

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

DECEMBER 31, 2020 AND 2019

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	-
	<u>207,692,790</u>	<u>\$ 182,093,128</u>	<u>\$ 25,599,662</u>	<u>\$ -</u>
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	<u>\$ 254,758,040</u>			

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

DECEMBER 31, 2020 AND 2019

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	-
	<u>186,790,483</u>	<u>\$ 162,892,236</u>	<u>\$ 23,898,247</u>	<u>\$ -</u>
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	<u>\$ 225,971,358</u>			

* 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.

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

DECEMBER 31, 2020 AND 2019

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>

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

DECEMBER 31, 2020 AND 2019

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.

**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)

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.

DRAFT

SUPPLEMENTAL SCHEDULES

DRAFT

**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

	2020	2019
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>