

**AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION**

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

And Report of Independent Auditor

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
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Report of Independent Auditor

To the Board of Directors
Africa University, Inc., Tennessee

To the Committee on Audit and Review
General Council on Finance and Administration
The United Methodist Church

Opinion

We have audited the accompanying financial statements of Africa University, Inc., Tennessee, a United Methodist Related Institution (the "Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Cherry Behrnt LLP

Charlotte, North Carolina
August 10, 2022

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 1,782,163	\$ 1,103,451
Investments	763,825	1,203,460
Investments held by The United Methodist Church Foundation	4,663,505	4,096,672
Beneficial interests in investments held by The General Board of Higher Education and Ministry ("GBHEM")	111,658,356	91,954,440
Due from related organizations	2,741,387	9,471,608
Other assets	999,697	651,858
Total Assets	<u><u>\$ 122,608,933</u></u>	<u><u>\$ 108,481,489</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 293,683	\$ 47,199
Accounts payable to Mutare United Methodist ("Mutare") Educational Organization	10,402,598	8,306,038
Annuity obligations payable	251,892	256,665
Total Liabilities	<u>10,948,173</u>	<u>8,609,902</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	4,297,361	3,832,568
With Donor Restrictions:		
Subject to purpose restrictions	5,015,572	3,725,216
Endowments	102,347,827	92,313,803
Total With Donor Restrictions	<u>107,363,399</u>	<u>96,039,019</u>
Total Net Assets	<u>111,660,760</u>	<u>99,871,587</u>
Total Liabilities and Net Assets	<u><u>\$ 122,608,933</u></u>	<u><u>\$ 108,481,489</u></u>

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Apportionment Fund allocation	\$ 2,034,033	\$ -	\$ 2,034,033	\$ 2,074,224	\$ -	\$ 2,074,224
Investment return from Invested Fund draw for operations	-	3,767,997	3,767,997	-	3,675,022	3,675,022
Contributions, grants, and other income	70,000	2,334,803	2,404,803	13,911	1,844,291	1,858,202
Services received from GBHEM	8,730	-	8,730	8,475	-	8,475
Net assets released from restrictions	4,019,722	(4,019,722)	-	4,701,539	(4,701,539)	-
Total Revenues	<u>6,132,485</u>	<u>2,083,078</u>	<u>8,215,563</u>	<u>6,798,149</u>	<u>817,774</u>	<u>7,615,923</u>
Expenses:						
Program services	4,947,374	-	4,947,374	4,928,324	-	4,928,324
Management and general	1,275,006	-	1,275,006	1,326,039	-	1,326,039
Fundraising	-	-	-	73,218	-	73,218
Total Expenses	<u>6,222,380</u>	<u>-</u>	<u>6,222,380</u>	<u>6,327,581</u>	<u>-</u>	<u>6,327,581</u>
Change in net assets from operations	(89,895)	2,083,078	1,993,183	470,568	817,774	1,288,342
Nonoperating Revenues and Expenses:						
Investment return net	554,688	9,241,302	9,795,990	-	8,496,549	8,496,549
Change in net assets	464,793	11,324,380	11,789,173	470,568	9,314,323	9,784,891
Net assets, beginning of year	3,832,568	96,039,019	99,871,587	3,362,000	86,724,696	90,086,696
Net assets, end of year	<u>\$ 4,297,361</u>	<u>\$ 107,363,399</u>	<u>\$ 111,660,760</u>	<u>\$ 3,832,568</u>	<u>\$ 96,039,019</u>	<u>\$ 99,871,587</u>

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Contributions and grants	\$ 4,947,374	\$ -	\$ -	\$ 4,947,374
Salaries and wages	-	583,054	-	583,054
Employee benefits	-	259,875	-	259,875
Administration provided by GBHEM	-	8,730	-	8,730
Travel and meetings	-	32,784	-	32,784
Professional fees	-	171,131	-	171,131
Supplies	-	34,081	-	34,081
Telephone and web service	-	7,900	-	7,900
Postage, shipping, and freight	-	14,706	-	14,706
Repairs and maintenance	-	2,839	-	2,839
Insurance	-	10,521	-	10,521
Promotional and informational material	-	70,239	-	70,239
Miscellaneous	-	79,146	-	79,146
Total Operating Expenses	<u>\$ 4,947,374</u>	<u>\$ 1,275,006</u>	<u>\$ -</u>	<u>\$ 6,222,380</u>

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Contributions and grants	\$ 4,928,324	\$ -	\$ -	\$ 4,928,324
Salaries and wages	-	580,231	-	580,231
Employee benefits	-	137,125	-	137,125
Administration provided by GBHEM	-	8,475	-	8,475
Travel and meetings	-	45,017	3,298	48,315
Professional fees	-	371,867	65,420	437,287
Supplies	-	34,953	4,500	39,453
Telephone and web service	-	8,266	-	8,266
Postage, shipping, and freight	-	11,030	-	11,030
Repairs and maintenance	-	2,619	-	2,619
Insurance	-	9,245	-	9,245
Promotional and informational material	-	103,582	-	103,582
Miscellaneous	-	13,629	-	13,629
Total Operating Expenses	<u>\$ 4,928,324</u>	<u>\$ 1,326,039</u>	<u>\$ 73,218</u>	<u>\$ 6,327,581</u>

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

AFRICA UNIVERSITY, INC., TENNESSEE
A UNITED METHODIST RELATED INSTITUTION
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 11,789,173	\$ 9,784,891
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized gains on investments	(6,012,205)	(7,901,642)
Realized gains on sale of investments	(6,980,052)	(3,480,114)
Gifts received to be held in perpetuity	(932,643)	(656,403)
Changes in assets and liabilities:		
Due from related organizations	6,730,221	2,409,763
Other assets	(347,839)	(68,215)
Accounts payable and accrued liabilities	246,484	(49,483)
Accounts payable to Mutare	2,096,560	1,234,587
Annuity obligations payable	(4,773)	(4,218)
Net cash flows from operating activities	<u>6,584,926</u>	<u>1,269,166</u>
Cash flows from investing activities:		
Purchase of investments and beneficial interests in investments held by GBHEM	(73,656,439)	(31,496,566)
Sale of investments and beneficial interests in investments held by GBHEM	<u>66,817,582</u>	<u>29,071,588</u>
Net cash flows from investing activities	<u>(6,838,857)</u>	<u>(2,424,978)</u>
Cash flows from financing activities:		
Gifts received to be held in perpetuity	<u>932,643</u>	<u>656,403</u>
Net cash flows from financing activities	<u>932,643</u>	<u>656,403</u>
Net change in cash and cash equivalents	678,712	(499,409)
Cash and cash equivalents, beginning of year	<u>1,103,451</u>	<u>1,602,860</u>
Cash and cash equivalents, end of year	<u>\$ 1,782,163</u>	<u>\$ 1,103,451</u>

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

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

DECEMBER 31, 2021 AND 2020

Note 1—Organization and nature of operations

Establishment of a United Methodist university in Zimbabwe was approved in 1988 by the General Conference of The United Methodist Church. This university was established as Africa University Zimbabwe (“AUZ”), a Zimbabwe Corporation. The General Board of Higher Education and Ministry of The United Methodist Church (“GBHEM”) was assigned responsibility to organize necessary structures, incorporated and unincorporated, for AUZ. Africa University, Inc., Tennessee (the “Organization”), a Tennessee corporation, was formed by GBHEM in 1988 to oversee funding and other activities entered into during establishment of AUZ. The Organization receives annual apportionments from the General Conference of The United Methodist Church and distributes a portion of the funds to Mutare United Methodist Educational Organization (“Mutare”) and AUZ as needed for construction and other activities of AUZ. Mutare, a Zimbabwe corporation, is responsible for AUZ construction activities through funds advanced by the Organization and has ownership of all AUZ property. AUZ is responsible for all its academic and administrative matters.

Funding for the Organization’s operations is principally provided by allocations received from The General Funds of The United Methodist Church (the “Church”) through GBHEM, which are allocated to the Organization’s programs based on a four-year budget developed from projections of expected program costs. The allocation accounts for 25% and 27% of the Organization’s total operating revenue in 2021 and 2020, respectively. Additional funding is provided by the World Service Special Gifts for endowment funding as well as other gifts to support AUZ’s construction, faculty, and operating needs. The Organization’s continued existence is dependent upon the Church’s future support. The Church’s future support is dependent upon contributions from its congregations.

Note 2—Summary of significant accounting policies

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

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

For reporting purposes, however, the Organization’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 Organization 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 Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors. The Organization has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The sub classifications are as follows:

Board-Designated – Represents resources set aside by the board of directors to be used for specific activities within guidelines established by the board. There were no board-designated amounts for the years ended December 31, 2021 and 2020.

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

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

DECEMBER 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

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

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. Investment returns from Invested Fund draw for operations represents the approved draw of earnings (5% in 2021 and 2020) from the investment portfolio managed by Ellwood and Associates and investments held by The United Methodist Church Foundation (“UMCF”) plus additional funds approved by the board of directors for special initiatives. This is reported as operating income.

Contributions are recognized when cash, other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions on which they depend have been substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Because of the purpose of the Organization, which is to oversee funding for Mutare and AUZ, most contributions are considered with donor restriction to be used by those organizations.

Unconditional promises to give in future years are recorded at the present value using risk-adjusted rates applicable to the years in which the promises to give are to be received. There were no unconditional promises to give relating to future years as of December 31, 2021 and 2020. Contributions made by the Organization are recognized as expenses in the period made.

Services Received from Personnel of an Affiliate – Services received from personnel of an affiliate for which the affiliate does not charge the Organization has 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 the related party Note 7 and totaled \$8,730 and \$8,475 for the years ended December 31, 2021 and 2020, respectively.

Government Grants – During the year ended December 31, 2021, the Organization claimed \$72,000 in grant funding from the Employee Retention Credit through the Coronavirus Aid, Relief, and Economic Security, which is included in contributions, grants, and other income on the statement of activities and within other assets on the statement of financial position.

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

Cash – The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, except for those cash equivalents managed as part of the Organization’s investment management strategy.

Due from Related Organizations – Funds due from related organizations represent operating funds collected for the Organization by GBHEM including allocations received from the Church.

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

DECEMBER 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Investments – The Organization’s investments are in third party investment pools presented at net asset value (“NAV”), which approximates the estimated fair value of the Organization’s share of the respective investment pools. Investment return consists of interest and dividends and unrealized and realized gains and losses, reported net of investment expenses. Investment return is calculated on a pro-rata basis for the Organization’s portion of the investment pools.

Functional Expenses – The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Direct identifiable expenses are charged to programs and supporting services.

Income Taxes – The Organization is covered under the General Council on Finance and Administration’s (“GCFA”) 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”). The Organization 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 Organization 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 Organization include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

Concentration of Credit Risk – The Organization places its cash on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Organization may from time to time have amounts on deposit in excess of the insured limits.

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 – In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard will be effective for fiscal years beginning after June 15, 2021. Management is currently evaluating the impact the pending adoption will have on the Organization’s financial statements.

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

DECEMBER 31, 2021 AND 2020

Note 3—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash	\$ 1,782,163	\$ 1,103,451
Investments	763,825	1,203,460
Investments held by the UMCF	4,663,505	4,096,672
Beneficial interest in investments held by GBHEM	111,658,356	91,954,440
Due from related organizations	2,741,387	9,471,608
Other assets	999,697	651,858
Total financial assets	<u>122,608,933</u>	<u>108,481,489</u>
Less amounts not available to be used for general expenditures within one year:		
Purpose restrictions	5,015,572	3,725,216
Endowment funds	<u>102,347,827</u>	<u>92,313,803</u>
Financial assets not available to be used within one year	<u>107,363,399</u>	<u>96,039,019</u>
Financial assets available to meet general expenditures within one year	<u>\$ 15,245,534</u>	<u>\$ 12,442,470</u>

The Organization considers general expenditures to include program expenses, supporting services, and any commitments or liabilities to be paid in the subsequent year. As part of the Organization's liquidity management plan, it structures its financial assets to be available as its obligations come due. Cash in excess of daily requirements are invested in the Organization's beneficial interest in investments held by GBHEM. This investment established by the Organization may be drawn upon, if necessary, to meet unexpected liquidity needs.

The Organization has assets limited to use for donor-restricted purposes. Net assets limited to use for purpose restrictions, which are more fully described in Notes 8 and 9, are not available for general expenditure within the next year.

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

DECEMBER 31, 2021 AND 2020

Note 4—Investments and beneficial interests in investments held by GBHEM

The Organization's investments and beneficial interests in investments held by GBHEM at December 31, 2021 and 2020 consist of the following:

	2021		2020	
	Fair Value	Cost	Fair Value	Cost
Methodist Socially Principled Fund of The UMCF	\$ 4,663,505	\$ 4,531,183	\$ -	\$ -
Balanced Fund of the UMCF	-	-	4,096,672	3,489,724
Investments	763,825	777,405	1,203,460	1,194,935
General investment pool of GBHEM	111,658,356	74,255,361	91,954,440	72,241,930
	<u>\$ 117,085,686</u>	<u>\$ 79,563,949</u>	<u>\$ 97,254,572</u>	<u>\$ 76,926,589</u>

Return on investments and beneficial interests in investments held by GBHEM for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Investment Return:		
Interest and dividends	\$ 1,384,168	\$ 1,326,467
Gains on investments:		
Realized gains on sale of investments	6,980,052	3,480,114
Unrealized gains on investments	6,012,205	7,901,642
Gains on investments	<u>12,992,257</u>	<u>11,381,756</u>
Less investment management expenses	<u>(812,438)</u>	<u>(536,652)</u>
Investment return, net, before transfer to operations	13,563,987	12,171,571
Adjustment for investment income transferred to operations	<u>(3,767,997)</u>	<u>(3,675,022)</u>
Investment return, net, nonoperating	<u>\$ 9,795,990</u>	<u>\$ 8,496,549</u>

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

DECEMBER 31, 2021 AND 2020

Note 5—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 tables summarize required fair value disclosures and measurements for assets and liabilities measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

	2021			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Fixed Income	\$ 763,825	\$ 763,825	\$ -	\$ -
Investments reported at net asset value:				
Methodist Socially Principled Fund of The UMCF*	4,663,505			
General investment pool of GBHEM*	111,658,356			
Total investments and beneficial interest in trusts	<u>\$ 117,085,686</u>			
	2020			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Fixed Income	\$ 1,203,460	\$ 1,203,460	\$ -	\$ -
Investments reported at net asset value:				
Balanced Fund of the UMCF*	4,096,672			
General investment pool of GBHEM*	91,954,440			
Total investments and beneficial interest in trusts	<u>\$ 97,254,572</u>			

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV 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 is a summary of the Organization's investments and beneficial interests:

Methodist Socially Principled Fund of The UMCF – The objective of the Methodist Socially Principled Model is to provide a reasonable level of current income and simultaneously to protect the purchasing power of the principal against inflation, while following the underlying benchmarks investments. There is no guarantee that these objectives will be reached. The targeted allocation of the fund is 35% invested in a fixed income fund, 30% in a domestic large capitalization equity portfolio, 10% in a domestic small/mid-capitalization equity portfolio, and 25% in an international equity portfolio. This model is designed for those investors who are seeking a single asset allocation to provide broad diversification, reasonable income, and protection against inflation. The Foundation reserves the right to change the asset allocation or mix of this model as allowed by its statement of investment policy, objectives, and guidelines at any time without notice to Participants.

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

DECEMBER 31, 2021 AND 2020

Note 5—Fair value of financial instruments (continued)

Balanced Fund – The objective of the Balanced Fund is to provide a reasonable level of current income and, simultaneously, to protect the purchasing power of the principal against inflation. The targeted allocation of the fund is 35% invested in a fixed income fund, 30% in a domestic large capitalization equity portfolio, 10% in a domestic small/mid-capitalization equity portfolio, and 25% in an international equity portfolio. This fund is designed for those investors who are seeking a single fund to provide broad diversification, reasonable current income, and protection against inflation.

General Investment Pool of the GBHEM – The investment pool was established to provide funds that would grow in value and provide a source of income primarily for the support of scholarships, college/university, and general board programs. The objective of the GBHEM Investment Pool is to provide for the preservation of capital by prudent investment of such funds while seeking long term growth and to produce income with the total return concept. The asset allocation of funds is domestic equity 52%, international equity 18%, fixed income 24%, and real estate 6%.

For entities that calculate 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, 2021:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Methodist Socially Principled Fund of The UMCF	\$ 4,663,505	none	daily	3 days
General investment pool of GBHEM	<u>111,658,356</u>	none	none	none
Total	<u>\$ 116,321,861</u>			

Note 6—Employee benefits

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

The Organization makes semi-monthly contributions to each eligible employee’s account held by Wespath based on 8% of annual employee compensation. Additionally, the Organization matches up to 2% of annual employee compensation to their United Methodist Personal Investment Plan (UMPIP). Total contributions made by the Organization for both components for the years ended December 31, 2021 and 2020 were \$49,998 and \$43,900, respectively.

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

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Note 6—Employee benefits (continued)

The Organization provides health, dental, life, and other employee benefits for its active employees and health, dental, and life benefits to non-Medicare eligible retirees through the Plan. Retirees who are Medicare eligible, and who elect to enroll, are eligible for a Health Reimbursement Account (“HRA”) up to \$2,100 annually and \$2,000 annually for their spouse, if applicable. Unused reimbursement funds continue to roll-over to subsequent years until death of the retiree or their spouse, whichever is later.

All the Organization’s active employees are covered by the Plan. The cost of the benefits is recognized as group insurance expense as premiums are paid. The total cost of benefits for active employees was \$52,797 and \$47,966 for the years ended December 31, 2021 and 2020, respectively, and the cost of benefits for retired employees was \$8,820 and \$6,808 in 2021 and 2020, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$41,922,000 and \$71,430,000 and the Plan’s unfunded expected postretirement benefit obligation was approximately \$60,056,000 and \$100,140,000 as of December 31, 2021 and 2020, respectively.

Note 7—Related party transactions

The Organization receives the majority of its revenue through apportionments from The General Funds of the Church, which are administered by GCFA and passed through GBHEM. In addition, GBHEM provides various services to the Organization, such as general ledger processing, cash management, and group insurance plan administration. The Organization had the following transactions with GBHEM, GCFA, and other related organizations:

	<u>2021</u>	<u>2020</u>
Statement of Financial Position:		
Beneficial interests in investments held by GBHEM	\$ 111,658,356	\$ 91,954,440
Investments in The UMCF	4,663,505	4,096,672
Due from related organizations - GBHEM	2,114,672	8,747,576
Due from related organizations - GCFA	626,715	724,032
Other assets (accrued income receivable) - GBHEM	927,697	651,858
Accounts payable and accrued liabilities - AUZ	45,420	40,368
Accounts payable to Mutare	10,402,598	8,306,038
Statement of Activities:		
Revenues:		
Apportionment fund allocation - GCFA	2,034,033	2,074,224
Investment return, net - GBHEM and UMCF	13,563,987	12,098,745
Services received from GBHEM	8,730	8,475
Expenses:		
Program expenses - AUZ and Mutare	4,947,374	4,928,324
Administration provided by GBHEM	8,730	8,475
Employee benefits - Group insurance	61,617	54,774

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Note 8—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2021 and 2020 have been restricted by the donors for the following purpose restrictions:

	<u>2021</u>	<u>2020</u>
Subject to purpose restrictions:		
Direct Scholarships	\$ 2,102,743	\$ 1,118,216
Direct Scholarships Invested Trust	807,760	1,203,460
Special Projects	898,219	-
Capital Projects	633,284	-
Campaign Expenses	-	25,924
Faculty of Health Science	14,271	14,271
Faculty of Theology S.C.	52,882	52,882
Foundation for Evangelism	18,535	18,535
Honorary Alumni Association	37,008	33,253
Library Fund	-	18,129
North Indiana Conference Dormitory	25,090	25,090
Richard & Joyce Reeves Wesley Foundation Room	62,263	62,263
UMC Foundations Annuities	195,449	203,273
Other	168,068	949,920
Total subject to purpose restrictions	<u>5,015,572</u>	<u>3,725,216</u>
Endowments:		
Accumulated earnings on endowment funds	50,946,833	41,845,452
Endowment funds held in perpetuity	<u>51,400,994</u>	<u>50,468,351</u>
Total endowments	<u>102,347,827</u>	<u>92,313,803</u>
Total net assets with donor restrictions	<u>\$ 107,363,399</u>	<u>\$ 96,039,019</u>

Net assets with donor restrictions for the years ended December 31, 2021 and 2020 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 9—Endowment

The Organization's endowment consists of individual funds established for a variety of purposes and is comprised of only donor-restricted endowment funds.

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

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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

As of December 31, 2021 and 2020, the Organization had the following endowment net asset composition by type of fund:

	2021		
	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	\$ -	\$ 51,400,994	\$ 51,400,994
Accumulated investment gains	-	50,946,833	50,946,833
Endowment net assets, December 31, 2021	<u>\$ -</u>	<u>\$ 102,347,827</u>	<u>\$ 102,347,827</u>
	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>

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, 2021 and 2020, 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 2021 and 2020. 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 2021 and 2020, the Organization's Board requested and the GBHEM executive committee of the Board approved a draw appropriation of 5.0% which is 1.25% higher than the GBHEM draw appropriation of 3.75%.

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Note 9—Endowment (continued)

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, 2021 and 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2020	\$ -	\$ 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	-	92,313,803	92,313,803
Investment return, net	-	12,869,378	12,869,378
Contributions	-	932,643	932,643
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(3,767,997)	(3,767,997)
Endowment net assets, December 31, 2021	<u>\$ -</u>	<u>\$ 102,347,827</u>	<u>\$ 102,347,827</u>

Note 10—Contingencies

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 2024, and the financial impact resulting from these potential separations on the Organization is unknown at this time.

Note 11—Subsequent events

Management has evaluated subsequent events through August 10, 2022, the date the financial statements were available for issuance. Management has determined that there are no subsequent events requiring disclosure.