investment fund	41,732	174,361
Investment return (The UMC Foundation)	(11,370)	20,681
Expenses:		
Group insurance expense	156,422	104,967
Rent paid to General Board of Church and Society ("GBCS")	171,605	171,324
Administrative services donated by GCFA	23,310	48,669
Administrative services paid to GCFA	12,000	12,000
Administrative services paid to GBCS	41,510	49,860
Reimbursement of consulting services - United Methodist Communications	(30,000)	-
Grants paid to affiliates	428,863	199,806

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**Note 8—Employee benefits**

*Retirement Benefits* – Full-time laypersons and clergy employed by the Commission participate in the Retirement Plan for General Agencies (“RPGA”). This defined contribution plan is administered by Wespath Benefits and Investments (“Wespath”).

The Commission makes semi-monthly contributions to each eligible employee’s account held by Wespath based on 8% of annual employee compensation. Additionally, the Commission matches up to 2% of each employee’s annual compensation to their United Methodist Personal Investment Plan. Total contributions made by the Commission for both components during the years ended December 31, 2018 and 2017 were \$110,448 and \$78,948, respectively.

*Health Care and Life Insurance Benefits* – The Commission provides health, dental, life, and other employee benefits for its active employees and health, dental, and life benefits to retirees through a group plan which qualifies for treatment as a multi-employer plan under the Accounting Standards Codification (ASC) 715, *Compensation - Retirement Benefits*. Substantially all retired employees are eligible to participate in the group plan if they have attained normal retirement age while in the employ of the Commission.

The General Agencies of The United Methodist Church Benefit Plan (the “Plan”) provides medical, dental, life, and long and short-term disability defined benefits to participants of 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.

The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$94,500,000 and \$98,600,000 as of December 31, 2018 and 2017, respectively. The Plan’s unfunded expected postretirement benefit obligation was approximately \$131,500,000 and \$148,700,000 as of December 31, 2018 and 2017, respectively.

The cost of the benefits is recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$142,151 and \$92,166 in 2018 and 2017, respectively, and the total cost of benefits for retired employees was \$14,271 and \$12,801 in 2018 and 2017, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

Wespath has transferred certain excess pension assets to the Benefit Trust established by the 1996 General Conference as of December 31, 1996. Annually, the Benefit Trust allows a stated percentage, 6% for both 2018 and 2017 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 \$146,625,000 and \$165,800,000 as of December 31, 2018 and 2017, respectively. The total amount available for reimbursement in 2018 and 2017 was \$9,948,300 and \$8,957,614, respectively, of which the Commission’s share, including retiree health benefits, was \$148,741 and \$70,785, respectively.



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**Note 9—Lease commitments**

The Commission leases office space within the GBCS, a related party, under an operating lease, which was renewed through February 2023. A summary of future minimum rental commitments at December 31, 2018 is as follows:

**Years Ending December 31,**

2019	\$	188,133
2020		192,682
2021		197,499
2022		202,436
2023		33,877
	<u>\$</u>	<u>814,627</u>

Rent expense to GBCS was \$171,605 and \$171,324 for the years ended December 31, 2018 and 2017, respectively.

**Note 10—Board-designated net assets**

Certain net assets without donor restrictions at December 31, 2018 and 2017 have been designated by the Board of Directors for the following purposes:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Operating reserve	\$ 230,512	\$ 230,512
Talbert Fund	1,673	1,673
Total board-designated net assets	<u>\$ 232,185</u>	<u>\$ 232,185</u>

The operating reserve was established by the Commission to provide for liquid funds in the event of short-term cash flow needs for unanticipated events that would necessitate the use of reserves to continue the operations and mission of the organization.

The board-designated Talbert Fund was established by the board of directors and its purpose and use are for the support for board members who are experiencing a hardship or loss.

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**Note 11—Net assets with donor restrictions**

Net assets with donor restrictions at December 31, 2018 and 2017 have been restricted by the donors for the following purpose restrictions:

	<u>2018</u>	<u>2017</u>
Subject to purpose restriction:		
Discerning Nature of Racism	\$ 27,077	\$ 27,077
Ebony Bishops Fund	7,723	7,723
Minority Group Self Determination Fund	1,020,334	928,248
UMC 50th Anniversary Fund	24,412	-
Total subject to purpose restrictions	<u>1,079,546</u>	<u>963,048</u>
Endowments:		
Accumulated earnings on the Commission endowment fund	59,020	70,390
Commission endowment fund held in perpetuity	108,641	108,641
Total endowments	<u>167,661</u>	<u>179,031</u>
Total net assets with donor restrictions	<u>\$ 1,247,207</u>	<u>\$ 1,142,079</u>

Net assets with donor restrictions for the years ended December 31, 2018 and 2017 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restriction	<u>\$ 486,703</u>	<u>\$ 352,810</u>

**Note 12—Endowments**

The Commission has established The Woodie W. White Endowment Fund for Racial Justice at the UMC Foundation. The income earned from the fund will be available to the Commission to use for any purpose consistent with its ministries to respond to racial concerns of the day. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Commission to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Commission has interpreted the applicable state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Commission classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Commission in a manner consistent with the standard of prudence prescribed by applicable state laws.

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**Note 12—Endowments (continued)**

In accordance with applicable state laws, the Commission 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 the Commission
- The investment policies of the Commission

As of December 31, 2018 and 2017, the Commission had the following endowment net asset composition by type of fund:

	<b>December 31, 2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 108,641	\$ 108,641
Accumulated investment gains	-	59,020	59,020
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 167,661</u>	<u>\$ 167,661</u>

  

	<b>December 31, 2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 108,641	\$ 108,641
Accumulated investment gains	-	70,390	70,390
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 179,031</u>	<u>\$ 179,031</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). The Commission has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018 and 2017, the Commission had no underwater endowments.

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**Note 12—Endowments (continued)**

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2016	\$ -	\$ 163,350	\$ 163,350
Investment return, net	-	20,681	20,681
Appropriation of endowment assets for expenditure and reclassifications	-	(5,000)	(5,000)
Endowment net assets, December 31, 2017	-	179,031	179,031
Investment return, net	-	(11,370)	(11,370)
Appropriation of endowment assets for expenditure and reclassifications	-	-	-
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 167,661</u>	<u>\$ 167,661</u>

*Investment and Spending Policy* – Distributions from the endowment will follow the distribution policy of the Church which is based on a policy of total long-term return of 6.5%. The following percentages may be used to guide the Commission’s distribution policy: 3.5% for Ministry distributions; 2.0% for inflation; and 1.0% for fees and expenses. To smooth the allowable annual distributions based on valuation of the underlying assets, the Commission uses a five-year moving average of quarterly portfolio values. The moving average is determined for the five-year period immediately preceding the fiscal year in which the funds are to be spent.

*Return Objectives and Risk Parameters* – The Commission 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 the Commission must hold in perpetuity. Under this policy, as approved by 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. The Commission 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, the Commission 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). The Commission targets a diversified asset allocation that places a greater emphasis on corporate bonds and equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Note 13—Subsequent events**

Management has evaluated subsequent events through June 18, 2019, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.