

**GENERAL BOARD OF HIGHER
EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

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

And Report of Independent Auditor

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THE UNITED METHODIST CHURCH
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Report of Independent Auditor

The Board of Directors of the
General Board of Higher Education and Ministry of
The United Methodist Church
Nashville, Tennessee

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 Board of Higher Education and Ministry of The United Methodist Church (“GBHEM”), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 GBHEM’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 GBHEM’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 the General Board of Higher Education and Ministry of The United Methodist Church as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Cherry Bekaert LLP

Charlotte, North Carolina
June 10, 2019

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 250	\$ 250
Due from General Council on Finance and Administration short-term pooled investment fund	19,636,972	16,849,025
Accounts receivable, net	168,670	3,688
Investments	192,482,500	206,383,856
Due from related organizations	11,154,639	11,189,295
Other assets	781,133	748,429
Student loans receivable, net of allowance for doubtful accounts	13,929,744	14,526,366
Property and equipment, net	501,346	589,382
Funds held by outside trustees for the benefit of GBHEM	6,640,594	7,714,130
Total Assets	<u><u>\$ 245,295,848</u></u>	<u><u>\$ 258,004,421</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 6,870,941	\$ 7,391,486
Due to related organizations	9,793,958	7,842,474
Custodial funds payable	84,197,221	90,114,663
Total Liabilities	<u>100,862,120</u>	<u>105,348,623</u>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	501,346	589,382
Undesignated	22,733,126	25,307,953
Total without Donor Restrictions	<u>23,234,472</u>	<u>25,897,335</u>
With Donor Restrictions:		
Subject to purpose restrictions	71,686,912	73,249,907
Endowments	49,512,344	53,508,556
Total with Donor Restrictions	<u>121,199,256</u>	<u>126,758,463</u>
Total Net Assets	<u>144,433,728</u>	<u>152,655,798</u>
Total Liabilities and Net Assets	<u><u>\$ 245,295,848</u></u>	<u><u>\$ 258,004,421</u></u>

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
General Church Funds:						
World Service Fund allocation	\$ 5,805,343	\$ -	\$ 5,805,343	\$ 5,843,624	\$ -	\$ 5,843,624
Ministerial Education Fund	-	18,017,277	18,017,277	-	18,099,528	18,099,528
Black College Fund	-	9,641,892	9,641,892	-	9,670,222	9,670,222
HANA Scholarships	397,600	-	397,600	317,700	-	317,700
Young Clergy Initiative	-	1,601,235	1,601,235	-	1,590,492	1,590,492
Central Conference Theological Education	-	2,303,137	2,303,137	-	2,287,683	2,287,683
Special Offerings:						
Student Day	-	328,137	328,137	-	360,058	360,058
World Communion-Ethnic Minority Scholarships	-	219,431	219,431	-	242,055	242,055
World Communion-In-Service	-	94,042	94,042	-	103,738	103,738
Native American Awareness	-	124,273	124,273	-	110,532	110,532
Total General Church Funds	6,202,943	32,329,424	38,532,367	6,161,324	32,464,308	38,625,632
Interest on student loans	-	625,929	625,929	-	665,663	665,663
Investment return from GCFA short-term pooled investment fund, net	146,282	31,014	177,296	426,533	115,934	542,467
Investment return from Invested Fund draw for operations	980,743	2,423,614	3,404,357	621,315	2,287,809	2,909,124
Gift and other	512,874	1,382,004	1,894,878	350,646	1,115,751	1,466,397
Benefit Trust Distribution	821,342	-	821,342	709,798	-	709,798
Services received from General Council on Finance and Administration	23,365	-	23,365	36,863	-	36,863
Net assets released from restrictions	35,513,995	(35,513,995)	-	38,388,768	(38,388,768)	-
Total Operating Revenue	44,201,544	1,277,990	45,479,534	46,695,247	(1,739,303)	44,955,944
Operating Expenses:						
Program Services:						
Division of Higher Education	11,037,448	-	11,037,448	12,867,896	-	12,867,896
Office of Loans and Scholarships	4,500,168	-	4,500,168	4,866,878	-	4,866,878
Division of Ordained Ministry	19,096,427	-	19,096,427	19,314,003	-	19,314,003
Special Initiatives	5,519,450	-	5,519,450	3,623,517	-	3,623,517
General Board	777,982	-	777,982	520,753	-	520,753
Total Program Services	40,931,475	-	40,931,475	41,193,047	-	41,193,047
Management and General	3,790,082	-	3,790,082	3,642,438	-	3,642,438
Total Operating Expenses	44,721,557	-	44,721,557	44,835,485	-	44,835,485
Change in net assets from operations	(520,013)	1,277,990	757,977	1,859,762	(1,739,303)	120,459
Nonoperating Revenue (Expenses):						
Investment return, net	(2,142,850)	(5,904,763)	(8,047,613)	3,353,914	10,921,440	14,275,354
Change in value of funds held by outside trustees	-	(1,073,536)	(1,073,536)	-	612,745	612,745
Gifts held in perpetuity	-	141,102	141,102	-	68,394	68,394
Total Nonoperating Revenue (Expenses)	(2,142,850)	(6,837,197)	(8,980,047)	3,353,914	11,602,579	14,956,493
Change in net assets	(2,662,863)	(5,559,207)	(8,222,070)	5,213,676	9,863,276	15,076,952
Net assets, beginning of year	25,897,335	126,758,463	152,655,798	20,683,659	116,895,187	137,578,846
Net assets, end of year	\$ 23,234,472	\$ 121,199,256	\$ 144,433,728	\$ 25,897,335	\$ 126,758,463	\$ 152,655,798

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

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services	Total
	Division of Higher Education	Office of Loans and Scholarships	Division of Ordained Ministry	Special Initiatives	General Board	Management and General	
Distributions to historically black colleges and universities	\$ 8,865,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,865,917
Distributions to theological schools	-	-	14,593,994	-	-	-	14,593,994
Special initiatives and other distributions	260,268	-	-	4,108,944	-	-	4,369,212
Scholarships	164,000	3,451,579	-	-	54,464	-	3,670,043
Events, training, and other program expenditures	542,316	-	2,311,717	309,950	433,036	-	3,597,019
Salaries and wages	765,594	376,073	1,329,315	246,285	154,826	1,868,863	4,740,956
Employee benefits	250,340	144,647	375,764	93,940	34,428	772,451	1,671,570
Administration provided by General Council on Finance and Administration	-	-	-	-	-	23,365	23,365
Rent and occupancy	-	-	-	-	-	249,794	249,794
Travel and meetings	140,063	20,440	327,873	76,797	68,274	177,016	810,463
Professional fees	20,215	338,757	119,562	265,672	20,000	82,160	846,366
Supplies	4,829	1,230	3,458	1,055	-	57,049	67,621
Telephone and web service	5,522	1,820	6,009	402,696	909	112,933	529,889
Postage, shipping, and freight	2,917	6,752	15,538	4,243	224	2,063	31,737
Repairs and maintenance	-	-	-	-	-	243	243
Insurance	-	-	-	-	-	90,888	90,888
Depreciation	-	-	-	-	-	89,814	89,814
Promotional and information material	9,694	23,216	8,984	7,368	8,253	38,550	96,065
Software	-	-	-	-	-	154,289	154,289
Miscellaneous	5,773	135,654	4,213	2,500	3,568	70,604	222,312
Total Operating Expenses	\$ 11,037,448	\$ 4,500,168	\$ 19,096,427	\$ 5,519,450	\$ 777,982	\$ 3,790,082	\$ 44,721,557

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

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	Program Services					Supporting Services	Total
	Division of Higher Education	Office of Loans and Scholarships	Division of Ordained Ministry	Special Initiatives	General Board	Management and General	
Distributions to historically black colleges and universities	\$ 10,972,233	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,972,233
Distributions to theological schools	-	-	14,660,717	-	-	-	14,660,717
Special initiatives and other distributions	267,943	-	2,000	2,883,886	-	-	3,153,829
Scholarships	173,000	3,868,045	-	-	46,013	-	4,087,058
Events, training, and other program expenditures	417,056	1,848	2,481,483	368,691	215,720	-	3,484,798
Salaries and wages	649,741	374,143	1,398,715	181,020	142,586	1,745,360	4,491,565
Employee benefits	232,545	141,684	385,455	60,215	31,135	728,895	1,579,929
Administration provided by General Council on Finance and Administration	-	-	-	-	-	36,863	36,863
Rent and occupancy	-	-	-	-	-	329,783	329,783
Travel and meetings	91,511	32,019	225,378	86,702	76,813	216,069	728,492
Professional fees	25,138	365,645	112,065	7,700	4,800	67,422	582,770
Supplies	3,094	1,188	6,657	575	374	43,998	55,886
Telephone and web service	5,171	1,987	7,922	21,367	917	139,108	176,472
Postage, shipping, and freight	3,991	8,254	17,710	7,283	46	1,247	38,531
Insurance	-	-	-	-	-	78,959	78,959
Depreciation	-	-	-	-	-	87,396	87,396
Promotional and information material	18,049	20,650	10,362	5,032	998	19,238	74,329
Miscellaneous	8,424	51,415	5,539	1,046	1,351	148,100	215,875
Total Operating Expenses	\$ 12,867,896	\$ 4,866,878	\$ 19,314,003	\$ 3,623,517	\$ 520,753	\$ 3,642,438	\$ 44,835,485

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

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (8,222,070)	\$ 15,076,952
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	89,814	87,396
Realized and unrealized losses (gains) on sale of investments	6,411,855	(15,569,036)
Gifts restricted for long-term investment	(141,102)	(68,394)
Provision for doubtful accounts	125,291	41,505
Changes in operating assets and liabilities:		
Due from GCFA short-term pooled investment fund	(2,787,947)	(2,138,707)
Accounts receivable	(164,982)	362,063
Due to (from) related organizations, net	1,986,140	927,731
Other assets	(32,704)	(220,116)
Student loans receivable	471,331	797,710
Funds held by outside trustees for the benefit of GBHEM	1,073,536	(612,746)
Accounts payable and accrued liabilities	(520,545)	155,444
Custodial funds payable	(5,917,442)	10,017,768
Net cash flows from operating activities	<u>(7,628,825)</u>	<u>8,857,570</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,778)	(3,806)
Purchases of investments held directly	(84,057,921)	(87,009,478)
Sales and maturities of investments held directly	91,547,422	78,087,320
Net cash flows from investing activities	<u>7,487,723</u>	<u>(8,925,964)</u>
Cash flows from financing activities:		
Proceeds from gifts restricted for long-term investment	141,102	68,394
Net cash flows from financing activities	<u>141,102</u>	<u>68,394</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	250	250
Cash and cash equivalents, end of year	<u>\$ 250</u>	<u>\$ 250</u>

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

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1—Organization and nature of operations

The General Board of Higher Education and Ministry of The United Methodist Church (“GBHEM”) was created to assist in preparing persons to fulfill their ministry, ordained and lay, and to provide general oversight and care for institutions of higher education, including schools, colleges, universities, and theological seminaries of The United Methodist Church.

GBHEM appoints and/or ratifies members of the boards of directors for several entities, including The United Methodist Higher Education Foundation, Africa University, Inc. Tennessee, and American University. However, because GBHEM has no economic interest in any of these entities, the financial statements of GBHEM do not include the financial position or changes in net assets of these entities.

Funding for GBHEM’s operations is principally provided by allocations received from the General Funds of The United Methodist Church (the “Church”) (distributed through its General Conference) based on a four-year budget developed from projections of expected program costs. The allocation accounts for 85% of GBHEM’s total operating revenue in 2018 and 86% in 2017. GBHEM’s continued existence is dependent upon the Church’s future support. The Church’s future support is dependent upon contributions from its congregations (i.e., congregational participation in the apportionment covenant).

The World Service Fund (the “Fund”) is the basic benevolence fund of the Church. The Fund solicits and receives contributions from United Methodist churches and makes annual allocations to support the activities of various church agencies (including GBHEM) in accordance with the donors’ intent. Such amounts are recognized as revenue in the period the allocation is made, which generally corresponds with the period the donations are made.

The Ministerial Education Fund (“MEF”) is an apportioned fund with the purpose to enable the Church to unify and expand its program of financial support for the recruitment and education of ordained and diaconal ministers. Funds shall go directly for programs and services in theological education, the enlistment and continuing education of ordained and diaconal ministers, and courses of study. GBHEM receives 75% of the total MEF money raised in each annual conference.

The Black College Fund is an apportioned fund administered by GBHEM. The purpose of the fund is to provide financial support for current operating budgets and capital improvements of the Black colleges related administratively to the Church.

The Commission on Central Conference Theological Education and The Young Clergy Initiative Fund were approved at the 2012 General Conference and funded through the Fund. These funds are recognized as net assets with donor restrictions when received and released from restriction when used.

Sundays with General Church offerings are observed on a church wide basis. The General Council on Finance and Administration (“GCFA”), in consultation with the Connectional Table and the Council of Bishops, makes recommendations to the General Conference regarding these special offerings. Remitted funds are transferred by GCFA to the administering agencies.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies

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

Basis of Presentation – For reporting purposes, GBHEM's financial statements have been prepared to focus on the organization as a whole and classify balances and transactions into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of GBHEM 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 objective of GBHEM. These net assets may be used at the discretion of GBHEM's management and board of directors. GBHEM has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The subclassifications are as follows:

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

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

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and board-designated.

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

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.

GBHEM has chosen to provide further classification information about net assets with donor restrictions in the footnotes to the statements of financial position. The subclassifications are as follows:

Restricted for Loans and Scholarships – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted for loans and scholarship awards to United Methodist students.

Restricted for Support of Historical Black Colleges and Universities – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted primarily for support of historical black colleges and universities.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

Restricted for Support of Ministerial Purposes – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted primarily for support of ministerial programs.

Restricted for Support of Special Initiatives – Comprised of World Service Funds specifically set aside for Central Conference Theological Education (“CCTE”) and Young Clergy Initiative (“YCI”), and unspent income earned. The CCTE Fund shall be used in central conferences outside the United States and administered by GBHEM. The YCI Funds are to be used to focus on encouraging young adults who wish to respond to the call to ordained ministry. YCI funds are administered by GBHEM.

Restricted for Other Program Purposes – Comprised of funds received from donors, either directly or through fundraising efforts of the General Conference of The United Methodist Church, and unspent income earned, restricted primarily for capital grants and improvements.

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 restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets with donor restrictions based on explicit donor stipulation or by law, or if no such restriction exists, as net assets without donor restrictions. Expirations of temporary restrictions on net assets are reported as released from net assets with donor restrictions to net assets without donor restrictions. Investment returns from Invested Fund draw for operations represents the 3.75% approved draw of earnings from the invested funds plus additional funds approved by the board of directors for special initiatives. Investment returns from Invested Fund draw for operations represents the approved draw of earnings (3.75% in both 2018 and 2017) from the investment portfolio managed by Ellwood and Associates plus additional funds approved by the board of directors for special initiatives. This is reported as operating income.

Services Received from Personnel of an Affiliate – Services received from personnel of GCFA for which GCFA does not charge GBHEM has been measured at the cost recognized by GCFA in providing those services. The revenue and expense relating to those services received are presented in the related party Note 10 and totaled \$23,365 and \$36,863 for the years ended December 31, 2018 and 2017, respectively.

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

Contributions – Unconditional promises to give cash and other assets to GBHEM are recognized as revenue at their fair values in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions made, including unconditional promises to give, are recognized as expenses at their fair values in the period made.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

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 GBHEM'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 GBHEM 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 GBHEM'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, 2018 and 2017, GCFA allocated \$177,296 and \$542,467 of interest income, respectively, to GBHEM. While interest income can be earned based on the performance of the pooled investment funds, GBHEM 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.

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, 2018 and 2017 was 1.14% and 4.38%, 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Texas Methodist Foundation loan fund	19.5%	20.5%
Mutual funds	2.0%	2.5%
Short-term collateralized loan fund	0.4%	0.4%
Fixed income	20.9%	9.0%
Corporate bonds	47.1%	47.0%
Cash	10.1%	20.6%
	<u>100.0%</u>	<u>100.0%</u>

Investments – Investments consist of common stock, U.S. government agency securities, bonds, and other investments. Investments held individually and as part of GBHEM's general investment pool are valued at fair value as determined by the custodian. The fair value of publicly traded securities is determined based on quoted market prices. The fair value of other alternative investments and investments held by a custodian are determined by net asset value. Investment return consists of interest and dividends and realized and unrealized gains and losses, reported net of investment expenses.

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

Note 2—Summary of significant accounting policies (continued)

Student Loans Receivable – GBHEM makes uncollateralized loans to students based on a first-come, first served basis until allocated funds are used. The current interest rates for The United Methodist (“UM”) Student Loan Program are 5% for a deferred loan if attending a non-UM school, 4% for a deferred loan if attending a UM school, or 3.75% for a non-deferred loan. The maximum amount a UM student can borrow is \$5,000 per year. If the loan is deferred, borrowers are allowed up to 10 years following a six-month grace period after their graduation or withdrawal from school to repay their loan. If the loan is non-deferred, the payment schedule begins within 45 days and borrowers are allowed up to 10 years to repay their loan. Both loan types require a \$50 minimum monthly payment. GBHEM provides an allowance for doubtful accounts based on a formula of past due accounts and current financial conditions. Account balances are written off after all collection efforts have been exhausted.

Payments are due on the first of the month and net 30 days. Payments are aged 30, 60, 90, and 120 days; appropriate contact is made with cosigner/borrower per delinquency level. Delinquent accounts are placed with a collection agency after 120 days. After 12 months in collection, the account may be assigned to an attorney. Simple interest is accrued on the principal balance from the date of the inception of the loan and does not cease until the full balance is paid. Interest continues to accrue on accounts placed with the collection agency; however, accrual ceases on a loan in default when assigned to an attorney for final collection attempts. GBHEM records all interest earned on student accounts as increases in net assets with donor restrictions.

A loan is in deferment under two circumstances: in school and hardship. For a deferred loan, student accounts remain under deferment as long as a student maintains at least a half-time status in school. Upon graduation, students receive a six-month grace period before the account goes into repayment. Students must verify enrollment annually. A borrower may apply for a six-month hardship deferment due to economic or health circumstances. The length of time for deferment due to military service or voluntary service in AmeriCorp is set based upon the dates of deployment.

A loan becomes impaired when assigned to an attorney. Up until that time, it is possible for an account to go to the collection agency where only the past due amount is pursued. After all past due payments are received, the loan balance is made current and placed back into regular billing. Determination for exception based upon consistent monthly payment is made on a case-by-case basis.

Property and Equipment – Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets, which range from 3 to 20 years. GBHEM capitalizes assets with a cost greater than \$2,500.

Income Taxes – GBHEM is covered under 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, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). GBHEM 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. GBHEM had no significant unrelated business income during the years ended December 31, 2018 and 2017.

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Note 2—Summary of significant accounting policies (continued)

GBHEM 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 GBHEM include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the GBHEM has determined that such tax positions do not result in an uncertainty requiring recognition.

Functional Classification of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities.

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.

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 – The Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU is effective for the year ending December 31, 2019. GBHEM is currently in the process of evaluating the impact that this standard will have on its financial statements

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Note 3—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 250	\$ 250
Due from GCFA short-term pooled investment fund	19,636,972	16,849,025
Accounts receivable, net	168,670	3,688
Investments	192,482,500	206,383,856
Due from related organizations	11,154,639	11,189,295
Student loans receivable, net of allowance for doubtful accounts	13,929,744	14,526,366
Funds held by outside trustees for the benefit of GBHEM	6,640,594	7,714,130
Total financial assets	<u>244,013,369</u>	<u>256,666,610</u>
Less amounts not available to be used for general expenditures within one year:		
Custodial funds payable	84,197,221	90,114,663
Purpose restrictions	71,686,912	73,249,907
Endowment funds held in perpetuity and accumulated earnings	49,512,344	53,508,556
Financial assets not available to be used within one year	<u>205,396,477</u>	<u>216,873,126</u>
Financial assets available to meet general expenditures within one year	<u>\$ 38,616,892</u>	<u>\$ 39,793,484</u>

As part of GBHEM'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 GCFA's short-term pooled investment fund. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

GBHEM has assets held as a custodian for other organizations and limited to use for donor-restricted purposes. Net assets held as a custodian for other organizations and limited to use for purpose restrictions, which are more fully described in Notes 8, 12, and 13, are not available for general expenditure within the next year.

Student loans receivable have been funded using donor-restricted resources. The net assets with donor restrictions associated with the student loans receivable have been included within the total purpose restrictions not available to be used for general expenditures within one year.

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Note 4—Student loans receivable

At December 31, 2018 and 2017, student loans, net of allowance for doubtful accounts totaled \$13,929,744 and \$14,526,366, respectively.

Movements in the allowance of student loans for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Allowance for doubtful accounts:		
Beginning of year	\$ 1,270,600	\$ 1,270,600
Write-offs	(125,291)	(41,505)
Provisions to expense	125,291	41,505
End of year	<u>\$ 1,270,600</u>	<u>\$ 1,270,600</u>

At December 31, 2018 and 2017, the following amounts were past due under the student loan program:

	<u>60 days</u>	<u>90 days</u>	<u>120 +</u>
2018	\$ 116,590	\$ 90,751	\$ 1,281,014
2017	109,662	53,165	1,314,827

Note 5—Investments

Investments at December 31 consist of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash, pending investment	\$ 5,741,164	\$ 5,741,164	\$ 3,225,700	\$ 3,225,700
Common and preferred stock	73,098,126	60,623,653	79,286,434	57,799,337
Equity mutual funds	33,663,862	33,280,532	41,043,999	33,964,367
U.S. government agency securities	7,618,719	7,924,116	10,318,243	10,600,667
U.S. government bonds	12,508,768	12,520,990	11,648,408	11,703,065
Other fixed income	9,788,382	11,291,605	9,637,437	10,637,796
Corporate bonds	17,882,121	18,011,610	16,553,420	16,161,169
US Equity Index Fund (Wespath)	20,915,651	15,693,589	25,451,740	25,188,476
Real estate	11,265,707	11,265,707	9,218,475	9,218,475
	<u>\$ 192,482,500</u>	<u>\$ 176,352,966</u>	<u>\$ 206,383,856</u>	<u>\$ 178,499,052</u>

Investments include funds held and invested on behalf of other organizations as well as GBHEM funds (see Note 8).

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Note 5—Investments (continued)

Return on GBHEM's portion of the total investments of \$108,275,382 and \$116,269,193 for the years ended December 31, 2018 and 2017, respectively, was as follows:

	<u>2018</u>	<u>2017</u>
Investment return:		
Investment income	\$ 2,615,975	\$ 2,192,814
Royalty income	-	73,732
Gains (losses) on investments:		
Realized gains on sale of investments	3,744,326	2,330,488
Unrealized gains (losses) on investments	<u>(10,156,181)</u>	<u>13,238,548</u>
Gains (losses) on investments	(6,411,855)	15,569,036
Less investment management expenses	<u>(847,376)</u>	<u>(651,104)</u>
Investment return, net	(4,643,256)	17,184,478
Investment Return from Invested Fund Draw for Operations:		
Adjustment for investment income transferred to operations	<u>(3,404,357)</u>	<u>(2,909,124)</u>
Nonoperating Investment return, net	<u>\$ (8,047,613)</u>	<u>\$ 14,275,354</u>

Note 6—Property and equipment

Property and equipment at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 257,319	\$ 257,319
Buildings and improvements	2,409,572	2,409,572
Computer equipment	1,348,153	1,346,375
Furniture and fixtures	<u>711,424</u>	<u>711,424</u>
	4,726,468	4,724,690
Less accumulated depreciation	<u>(4,225,122)</u>	<u>(4,135,308)</u>
Total property and equipment, net	<u>\$ 501,346</u>	<u>\$ 589,382</u>

Depreciation expense, related to property and equipment, for the years ended December 31, 2018 and 2017 was \$89,814 and \$87,396, respectively.

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Note 7—Employee benefits

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

GBHEM makes semi-monthly contributions to each eligible employee’s account held by Wespath based on 8% of annual employee compensation. Additionally, GBHEM matches up to 2% of each employee’s annual compensation to their United Methodist Personal Investment Plan (UMPIP). Total contributions made by GBHEM for both components during 2018 and 2017 were \$485,774 and \$455,876, respectively.

Healthcare and Life Insurance Benefits – GBHEM 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 Plan if they have attained normal retirement age while in the employ of GBHEM.

The General Agencies of The United Methodist Church Benefit Plan (the “Plan”) provides medical, dental, life, and long and short-term disability defined benefits to participants of the general agencies.

The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$94,500,000 and \$98,600,000 and the Plan’s unfunded expected postretirement benefit obligation was approximately \$131,500,000 and \$148,700,000 as of December 31, 2018 and 2017, respectively.

The cost of benefits are recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$708,606 and \$663,086 in 2018 and 2017, respectively, and the cost of benefits for retired employees was \$187,875 and \$180,740 in 2018 and 2017, 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. Annually, the Benefit Trust allows a stated percentage, 6% for 2018 and 2017, 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 \$146,625,000 and \$165,800,000 as of December 31, 2018 and 2017, respectively. The total amount available for reimbursement in 2018 and 2017 was \$9,948,300 and \$8,957,614, respectively, of which GBHEM’s share was \$821,342 and \$709,798, respectively.

Note 8—Custodial funds payable

GBHEM holds funds in trust for others, representing investment amounts owned by various individuals, colleges and universities, and other affiliated entities of The United Methodist Church, but administered by GBHEM either separately or as a part of the general investment pool. GBHEM’s responsibilities for these funds are custodial in nature and consist of establishing and monitoring investment policies for these deposits and distributing the income earned or the principal at withdrawal in accordance with the depositor’s instructions. At December 31, 2018 and 2017, custodial funds payable totaled \$84,197,221 and \$90,114,663, respectively.

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Note 9—Real property held for the benefit of others

GBHEM holds legal title to certain real property in a fiduciary capacity without responsibility for capital expenditures or operating expenses. This property is used by several historically black educational institutions affiliated with the Church. As these properties are not owned by GBHEM for its own benefit, but are held as an accommodation to the institutions involved, they have been omitted from the financial statements.

Note 10—Related party transactions

GBHEM 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 GBHEM, including general ledger processing and maintenance, cash management, and group insurance plan administration. As of and for the years ended December 31, 2018 and 2017, GBHEM had the following transactions with GCFA and other related parties:

	<u>2018</u>	<u>2017</u>
Statements of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 19,636,972	\$ 16,849,025
Due from related organizations - World Service Fund Allocation receivable	10,967,348	11,046,817
Due from related organizations - other	187,291	142,478
Funds held by UMC Board of Trustees for the benefit of the GBHEM	5,901,108	6,919,588
Due to related organizations - Africa University Inc., Tennessee	9,319,621	7,699,206
Due to related organizations - other	474,337	143,268
Custodial funds payable - Africa University, Inc., Tennessee	67,766,871	72,548,648
Statements of Activities:		
Revenue:		
General church funds	38,532,367	38,625,632
Interest income from GCFA	177,296	542,467
Change in value of funds held by outside trustees - Board of Trustees	(1,073,536)	612,745
Benefit trust distribution	821,342	709,798
Services received from GCFA	23,365	36,863
Expenses:		
Administration provided by GCFA	23,365	36,863
Group insurance expense	896,481	843,826

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Note 11—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, 2018 and 2017 for assets and liabilities measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

	Fair Value Measurements at Reporting Date Using			
	Amounts Measured at Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Funds held by outside trustees for the benefit of GBHEM:	\$ 6,640,594	\$ -	\$ -	\$ 6,640,594
Investments:				
Cash pending investments	\$ 5,741,164	\$ 5,741,164	\$ -	\$ -
Common and preferred stock	73,098,126	73,098,126	-	-
Equity mutual funds	33,663,862	33,663,862	-	-
U.S. government agency securities	7,618,719	7,618,719	-	-
U.S. government bonds	12,508,768	12,508,768	-	-
Other fixed income	9,788,382	9,788,382	-	-
Corporate bonds	17,882,121	-	17,882,121	-
	160,301,142	\$ 142,419,021	\$ 17,882,121	\$ -
Investments reported at net asset value:				
U.S. equity index fund (Wespath) *	20,915,651			
TA Associates *	2,344,536			
Rockwood *	1,798,048			
Harrison Street *	7,005,153			
Stonelake *	117,970			
Total Investments	\$ 192,482,500			

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Note 11—Fair value of financial instruments (continued)

	Fair Value Measurements at Reporting Date Using			
	Amounts Measured at Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Funds held by outside trustees for the benefit of GBHEM:	\$ 7,714,130	\$ -	\$ -	\$ 7,714,130
Investments:				
Cash pending investments	\$ 3,225,700	\$ 3,225,700	\$ -	\$ -
Common and preferred stock	79,286,434	79,286,434	-	-
Equity mutual funds	41,043,999	41,043,999	-	-
U.S. government agency securities	10,318,243	10,318,243	-	-
U.S. government bonds	11,648,408	11,648,408	-	-
Other fixed income	9,637,437	9,637,437	-	-
Corporate bonds	16,553,420	-	16,553,420	-
	<u>171,713,641</u>	<u>\$ 155,160,221</u>	<u>\$ 16,553,420</u>	<u>\$ -</u>
Investments reported at net asset value:				
U.S. equity index fund (Wespath) *	25,451,740			
TA Associates *	2,814,590			
Rockwood *	879,384			
Harrison Street *	5,524,501			
Total Investments	<u>\$ 206,383,856</u>			

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value 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 methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments and Funds Held by Outside Trustees for the Benefit of GBHEM – The fair value of common stocks, government securities, and short-term investments are determined using primarily Level 1 inputs in accordance with ASC 820. The fair values of corporate bonds and funds held by outside trustees for the benefit of GBHEM are determined using primarily Level 2 and Level 3 inputs, respectively.

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Note 11—Fair value of financial instruments (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, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency ^(f)</u>	<u>Redemption Notice Period</u>
Wespath - U.S. equity index fund ^(a)	\$ 20,915,651		daily	daily
TA Associates ^(b)	2,344,536		variable	30 days
Rockwood ^(c)	1,798,048	1,244,259	variable	variable
Harrison Street ^(d)	7,005,153	2,229,590	variable	14 days
Stonelake ^(e)	117,970	3,562,500	variable	variable
	<u>\$ 32,181,358</u>			

(a) A U.S. Equity Index Fund (USEIF) that invests and reinvests in a portfolio of common stocks as represented by the Russell 3000® index.

(b) TA Associates is a direct real estate investment focused on value-added investment properties, which include office, industrial, and multi-family (apartments). This fund is well diversified geographically throughout the U.S.

(c) Rockwood is a real estate manager that acquires, develops, finances, operates and sells property in major metropolitan areas of the U.S. and focuses on value-add real estate investments. They pursue assets that have lower and higher risk/return policies.

(d) Harrison Street is an opportunistic real estate manager that focuses on niche real estate strategies in the U.S. Return is from capital appreciation typically sold once completed and leased. Investment typically has a theme, usually based on anomalies within a local market's supply and demand. This reduces the impact of returns of the real estate cycle.

(e) Stonelake is an opportunistic real estate manager focused only on investing in properties in Texas. The fund will invest in different sectors of the Texas real estate market which includes industrial, office, multi-family and retail.

(f) Redemption frequency indicates how often GBHEM may redeem investments during the year.

The following is a reconciliation of activity for 2018 and 2017 for assets measured at fair value based on significant unobservable information:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 7,714,130	\$ 7,101,384
Change in fair value	(580,725)	996,246
Sales and redemptions	(492,811)	(383,500)
Balance, end of year	<u>\$ 6,640,594</u>	<u>\$ 7,714,130</u>

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Note 12—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2018 and 2017 have been restricted by the donors for the following purpose restrictions:

	<u>2018</u>	<u>2017</u>
Subject to purpose restriction:		
Loans and scholarships	\$ 53,387,415	\$ 54,911,246
Historical black colleges and universities	10,921,061	11,019,351
Ministerial purposes	4,462,306	3,837,339
Young clergy initiative	188,788	925,922
Central conference on theological education	2,368,757	2,181,442
Other program purposes	358,585	374,607
Total subject to purpose restriction	<u>71,686,912</u>	<u>73,249,907</u>
Endowments:		
Accumulated earnings on GBHEM's endowment fund	30,363,833	33,328,946
GBHEM endowment fund held in perpetuity	19,148,511	20,179,610
Total endowments	<u>49,512,344</u>	<u>53,508,556</u>
Total net assets with donor restrictions	<u>\$ 121,199,256</u>	<u>\$ 126,758,463</u>

The amounts currently being used as revolving loan funds are intended to be continually loaned to students and not released from restriction; however, the amounts are classified as net assets with donor restrictions because they are expendable.

Net assets with donor restrictions for the years ended December 31, 2018 and 2017 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 13—Endowment

GBHEM's endowment consists of individual funds established for a variety of purposes, and is only donor-restricted endowment funds.

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

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Note 13—Endowment (continued)

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

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

	December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 19,148,511	\$ 19,148,511
Accumulated investment gains	-	30,363,833	30,363,833
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 49,512,344</u>	<u>\$ 49,512,344</u>
	December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 20,179,610	\$ 20,179,610
Accumulated investment gains	-	33,328,946	33,328,946
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 53,508,556</u>	<u>\$ 53,508,556</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). GBHEM has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018 and 2017, GBHEM had no underwater endowments.

Investment and Spending Policies – GBHEM has a policy of drawing up to an appropriation percentage for distribution annually of the previous 12 rolling quarter’s average quarter-end market values (3.75% in 2018 and in 2017). In establishing this policy, GBHEM considered the long-term expected return on endowment assets. Accordingly, over the long term, GBHEM expects the current spending policy to allow its endowment to produce current income within the total return strategy.

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DECEMBER 31, 2018 AND 2017

Note 13—Endowment (continued)

Return Objectives and Risk Parameters – GBHEM has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to GBHEM’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 GBHEM 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. Actual returns may vary.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, GBHEM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). GBHEM targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2016	\$ -	\$ 47,440,567	\$ 47,440,567
Investment return, net	-	7,239,558	7,239,558
Contributions	-	68,394	68,394
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(1,239,963)	(1,239,963)
Endowment net assets, December 31, 2017	-	53,508,556	53,508,556
Investment return, net	-	(2,809,573)	(2,809,573)
Contributions	-	141,102	141,102
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(1,327,741)	(1,327,741)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 49,512,344</u>	<u>\$ 49,512,344</u>

Note 14—Subsequent events

Management has evaluated subsequent events through June 10, 2019, the date the financial statements were available for issuance. Management has determined there are no subsequent events that require disclosure.

SUPPLEMENTAL SCHEDULES

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
DISTRIBUTIONS TO HISTORICALLY BLACK COLLEGES AND UNIVERSITIES
AND THEOLOGICAL SCHOOLS

Schedule 1

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Distributions to Historically Black Colleges and Universities:		
Bennett College	\$ 865,568	\$ 914,351
Bethune-Cookman College	888,171	1,222,142
Clafin College	1,001,506	1,044,292
Clark Atlanta University	886,805	1,179,363
Dillard University	671,182	976,120
Huston-Tillotson College	650,297	950,636
Meharry Medical College	636,558	939,607
Paine College	875,892	927,821
Philander Smith College	844,883	919,069
Rust College	903,056	951,060
Wiley College	641,999	947,772
	<u>8,865,917</u>	<u>10,972,233</u>

Distribution of residual capital funds of \$1,300,000 in 2018 and capital funds of \$3,263,977 in 2017 were included in the above totals.

Distributions to Theological Schools:		
Boston School of Theology	760,477	763,887
Drew University, the Theological School	841,414	845,298
Duke University, the Divinity School	2,273,577	2,283,983
Emory University, Candler School of Theology	1,727,940	1,735,822
Gammon Theological Seminary	744,252	747,692
Garrett Evangelical Theological Seminary	1,300,622	1,306,529
Iliff School of Theology	808,378	812,010
Methodist Theological School of Ohio	932,840	937,152
Southern Methodist University, Perkins School of Theology	1,331,489	1,337,539
St. Paul School of Theology	941,187	945,538
School of Theology at Claremont	634,095	636,921
United Theological Seminary	1,061,969	1,066,879
Wesley Theological Seminary	1,235,754	1,241,467
	<u>14,593,994</u>	<u>14,660,717</u>
Total Distributions to Historically Black Colleges and Universities and Theological Schools	<u>\$ 23,459,911</u>	<u>\$ 25,632,950</u>

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
SCHEDULES OF INVESTMENTS AT FAIR VALUE FOR FUNDS
HELD FOR OTHERS

Schedule 2

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NEW YORK LOAN FUND	\$ 21,493	\$ 61,708
NEW YORK LOAN FUND RECEIVABLE	(379,579)	(374,824)
INVESTMENT IN GIP - NY FUND	793,163	824,483
FRANCIS ASBURY LOAN	423,096	393,963
FRANCIS ASBURY LOAN FUND RECEIVABLE	(555,721)	(518,008)
FRANCIS ASBURY INVESTED FUND	597,995	621,608
BALTIMORE WASHINGTON CONF	4,261	2,951
GENERAL ENDOWMENT FUND-CLAFLIN COLLEGE	299,037	322,481
FORD FOUNDATION FUND-CLAFLIN COLLEGE	649,880	700,831
DAISY PEARSON FUND-CLAFLIN COLLEGE	157,856	170,232
STANTON ESTATE-CLAFLIN COLLEGE	13,135	14,165
ATKINS-DILLARD MALLALIEU FUND	274,628	296,159
UNIV OF WISC - LEAVITT FUND	33,616	36,251
UNIV OF KANSAS - ENGLE FUND	57,726	62,251
SPECHT FUND	23,127	24,941
STUDENT EMERGENCY LOAN FUND-PHILANDER SMITH	2,669	3,039
SUMMER SCHOLARSHIP ENDOWMENT-PHILANDER SMITH	63,194	69,354
ARTHUR A. HENRY SCHOLARSHIP FUND-PHILANDER SMITH	1,736	2,053
MARIE L. HUTH SCHOLARSHIP-PHILANDER SMITH	9,839	10,692
READER'S DIGEST SCHOLARSHIP-PHILANDER SMITH	6,218	6,705
NELSON-HARRIS SCHOLARSHIP-PHILANDER SMITH	14,771	15,929
FLORENCE CLEAVER SCHOLARSHIP-PHILANDER SMITH	4,204	4,533
FACULTY ENRICHMENT FUND-PHILANDER SMITH	122,977	150,300
M. W. DUNLAP TRUST-PHILANDER SMITH	7,853	8,512
BIBLE & RELIGIOUS EDUCATION FUND	893,755	963,826
AUSTIN COLLEGE	72,358	78,031
WILLSON LECTURESHIP FUND (DM/GBHEM)	146,710	154,242
CENTENARY COLLEGE OF LOUISIANA	124,544	134,308
EARLHAM COLLEGE	77,173	83,224
HENDRIX COLLEGE	119,599	128,976
LON MORRIS COLLEGE	125,341	134,288
LUBBOCK CHRISTIAN COLLEGE	72,367	78,041
LUBBOCK METHODIST HOSPITAL	106,374	114,713
NEBRASKA WESLEYAN	119,599	128,976
OKLAHOMA CITY UNIVERSITY	145,893	157,332
ST. PAUL SCHOOL OF THEOLOGY	78,024	84,141
SOUTH CENTRAL JURIS. CONF.	110,075	118,706
SOUTHERN METHODIST UNIVERSITY	9,783	10,549
SOUTHWESTERN COLLEGE	130,403	140,627

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
SCHEDULES OF INVESTMENTS AT FAIR VALUE FOR FUNDS
HELD FOR OTHERS (CONTINUED)

Schedule 2

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
SOUTHWESTERN UNIVERSITY	\$ 226,184	\$ 243,916
TEXAS WESLEYAN COLLEGE	281,404	303,466
UNION COLLEGE	75,201	81,097
WESLEY THEOLOGICAL SEMINARY	72,115	77,769
WEST TEXAS STATE UNIVERSITY	151,176	163,028
NORTHWEST TEXAS CONFERENCE	75,571	81,495
MT. VERNON PLACE LOAN FUND	374,322	402,083
HARRIS MEMORIAL COLLEGE ENDOWMENT	81,213	84,420
GAMMON BUILDING FUND	4,345,955	4,686,569
GAMMON THEOLOGICAL SEMINARY-GEN FD	452,305	492,837
GAMMON CRUSADE FUND	2,794,250	3,013,237
GARRETT TRUST SCHOLARSHIP FUND	1,066,036	1,138,880
MAVEETY SCHOLARSHIP FUND	147,102	87,067
BALTIMORE CONF. - FRANCIS ASBURY	232,413	250,634
BALTIMORE CONFERENCE SCHOLARSHIP	64,151	69,180
BALTIMORE CONF. - SOPHIA DIETSCH	251,578	271,302
DISCIPLESHIP MINISTRIES-Young People International Schp	115,977	124,715
ECMT FUNDS PAYABLE	24,585	24,585
IAMSCU FUND	195,070	142,749
NASCUMC OPERATING FUND	173,572	145,786
NASCUMC INVESTED FUND	250,998	260,910
AFRICA UNIVERSITY - ENDOWMENT	67,766,871	72,548,649
	<u>\$ 84,197,221</u>	<u>\$ 90,114,663</u>