

**AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED
INSTITUTION**

FINANCIAL STATEMENTS

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

And Report of Independent Auditor

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
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Report of Independent Auditor

The Board of Directors
Africa University, Inc., Tennessee

The Committee on Audit and Review of the
General Council on Finance and Administration of
The United Methodist Church

We have audited the accompanying financial statements of Africa University, Inc., Tennessee, a United Methodist Related Institution, 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 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 Africa University, Inc., Tennessee 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 20, 2019

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 100,000	\$ -
Investments held by The United Methodist Church Foundation	3,084,795	3,277,784
Beneficial interests in investments held by The General Board of Higher Education and Ministry ("GBHEM")	67,766,871	72,548,648
Due from related organizations	9,929,983	8,283,508
Other assets	295,118	299,703
Total Assets	<u>\$ 81,176,767</u>	<u>\$ 84,409,643</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 102,947	\$ 60,660
Accounts payable to Mutare United Methodist Educational Organization	5,323,318	4,189,334
Annuity obligations payable	246,264	285,073
Total Liabilities	<u>5,672,529</u>	<u>4,535,067</u>
Net Assets:		
Without Donor Restriction:		
Undesignated	2,877,349	2,617,531
With Donor Restrictions:		
Subject to purpose restrictions	2,028,039	1,641,732
Endowments	70,598,850	75,615,313
Total with Donor Restrictions	<u>72,626,889</u>	<u>77,257,045</u>
Total Net Assets	<u>75,504,238</u>	<u>79,874,576</u>
Total Liabilities and Net Assets	<u>\$ 81,176,767</u>	<u>\$ 84,409,643</u>

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues:						
Apportionment Fund allocation	\$ 2,226,662	\$ -	\$ 2,226,662	\$ 2,264,173	\$ -	\$ 2,264,173
Investment return from Invested Fund draw for operations	-	3,322,342	3,322,342	-	3,717,334	3,717,334
Gift and other income	-	3,007,391	3,007,391	-	2,939,567	2,939,567
Services received from GBHEM	7,985		7,985	7,750	-	7,750
Net assets released from restrictions	4,559,715	(4,559,715)	-	4,983,185	(4,983,185)	-
Total Revenues	<u>6,794,362</u>	<u>1,770,018</u>	<u>8,564,380</u>	<u>7,255,108</u>	<u>1,673,716</u>	<u>8,928,824</u>
Expenses:						
Program services	5,021,261	-	5,021,261	5,086,975	-	5,086,975
Management and general	1,224,830	-	1,224,830	1,151,110	-	1,151,110
Fundraising	288,453	-	288,453	229,288	-	229,288
Total Expenses	<u>6,534,544</u>	<u>-</u>	<u>6,534,544</u>	<u>6,467,373</u>	<u>-</u>	<u>6,467,373</u>
Change in net assets from operations	259,818	1,770,018	2,029,836	787,735	1,673,716	2,461,451
Nonoperating Expenses:						
Investment return net	-	(6,400,174)	(6,400,174)	-	7,208,529	7,208,529
Change in net assets	259,818	(4,630,156)	(4,370,338)	787,735	8,882,245	9,669,980
Net assets, beginning of year	2,617,531	77,257,045	79,874,576	1,829,796	68,374,800	70,204,596
Net assets, end of year	<u>\$ 2,877,349</u>	<u>\$ 72,626,889</u>	<u>\$ 75,504,238</u>	<u>\$ 2,617,531</u>	<u>\$ 77,257,045</u>	<u>\$ 79,874,576</u>

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Contributions and grants	\$ 5,021,261	\$ -	\$ -	\$ 5,021,261
Salaries and wages	-	672,387	-	672,387
Employee benefits	-	134,640	-	134,640
Administration provided by GBHEM	-	7,985	-	7,985
Travel and meetings	-	156,871	107,749	264,620
UMC Development Center services paid to GCFA	-	-	15,335	15,335
Professional fees	-	56,102	148,000	204,102
Supplies	-	27,306	3,914	31,220
Telephone and web service	-	8,618	-	8,618
Postage, shipping, and freight	-	26,281	100	26,381
Repairs and maintenance	-	4,872	-	4,872
Insurance	-	6,950	-	6,950
Promotional and informational material	-	110,613	12,511	123,124
Miscellaneous	-	12,205	844	13,049
Total Operating Expenses	<u>\$ 5,021,261</u>	<u>\$ 1,224,830</u>	<u>\$ 288,453</u>	<u>\$ 6,534,544</u>

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Contributions and grants	\$ 5,086,975	\$ -	\$ -	\$ 5,086,975
Salaries and wages	-	634,753	-	634,753
Employee benefits	-	130,919	-	130,919
Administration provided by GBHEM	-	7,750	-	7,750
Travel and meetings	-	109,032	60,798	169,830
UMC Development Center services paid to GCFA	-	-	10,000	10,000
Professional fees	-	62,800	130,785	193,585
Supplies	-	11,550	11,211	22,761
Telephone and web service	-	7,827	-	7,827
Postage, shipping, and freight	-	14,982	778	15,760
Repairs and maintenance	-	2,331	-	2,331
Insurance	-	6,022	-	6,022
Promotional and informational material	-	149,847	15,716	165,563
Miscellaneous	-	13,297	-	13,297
Total Operating Expenses	\$ 5,086,975	\$ 1,151,110	\$ 229,288	\$ 6,467,373

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (4,370,338)	\$ 9,669,980
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized losses (gains) on investments	7,018,271	(8,592,161)
Realized gains on sale of investments	(2,706,200)	(1,369,502)
Gifts received to be held in perpetuity	(1,338,804)	(1,625,739)
Changes in assets and liabilities:		
Due from related organizations	(1,646,475)	(1,695,926)
Other assets	4,585	(156,681)
Accounts payable and accrued liabilities	42,287	(1,738)
Accounts payable to Mutare	1,133,984	880,197
Annuity obligations payable	(38,809)	15,395
Net cash flows from operating activities	<u>(1,901,499)</u>	<u>(2,876,175)</u>
Cash flows from investing activities:		
Purchase of investments and beneficial interests in investments held by GBHEM	(312,803)	(799,179)
Sale of investments and beneficial interests in investments held by GBHEM	975,498	2,049,615
Net cash flows from investing activities	<u>662,695</u>	<u>1,250,436</u>
Cash flows from financing activities:		
Gifts received to be held in perpetuity	1,338,804	1,625,739
Net cash flows from financing activities	<u>1,338,804</u>	<u>1,625,739</u>
Net change in cash and cash equivalents	100,000	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	<u>\$ 100,000</u>	<u>\$ -</u>

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1—Organization and nature of operations

Establishment of a United Methodist university in Zimbabwe was approved in 1988 by the General Conference of The United Methodist Church. This university was established as Africa University Zimbabwe (“AUZ”), a Zimbabwe Corporation. The General Board of Higher Education and Ministry of The United Methodist Church (“GBHEM”) was assigned responsibility to organize necessary structures, incorporated and unincorporated, for AUZ. Africa University, Inc., Tennessee (the “Organization”), a Tennessee corporation, was formed by GBHEM in 1988 to oversee funding and other activities entered into during establishment of AUZ. The Organization receives annual apportionments from the General Conference of The United Methodist Church and distributes a portion of the funds to Mutare United Methodist Educational Organization (“Mutare”) and AUZ as needed for construction and other activities of AUZ. Mutare, a Zimbabwe corporation, is responsible for AUZ construction activities through funds advanced by the Organization and has ownership of all AUZ property. AUZ is responsible for all of its academic and administrative matters.

Funding for the Organization’s operations is principally provided by allocations received from The General Funds of The United Methodist Church (the “Church”) through GBHEM, which are allocated to the Organization’s programs based on a four-year budget developed from projections of expected program costs. The allocation accounts for 26% and 25% of the Organization’s total operating revenue in 2018 and 2017, respectively. Additional funding is provided by the World Service Special Gifts for endowment funding as well as other gifts to support AUZ’s construction, faculty, and operating needs. The Organization’s continued existence is dependent upon the Church’s future support. The Church’s future support is dependent upon contributions from its congregations.

Note 2—Summary of significant accounting policies

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

Basis of Presentation – To help ensure the observance of limitations and restrictions placed on the use of resources, the Organization 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 Organization. Separate accounts are maintained for each fund.

For reporting purposes, however, the Organization’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 Organization 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 Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors. The Organization 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:

Board-Designated – Represents resources set aside by the board of directors to be used for specific activities within guidelines established by the board. There were no board-designated amounts for the years ended December 31, 2018 and 2017.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets designated for specific activities.

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

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

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. Investment returns from Invested Fund draw for operations represents the approved draw of earnings (5% in both 2017 and 2018) from the investment portfolio managed by Ellwood and Associates and investments held by The United Methodist Church Foundation (“UMCF”) 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 an affiliate for which the affiliate does not charge the Organization has 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 the related party Note 6 and totaled \$7,985 and \$7,750 for the years ended December 31, 2018 and 2017, respectively.

Use of Estimates – To prepare these financial statements in conformity with accounting principles generally accepted in the United States of America, management of the Organization 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions – Contributions, including unconditional promises to give cash and other assets to the Organization, are recognized as revenue in the period the unconditional promises are made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Because of the purpose of the Organization, which is to oversee funding for Mutare and AUZ, most contributions are considered with donor restriction as to use by those organizations.

Unconditional promises to give in future years are recorded at the present value using risk-adjusted rates applicable to the years in which the pledges are to be received. There were no unconditional promises to give relating to future years as of December 31, 2018 and 2017. Contributions made by the Organization are recognized as expenses in the period made.

Investments – The Organization’s investments are in third party investment pools presented at net asset value, which approximates the estimated fair value of the Organization’s share of the respective investment pools. Investment return consists of interest and dividends and unrealized and realized gains and losses, reported net of investment expenses. Investment return is calculated on a pro-rata basis for the Organization’s portion of the investment pools.

The Organization pays the UMCF fees based on the asset balance invested. Investment management fees paid amounted to approximately \$13,100 for 2018 and \$11,700 for 2017 and are netted against investment returns.

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

Due from Related Organizations – Funds due from related organizations represent operating funds collected for the Organization by GBHEM including allocations received from The General Funds of The United Methodist Church.

Functional Expenses – The costs of providing program, management and general, and fundraising have been summarized on a functional basis in the statements of activities.

Income Taxes – The Organization is covered under the General Council on Finance and Administration’s (“GCFA”) 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”). The Organization 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 Organization 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 Organization include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

New Accounting Pronouncement – In February 2016, the Financial Accounting Standards Board 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 statement 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 statement 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 Organization is currently in the process of evaluating the impact that these pronouncements will have on its financial statements.

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
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:		
Cash	\$ 100,000	\$ -
Investments	3,084,795	3,277,784
Beneficial interest in investments held by GBHEM	67,766,871	72,548,648
Due from related organizations	9,929,983	8,283,508
Other assets - accrued income receivable	295,118	231,961
Total financial assets	<u>81,176,767</u>	<u>84,341,901</u>
Less amounts not available to be used for general expenditures within one year:		
Purpose restrictions and accumulated earnings on endowment fund	24,560,112	30,529,072
Endowment funds held in perpetuity	48,066,777	46,727,973
Financial assets not available to be used within one year	<u>72,626,889</u>	<u>77,257,045</u>
Financial assets available to meet general expenditures within one year	<u>\$ 8,549,878</u>	<u>\$ 7,084,856</u>

As part of the Organization'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 Organization's beneficial interest in investments held by GBHEM. This investment established by the Organization may be drawn upon, if necessary, to meet unexpected liquidity needs.

The Organization has assets limited to use for donor-restricted purposes. Net assets limited to use for purpose restrictions, which are more fully described in Notes 7 and 8, are not available for general expenditure within the next year.

Note 4—Investments and Beneficial interests in investments held by GBHEM

The Organization's investments and beneficial interests in investments held by GBHEM at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Balanced Fund of The UMCF	\$ 3,084,795	\$ 3,326,488	\$ 3,277,784	\$ 3,002,855
General investment pool of GBHEM	67,766,871	64,569,788	72,548,648	62,826,643
	<u>\$ 70,851,666</u>	<u>\$ 67,896,276</u>	<u>\$ 75,826,432</u>	<u>\$ 65,829,498</u>

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 4—Investments and Beneficial interests in investments held by GBHEM (continued)

The following is a summary of the Organization's investments:

Balanced Fund of The UMCF – 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.

General Investment Pool of the GBHEM – The investment pool was established to provide funds that would grow in value and provide a source of income primarily for the support of scholarships, college/university, and general board programs. The objective of the GBHEM Investment Pool is to provide for the preservation of capital by prudent investment of such funds while seeking long term growth and to produce income with the Total Return concept. The asset allocation of funds is Domestic Equity 49%, International Equity 18%, Fixed Income 27%, and Real Estate 6%.

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, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Balanced Fund of The UMCF	\$ 3,084,795	none	daily	3 days
General investment pool of GBHEM	67,766,871	none	none	none
Total	<u>\$ 70,851,666</u>			

Return on investments and beneficial interests in investments held by GBHEM for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Investment Return:		
Interest and dividends	\$ 1,742,365	\$ 1,379,502
Gains (losses) on investments:		
Realized gains on sale of investments	2,706,200	1,369,502
Unrealized gains (losses) on investments	(7,018,271)	8,592,161
Gains (losses) on investments	(4,312,071)	9,961,663
Less investment management expenses	(508,126)	(415,302)
Investment return, net, before transfer to operations	(3,077,832)	10,925,863
Adjustment for investment income transferred to operations	(3,322,342)	(3,717,334)
Investment return, net, non-operating	<u>\$ (6,400,174)</u>	<u>\$ 7,208,529</u>

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 5—Employee benefits

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

The Organization makes semi-monthly contributions to each eligible employee’s account held by Wespath based on 8% of annual employee compensation. Additionally, the Organization matches up to 2% of annual employee compensation to their United Methodist Personal Investment Plan (UMPIP). Total contributions made by the Organization for both components for the years ended December 31, 2018 and 2017 were \$44,539 and \$44,238, respectively.

Health, Life, and Other Employee Benefits – The Organization 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 Accounting Standards Codification 715, *Compensation - Retirement Benefits*. Substantially all retired employees are eligible to participate in the Plan if they have attained normal retirement age while in the employ of the Organization.

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 the general agencies. The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$94,500,000 and \$98,600,000 and 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.

All of the Organization’s active and retired employees are covered by the Plan. The cost of the benefits are recognized as an expense as premiums are paid. The total cost of benefits for active and retired employees was \$56,983 and \$53,641 for the years ended December 31, 2018 and 2017, respectively.

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 6—Related party transactions

The Organization receives the majority of its revenue through apportionments from The General Funds of the Church, which are administered by GCFA and passed through GBHEM. In addition, GBHEM provides various services to the Organization, such as general ledger processing, cash management, and group insurance plan administration. The Organization had the following transactions with GBHEM, GCFA, and other related organizations:

	<u>2018</u>	<u>2017</u>
Statement of Financial Position:		
Beneficial interests in investments held by GBHEM	\$ 67,766,871	\$ 72,548,648
Investments in The UMCF	3,084,795	3,277,784
Due from related organizations - GBHEM	9,319,621	7,699,206
Due from related organizations - GCFA	610,362	584,302
Other assets (accrued income receivable) - GBHEM	295,118	231,961
Accounts payable and accrued liabilities- AUZ	19,548	14,689
Accounts payable to Mutare	5,323,318	4,189,334
Statement of Activities:		
Revenues:		
Apportionment fund allocation - GCFA	2,226,662	2,264,173
Investment return, net - GBHEM and UMCF	(3,077,832)	10,925,863
Services received from GBHEM	7,985	7,750
Expenses:		
Program expenses - AUZ and Mutare	5,021,261	5,086,975
UMC Development Center payment to GCFA	15,335	10,000
Administration provided by GBHEM	7,985	7,750
Group insurance	56,983	53,641

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 7—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:		
Direct Scholarships	\$ 499,409	\$ 487,734
Campaign Expenses	343,988	299,109
Faculty of Health Science	14,271	14,271
Faculty of Theology S.C.	52,882	52,882
Foundation for Evangelism	23,535	33,535
Honorary Alumni Association	35,738	33,038
Library Fund	18,084	18,000
North Indiana Conference Dormitory	25,090	25,090
Richard & Joyce Reeves Wesley Foundation Room	62,263	62,263
UMC Foundations Annuities	130,686	158,007
Other	822,093	457,803
Total subject to purpose restriction	<u>2,028,039</u>	<u>1,641,732</u>
Endowments:		
Accumulated earnings on endowment funds	22,532,073	28,887,340
Endowment funds held in perpetuity	<u>48,066,777</u>	<u>46,727,973</u>
Total endowments	<u>70,598,850</u>	<u>75,615,313</u>
Total net assets with donor restrictions	<u>\$ 72,626,889</u>	<u>\$ 77,257,045</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.

Note 8—Endowment

The Organization’s endowment consists of individual funds established for a variety of purposes, and is comprised of only donor-restricted endowment funds.

The Board of Directors of the Organization 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, the Organization 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 the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Note 8—Endowment (continued)

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

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

	December 31, 2018		
	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	\$ -	\$ 48,066,777	\$ 48,066,777
Accumulated investment gains	-	22,532,073	22,532,073
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 70,598,850</u>	<u>\$ 70,598,850</u>
	December 31, 2017		
	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	\$ -	\$ 46,727,973	\$ 46,727,973
Accumulated investment gains	-	28,887,340	28,887,340
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 75,615,313</u>	<u>\$ 75,615,313</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 Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018 and 2017, the Organization had no underwater endowments.

Investment and Spending Policies – The Organization normally follows the GBHEM policy of drawing up to an appropriation percentage for distribution annually of the previous 12 rolling quarter’s average quarter-end market values (3.75% in 2018 and 2017). 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. In 2018 and 2017, the Organization’s Board requested and the GBHEM executive committee of the Board approved a draw appropriation of 5.0% which is 1.25% higher than the GBHEM draw appropriation of 3.75%.

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Note 8—Endowment (continued)

Return Objectives and Risk Parameters – GBHEM has adopted investment and spending policies for endowment assets, including the Organization’s endowment, that attempt to provide a predictable stream of funding to the Organization’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 the Organization 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.

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, 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	\$ -	\$ 66,804,930	\$ 66,804,930
Investment return, net	-	10,866,650	10,866,650
Contributions	-	1,625,739	1,625,739
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(3,682,006)	(3,682,006)
Endowment net assets, December 31, 2017	-	75,615,313	75,615,313
Investment return, net	-	(3,042,990)	(3,042,990)
Contributions	-	1,338,804	1,338,804
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(3,312,277)	(3,312,277)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 70,598,850</u>	<u>\$ 70,598,850</u>

Note 9—Subsequent events

Management has evaluated subsequent events through June 20, 2019, the date the financial statements were available for issuance. Management has determined that there are no subsequent events that require disclosure.