

**GENERAL COMMISSION ON
RELIGION AND RACE OF
THE UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS

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

And Report of Independent Auditor

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THE UNITED METHODIST CHURCH
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Report of Independent Auditor

To the Board of Directors
General Commission on Religion and Race of
The United Methodist Church
Washington, DC

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

We have audited the accompanying financial statements of the General Commission on Religion and Race of The United Methodist Church (a nonprofit organization), 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Commission on Religion and Race of The United Methodist Church 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
June 21, 2021

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Due from General Council on Finance and Administration short-term pooled investment fund	\$ 3,666,377	\$ 2,827,803
Investments in The United Methodist Church Foundation	218,172	202,910
Accrued World Service Fund allocation	673,186	625,616
Accounts receivable	16,041	1,333
Prepaid expenses	30,993	27,702
Other assets	6,518	6,518
Total Assets	<u>\$ 4,611,287</u>	<u>\$ 3,691,882</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 34,012	\$ 49,516
Accrued expenses	57,642	57,447
Deferred rent	-	5,997
Paycheck Protection Program deferred grant revenue	224,885	-
Due to Disability Ministries	21,674	-
Total Liabilities	<u>338,213</u>	<u>112,960</u>
Net Assets:		
Without Donor Restrictions:		
Board-designated	232,185	232,185
Undesignated	2,369,520	2,051,013
Total Without Donor Restrictions	<u>2,601,705</u>	<u>2,283,198</u>
With Donor Restrictions:		
Subject to purpose restrictions	1,458,197	1,097,814
Endowments	213,172	197,910
Total With Donor Restrictions	<u>1,671,369</u>	<u>1,295,724</u>
Total Net Assets	<u>4,273,074</u>	<u>3,578,922</u>
Total Liabilities and Net Assets	<u>\$ 4,611,287</u>	<u>\$ 3,691,882</u>

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Allocation from World Service Fund	\$ 1,418,630	\$ 480,070	\$ 1,898,700	\$ 1,546,169	\$ 523,228	\$ 2,069,397
Distribution from Benefit Trust	142,802	-	142,802	137,537	-	137,537
Services received from General Council on Finance and Administration	38,472	-	38,472	61,656	-	61,656
Interest income from General Council on Finance and Administration short-term pooled investment fund	121,796	-	121,796	131,242	-	131,242
Investment return, net	-	15,261	15,261	-	30,249	30,249
Resource materials and program fees	58,236	-	58,236	-	-	-
Contributions	9,279	-	9,279	-	-	-
Net assets released from restrictions	119,686	(119,686)	-	504,960	(504,960)	-
Total Revenue and Support	1,908,901	375,645	2,284,546	2,381,564	48,517	2,430,081
Expenses:						
Program Services:						
Core action fund program	118,758	-	118,758	475,417	-	475,417
Communication	-	-	-	302,288	-	302,288
Ministry	699,698	-	699,698	688,388	-	688,388
Ebony Bishops	-	-	-	16,803	-	16,803
UMC 50th Anniversary	930	-	930	21,821	-	21,821
Meeting services and other projects	-	-	-	170,237	-	170,237
Supporting Services:						
Management and general	771,008	-	771,008	1,068,948	-	1,068,948
Total Expenses	1,590,394	-	1,590,394	2,743,902	-	2,743,902
Change in net assets	318,507	375,645	694,152	(362,338)	48,517	(313,821)
Net assets, beginning of year	2,283,198	1,295,724	3,578,922	2,645,536	1,247,207	3,892,743
Net assets, end of year	<u>\$ 2,601,705</u>	<u>\$ 1,671,369</u>	<u>\$ 4,273,074</u>	<u>\$ 2,283,198</u>	<u>\$ 1,295,724</u>	<u>\$ 3,578,922</u>

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

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2020

	Program Services			Supporting Services	2020 Total
	Core Action Fund	Ministry	UMC 50th Anniversary	Management and General	
Grants	\$ 94,452	\$ 1,325	\$ 930	\$ -	\$ 96,707
Salaries and wages	-	392,726	-	413,132	805,858
Employee benefits	-	114,465	-	143,353	257,818
Administration provided by General Council on Finance and Administration	-	-	-	50,472	50,472
Administration paid to General Board of Church and Society	-	29,940	-	23,660	53,600
Rent and occupancy paid to General Board of Church and Society	-	-	-	53,792	53,792
Travel and meetings	9,175	27,158	-	36,084	72,417
Professional fees	15,131	101,400	-	6,083	122,614
Supplies	-	-	-	3,333	3,333
Printing	-	135	-	7	142
Telephone and web service	-	4,650	-	3,800	8,450
Repairs and maintenance	-	18,400	-	8,859	27,259
Insurance	-	-	-	8,915	8,915
Promotional and informational material	-	9,174	-	-	9,174
Moving Expense	-	-	-	19,508	19,508
Other	-	325	-	10	335
	<u>\$ 118,758</u>	<u>\$ 699,698</u>	<u>\$ 930</u>	<u>\$ 771,008</u>	<u>\$ 1,590,394</u>

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

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2019

	Program Services					Meeting Services and Other Projects	Supporting Services	2019 Total
	Core Action Fund	Communication	Ministry	Ebony Bishops	UMC 50th Anniversary		Management and General	
Grants	\$ 377,542	\$ -	\$ -	\$ 16,803	\$ 21,821	\$ -	\$ 11,601	\$ 427,767
Salaries and wages	-	71,153	410,168	-	-	-	434,235	915,556
Employee benefits	-	36,521	113,538	-	-	-	162,918	312,977
Administration provided by General Council on Finance and Administration	-	-	-	-	-	-	73,656	73,656
Administration paid to General Board of Church and Society	-	6,445	19,793	-	-	-	19,796	46,034
Rent and occupancy paid to General Board of Church and Society	-	27,301	83,852	-	-	-	83,852	195,005
Travel and meetings	47,047	10,238	57,051	-	-	140,853	63,353	318,542
Professional fees	38,849	89,475	710	-	-	28,275	120,668	277,977
Supplies	-	-	466	-	-	-	3,215	3,681
Printing	-	24,380	261	-	-	509	260	25,410
Telephone and web service	-	600	3,050	-	-	-	2,400	6,050
Postage, shipping, and freight	-	1,122	(676)	-	-	-	325	771
Repairs and maintenance	11,979	10,109	175	-	-	-	14,526	36,789
Insurance	-	-	-	-	-	-	10,333	10,333
Depreciation	-	-	-	-	-	-	7,200	7,200
Loss on disposal of fixed assets	-	-	-	-	-	-	60,550	60,550
Promotional and informational material	-	24,944	-	-	-	600	-	25,544
Other	-	-	-	-	-	-	60	60
	<u>\$ 475,417</u>	<u>\$ 302,288</u>	<u>\$ 688,388</u>	<u>\$ 16,803</u>	<u>\$ 21,821</u>	<u>\$ 170,237</u>	<u>\$ 1,068,948</u>	<u>\$ 2,743,902</u>

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

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 694,152	\$ (313,821)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	-	7,200
Realized and unrealized gains on investments	(10,875)	(26,456)
(Gain) loss on disposal of fixed assets	(405)	60,550
Change in operating assets and liabilities:		
Due from General Council on Finance and Administration short-term pooled investment fund	(838,574)	362,564
Due to Disability Ministries	21,674	-
Accrued World Service Fund allocation	(47,570)	19,215
Accounts receivable	(14,708)	28,766
Prepaid expenses	(3,291)	(17,223)
Accounts payable	(15,504)	(74,088)
Accrued expenses	195	(47,560)
Paycheck Protection Program deferred grant revenue	224,885	-
Deferred rent	(5,997)	3,196
Net cash flows from operating activities	<u>3,982</u>	<u>2,343</u>
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	405	1,450
Net purchases of investments in The United Methodist Church Foundation	(4,387)	(3,793)
Net cash flows from investing activities	<u>(3,982)</u>	<u>(2,343)</u>
Net change in cash and cash equivalents	-	-
Cash and equivalents, beginning of year	-	-
Cash and equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

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

GENERAL COMMISSION ON RELIGION AND RACE OF THE UNITED METHODIST CHURCH

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 1—Nature of the organization

The General Commission on Religion and Race (the “Commission”) is a general agency of The United Methodist Church (the “Church”) established for the purpose of coordinating denominational concerns and providing a channel of assistance to ensure that ethnic and racial minority group members of the Church will have equal opportunities for service, representation, and voice on every level of the Church’s life and ministry.

Funding for the Commission’s projects is principally provided by allocations received from the General Funds of The United Methodist Church World Service Fund, based on a four-year budget developed from projections of expected program costs. The allocation accounts for 83% and 85% of the Commission’s total revenues in 2020 and 2019, respectively. The Commission’s continued existence is dependent upon the Church’s future financial support. The Church’s financial support of the Commission is dependent upon contributions from its congregations (i.e., congregational participation in the apportionment covenant).

Note 2—Summary of significant accounting policies

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

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

For reporting purposes, however, the Commission’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 Commission 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 Commission. These net assets may be used at the discretion of the Commission’s management and the Board of Directors. The Commission 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 of Directors.

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

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

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019

Note 2—Summary of significant accounting policies (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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.

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.

Allocation from World Service Fund – The World Service Fund (the “Fund”) is the basic benevolence fund of the Church. The Fund makes annual allocations to support the activities of the various organizations of the Church. Such amounts are recognized as revenue in the accompanying financial statements in the period for which the allocation is made. Certain World Service Funds are reported within net assets with donor restrictions, as the restrictions placed on them by General Conference are more specific than the broad limits of its mission as described in the Book of Discipline.

The Accrued World Service Fund Allocation represents the apportionment income recorded as income for December that will be credited to the Commission’s portion of the General Council on Finance and Administration (“GCFA”) short-term pooled investment fund the following month.

Services Received from Personnel of an Affiliate – Services received from personnel of an affiliate for which the affiliate does not charge the Commission have 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 Note 7 and totaled \$38,472 and \$61,656 for the years ended December 31, 2020 and 2019, respectively.

Due from GCFA Short-Term Pooled Investment Fund – The amounts presented as due from GCFA short-term pooled investment fund in the accompanying financial statements represent the Commission’s portion of the short-term investment portfolio managed by the GCFA on behalf of certain agencies and related organizations of the Church. The amount due from this fund effectively represents the amount of cash deposits that are available to the Commission to be disbursed out of GCFA’s centralized cash management system. Since these deposits are legally invested in GCFA’s name and not in a separate demand account in Commission’s name, they are not classified as cash and cash equivalents, but rather are considered an amount due from GCFA. The short-term investment portfolio includes funds invested in demand deposits, corporate bonds, taxable municipal bonds, mutual funds, and notes from other United Methodist organizations. GCFA allocates interest earned on the portfolio to the participating entities. For the years ended December 31, 2020 and 2019, GCFA allocated \$121,796 and \$131,242 of interest income, respectively, to the Commission. While interest income can be earned based on the performance of the pooled investment funds, the Commission believes there is little to no risk exposure to losses due to the relationship with GCFA and policy under which the pooled funds are invested. The operating cash requirements of the general agencies are centrally managed by GCFA.

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019

Note 2—Summary of significant accounting policies (continued)

When an agency has surplus funds they are invested by GCFA in the short-term pooled investment fund. GCFA allocates interest earned to the agencies invested in the pool based upon their pro-rata share of the pool on a monthly basis. The overall return for the short-term pooled investment fund for the years ended December 31, 2020 and 2019 was 3.63% and 4.17%, respectively. The overall rate of return for each agency may vary due to fluctuating balances throughout the year and the timing of investment gains and losses. The allocation of funds in the short-term investment pool as of December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Texas Methodist Foundation loan fund	28.3%	18.4%
Mutual funds	13.2%	2.4%
Short-term collateralized loan fund	3.5%	0.4%
Fixed income	9.8%	15.1%
Corporate bonds	34.0%	46.1%
Cash	11.2%	17.6%
	<u>100.0%</u>	<u>100.0%</u>

Investment in The UMC Foundation – The Commission is a participant investor, placing its investment funds with The UMC Foundation for their management. The UMC Foundation has established, for accounting purposes, an initial unit value for an accounting unit of the participants’ accounts based on the participants’ net assets divided by the unit value. At all times, the total value of the participants’ net assets, divided by the total of all participants’ units, will equal the unit value. The unit value of the net assets will be determined on each valuation date. The valuation date is the last business day of each calendar month.

Property and Equipment – Property and equipment are stated at cost, net of accumulated depreciation. The Commission depreciates furniture, equipment, and leasehold improvements on a straight-line basis with a modified half-year convention over their estimated useful lives of three, five, and twenty years, respectively. The modified half-year convention treats property placed in service or retired during the first half of the year as being made on the first day of the year. Thus, a full-year’s depreciation under this method is allowed on property placed in service in the first six months, and no depreciation is allowed on property placed in service in the second six months.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort

Grant Commitments – Conditional grants are awarded through the Minority Group Self Determination Fund to support various projects. When the recipient of a conditional grant has met all the requirements the grant becomes unconditional and grant expense is recognized. At December 31, 2020 and 2019, there were no grants payable related to unconditional grants.

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019

Note 2—Summary of significant accounting policies (continued)

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The Commission is covered under the GCFA's group determination letter from the Internal Revenue Service indicating that it is a nonprofit corporation and, except for taxes pertaining to unrelated business income, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Commission 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 Commission 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 Commission include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

Future Pronouncements – In February 2016, FASB issued 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 statements 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 statements of activities. The new standard is effective for the fiscal years beginning after December 15, 2021. 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. Management is currently evaluating the impact the pending adoption will have on the Commission's financial statements.

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 Commission's financial statements.

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019

Note 3—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Due from GCFA short-term pooled investment fund	\$ 3,666,377	\$ 2,827,803
Investments in The United Methodist Church Foundation	218,172	202,910
Accrued World Service Fund allocation	673,186	625,616
Accounts receivable	<u>16,041</u>	<u>1,333</u>
Total financial assets	<u>4,573,776</u>	<u>3,657,662</u>
Less amounts not available to be used for general expenditures within one year:		
Subject to donor purpose restrictions	1,458,197	1,097,814
Funds to be held in perpetuity and accumulated earnings	213,172	197,910
Board-designated funds - Talbert Fund	<u>1,673</u>	<u>1,673</u>
Financial assets not available to be used within one year	<u>1,673,042</u>	<u>1,297,397</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,900,734</u>	<u>\$ 2,360,265</u>

The Commission 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 Commission'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 GCFA's short-term pooled investment fund. This fund established by the Commission may be drawn upon, if necessary, to meet unexpected liquidity needs. In addition, the Commission's Board of Directors has designated a portion of its liquid financial assets, resulting from operations and not related to donor restrictions, to its operating reserve, which was \$230,512 as of December 31, 2020 and 2019 and included in amounts available to be used for general expenditures.

The Commission has certain board-designated and donor-restricted assets limited to use, which are more fully described in Notes 10 and 11, respectively, and are not available for general expenditure within one year in the normal course of operations. However, board-designated assets established by the Board of Directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019

Note 4—Property and equipment

Property and equipment consisted of the following at December 31:

	2020	2019
Furniture	\$ 97,389	\$ 137,509
Equipment	82,215	82,215
	<u>179,604</u>	<u>219,724</u>
Less accumulated depreciation	(179,604)	(219,724)
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the years ended December 31, 2020 and 2019 totaled \$-0- and \$7,200, respectively.

Note 5—Investments

The Commission's investments consisted of the following at December 31:

	2020		2019	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
The UMC Foundation	<u>\$ 218,172</u>	<u>\$ 186,655</u>	<u>\$ 202,910</u>	<u>\$ 182,214</u>

Investment return consisted of the following for the years ended December 31:

	2020	2019
Dividend and interest income	\$ 4,386	\$ 3,793
Realized gains on investments	55	121
Unrealized gains on investments	<u>10,820</u>	<u>26,335</u>
Investment return, net	<u>\$ 15,261</u>	<u>\$ 30,249</u>

Note 6—Fair value of investments

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Commission's assessment of available market information and appropriate valuation methodologies.

**GENERAL COMMISSION ON RELIGION AND RACE OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019

Note 6—Fair value of investments (continued)

For entities that calculate net asset value (“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:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
The UMC Foundation *	\$ 218,172	none	daily	3 days

* 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.

Note 7—Related party transactions

The Commission receives the majority of its revenue through apportionments from the General Funds of The United Methodist Church, which are administered by GCFA. In addition, GCFA provides various services to the Commission, such as general ledger processing and maintenance, cash management, and group insurance administration. The Commission had the following transactions with GCFA and related entities:

	<u>2020</u>	<u>2019</u>
Statements of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 3,666,377	\$ 2,827,803
Investments in The UMC Foundation	218,172	202,910
Accrued World Service Fund allocation	673,186	625,616
Accounts receivable - United Methodist Communications	16,041	1,333
Due to Disability Ministries	21,674	-
Statements of Activities:		
Revenue:		
Allocation from World Service Fund	1,898,700	2,069,397
Distribution from Benefit Trust	142,802	137,537
Services received from GCFA	38,472	61,656
Interest income from GCFA short-term pooled investment fund	121,796	131,242
Investment return (The UMC Foundation)	15,261	30,249
Expenses:		
Employee benefits - group insurance expense	114,091	139,440
Rent paid to General Board of Church and Society ("GBCS")	53,792	195,005
Administrative services donated by GCFA	38,472	61,656
Administrative services paid to GCFA	12,000	12,000
Administrative services paid to GBCS	53,600	46,034
Grants paid to affiliates	94,452	389,142

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Note 8—Employee benefits

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

The Commission makes semi-monthly contributions to each eligible employee’s account held by Wespath based on 8% of annual employee compensation. Additionally, the Commission matches up to 2% of each employee’s annual compensation to their United Methodist Personal Investment Plan. Total contributions made by the Commission for both components during the years ended December 31, 2020 and 2019 were \$85,098 and \$96,862, respectively.

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

The Commission 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 Commission’s active employees are covered by the Plan. The cost of the benefits is recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$102,152 and \$125,062 in 2020 and 2019, respectively, and the total cost of benefits for retired employees was \$11,939 and \$14,378 in 2020 and 2019, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

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

Wespath has transferred certain excess pension assets to the General Agency Benefit Trust (“Benefit Trust”) established by the 1996 General Conference as of December 31, 1996. Annually, the Benefit Trust allows a stated percentage, not to exceed 6% for 2020 and 2019, of the fair value of Benefit Trust assets at year-end for which GCFA is the beneficiary to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retiree employee benefits. The fair value of the Benefit Trust’s assets (not plan assets) for which GCFA is the beneficiary was approximately \$186,112,000 and \$167,449,000 as of December 31, 2020 and 2019, respectively. The total amount available for reimbursement in 2020 and 2019 was \$10,046,935 and \$8,797,702, respectively, of which the Commission’s share, including retiree health benefits, was \$142,802 and \$137,537, respectively.

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Note 9—Lease commitments

The Commission leases office space from GBCS, a related party, under an operating lease. The original lease agreement was amended on February 7, 2020 to reduce the leased square footage, monthly rent and the term through February 2021. In March 2021, the lease was extended through February 2022. A summary of future minimum rental commitments at December 31, 2020 is as follows:

Years Ending December 31,

2021	\$	30,800
2022		<u>5,200</u>
	<u>\$</u>	<u>36,000</u>

Rent expense to GBCS was \$53,792 and \$195,005 for the years ended December 31, 2020 and 2019, respectively.

Note 10—Board-designated net assets

Certain net assets without donor restrictions have been designated by the Board of Directors for the following purposes at December 31:

	<u>2020</u>	<u>2019</u>
Operating reserve	\$ 230,512	\$ 230,512
Talbert fund	<u>1,673</u>	<u>1,673</u>
Total board-designated net assets	<u>\$ 232,185</u>	<u>\$ 232,185</u>

The operating reserve was established by the Commission to provide for liquid funds in the event of short-term cash flow needs for unanticipated events that would necessitate the use of reserves to continue the operations and mission of the organization.

The board-designated Talbert Fund was established by the Board of Directors and its purpose and use are for the support for board members who are experiencing a hardship or loss.

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Note 11—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 restriction:		
Discerning Nature of Racism	\$ 27,077	\$ 27,077
Minority Group Self Determination Fund	1,429,459	1,068,146
UMC 50th Anniversary Fund	1,661	2,591
Total subject to purpose restrictions	<u>1,458,197</u>	<u>1,097,814</u>
Endowments:		
Accumulated earnings on the Commission endowment fund	104,531	89,269
Commission endowment fund held in perpetuity	108,641	108,641
Total endowments	<u>213,172</u>	<u>197,910</u>
Total net assets with donor restrictions	<u>\$ 1,671,369</u>	<u>\$ 1,295,724</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.

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restriction	<u>\$ 119,686</u>	<u>\$ 504,960</u>

Note 12—Endowments

The Commission has established The Woodie W. White Endowment Fund for Racial Justice at the UMC Foundation. The income earned from the fund will be available to the Commission to use for any purpose consistent with its ministries to respond to racial concerns of the day. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Commission to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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Note 12—Endowments (continued)

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

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 108,641	\$ 108,641
Accumulated investment gains	-	104,531	104,531
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 213,172</u>	<u>\$ 213,172</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 108,641	\$ 108,641
Accumulated investment gains	-	89,269	89,269
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 197,910</u>	<u>\$ 197,910</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 Commission has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2020 and 2019, the Commission had no underwater endowments.

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Note 12—Endowments (continued)

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	\$ -	\$ 167,661	\$ 167,661
Investment return, net	-	30,249	30,249
Endowment net assets, December 31, 2019	-	197,910	197,910
Investment return, net	-	15,261	15,261
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 213,172</u>	<u>\$ 213,172</u>

Investment and Spending Policy – Distributions from the endowment will follow the distribution policy of the Church which is based on a policy of total long-term return of 6.5%. The following percentages may be used to guide the Commission’s distribution policy: 3.5% for Ministry distributions; 2.0% for inflation; and 1.0% for fees and expenses. To smooth the allowable annual distributions based on valuation of the underlying assets, the Commission uses a five-year moving average of quarterly portfolio values. The moving average is determined for the five-year period immediately preceding the fiscal year in which the funds are to be spent.

Return Objectives and Risk Parameters – The Commission has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to 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 Commission must hold in perpetuity. Under this policy, as approved by 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. The Commission expects its endowment funds, over time, to produce current income within the total return strategy. Actual returns may vary.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Commission 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). The Commission targets a diversified asset allocation that places a greater emphasis on corporate bonds and equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 13—Contingency

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 Commission’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 Commission is unknown at this time.

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Note 14—Payroll protection program

The Commission received a Paycheck Protection Program loan (“PPP”) in the amount of \$224,885. The PPP loan is granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if the Commission does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. The Commission believes it has not substantially met all barriers for full loan forgiveness yet and, therefore, has recorded the receipt of the funds as deferred revenue in the statement of financial position.

Note 15—Subsequent events

Management has evaluated subsequent events through June 21, 2021, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure except for those disclosed below.

In accordance with the CARES Act the Commission applied for and received a second Paycheck Protection Program loan on April 17, 2021, totaling \$224,885. See Note 14 for additional information about loan requirements.