

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

**FINANCIAL STATEMENTS**

*As of and for the Years Ended December 31, 2017  
and 2016*

*And Report of Independent Auditor*

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

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**REPORT OF INDEPENDENT AUDITOR** ..... 1-2

**FINANCIAL STATEMENTS**

Statements of Financial Position.....3  
Statements of Activities.....4  
Statement of Functional Expenses.....5  
Statements of Cash Flows .....6  
Notes to the Financial Statements ..... 7-15

## **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, 2017 and 2016, the related statements of activities and cash flows for the years ended December 31, 2017 and 2016, the related statement of functional expenses for the year ended December 31, 2017, 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, 2017 and 2016 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.

### **Changes in Financial Statement Presentation**

As discussed in Note 2, Africa University, Inc., Tennessee adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expense and the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
June 26, 2018

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

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Investments	\$ 3,277,784	\$ 2,698,916
Beneficial interests in investments held by GBHEM	72,548,648	64,416,289
Due from related organizations	8,283,508	6,587,582
Other assets	299,703	143,022
<b>Total Assets</b>	<u><u>\$ 84,409,643</u></u>	<u><u>\$ 73,845,809</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 60,660	\$ 62,398
Accounts payable to Mutare	4,189,334	3,309,137
Annuity obligations payable	285,073	269,678
<b>Total Liabilities</b>	<u>4,535,067</u>	<u>3,641,213</u>
Net Assets:		
Without Donor Restriction:		
Undesignated	<u>2,617,531</u>	<u>1,829,796</u>
With Donor Restrictions:		
Subject to purpose restrictions	1,641,732	1,569,870
Endowments	<u>75,615,313</u>	<u>66,804,930</u>
Total with Donor Restrictions	<u>77,257,045</u>	<u>68,374,800</u>
<b>Total Net Assets</b>	<u>79,874,576</u>	<u>70,204,596</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 84,409,643</u></u>	<u><u>\$ 73,845,809</u></u>

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

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues:						
Apportionment Fund allocation	\$ 2,264,173	\$ -	\$ 2,264,173	\$ 2,196,008	\$ -	\$ 2,196,008
Investment return, net	-	10,925,863	10,925,863	-	5,732,147	5,732,147
Gift and other income	-	2,939,567	2,939,567	-	3,629,389	3,629,389
Services received from GBHEM	7,750	-	7,750	7,500	-	7,500
Net assets released from restrictions	4,983,185	(4,983,185)	-	3,484,783	(3,484,783)	-
<b>Total Revenues</b>	<b>7,255,108</b>	<b>8,882,245</b>	<b>16,137,353</b>	<b>5,688,291</b>	<b>5,876,753</b>	<b>11,565,044</b>
Expenses:						
Program services	5,086,975	-	5,086,975	3,530,102	-	3,530,102
Management and general	1,151,110	-	1,151,110	1,221,470	-	1,221,470
Fundraising	229,288	-	229,288	154,682	-	154,682
<b>Total Expenses</b>	<b>6,467,373</b>	<b>-</b>	<b>6,467,373</b>	<b>4,906,254</b>	<b>-</b>	<b>4,906,254</b>
Change in net assets	787,735	8,882,245	9,669,980	782,037	5,876,753	6,658,790
Net assets, beginning of year	1,829,796	68,374,800	70,204,596	1,047,759	62,498,047	63,545,806
<b>Net assets, end of year</b>	<b>\$ 2,617,531</b>	<b>\$ 77,257,045</b>	<b>\$ 79,874,576</b>	<b>\$ 1,829,796</b>	<b>\$ 68,374,800</b>	<b>\$ 70,204,596</b>

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, 2017*

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Fundraising</b>	
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 information material	-	149,847	15,716	165,563
Miscellaneous	-	13,297	-	13,297
<b>Total Expenses</b>	<b>\$ 5,086,975</b>	<b>\$ 1,151,110</b>	<b>\$ 229,288</b>	<b>\$ 6,467,373</b>

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 9,669,980	\$ 6,658,790
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized gain on sale of investments	(8,592,161)	(3,610,464)
Realized gain on sale of investments	(1,369,502)	(1,236,446)
Gifts received to be held in perpetuity	(1,625,739)	(2,346,746)
Changes in assets and liabilities:		
Due from related organizations	(1,695,926)	(2,210,086)
Other assets	(156,681)	337,917
Accounts payable and accrued liabilities	(1,738)	26,390
Accounts payable to Mutare	880,197	997,339
Annuity obligations payable	15,395	(9,221)
Net cash flows from operating activities	<u>(2,876,175)</u>	<u>(1,392,527)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investments and beneficial interests in investments held by GBHEM	(799,179)	(2,787,434)
Sale of investments and beneficial interests in investments held by GBHEM	2,049,615	1,833,215
Net cash flows from investing activities	<u>1,250,436</u>	<u>(954,219)</u>
<b>Cash flows from financing activities:</b>		
Gifts received to be held in perpetuity	1,625,739	2,346,746
Net cash flows from financing activities	<u>1,625,739</u>	<u>2,346,746</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

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



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

DECEMBER 31, 2017 AND 2016

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**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 34% and 31% of the Organization’s total operating revenue in 2017 and 2016, 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, 2017 and 2016.

*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, 2017 AND 2016

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**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.

*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 \$7,750 and \$7,500 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016. 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 realized gains and losses, reported net of investment expenses. Investment income, realized and unrealized gains or losses, and investment expenses are calculated on a pro-rata basis for the Organization's portion of the investment pools.

The Organization pays The United Methodist Church Foundation ("UMCF") fees based on the asset balance invested. Investment management fees paid amounted to approximately \$11,700 for 2017 and \$13,900 for 2016 and are netted against investment returns.

*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 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.

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

DECEMBER 31, 2017 AND 2016

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

*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* – On August 18, 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. During the year ended December 31, 2017, the Organization adopted ASU 2016-14 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expense and the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

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

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

Financial assets at year end:

Investments	\$ 3,277,784
Beneficial interest in investments held by GBHEM	72,548,648
Due from related organizations	8,283,508
Other assets - accrued income receivable	231,961
Total financial assets	<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	30,141,574
Endowment funds held in perpetuity	47,115,471
Financial assets not available to be used within one year	<u>77,257,045</u>
Financial assets available to meet general expenditures within one year	<u>\$ 7,084,856</u>

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

DECEMBER 31, 2017 AND 2016

**Note 3—Liquidity and availability of resources (continued)**

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.

As part of the Organization’s liquidity management plan, cash is invested in the Organization’s beneficial interest in investments held by GBHEM.

**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, 2017 and 2016 consist of the following:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Balanced Fund of the UMCF	\$ 3,277,784	\$ 3,002,855	\$ 2,698,916	\$ 2,693,771
General investment pool of the GBHEM	72,548,648	62,826,643	64,416,289	61,568,915
	<u>\$ 75,826,432</u>	<u>\$ 65,829,498</u>	<u>\$ 67,115,205</u>	<u>\$ 64,262,686</u>

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 allocation of the fund is 31% invested in a fixed income fund, 32% in a domestic large capitalization equity portfolio, 11% in a domestic small/mid-capitalization equity portfolio, 20% in an international equity portfolio and 6% in emerging markets. 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 51%, International Equity 21%, Fixed Income 24%, and Real Estate 4%.

All investments and beneficial interests in investments held by GBHEM may be redeemed without advance notice and there are no limitations as to the frequency of redemptions for either investment pool. The Organization has no unfunded commitments at December 31, 2017 to invest in either investment pool.

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

DECEMBER 31, 2017 AND 2016

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

Return on investments and beneficial interests in investments held by GBHEM for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Investment Return:		
Interest and dividends	\$ 1,379,502	\$ 1,247,743
Gain on investments:		
Realized gain on sale of investments	1,369,502	1,236,446
Unrealized gain on investments	8,592,161	3,610,464
Gain on investments	9,961,663	4,846,910
Less investment management expenses	(415,302)	(362,506)
Investment return, net	<u>\$ 10,925,863</u>	<u>\$ 5,732,147</u>

**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 each employee’s contribution to their United Methodist Personal Investment Plan (UMPIP). Total contributions made by the Organization for both components during 2017 was \$44,238 and \$42,310 for 2016.

*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 (ASC) 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 \$98,600,000 and \$91,600,000 and the Plan’s unfunded expected postretirement benefit obligation was approximately \$148,700,000 and \$127,500,000 as of December 31, 2017 and 2016, 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 \$53,641 and \$51,938 in 2017 and 2016, respectively.

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

DECEMBER 31, 2017 AND 2016

**Note 6—Related party transactions**

The Organization receives the majority of its revenue through apportionments from the General Funds of the United Methodist 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>2017</u>	<u>2016</u>
Statement of Financial Position:		
Beneficial interests in investments held by GBHEM	\$ 72,548,648	\$ 64,416,289
Investments in UMCF	3,277,784	2,698,916
Due from related organizations - GBHEM	7,699,206	5,997,916
Due from related organizations - GCFA	584,302	589,666
Other Assets (Accrued income receivable) - GBHEM	231,961	129,702
Accounts payable and accrued liabilities- AUZ	14,689	25,512
Accounts payable to Mutare	4,189,334	3,309,137
Statement of Activities:		
Revenues:		
Apportionment fund allocation - GCFA	2,264,173	2,196,008
Investment return, net - GBHEM	1,379,502	1,247,743
Services received from GBHEM	7,750	7,500
Net gain on investments - GBHEM and UMCF	9,546,361	4,484,404
Expenses:		
Program expenses - AUZ and Mutare	5,086,975	3,530,102
UMC Development Center payment to GCFA	10,000	25,335
Administration provided by GBHEM	7,750	7,500
Group insurance	53,641	51,938

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

DECEMBER 31, 2017 AND 2016

**Note 7—Net assets with donor restrictions**

Net assets with donor restrictions at December 31, 2017 and 2016 have been restricted by the donors for the following purpose restrictions:

	<u>2017</u>	<u>2016</u>
Subject to purpose restriction:		
Direct Scholarships	\$ 487,734	\$ 369,779
Campaign Expenses	299,109	195,063
Faculty of Health Science	14,271	14,271
Faculty of Theology S.C.	52,882	52,882
Foundation for Evangelism	33,535	28,727
Honorary Alumni Association	33,038	28,963
Library Fund	18,000	18,000
North Indiana Conference Dormitory	25,090	25,090
Richard & Joyce Reeves Wesley Foundation Room	62,263	62,263
UMC Foundations Annuities	158,007	180,662
Other	457,803	594,170
Total subject to purpose restriction	<u>1,641,732</u>	<u>1,569,870</u>
Endowments:		
Accumulated earnings on endowment funds	28,499,842	21,761,847
Endowment funds held in perpetuity	47,115,471	45,043,083
Total endowments	<u>75,615,313</u>	<u>66,804,930</u>
Total net assets with donor restrictions	<u>\$ 77,257,045</u>	<u>\$ 68,374,800</u>

Net assets with donor restrictions for the years ended December 31, 2017 and 2016 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.

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

DECEMBER 31, 2017 AND 2016

**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, 2017 and 2016, the Organization had the following endowment net asset composition by type of fund:

	<b>December 31, 2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 47,115,471	\$ 47,115,471
Accumulated investment gains	-	28,499,842	28,499,842
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 75,615,313</u>	<u>\$ 75,615,313</u>
	<b>December 31, 2016</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 45,043,083	\$ 45,043,083
Accumulated investment gains	-	21,761,847	21,761,847
Endowment net assets, December 31, 2016	<u>\$ -</u>	<u>\$ 66,804,930</u>	<u>\$ 66,804,930</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, 2017 and 2016, 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 2017 and 2016). 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 2017 and 2016, the Organization’s Board requested and the GBHEM executive committee of the Board approved a draw appropriation of 5.0% and 4.0%, respectively, which is 1.25% and .25%, respectively, higher than the GBHEM draw appropriation of 3.75%.



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

DECEMBER 31, 2017 AND 2016

**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, 2017 and 2016 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ -	\$ 61,244,946	\$ 61,244,946
Investment return, net	-	5,722,635	5,722,635
Contributions	-	2,346,777	2,346,777
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(2,509,428)	(2,509,428)
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	<u>\$ -</u>	<u>\$ 75,615,313</u>	<u>\$ 75,615,313</u>

**Note 9—Subsequent events**

Management has evaluated subsequent events through June 26, 2018, the date the financial statements were available for issuance. Management has determined that there are no subsequent events that require disclosure.