

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

**FINANCIAL STATEMENTS**

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

*And Report of Independent Auditor*

**GENERAL COMMISSION ON RELIGION AND RACE OF  
THE UNITED METHODIST CHURCH  
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## Report of Independent Auditor

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

The Committee on Audit and Review of  
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, 2017 and 2016, the related statements of activities and cash flows for the years ended December 31, 2017 and 2016, and the 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 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, 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, the General Commission on Religion and Race of the United Methodist Church 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.

A handwritten signature in cursive script that reads "Cherry Bekaert LLP".

Charlotte, North Carolina  
May 11, 2018

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

DECEMBER 31, 2017 AND 2016

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Due from General Council on Finance and Administration short-term pooled investment fund	\$ 3,755,155	\$ 3,949,217
Investments in United Methodist Church Foundation	184,032	163,350
Accrued World Service Fund allocation	638,542	592,968
Accounts receivable	1,620	-
Prepaid expenses	23,835	28,800
Other assets	6,518	-
Property and equipment, net	79,609	89,782
<b>Total Assets</b>	<b>\$ 4,689,311</b>	<b>\$ 4,824,117</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 100,955	\$ 121,909
Accrued expenses	55,650	25,711
Deferred rent	18,136	24,730
<b>Total Liabilities</b>	<b>174,741</b>	<b>172,350</b>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	79,609	89,782
Board-designated	232,185	232,185
Undesignated	3,060,697	3,424,945
Total without Donor Restrictions	3,372,491	3,746,912
With Donor Restrictions:		
Subject to purpose restrictions	963,048	741,505
Endowments	179,031	163,350
Total with Donor Restrictions	1,142,079	904,855
<b>Total Net Assets</b>	<b>4,514,570</b>	<b>4,651,767</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,689,311</b>	<b>\$ 4,824,117</b>

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

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Allocation from World Service Fund	\$ 1,682,470	\$ 569,353	\$ 2,251,823	\$ 1,657,518	\$ 560,910	\$ 2,218,428
Distribution from Benefit Trust	70,785	-	70,785	74,112	-	74,112
Services received from General Council on Finance and Administration	48,669	-	48,669	50,732	-	50,732
Interest income from General Council on Finance and Administration short-term pooled investment fund	174,361	-	174,361	161,268	-	161,268
Investment return, net	-	20,681	20,681	-	679	679
Other income	239	-	239	1,649	-	1,649
Net assets released from restrictions	352,810	(352,810)	-	398,253	(398,253)	-
<b>Total Revenue and Support</b>	<b>2,329,334</b>	<b>237,224</b>	<b>2,566,558</b>	<b>2,343,532</b>	<b>163,336</b>	<b>2,506,868</b>
Expenses:						
Program:						
Core action fund program	347,810	-	347,810	398,253	-	398,253
Communication	460,560	-	460,560	453,318	-	453,318
Ministry	1,061,987	-	1,061,987	1,008,468	-	1,008,468
Other programs	5,000	-	5,000	-	-	-
<b>Total Program Expenses</b>	<b>1,875,357</b>	<b>-</b>	<b>1,875,357</b>	<b>1,860,039</b>	<b>-</b>	<b>1,860,039</b>
Management and general	828,398	-	828,398	878,146	-	878,146
<b>Total Expenses</b>	<b>2,703,755</b>	<b>-</b>	<b>2,703,755</b>	<b>2,738,185</b>	<b>-</b>	<b>2,738,185</b>
Change in net assets	(374,421)	237,224	(137,197)	(394,653)	163,336	(231,317)
Net assets, beginning of year	3,746,912	904,855	4,651,767	4,141,565	741,519	4,883,084
<b>Net assets, end of year</b>	<b>\$ 3,372,491</b>	<b>\$ 1,142,079</b>	<b>\$ 4,514,570</b>	<b>\$ 3,746,912</b>	<b>\$ 904,855</b>	<b>\$ 4,651,767</b>

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  
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services	Total
	Core	Communication	Ministry	Other Programs	Management and General	
	Action Fund					
Grants	\$ 173,214	\$ 43,096	\$ 59,527	\$ 5,000	\$ 16,852	\$ 297,689
Salaries and wages	76,004	122,294	389,251	-	201,120	788,669
Employee benefits	20,685	32,725	110,425	-	89,368	253,203
Administration provided by General Council						
on Finance and Administration	-	-	-	-	60,669	60,669
Administration paid to General Board						
of Church and Society	-	12,064	2,314	-	35,482	49,860
Rent and occupancy paid to General Board of Church and Society	16,824	25,237	84,122	-	45,141	171,324
Travel and meetings	830	31,478	300,920	-	260,319	593,547
Professional fees	60,018	106,263	81,463	-	49,084	296,828
Supplies	-	25	1,981	-	6,100	8,106
Printing	-	21,199	1,305	-	4,468	26,972
Telephone and web service	235	592	3,011	-	662	4,500
Postage, shipping, and freight	-	2,056	4,470	-	1,880	8,406
Repairs and maintenance	-	7,363	17,693	-	4,935	29,991
Insurance	-	-	-	-	22,885	22,885
Depreciation	-	-	-	-	10,173	10,173
Promotional and information material	-	56,168	5,505	-	14,667	76,340
Other	-	-	-	-	4,593	4,593
	<u>\$ 347,810</u>	<u>\$ 460,560</u>	<u>\$ 1,061,987</u>	<u>\$ 5,000</u>	<u>\$ 828,398</u>	<u>\$ 2,703,755</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  
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	\$ (137,197)	\$ (231,317)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	10,173	12,876
Realized and unrealized (gain) loss on investments	(18,639)	664
Change in operating assets and liabilities:		
Due from General Council on Finance and Administration short-term pooled investment fund	194,062	190,201
Accrued World Service Fund allocation	(45,574)	80,149
Accounts receivable	(1,620)	-
Prepaid expenses	4,965	9,848
Other assets	(6,518)	-
Accounts payable	(20,954)	(65,079)
Accrued expenses	29,939	4,729
Deferred rent	(6,594)	1,732
Net cash flows from operating activities	<u>2,043</u>	<u>3,803</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	-	(1,760)
Net purchases of investments in United Methodist Church Foundation	(2,043)	(2,043)
Net cash flows from investing activities	<u>(2,043)</u>	<u>(3,803)</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, 2017 AND 2016

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### **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 88% of the Commission’s total revenues in 2017 and 2016. 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:

*Invested in Property and Equipment* – Represents net assets invested in property and equipment, net of accumulated depreciation.

*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 invested in property and equipment and 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, 2017 AND 2016

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**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.

*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 as temporarily restricted, 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 \$48,669 and \$50,732 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, GCFA allocated \$174,361 and \$161,268 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, 2017 AND 2016

**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, 2017 and 2016 was 4.38% and 4.13%, 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, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Texas Methodist Foundation loan fund	25.8%	26.4%
Mutual funds	3.2%	3.0%
Short-term collateralized loan fund	0.5%	0.5%
Fixed income	11.4%	11.7%
Corporate bonds	59.1%	58.2%
United Methodist Development Fund	0.0%	0.2%
	<u>100%</u>	<u>100%</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. 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* – Revocable grants are awarded through the Minority Group Self Determination Fund to support various projects. Grants awarded are charged to expense as grant requirements are met. At December 31, 2017 and 2016, there were no undisbursed commitments on revocable grants.

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

*DECEMBER 31, 2017 AND 2016*

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**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.

*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 Commission 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.

*Future Pronouncements* – In February 2016, the 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 statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. 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.

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

DECEMBER 31, 2017 AND 2016

**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:	
Due to GCFA short-term pooled investment fund	\$ 3,755,155
Investments in the United Methodist Foundation	184,032
Accrued World Service Fund allocation	638,542
Accounts receivable	<u>1,620</u>
Total financial assets	<u>4,579,349</u>
Less amounts not available to be used for general expenditures within one year:	
Subject to donor purpose restrictions and accumulated earnings on endowments	1,033,438
Funds to be held in perpetuity	108,641
Board-designated funds	<u>232,185</u>
Financial assets not available to be used within one year	<u>1,374,264</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 3,205,085</u></u>

The Commission has certain board-designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year. The Commission has other assets limited to use for donor-restricted purposes. Additionally, certain other board-designated assets are designated for the Talbert Fund which was \$1,673 as of December 31, 2017. These assets limited to use, which are more fully described in Note 10 and are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Commission's liquidity management plan, cash in excess of daily requirements are invested in the Commission's short-term pooled investment fund. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was \$230,512 as of December 31, 2017. This fund 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, 2017 AND 2016

**Note 4—Property and equipment**

Property and equipment consisted of the following at December 31:

	<b>2017</b>	<b>2016</b>
Furniture	\$ 155,019	\$ 155,019
Equipment	65,378	65,378
Leasehold improvements	146,194	146,194
	<u>366,591</u>	<u>366,591</u>
Less accumulated depreciation	(286,982)	(276,809)
Furniture, equipment, and leasehold improvements, net	<u>\$ 79,609</u>	<u>\$ 89,782</u>

Depreciation expense totaled \$10,173 and \$12,876 in 2017 and 2016, respectively.

**Note 5—Investments**

The Commission's investments at December 31, 2017 and 2016 consist of the following:

	<b>2017</b>		<b>2016</b>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
UMC Foundation	<u>\$ 184,032</u>	<u>\$ 168,643</u>	<u>\$ 163,350</u>	<u>\$ 163,040</u>

Investment return consists of the following for the years ended December 31, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Dividend and interest income	\$ 2,042	\$ 1,343
Realized gain on investments	3,561	3,898
Unrealized gain (loss) on investments	15,078	(4,562)
Net investment return, net	<u>\$ 20,681</u>	<u>\$ 679</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, 2017 AND 2016

**Note 6—Fair value of investments**

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, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
UMC Foundation *	<u>\$ 184,032</u>	none	daily	3 days

\* The UMC Foundation investment is within the Balanced Plus Fund. The Balanced Plus Fund’s objective is to provide similar investment returns as the Balanced Fund, but to reduce the volatility of the returns by increased portfolio diversification through the use of alternative investment strategies. The targeted allocation of the fund is 30% invested in a fixed income fund, 25% in a domestic large cap equity portfolio, 10% in a domestic small/mid-cap equity portfolio, 15% in an international equity portfolio, and 20% in alternative investments consisting of funds of hedge funds and managed futures portfolios. The 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>2017</u>	<u>2016</u>
Statements of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 3,755,155	\$ 3,949,217
Investments in UMC Foundation	184,032	163,350
Accrued World Service Fund allocation	638,542	592,968
Statements of Activities:		
Revenue:		
Allocation from World Service Fund	2,251,823	2,218,428
Distribution from Benefit Trust	70,785	74,112
Services received from GCFA	48,669	50,732
Interest income from GCFA short-term pooled investment fund	174,361	161,268
Investment return (UMC Foundation)	20,681	679
Expenses:		
Group insurance expense	104,967	88,143
Rent paid to General Board of Church and Society ("GBCS")	171,324	171,324
Administrative services donated by GCFA	48,669	50,732
Administrative services paid to GCFA	12,000	4,000
Administrative services paid to GBCS	49,860	45,636
Grants paid to affiliates	199,806	225,352

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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 contribution to their United Methodist Personal Investment Plan. Total contributions made by the Commission for both components during the years ended December 31, 2017 and 2016 were \$78,948 and \$70,817, respectively.

*Health Care and Life Insurance Benefits* – The Commission 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 ASC 715, *Compensation - Retirement Benefits*. Substantially all retired employees are eligible to participate in the group plan if they have attained normal retirement age while in the employ of the Commission.

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 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 Plan’s unfunded accumulated postretirement benefit obligation was approximately \$98,600,000 and \$91,600,000 as of December 31, 2017 and 2016, respectively. 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.

The cost of the benefits is recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$92,166 and \$75,535 in 2017 and 2016, respectively, and the total cost of benefits for retired employees was \$12,801 and \$12,608 in 2017 and 2016, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

Wespath has transferred certain excess pension assets to the Benefit Trust established by the 1996 General Conference as of December 31, 1996. Annually, the Benefit Trust allows a stated percentage, 6% for both 2017 and 2016 of the fair market value of Benefit Trust assets at year-end 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) was approximately \$165,800,000 and \$149,300,000 as of December 31, 2017 and 2016, respectively. The total amount available for reimbursement in 2017 and 2016 was \$8,957,614 and \$8,822,895, respectively, of which the Commission’s share, including retiree health benefits, was \$70,785 and \$74,112, respectively.



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**Note 9—Lease commitments**

The Commission leases office space within the GBCS, a related party, under an operating lease, which expired in February 2014 and was renewed through February 2019. A summary of future minimum rental commitments at December 31, 2017 is as follows:

<u>Years Ending December 31,</u>	
2018	\$ 183,580
2019	30,841
	<u>\$ 214,421</u>

Rent expense to GBCS was \$171,324 for the years ended December 31, 2017 and 2016.

**Note 10—Board-designated net assets**

Certain net assets without donor restrictions at December 31, 2017 and 2016 have been designated by the Board of Directors for the following purposes:

	<u>2017</u>	<u>2016</u>
Operating reserve	\$ 230,512	\$ 230,512
Talbert Fund	1,673	1,673
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 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:		
Discerning Nature of Racism	\$ 27,077	\$ 27,077
Ebony Bishops Fund	7,723	7,723
Minority Group Self Determination Fund	928,248	706,705
Total subject to purpose restrictions	<u>963,048</u>	<u>741,505</u>
Endowments:		
Accumulated earnings on the Commission endowment fund	70,390	54,709
Commission endowment fund held in perpetuity	108,641	108,641
Total endowments	<u>179,031</u>	<u>163,350</u>
Total net assets with donor restrictions	<u>\$ 1,142,079</u>	<u>\$ 904,855</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 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 applicable state laws as requiring the preservation of the fair value of the original gift as of the 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 net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Commission in a manner consistent with the standard of prudence prescribed by applicable state laws.

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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

As of December 31, 2017 and 2016, the Commission 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>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 108,641	\$ 108,641
Accumulated investment gains	-	70,390	70,390
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 179,031</u>	<u>\$ 179,031</u>

	<b>December 31, 2016</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 108,641	\$ 108,641
Accumulated investment gains	-	54,709	54,709
Endowment net assets, December 31, 2016	<u>\$ -</u>	<u>\$ 163,350</u>	<u>\$ 163,350</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, 2017, 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, 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	\$ -	\$ 162,671	\$ 162,671
Investment income, net	-	679	679
Endowment net assets, December 31, 2016	-	163,350	163,350
Investment income, net	-	20,681	20,681
Appropriation of endowment assets for expenditure and reclassifications	-	(5,000)	(5,000)
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 179,031</u>	<u>\$ 179,031</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. There were \$5,000 and \$-0- distributions of endowment earnings appropriated for expenditure in the years ended December 31, 2017 and 2016, respectively.

*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—Subsequent events**

Management has evaluated subsequent events through May 11, 2018, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.