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THE UNITED METHODIST CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

*DECEMBER 31, 2020 AND 2019*

**Note 9—Lease commitments**

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

**Years Ending December 31,**

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

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

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

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

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

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

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

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

DECEMBER 31, 2020 AND 2019

**Note 11—Net assets with donor restrictions**

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

	<u>2020</u>	<u>2019</u>
Subject to purpose restriction:		
Discerning Nature of Racism	\$ 27,077	\$ 27,077
Minority Group Self Determination Fund	1,429,459	1,068,146
UMC 50th Anniversary Fund	1,661	2,591
Total subject to purpose restrictions	<u>1,458,197</u>	<u>1,097,814</u>
Endowments:		
Accumulated earnings on the Commission endowment fund	104,531	89,269
Commission endowment fund held in perpetuity	108,641	108,641
Total endowments	<u>213,172</u>	<u>197,910</u>
Total net assets with donor restrictions	<u>\$ 1,671,369</u>	<u>\$ 1,295,724</u>

Net assets with donor restrictions for the years ended December 31, 2020 and 2019 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

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

**Note 12—Endowments**

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

The Board of Directors of the Commission has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Commission classifies as donor-restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Commission in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

DECEMBER 31, 2020 AND 2019

**Note 12—Endowments (continued)**

In accordance with applicable state laws, the Commission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Commission
- The investment policies of the Commission

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

	<b>2020</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	-	104,531	104,531
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 213,172</u>	<u>\$ 213,172</u>
	<b>2019</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	-	89,269	89,269
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 197,910</u>	<u>\$ 197,910</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Commission has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2020 and 2019, the Commission had no underwater endowments.

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

DECEMBER 31, 2020 AND 2019

**Note 12—Endowments (continued)**

Changes in endowment net assets for the years ended December 31, 2020 and 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2018	\$ -	\$ 167,661	\$ 167,661
Investment return, net	-	30,249	30,249
Endowment net assets, December 31, 2019	-	197,910	197,910
Investment return, net	-	15,261	15,261
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 213,172</u>	<u>\$ 213,172</u>

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

*Return Objectives and Risk Parameters* – The Commission has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Commission must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide for the preservation of capital and income for support of programs while assuming a moderate level of investment risk. The Commission expects its endowment funds, over time, to produce current income within the total return strategy. Actual returns may vary.

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

**Note 13—Contingency**

During 2020, an outbreak of a novel strain on coronavirus (“COVID-19”) emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen that could negatively impact the Commission’s revenue and operations for an indeterminable time period. Other financial impacts could occur that are unknown at this time.

The Protocol of Reconciliation and Grace through Separation was introduced as legislation in early 2020 for the upcoming General Conference. This joins other legislative proposals that if adopted by the General Conference would provide an alternative way for churches to separate from the United Methodist Church. These proposals include a provision for new denominations to receive financial payments from the United Methodist Church and retain their real estate. The scheduled General Conference has been delayed until 2022, and the financial impact resulting from these potential separations on the Commission is unknown at this time.

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

DECEMBER 31, 2020 AND 2019

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**Note 14—Payroll protection program**

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

**Note 15—Subsequent events**

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

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