

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

DECEMBER 31, 2020 AND 2019

Note 9—Endowment (continued)

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

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

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

	2020		
	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	\$ -	\$ 50,468,351	\$ 50,468,351
Accumulated investment gains	-	41,845,452	41,845,452
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 92,313,803</u>	<u>\$ 92,313,803</u>
	2019		
	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	\$ -	\$ 49,811,948	\$ 49,811,948
Accumulated investment gains	-	33,480,277	33,480,277
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 83,292,225</u>	<u>\$ 83,292,225</u>

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

Investment and Spending Policies – The Organization normally follows the GBHEM policy of drawing up to an appropriation percentage for distribution annually of the previous 12 rolling quarter’s average quarter-end market values 5% in 2020 and 2019. In establishing this policy, GBHEM considered the long-term expected return on endowment assets. Accordingly, over the long term, GBHEM expects the current spending policy to allow its endowment to produce current income within the total return strategy. In 2020 and 2019, the Organization’s Board of Directors requested and the GBHEM executive committee of the Board of Directors approved a draw appropriation of 5.0% which is the GBHEM draw appropriation of 5.0% for 2020.

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DECEMBER 31, 2020 AND 2019

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

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

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

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

Note 10—Contingencies

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

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

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Note 11—Subsequent events

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