

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

**FINANCIAL STATEMENTS**

*As of and for the Years Ended December 31, 2020 and 2019*

*And Report of Independent Auditor*

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

To the Board of Directors  
Africa University, Inc., Tennessee

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

We have audited the accompanying financial statements of Africa University, Inc., Tennessee, a United Methodist related institution, which comprise the statements of financial position as of December 31, 2020 and 2019, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2020 and 2019 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.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
July 23, 2021

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

DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash	\$ 1,103,451	\$ 1,602,860
Investments	1,203,460	-
Investments held by The United Methodist Church Foundation	4,096,672	3,600,791
Beneficial interests in investments held by The General Board of Higher Education and Ministry ("GBHEM")	91,954,440	79,847,047
Due from related organizations	9,471,608	11,881,371
Other assets	651,858	583,643
<b>Total Assets</b>	<u>\$ 108,481,489</u>	<u>\$ 97,515,712</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 47,199	\$ 96,682
Accounts payable to Mutare United Methodist ("Mutare") Educational Organization	8,306,038	7,071,451
Annuity obligations payable	256,665	260,883
<b>Total Liabilities</b>	<u>8,609,902</u>	<u>7,429,016</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	<u>3,832,568</u>	<u>3,362,000</u>
With Donor Restrictions:		
Subject to purpose restrictions	3,725,216	3,432,471
Endowments	92,313,803	83,292,225
<b>Total With Donor Restrictions</b>	<u>96,039,019</u>	<u>86,724,696</u>
<b>Total Net Assets</b>	<u>99,871,587</u>	<u>90,086,696</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 108,481,489</u>	<u>\$ 97,515,712</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, 2020 AND 2019

	2020			2019		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues:						
Apportionment Fund allocation	\$ 2,074,224	\$ -	\$ 2,074,224	\$ 2,116,847	\$ -	\$ 2,116,847
Investment return from Invested Fund draw for operations	-	3,675,022	3,675,022	-	3,443,751	3,443,751
Gift and other income	13,911	1,844,291	1,858,202	16,565	5,487,170	5,503,735
Services received from GBHEM	8,475	-	8,475	8,225	-	8,225
Net assets released from restrictions	4,701,539	(4,701,539)	-	5,810,974	(5,810,974)	-
<b>Total Revenues</b>	<b>6,798,149</b>	<b>817,774</b>	<b>7,615,923</b>	<b>7,952,611</b>	<b>3,119,947</b>	<b>11,072,558</b>
Expenses:						
Program services	4,928,324	-	4,928,324	5,966,123	-	5,966,123
Management and general	1,326,039	-	1,326,039	1,256,991	-	1,256,991
Fundraising	73,218	-	73,218	244,846	-	244,846
<b>Total Expenses</b>	<b>6,327,581</b>	<b>-</b>	<b>6,327,581</b>	<b>7,467,960</b>	<b>-</b>	<b>7,467,960</b>
Change in Net Assets from Operations	470,568	817,774	1,288,342	484,651	3,119,947	3,604,598
Nonoperating Revenues and Expenses:						
Investment return net	-	8,496,549	8,496,549	-	10,977,860	10,977,860
Change in net assets	470,568	9,314,323	9,784,891	484,651	14,097,807	14,582,458
Net assets, beginning of year	3,362,000	86,724,696	90,086,696	2,877,349	72,626,889	75,504,238
Net assets, end of year	<u>\$ 3,832,568</u>	<u>\$ 96,039,019</u>	<u>\$ 99,871,587</u>	<u>\$ 3,362,000</u>	<u>\$ 86,724,696</u>	<u>\$ 90,086,696</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, 2020*

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Fundraising</b>	
Contributions and grants	\$ 4,928,324	\$ -	\$ -	\$ 4,928,324
Salaries and wages	-	580,231	-	580,231
Employee benefits	-	137,125	-	137,125
Administration provided by GBHEM	-	8,475	-	8,475
Travel and meetings	-	45,017	3,298	48,315
Professional fees	-	371,867	65,420	437,287
Supplies	-	34,953	4,500	39,453
Telephone and web service	-	8,266	-	8,266
Postage, shipping, and freight	-	11,030	-	11,030
Repairs and maintenance	-	2,619	-	2,619
Insurance	-	9,245	-	9,245
Promotional and informational material	-	103,582	-	103,582
Miscellaneous	-	13,629	-	13,629
<b>Total Operating Expenses</b>	<b>\$ 4,928,324</b>	<b>\$ 1,326,039</b>	<b>\$ 73,218</b>	<b>\$ 6,327,581</b>

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, 2019*

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Fundraising</b>	
Contributions and grants	\$ 5,966,123	\$ -	\$ -	\$ 5,966,123
Salaries and wages	-	521,844	-	521,844
Employee benefits	-	137,189	-	137,189
Administration provided by GBHEM	-	8,225	-	8,225
Travel and meetings	-	114,124	44,640	158,764
Professional fees	-	288,587	170,784	459,371
Supplies	-	28,908	-	28,908
Telephone and web service	-	9,113	4,521	13,634
Postage, shipping, and freight	-	16,796	-	16,796
Repairs and maintenance	-	8,131	-	8,131
Insurance	-	7,276	-	7,276
Promotional and informational material	-	107,305	24,901	132,206
Miscellaneous	-	9,493	-	9,493
<b>Total Operating Expenses</b>	<b>\$ 5,966,123</b>	<b>\$ 1,256,991</b>	<b>\$ 244,846</b>	<b>\$ 7,467,960</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 9,784,891	\$ 14,582,458
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized gains on investments	(7,901,642)	(9,378,913)
Realized gains on sale of investments	(3,480,114)	(3,571,713)
Gifts received to be held in perpetuity	(656,403)	(1,745,171)
Changes in assets and liabilities:		
Due from related organizations	2,409,763	(1,951,388)
Other assets	(68,215)	(288,525)
Accounts payable and accrued liabilities	(49,483)	(6,265)
Accounts payable to Mutare	1,234,587	1,748,133
Annuity obligations payable	(4,218)	14,619
Net cash flows from operating activities	<u>1,269,166</u>	<u>(596,765)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investments and beneficial interests in investments held by GBHEM	(31,496,566)	(29,534,272)
Sale of investments and beneficial interests in investments held by GBHEM	<u>29,071,588</u>	<u>29,888,726</u>
Net cash flows from investing activities	<u>(2,424,978)</u>	<u>354,454</u>
<b>Cash flows from financing activities:</b>		
Gifts received to be held in perpetuity	<u>656,403</u>	<u>1,745,171</u>
Net cash flows from financing activities	<u>656,403</u>	<u>1,745,171</u>
Net change in cash and cash equivalents	(499,409)	1,502,860
Cash and cash equivalents, beginning of year	<u>1,602,860</u>	<u>100,000</u>
Cash and cash equivalents, end of year	<u>\$ 1,103,451</u>	<u>\$ 1,602,860</u>

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

DECEMBER 31, 2020 AND 2019

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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 27% and 19% of the Organization’s total operating revenue in 2020 and 2019, 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, 2020 and 2019.

*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, 2020 AND 2019

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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. Investment return from Invested Fund draw for operations represents the approved draw of earnings 5% in 2020 and 2019 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.

Contributions are recognized when cash, other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Because of the purpose of the Organization, which is to oversee funding for Mutare and AUZ, most contributions are considered with donor restriction to be used 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 promises to give are to be received. There were no unconditional promises to give relating to future years as of December 31, 2020 and 2019. Contributions made by the Organization are recognized as expenses in the period made.

*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 7 and totaled \$8,475 and \$8,225 for the years ended December 31, 2020 and 2019, respectively.

*Use of Estimates* – To prepare these financial statements in conformity with accounting principles generally accepted in the United States of America, management of 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.

*Cash* – The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, except for those cash equivalents managed as part of the Organization’s investment management strategy.

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

DECEMBER 31, 2020 AND 2019

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

*Investments* – The Organization’s investments are in marketable securities with readily determinable fair values and are valued in the statement of financial position at fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Additionally, some of the Organization’s investments are in third party investment pools presented at net asset value (“NAV”), 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 UICF fees based on the asset balance invested. Investment management fees paid amounted to \$15,398 for 2020 and \$12,320 for 2019 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 Church.

*Functional Expenses* – The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Direct identifiable expenses are charged to programs and supporting services.

*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.

*Concentration of credit risk* - The Organization places its cash on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Organization may from time to time have amounts on deposit in excess of the insured limits.

*Financial Instruments* – Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, are as follows:

*Level 1* – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

*Level 2* – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

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

DECEMBER 31, 2020 AND 2019

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

*Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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

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

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

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash	\$ 1,103,451	\$ 1,602,860
Investments	1,203,460	-
Investments held by The UMcF	4,096,672	3,600,791
Beneficial interest in investments held by GBHEM	91,954,440	79,847,047
Due from related organizations	9,471,608	11,881,371
Other assets - accrued income receivable	651,858	583,643
Total financial assets	<u>108,481,489</u>	<u>97,515,712</u>
Less amounts not available to be used for general expenditures within one year:		
Purpose restrictions	3,725,216	3,432,471
Endowment funds	92,313,803	83,292,225
Financial assets not available to be used within one year	<u>96,039,019</u>	<u>86,724,696</u>
Financial assets available to meet general expenditures within one year	<u>\$ 12,442,470</u>	<u>\$ 10,791,016</u>

The Organization considers general expenditures to include program expenses, supporting services, and any commitments or liabilities to be paid in the subsequent year. 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 8 and 9, are not available for general expenditure within the next year.

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

DECEMBER 31, 2020 AND 2019

**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, 2020 and 2019 consist of the following:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Balanced Fund of The UMCF	\$ 4,096,672	\$ 3,489,724	\$ 3,600,791	\$ 3,384,319
Investments	1,203,460	1,194,935	-	-
General investment pool of GBHEM	88,350,648	72,241,930	79,847,047	71,158,017
	<u>\$ 93,650,780</u>	<u>\$ 76,926,589</u>	<u>\$ 83,447,838</u>	<u>\$ 74,542,336</u>

Return on investments and beneficial interests in investments held by GBHEM for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Investment Return:		
Interest and dividends	\$ 1,326,467	\$ 2,032,280
Gains on investments:		
Realized gains on sale of investments	3,480,114	3,571,713
Unrealized gains on investments	7,901,642	9,378,913
Gains on investments	11,381,756	12,950,626
Less investment management expenses	(536,652)	(561,295)
Investment return, net, before approved draw for operations	12,171,571	14,421,611
Approved draw of investment income transferred to operations	(3,675,022)	(3,443,751)
Investment return, net, nonoperating	<u>\$ 8,496,549</u>	<u>\$ 10,977,860</u>

**Note 5—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 for assets and liabilities measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

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

DECEMBER 31, 2020 AND 2019

**Note 5—Fair value of financial instruments (continued)**

	<b>Amounts Measured at Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Fixed income	\$ 1,203,460	\$ 1,203,460	\$ -	\$ -
Investments reported at net asset value:				
Balanced Fund of The UMCF*	4,096,672			
General investment pool of GBHEM*	88,350,648			
Total investments and beneficial interests	<u>\$ 93,650,780</u>			

\* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the 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 is a summary of the Organization's investments and beneficial interests:

*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 31% invested in a fixed income fund, 39% in a domestic large capitalization equity portfolio, 8% in a domestic small/mid-capitalization equity portfolio, 19% in an international equity portfolio, and 3% 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 54%, international equity 18%, fixed income 23%, and real estate 5%.

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:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Balanced Fund of The UMCF	\$ 4,096,672	none	daily	3 days
General investment pool of GBHEM	88,350,648	none	none	none
Total	<u>\$ 92,447,320</u>			

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

DECEMBER 31, 2020 AND 2019

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**Note 6—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, 2020 and 2019 were \$43,900 and \$46,913, respectively.

*Health, Life, and Other Employee Benefits* – The General Agencies of The United Methodist Church Benefit Plan (the “Plan”), which qualifies for treatment as a multiemployer plan under Accounting Standards Codification 715, *Compensation – Retirement Benefits*, provides medical, dental, life, and long- and short-term disability defined benefits to participants of the 11 general agencies, all Bishops covered by the Episcopal Fund, and employees of other United Methodist related organizations. Effective January 1, 2004, Plan amendments were made to change the retiree benefits offered and increase the related premiums paid by retirees.

The Organization provides health, dental, life, and other employee benefits for its active employees and health, dental, and life benefits to non-Medicare eligible retirees through the Plan. Retirees who are Medicare eligible, and who elect to enroll, are eligible for a Health Reimbursement Account (“HRA”) up to \$2,100 annually and \$2,000 annually for their spouse, if applicable. Unused reimbursement funds continue to roll-over to subsequent years until death of the retiree or their spouse, whichever is later.

All of the Organization’s active employees are covered by the Plan. The cost of the benefits is recognized as group insurance expense as premiums are paid. The total cost of benefits for active employees was \$47,966 and \$52,991 for the years ended December 31, 2020 and 2019, respectively. The Organization had retiree benefit expense of \$6,808 and \$-0- for the years ended December 31, 2020 and 2019 respectively.

The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$71,430,000 and \$76,725,000 and the Plan’s unfunded expected postretirement benefit obligation was approximately \$100,140,000 and \$106,750,000 as of December 31, 2020 and 2019, respectively.

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**Note 7—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>2020</u>	<u>2019</u>
Statement of Financial Position:		
Beneficial interests in investments held by GBHEM	\$ 91,954,440	\$ 79,847,047
Investments in The UMCF	4,096,672	3,600,791
Due from related organizations - GBHEM	8,747,576	11,229,919
Due from related organizations - GCFA	724,032	651,452
Other assets (accrued income receivable) - GBHEM	651,858	583,643
Accounts payable and accrued liabilities- AUZ	40,368	28,161
Accounts payable to Mutare	8,306,038	7,071,451
Statement of Activities:		
Revenues:		
Apportionment fund allocation - GCFA	2,074,224	2,116,847
Investment return, net - GBHEM and UMCF	12,098,745	14,421,611
Services received from GBHEM	8,475	8,225
Expenses:		
Program expenses - AUZ and Mutare	4,928,324	5,966,123
Administration provided by GBHEM	8,475	8,225
Employee benefits - Group insurance	54,774	55,826

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**Note 8—Net assets with donor restrictions**

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

	<u>2020</u>	<u>2019</u>
Subject to purpose restrictions:		
Direct Scholarships	\$ 1,118,216	\$ 1,850,438
Direct Scholarships Invested SunTrust/Truist	1,203,460	-
Campaign Expenses	25,924	99,141
Faculty of Health Science	14,271	14,271
Faculty of Theology S.C.	52,882	52,882
Foundation for Evangelism	18,535	23,535
Honorary Alumni Association	33,253	28,963
Library Fund	18,129	18,129
North Indiana Conference Dormitory	25,090	25,090
Richard & Joyce Reeves Wesley Foundation Room	62,263	62,263
UMC Foundations Annuities	203,273	114,667
Other	949,920	1,143,092
Total subject to purpose restrictions	<u>3,725,216</u>	<u>3,432,471</u>
Endowments:		
Accumulated earnings on endowment funds	41,845,452	33,480,277
Endowment funds held in perpetuity	50,468,351	49,811,948
Total endowments	<u>92,313,803</u>	<u>83,292,225</u>
Total net assets with donor restrictions	<u>\$ 96,039,019</u>	<u>\$ 86,724,696</u>

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 9—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 9—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

The Organization had the following endowment net asset composition by type of fund at:

	<b>2020</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	\$ -	\$ 50,468,351	\$ 50,468,351
Accumulated investment gains	-	41,845,452	41,845,452
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 92,313,803</u>	<u>\$ 92,313,803</u>
	<b>2019</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	\$ -	\$ 49,811,948	\$ 49,811,948
Accumulated investment gains	-	33,480,277	33,480,277
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 83,292,225</u>	<u>\$ 83,292,225</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, 2020 and 2019, 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 5% in 2020 and 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. In 2020 and 2019, the Organization’s Board of Directors requested and the GBHEM executive committee of the Board of Directors approved a draw appropriation of 5.0% which is the GBHEM draw appropriation of 5.0% for 2020.

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**Note 9—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, 2020 and 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2018	\$ -	\$ 70,598,850	\$ 70,598,850
Investment return, net	-	14,391,955	14,391,955
Contributions	-	1,745,171	1,745,171
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(3,443,751)	(3,443,751)
Endowment net assets, December 31, 2019	-	83,292,225	83,292,225
Investment return, net	-	12,040,197	12,040,197
Contributions	-	656,403	656,403
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(3,675,022)	(3,675,022)
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 92,313,803</u>	<u>\$ 92,313,803</u>

**Note 10—Contingencies**

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

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**Note 11—Subsequent events**

Management has evaluated subsequent events through July 23, 2021, the date the financial statements were available for issuance. Management has determined that there are no subsequent events requiring disclosure.