

**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, 2020 and 2019

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, 2020 and 2019, 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 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, 2020 and 2019, 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 audits were 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.

Cheryl Behrnt LLP

Charlotte, North Carolina
July 26, 2021

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

DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 250	\$ 250
Due from General Council on Finance and Administration short-term pooled investment fund	26,369,457	24,548,657
Accounts receivable, net	-	1,775
Investments	254,758,040	225,971,358
Due from related organizations	11,519,050	11,032,044
Other assets	727,024	793,507
Student loans receivable, net of allowance for doubtful accounts	11,747,306	13,433,591
Property and equipment, net	418,406	443,537
Funds held by outside trustees for the benefit of GBHEM	7,535,110	7,624,685
Total Assets	\$ 313,074,643	\$ 283,849,404
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,204,992	\$ 7,846,558
Due to related organizations	8,989,126	11,373,356
Custodial funds payable	113,349,782	99,160,250
Total Liabilities	129,543,900	118,380,164
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	418,406	443,537
Board-designated	18,313,046	15,997,629
Undesignated	12,373,849	10,891,554
Total Without Donor Restrictions	31,105,301	27,332,720
With Donor Restrictions:		
Subject to purpose restrictions	89,229,217	80,160,004
Endowments	63,196,225	57,976,516
Total With Donor Restrictions	152,425,442	138,136,520
Total Net Assets	183,530,743	165,469,240
Total Liabilities and Net Assets	\$ 313,074,643	\$ 283,849,404

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

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
General Church Funds:						
World Service Fund allocation	\$ 4,790,127	\$ -	\$ 4,790,127	\$ 5,292,181	\$ -	\$ 5,292,181
Ministerial Education Fund	-	15,673,552	15,673,552	-	16,583,035	16,583,035
Black College Fund	-	8,388,087	8,388,087	-	8,967,449	8,967,449
HANA Scholarships	405,000	-	405,000	370,000	-	370,000
Young Clergy Initiative	-	1,341,077	1,341,077	-	1,461,643	1,461,643
Central Conference Theological Education	-	1,928,937	1,928,937	-	2,102,353	2,102,353
Special Offerings:						
Student Day	-	169,126	169,126	-	299,335	299,335
World Communion-Ethnic Minority Scholarships	-	48,335	48,335	-	202,761	202,761
World Communion-In-Service	-	112,781	112,781	-	86,897	86,897
Native American Awareness	-	29,957	29,957	-	95,246	95,246
Total General Church Funds	5,195,127	27,691,852	32,886,979	5,662,181	29,798,719	35,460,900
Interest on student loans	-	701,871	701,871	-	618,746	618,746
Investment return from GCFA short-term pooled investment fund, net	738,100	134,425	872,525	673,136	144,275	817,411
Investment return from Invested Fund draw for operations	-	3,250,295	3,250,295	-	2,316,786	2,316,786
Gift and other	269,832	1,771,451	2,041,283	326,942	1,241,781	1,568,723
Benefit Trust Distribution	879,199	-	879,199	713,491	-	713,491
Services received from General Council on Finance and Administration	24,713	-	24,713	23,969	-	23,969
Net assets released from restrictions	30,655,784	(30,655,784)	-	33,322,656	(33,322,656)	-
Total Operating Revenue	37,762,755	2,894,110	40,656,865	40,722,375	797,651	41,520,026
Operating Expenses:						
Program Services:						
Division of Higher Education	9,729,648	-	9,729,648	10,582,996	-	10,582,996
Office of Loans and Scholarships	5,282,637	-	5,282,637	4,463,414	-	4,463,414
Division of Ordained Ministry	15,099,592	-	15,099,592	17,386,300	-	17,386,300
Special Initiatives	2,858,827	-	2,858,827	3,559,280	-	3,559,280
General Board	639,622	-	639,622	958,973	-	958,973
Total Program Services	33,610,326	-	33,610,326	36,950,963	-	36,950,963
Management and General	4,097,374	-	4,097,374	4,209,226	-	4,209,226
Total Operating Expenses	37,707,700	-	37,707,700	41,160,189	-	41,160,189
Change in Net Assets from Operations	55,055	2,894,110	2,949,165	(437,814)	797,651	359,837
Nonoperating Revenue (Expenses):						
Investment return, net	3,717,526	11,449,644	15,167,170	4,536,062	15,048,253	19,584,315
Change in value of funds held by outside trustees	-	(89,574)	(89,574)	-	984,091	984,091
Gifts held in perpetuity	-	34,742	34,742	-	107,269	107,269
Total Nonoperating Revenue (Expenses)	3,717,526	11,394,812	15,112,338	4,536,062	16,139,613	20,675,675
Change in net assets	3,772,581	14,288,922	18,061,503	4,098,248	16,937,264	21,035,512
Net assets, beginning of year	27,332,720	138,136,520	165,469,240	23,234,472	121,199,256	144,433,728
Net assets, end of year	\$ 31,105,301	\$ 152,425,442	\$ 183,530,743	\$ 27,332,720	\$ 138,136,520	\$ 165,469,240

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, 2020

	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	\$ 8,207,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,207,500
Distributions to theological schools	-	-	11,768,906	-	-	-	11,768,906
Special initiatives and other distributions	253,319	-	6,000	1,880,013	-	-	2,139,332
Scholarships	144,100	4,207,262	-	-	35,250	-	4,386,612
Events, training, and other program expenditures	69,580	-	1,544,203	483,783	345,123	54,513	2,497,202
Salaries and wages	766,474	368,426	1,276,990	203,527	144,429	2,074,429	4,834,275
Employee benefits	184,338	110,128	321,656	57,913	33,792	752,865	1,460,692
Administration provided by General Council on Finance and Administration	-	-	-	-	-	24,713	24,713
Rent and occupancy	-	-	-	-	-	229,423	229,423
Travel and meetings	23,512	5,562	46,557	63,370	1,594	41,336	181,931
Professional fees	71,043	225,505	122,411	12,431	75,300	195,358	702,048
Supplies	361	959	675	478	-	28,406	30,879
Telephone and web service	4,501	1,800	5,512	1,380	906	173,950	188,049
Postage, shipping, and freight	283	4,138	1,483	1,840	53	850	8,647
Repairs and maintenance	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	100,869	100,869
Depreciation	-	1,472	-	-	-	46,428	47,900
Promotional and informational material	3,204	6,199	955	7,138	2,915	140,624	161,035
Software	-	-	-	-	-	186,691	186,691
Miscellaneous	1,433	351,186	4,244	146,954	260	46,919	550,996
Total Operating Expenses	\$ 9,729,648	\$ 5,282,637	\$ 15,099,592	\$ 2,858,827	\$ 639,622	\$ 4,097,374	\$ 37,707,700

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, 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
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 18,061,503	\$ 21,035,512
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	47,900	57,809
Realized and unrealized gains on sale of investments	(17,341,128)	(19,699,108)
Gifts restricted for long-term investment	(34,742)	(107,269)
Provision for doubtful accounts	196,698	196,096
Changes in operating assets and liabilities:		
Due from GCFA short-term pooled investment fund	(1,820,800)	(4,911,685)
Accounts receivable	1,775	166,895
Due to related organizations	(2,384,230)	1,579,398
Due from related organizations	(487,006)	122,595
Other assets	66,483	(12,374)
Student loans receivable	1,489,587	300,057
Funds held by outside trustees for the benefit of GBHEM	89,575	(984,091)
Accounts payable and accrued liabilities	(641,566)	975,617
Custodial funds payable	14,189,532	14,963,029
Net cash flows from operating activities	<u>11,433,581</u>	<u>13,682,481</u>
Cash flows from investing activities:		
Purchases of property and equipment	(22,769)	-
Purchases of investments held directly	(217,024,692)	(81,428,480)
Sales and maturities of investments held directly	205,579,138	67,638,730
Net cash flows from investing activities	<u>(11,468,323)</u>	<u>(13,789,750)</u>
Cash flows from financing activities:		
Proceeds from gifts restricted for long-term investment	34,742	107,269
Net cash flows from financing activities	<u>34,742</u>	<u>107,269</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>

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

DECEMBER 31, 2020 AND 2019

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 81% and 85% of GBHEM’s total operating revenue in 2020 and 2019, respectively. 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.

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:

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

DECEMBER 31, 2020 AND 2019

Note 2—Summary of significant accounting policies

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 \$18,313,046 of board-designated funds for the year ended December 31, 2020. There were \$15,997,629 board-designated funds for the year ended December 31, 2019.

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 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 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 Church, and unspent income earned, restricted primarily for support of ministerial programs.

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 Church, and unspent income earned, restricted primarily for capital grants and improvements.

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

DECEMBER 31, 2020 AND 2019

Note 2—Summary of significant accounting policies (continued)

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.

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.

Investment returns from invested fund draw for operations represents the 5.0% 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 (5.0% in 2020 and 3.75% in 2019) 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.

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 \$24,713 and \$23,969 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, GCFA allocated \$872,525 and \$817,411 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, 2020 AND 2019

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, 2020 and 2019 was 3.63% and 4.17%, 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, 2020 and 2019 were as follows:

	2020	2019
Texas Methodist Foundation loan fund	28.3%	18.4%
Mutual funds	13.2%	2.4%
Short-term collateralized loan fund	3.5%	0.4%
Fixed income	9.8%	15.1%
Corporate bonds	34.0%	46.1%
Cash	11.2%	17.6%
	<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 \$10,000 per year with a \$40,000 lifetime maximum. 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, 2020 and 2019.

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 statements 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)

Future Pronouncement – In September 2020, FASB issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard will be effective for fiscal years beginning after June 15, 2021. The GBHEM is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Note 3—Liquidity and availability of resources

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

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 250	\$ 250
Due from GCFA short-term pooled investment fund	26,369,457	24,548,657
Accounts receivable, net	-	1,775
Investments	254,758,040	225,971,358
Due from related organizations	11,519,050	11,032,044
Student loans receivable, net of allowance for doubtful accounts	11,747,306	13,433,591
Funds held by outside trustees for the benefit of GBHEM	7,535,110	7,624,685
Total financial assets	<u>311,929,213</u>	<u>282,612,360</u>
Less amounts not available to be used for general expenditures within one year:		
Custodial funds payable	113,349,782	99,160,250
Purpose restrictions	89,229,217	80,160,004
Endowment funds held in perpetuity and accumulated earnings	63,196,225	57,976,516
Financial assets not available to be used within one year	<u>265,775,224</u>	<u>237,296,770</u>
Financial assets available to meet general expenditures within one year	<u>\$ 46,153,989</u>	<u>\$ 45,315,590</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 \$18,313,046 as of December 31, 2020.

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.

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Note 3—Liquidity and availability of resources (continued)

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.

Note 4—Student loans receivable

At December 31, 2020 and 2019, student loans, net of allowance for doubtful accounts totaled \$11,747,306 and \$13,433,591, respectively.

Movements in the allowance of student loans for the years ended December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Allowance for doubtful accounts:		
Beginning of year	\$ 1,270,600	\$ 1,270,600
Write-offs	(196,698)	(196,096)
Provisions to expense	196,698	196,096
End of year	<u>\$ 1,270,600</u>	<u>\$ 1,270,600</u>

At December 31, 2020 and 2019, the following amounts were past due under the student loan program:

	<u>60 days</u>	<u>90 days</u>	<u>120 +</u>
2020	\$ 80,493	\$ 84,873	\$ 784,083
2019	185,221	47,434	994,305

Note 5—Investments

Investments at December 31 consist of the following:

	<u>2020</u>		<u>2019</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash, pending investment	\$ 10,818,181	\$ 10,818,181	\$ 4,018,246	\$ 4,018,245
Common and preferred stock	104,464,410	65,848,305	91,178,877	62,958,533
Equity mutual funds	44,981,268	35,393,547	40,585,875	33,465,840
U.S. government agency securities	8,571,534	8,793,296	3,424,238	3,648,001
U.S. government bonds	13,257,735	13,031,803	13,797,646	13,214,116
Other fixed income	-	-	9,887,354	11,915,778
Corporate bonds	25,599,662	24,276,221	23,898,247	23,060,124
U.S. Equity Index Fund - I (Wespath)	32,931,611	20,916,037	27,523,385	21,158,035
Real estate	14,133,639	14,133,640	11,657,490	11,657,490
	<u>\$ 254,758,040</u>	<u>\$ 193,211,030</u>	<u>\$ 225,971,358</u>	<u>\$ 185,096,162</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 \$143,344,229 and \$127,911,467 for the years ended December 31, 2020 and 2019, respectively, was as follows:

	<u>2020</u>	<u>2019</u>
Investment return:		
Investment income	\$ 1,945,380	\$ 2,926,195
Gains on investments:		
Realized gains on sale of investments	5,717,781	5,390,021
Unrealized gains on investments	11,623,347	14,309,087
Gains on investments	17,341,128	19,699,108
Less investment management expenses	(869,043)	(724,202)
Investment return, net	18,417,465	21,901,101
Investment return from invested fund draw for operations:		
Adjustment for investment income transferred to operations	(3,250,295)	(2,316,786)
Nonoperating Investment return, net	<u>\$ 15,167,170</u>	<u>\$ 19,584,315</u>

Note 6—Property and equipment

Property and equipment at December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 257,319	\$ 257,319
Buildings and improvements	2,409,572	2,409,572
Computer equipment	1,370,922	1,348,153
Furniture and fixtures	711,424	711,424
	4,749,237	4,726,468
Less accumulated depreciation	(4,330,831)	(4,282,931)
Total property and equipment, net	<u>\$ 418,406</u>	<u>\$ 443,537</u>

Depreciation expense, related to property and equipment, for the years ended December 31, 2020 and 2019 was \$47,900 and \$57,809, respectively.

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 2020 and 2019 were \$451,378 and \$477,259, respectively.

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Note 7—Employee benefits (continued)

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 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 \$625,254 and \$620,891 in 2020 and 2019, respectively, and the cost of benefits for retired employees was \$133,007 and \$150,161 in 2020 and 2019, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

The Plan's unfunded accumulated postretirement benefit obligation was approximately \$71,430,000 and \$76,725,000 and the Plan's unfunded expected postretirement benefit obligation was approximately \$100,140,000 and \$106,750,000 as of December 31, 2020 and 2019, 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, not to exceed 6% for 2020 and 2019, of the fair value of Benefit Trust assets at year-end for which GCFA is the beneficiary to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retired employee benefits. The fair value of the Benefit Trust's assets (not plan assets) for which GCFA is the beneficiary, was approximately \$186,112,000 and \$167,449,000 as of December 31, 2020 and 2019, respectively. The total amount available for reimbursement in 2020 and 2019 was \$10,046,935 and \$8,797,702, respectively, of which GBHEM's share was \$879,199 and \$713,491, 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, 2020 and 2019, custodial funds payable totaled \$113,349,782 and \$99,160,250, respectively.

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.

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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, 2020 and 2019, GBHEM had the following transactions with GCFA and other related parties:

	<u>2020</u>	<u>2019</u>
Statements of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 26,369,457	\$ 24,548,657
Due from related organizations - World Service Fund Allocation receivable	11,226,574	10,665,613
Due from related organizations - other	292,476	366,431
Funds held by UMC Board of Trustees for the benefit of the GBHEM	6,586,375	6,770,704
Due to related organizations - Africa University Inc., Tennessee	8,747,575	11,129,917
Due to related organizations - other	96,689	143,439
Custodial funds payable - Africa University, Inc., Tennessee	91,954,440	79,847,047
Statements of Activities:		
Revenue:		
General church funds	32,886,979	35,460,900
Interest income from GCFA	872,525	817,411
Change in value of funds held by outside trustees - Board of Trustees	(89,574)	984,091
Benefit trust distribution	879,199	713,491
Services received from GCFA	24,713	23,969
Expenses:		
Administration provided by GCFA	24,713	23,969
Employee benefits - group insurance expense	758,261	771,052

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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, 2020 and 2019 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, 2020				
Funds held by outside trustees for the benefit of GBHEM:	\$ 7,535,110	\$ -	\$ -	\$ 7,535,110
Investments:				
Cash pending investments	\$ 10,818,181	\$ 10,818,181	\$ -	\$ -
Common and preferred stock	104,464,410	104,464,410	-	-
Equity mutual funds	44,981,268	44,981,268	-	-
U.S. government agency securities	8,571,534	8,571,534	-	-
U.S. government bonds	13,257,735	13,257,735	-	-
Corporate bonds	25,599,662	-	25,599,662	-
	207,692,790	\$ 182,093,128	\$ 25,599,662	\$ -
Investments reported at net asset value:				
U.S. equity index fund - I (Wespath) *	32,931,611			
TA Associates *	421,442			
Rockwood *	2,174,811			
Harrison Street *	8,465,972			
Stonelake *	2,441,932			
Griffis Residential *	629,482			
Total Investments	\$ 254,758,040			

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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, 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 (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			

* 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, 2020:

	Fair Value	Unfunded Commitments	Redemption Frequency ^(g)	Redemption Notice Period
Wespath - U.S. equity index fund - I ^(a)	\$ 32,931,611	\$ -	daily	daily
TA Associates ^(b)	421,442	-	variable	30 days
Rockwood ^(c)	2,174,811	494,259	variable	variable
Harrison Street ^(d)	8,465,972	2,409,776	variable	variable
Stonelake ^(e)	2,441,932	4,312,500	variable	14 days
Griffis Residential ^(f)	629,482	2,220,000	variable	variable
	<u>\$ 47,065,250</u>			

(a) A U.S. Equity Index Fund – I (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 2020 and 2019 for assets measured at fair value based on significant unobservable information:

	2020	2019
Balance, beginning of year	\$ 7,624,685	\$ 6,640,594
Change in fair value	649,250	1,370,311
Sales and redemptions	(738,825)	(386,220)
Balance, end of year	<u>\$ 7,535,110</u>	<u>\$ 7,624,685</u>

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Note 12—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:		
Loans and scholarships	\$ 64,869,379	\$ 59,514,920
Historical black colleges and universities	12,455,745	11,761,874
Ministerial purposes	7,302,202	5,383,365
Young clergy initiative	1,536,929	498,385
Central conference on theological education	2,594,189	2,580,013
Other program purposes	470,773	421,447
Total subject to purpose restrictions	<u>89,229,217</u>	<u>80,160,004</u>
Endowments:		
Accumulated earnings on GBHEM's endowment fund	43,138,908	37,822,546
GBHEM endowment fund held in perpetuity	20,057,317	20,153,970
Total endowments	<u>63,196,225</u>	<u>57,976,516</u>
Total net assets with donor restrictions	<u>\$ 152,425,442</u>	<u>\$ 138,136,520</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, 2020 and 2019 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, 2020 and 2019, GBHEM had the following endowment net asset composition by type of fund:

	December 31, 2020		
	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	\$ -	\$ 20,057,317	\$ 20,057,317
Accumulated investment gains	-	43,138,908	43,138,908
Board-designated quasi endowment	18,313,046	-	18,313,046
Endowment net assets, December 31, 2020	<u>\$ 18,313,046</u>	<u>\$ 63,196,225</u>	<u>\$ 81,509,271</u>

	December 31, 2019		
	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	\$ -	\$ 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>

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, 2020 and 2019, 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 (5% in 2020 and 3.75% in 2019). 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, 2020 AND 2019

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, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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	15,997,629	57,976,516	73,974,145
Investment return, net	2,315,417	7,025,901	9,341,318
Contributions and designations	-	34,742	34,742
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(1,840,934)	(1,840,934)
Endowment net assets, December 31, 2020	<u>\$ 18,313,046</u>	<u>\$ 63,196,225</u>	<u>\$ 81,509,271</u>

Note 14—Contingencies

During 2020, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen that could negatively impact GBHEM’s 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 GBHEM is unknown at this time.

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

DECEMBER 31, 2020 AND 2019

Note 15—Subsequent events

Management has evaluated subsequent events through July 26, 2021, the date the financial statements were available for issuance. Management has determined that there are no subsequent events requiring disclosure other than what is below.

In July 2021, the Kern building was sold for \$55,000,000. The all-cash proceeds will be split equally by GBHEM and Discipleship Ministries.

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Distributions to Historically Black Colleges and Universities:		
Bennett College	\$ 627,743	\$ 563,558
Bethune-Cookman College	899,414	1,155,461
Clafin College	725,280	697,029
Clark Atlanta University	893,647	1,096,858
Dillard University	792,203	888,986
Huston-Tillotson College	776,213	870,897
Meharry Medical College	661,206	855,408
Paine College	732,744	567,730
Philander Smith College	656,077	622,333
Rust College	760,483	597,294
Wiley College	682,490	885,085
	<u>8,207,500</u>	<u>8,800,639</u>
Distribution of residual capital funds of \$1,500,000 in 2020 and capital funds of \$1,560,000 in 2019 were included in the above totals.		
Distributions to Theological Schools:		
Boston School of Theology	695,122	734,946
Drew University, the Theological School	739,987	782,523
Duke University, the Divinity School	1,702,435	1,846,086
Emory University, Candler School of Theology	1,378,946	1,500,837
Gammon Theological Seminary	445,904	532,662
Garrett Evangelical Theological Seminary	994,227	1,063,455
Iliff School of Theology	639,375	673,776
Methodist Theological School of Ohio	782,596	857,143
Southern Methodist University, Perkins School of Theology	968,950	1,049,106
St. Paul School of Theology	734,446	781,750
School of Theology at Claremont	574,187	631,543
United Theological Seminary	1,017,471	1,116,678
Wesley Theological Seminary	1,095,260	1,202,644
	<u>11,768,906</u>	<u>12,773,149</u>
Total Distributions to Historically Black Colleges and Universities and Theological Schools	<u>\$ 19,976,406</u>	<u>\$ 21,573,788</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

DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
NEW YORK LOAN FUND	\$ (71,917)	\$ (25,130)
NEW YORK LOAN FUND RECEIVABLE	(310,959)	(350,508)
INVESTMENT IN GIP - NY FUND	1,091,517	953,510
FRANCIS ASBURY LOAN	477,949	449,210
FRANCIS ASBURY LOAN FUND RECEIVABLE	(436,721)	(501,016)
FRANCIS ASBURY INVESTED FUND	822,934	718,886
BALTIMORE WASHINGTON CONF	6,311	4,261
GENERAL ENDOWMENT FUND-CLAFLIN COLLEGE	381,276	347,460
FORD FOUNDATION FUND-CLAFLIN COLLEGE	828,606	755,117
DAISY PEARSON FUND-CLAFLIN COLLEGE	201,269	183,419
STANTON ESTATE-CLAFLIN COLLEGE	16,748	15,263
ATKINS-DILLARD MALLALIEU FUND	350,062	319,099
UNIV OF WISC - LEAVITT FUND	42,861	39,059
UNIV OF KANSAS - ENGLE FUND	73,601	67,073
SPECHT FUND	29,488	26,873
STUDENT EMERGENCY LOAN FUND-PHILANDER SMITH	3,386	3,090
SUMMER SCHOLARSHIP ENDOWMENT-PHILANDER SMITH	80,481	73,364
ARTHUR A. HENRY SCHOLARSHIP FUND-PHILANDER SMITH	2,148	1,962
MARIE L. HUTH SCHOLARSHIP-PHILANDER SMITH	12,516	11,408
READER'S DIGEST SCHOLARSHIP-PHILANDER SMITH	7,927	7,224
NELSON-HARRIS SCHOLARSHIP-PHILANDER SMITH	18,833	17,163
FLORENCE CLEAVER SCHOLARSHIP-PHILANDER SMITH	5,360	4,885
FACULTY ENRICHMENT FUND-PHILANDER SMITH	155,893	142,358
M. W. DUNLAP TRUST-PHILANDER SMITH	9,997	9,111
BIBLE & RELIGIOUS EDUCATION FUND	1,139,550	1,038,483
AUSTIN COLLEGE	92,258	84,075
WILLSON LECTURESHIP FUND (DM/GBHEM)	195,195	170,516
CENTENARY COLLEGE OF LOUISIANA	158,796	144,712
EARLHAM COLLEGE	98,396	89,670
HENDRIX COLLEGE	152,491	138,967
LON MORRIS COLLEGE	159,891	145,699
LUBBOCK CHRISTIAN COLLEGE	92,270	84,086
LUBBOCK METHODIST HOSPITAL	135,629	123,600
NEBRASKA WESLEYAN	152,491	138,967
OKLAHOMA CITY UNIVERSITY	186,016	169,518
ST. PAUL SCHOOL OF THEOLOGY	99,482	90,659
SOUTH CENTRAL JURIS. CONF.	140,348	127,900

**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

DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
SOUTHERN METHODIST UNIVERSITY	\$ 12,472	\$ 11,366
SOUTHWESTERN COLLEGE	166,266	151,520
SOUTHWESTERN UNIVERSITY	288,387	262,810
TEXAS WESLEYAN COLLEGE	358,794	326,972
UNION COLLEGE	95,883	87,379
WESLEY THEOLOGICAL SEMINARY	91,948	83,793
WEST TEXAS STATE UNIVERSITY	192,751	175,656
NORTHWEST TEXAS CONFERENCE	96,354	87,808
MT. VERNON PLACE LOAN FUND	483,868	439,811
HARRIS MEMORIAL COLLEGE ENDOWMENT	111,762	97,632
GAMMON BUILDING FUND	5,541,155	5,049,710
GAMMON THEOLOGICAL SEMINARY-GEN FD	575,358	524,440
GAMMON CRUSADE FUND	3,562,710	3,246,732
GARRETT TRUST SCHOLARSHIP FUND	1,385,119	1,249,552
MAVEETY SCHOLARSHIP FUND	190,774	172,688
BALTIMORE CONF. - FRANCIS ASBURY	296,330	270,048
BALTIMORE CONFERENCE SCHOLARSHIP	81,793	74,539
BALTIMORE CONF. - SOPHIA DIETSCH	320,765	292,317
DISCIPLESHIP MINISTRIES-Young People International Schp	-	139,423
ECMT FUNDS PAYABLE	24,585	24,585
IAMSCU FUND	306,398	197,113
NASCUMC OPERATING FUND	264,078	225,575
NASCUMC INVESTED FUND	345,413	301,740
AFRICA UNIVERSITY	91,954,440	79,847,047
	<u>\$ 113,349,782</u>	<u>\$ 99,160,250</u>