

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

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

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

And Report of Independent Auditor

**GENERAL BOARD OF HIGHER EDUCATION AND MINISTRY OF
THE UNITED METHODIST CHURCH**
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Report of Independent Auditor

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

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

Opinion

We have audited the accompanying financial statements of General Board of Higher Education and Ministry of The United Methodist Church ("GBHEM"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the statement of activities, functional expenses, and cash flows for the years then ended, and the notes to the financial statements.

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

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 GBHEM'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 GBHEM'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

Cheng Behant LLP

Charlotte, North Carolina
July 26, 2022

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

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 250	\$ 250
Due from General Council on Finance and Administration		
short-term pooled investment fund	26,589,218	26,369,457
Accounts receivable, net	881,350	-
Investments	322,107,873	254,758,040
Due from related organizations	10,560,926	11,519,050
Other assets	772,215	727,024
Student loans receivable, net of allowance for doubtful accounts	9,896,917	11,747,306
Property and equipment, net	111,983	418,406
Funds held by outside trustees for the beneficial interests of GBHEM	7,869,695	7,535,110
Total Assets	<u><u>\$ 378,790,427</u></u>	<u><u>\$ 313,074,643</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 6,838,218	\$ 7,204,992
Due to related organizations	2,140,080	8,989,126
Custodial funds payable	135,388,532	113,349,782
Total Liabilities	<u>144,366,830</u>	<u>129,543,900</u>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	111,983	418,406
Board-designated	48,066,286	18,313,046
Undesignated	18,020,954	12,373,849
Total Without Donor Restrictions	<u>66,199,223</u>	<u>31,105,301</u>
With Donor Restrictions:		
Subject to purpose restrictions	98,663,323	89,229,217
Endowments	69,561,051	63,196,225
Total With Donor Restrictions	<u>168,224,374</u>	<u>152,425,442</u>
Total Net Assets	<u>234,423,597</u>	<u>183,530,743</u>
Total Liabilities and Net Assets	<u><u>\$ 378,790,427</u></u>	<u><u>\$ 313,074,643</u></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
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
Operating Revenue:						
General Church Funds:						
World Service Fund allocation	\$ 4,767,245	\$ -	\$ 4,767,245	\$ 4,790,127	\$ -	\$ 4,790,127
Ministerial Education Fund	-	14,684,617	14,684,617	-	15,673,552	15,673,552
Black College Fund	-	8,474,232	8,474,232	-	8,388,087	8,388,087
HANA Scholarships	199,749	-	199,749	405,000	-	405,000
Young Clergy Initiative	-	1,282,187	1,282,187	-	1,341,077	1,341,077
Central Conference Theological Education	-	1,844,232	1,844,232	-	1,928,937	1,928,937
Special Offerings:						
Student Day	-	215,782	215,782	-	169,126	169,126
World Communion-Ethnic Minority Scholarships	-	59,346	59,346	-	48,335	48,335
World Communion-In-Service	-	138,475	138,475	-	112,781	112,781
Native American Awareness	-	89,887	89,887	-	29,957	29,957
Total General Church Funds	4,966,994	26,788,758	31,755,752	5,195,127	27,691,852	32,886,979
Interest on student loans	-	463,994	463,994	-	701,871	701,871
Investment return from GCFA short-term pooled investment fund, net	629,641	152,119	781,760	738,100	134,425	872,525
Investment return from Invested Fund draw for operations	-	4,196,846	4,196,846	-	3,250,295	3,250,295
Contributions and grants	1,190,855	1,250,284	2,441,139	269,832	1,771,451	2,041,283
Benefit Trust Distribution	918,491	-	918,491	879,199	-	879,199
Services received from GCFA	33,349	-	33,349	24,713	-	24,713
Net assets released from restrictions	28,941,896	(28,941,896)	-	30,655,784	(30,655,784)	-
Total Operating Revenue	36,681,226	3,910,105	40,591,331	37,762,755	2,894,110	40,656,865
Operating Expenses:						
Program Services:						
Division of Higher Education	8,985,954	-	8,985,954	9,729,648	-	9,729,648
Office of Loans and Scholarships	4,962,065	-	4,962,065	5,282,637	-	5,282,637
Division of Ordained Ministry	14,215,842	-	14,215,842	15,099,592	-	15,099,592
Special Initiatives	1,971,855	-	1,971,855	2,858,827	-	2,858,827
General Board	469,525	-	469,525	639,622	-	639,622
Total Program Services	30,605,241	-	30,605,241	33,610,326	-	33,610,326
Management and General	4,418,728	-	4,418,728	4,097,374	-	4,097,374
Total Operating Expenses	35,023,969	-	35,023,969	37,707,700	-	37,707,700
Change in Net Assets from Operations	1,657,257	3,910,105	5,567,362	55,055	2,894,110	2,949,165
Nonoperating Revenue (Expenses):						
Investment return, net	6,426,259	11,391,449	17,817,708	3,717,526	11,449,644	15,167,170
Change in value of funds held by outside trustees	-	334,584	334,584	-	(89,574)	(89,574)
Gain on sale of property and equipment	27,010,406	-	27,010,406	-	-	-
Gifts held in perpetuity	-	162,794	162,794	-	34,742	34,742
Total Nonoperating Revenue	33,436,665	11,888,827	45,325,492	3,717,526	11,394,812	15,112,338
Change in net assets	35,093,922	15,798,932	50,892,854	3,772,581	14,288,922	18,061,503
Net assets, beginning of year	31,105,301	152,425,442	183,530,743	27,332,720	138,136,520	165,469,240
Net assets, end of year	\$ 66,199,223	\$ 168,224,374	\$ 234,423,597	\$ 31,105,301	\$ 152,425,442	\$ 183,530,743

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, 2021

	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	\$ 8,164,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,164,352
Distributions to theological schools	-	-	11,021,726	-	-	-	11,021,726
Special initiatives and other distributions	306,313	-	2,500	1,599,667	-	-	1,908,480
Scholarships	158,200	3,719,225	-	-	57,800	-	3,935,225
Events, training, and other program expenditures	83,557	-	1,386,996	283,711	275,187	-	2,029,451
Salaries and wages	209,215	351,532	1,286,148	58,292	54,696	1,937,326	3,897,209
Employee benefits	54,811	102,877	308,065	21,376	13,037	732,379	1,232,545
Administration provided by GCFA	-	-	-	-	-	33,349	33,349
Rent and occupancy	-	-	-	-	-	369,766	369,766
Travel and meetings	4,205	1,820	10,142	245	2,835	5,393	24,640
Professional fees	-	576,480	187,598	5,835	60,104	545,830	1,375,847
Supplies	99	1,147	2,759	-	-	50,401	54,406
Telephone and web service	2,681	1,800	5,435	579	796	274,919	286,210
Postage, shipping, and freight	28	4,734	950	461	-	1,616	7,789
Insurance	-	-	-	-	-	122,158	122,158
Depreciation	-	1,472	-	-	-	4,192	5,664
Promotional and informational material	122	12,090	79	1,000	4,800	30,353	48,444
Software	-	-	-	-	-	287,582	287,582
Miscellaneous	2,371	188,888	3,444	689	270	23,464	219,126
Total Operating Expenses	\$ 8,985,954	\$ 4,962,065	\$ 14,215,842	\$ 1,971,855	\$ 469,525	\$ 4,418,728	\$ 35,023,969

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, 2020

	Program Services					Supporting Services	
	Division of Higher Education	Office of Loans and Scholarships	Division of Ordained Ministry	Special Initiatives	General Board	Management and General	Total
Distributions to historically black colleges and universities	\$ 8,207,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,207,500
Distributions to theological schools	-	-	11,768,906	-	-	-	11,768,906
Special initiatives and other distributions	253,319	-	6,000	1,880,013	-	-	2,139,332
Scholarships	144,100	4,207,262	-	-	35,250	-	4,386,612
Events, training, and other program expenditures	69,580	-	1,544,203	483,783	345,123	54,513	2,497,202
Salaries and wages	766,474	368,426	1,276,990	203,527	144,429	2,074,429	4,834,275
Employee benefits	184,338	110,128	321,656	57,913	33,792	752,865	1,460,692
Administration provided by GCFA	-	-	-	-	-	24,713	24,713
Rent and occupancy	-	-	-	-	-	229,423	229,423
Travel and meetings	23,512	5,562	46,557	63,370	1,594	41,336	181,931
Professional fees	71,043	225,505	122,411	12,431	75,300	195,358	702,048
Supplies	361	959	675	478	-	28,406	30,879
Telephone and web service	4,501	1,800	5,512	1,380	906	173,950	188,049
Postage, shipping, and freight	283	4,138	1,483	1,840	53	850	8,647
Insurance	-	-	-	-	-	100,869	100,869
Depreciation	-	1,472	-	-	-	46,428	47,900
Promotional and informational material	3,204	6,199	955	7,138	2,915	140,624	161,035
Software	-	-	-	-	-	186,691	186,691
Miscellaneous	1,433	351,186	4,244	146,954	260	46,919	550,996
Total Operating Expenses	\$ 9,729,648	\$ 5,282,637	\$ 15,099,592	\$ 2,858,827	\$ 639,622	\$ 4,097,374	\$ 37,707,700

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
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 50,892,854	\$ 18,061,503
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	5,664	47,900
Realized and unrealized gains on sale of investments	(21,556,613)	(17,341,128)
Gain on sale of property and equipment	(27,010,406)	-
Gifts restricted for long-term investment	(162,794)	(34,742)
Provision for doubtful accounts	166,911	196,698
Changes in operating assets and liabilities:		
Due from GCFA short-term pooled investment fund	(219,761)	(1,820,800)
Accounts receivable	(881,350)	1,775
Due to related organizations	(6,849,046)	(2,384,230)
Due from related organizations	958,124	(487,006)
Other assets	(45,191)	66,483
Student loans receivable	1,683,478	1,489,587
Funds held by outside trustees for the benefit of GBHEM	(334,585)	89,575
Accounts payable and accrued liabilities	(366,774)	(641,566)
Custodial funds payable	22,038,750	14,189,532
Net cash flows from operating activities	<u>18,319,261</u>	<u>11,433,581</u>
Cash flows from investing activities:		
Purchases of property and equipment	(104,094)	(22,769)
Proceeds from sale of property and equipment	27,415,259	-
Purchases of investments held directly	(223,688,963)	(217,024,692)
Sales and maturities of investments held directly	177,895,743	205,579,138
Net cash flows from investing activities	<u>(18,482,055)</u>	<u>(11,468,323)</u>
Cash flows from financing activities:		
Proceeds from gifts restricted for long-term investment	162,794	34,742
Net cash flows from financing activities	<u>162,794</u>	<u>34,742</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, 2021 AND 2020

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 79% and 81% of GBHEM’s total operating revenue in 2021 and 2020, respectively. 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.

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.

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

DECEMBER 31, 2021 AND 2020

Note 2—Summary of significant accounting policies

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 \$48,066,286 and \$18,313,046 of board-designated funds for the year ended December 31, 2021 and 2020, respectively.

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 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 Church, and unspent income earned, restricted primarily for support of historical black colleges and universities.

Restricted for Support of Ministerial Purposes – Comprised of funds received from donors, either directly or through fundraising efforts of the 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 Church, and unspent income earned, restricted primarily for capital grants and improvements.

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

DECEMBER 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

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.

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.

Investment returns from invested fund draw for operations represents the approved draw of earnings (5.0% in 2021 and 5.0% in 2020) 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.

Government Grants – During the year ended December 31, 2021, GBHEM applied for \$881,350 in grant funding from the Employee Retention Credit (“ERC”) through the Coronavirus Aid, Relief, and Economic Security (CARES Act), which is included in contributions and grants on the statement of activities and within accounts receivable on the statement of financial position.

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 \$33,349 and \$24,713 for the years ended December 31, 2021 and 2020, 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.

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, 2021 and 2020, GCFA allocated \$781,760 and \$872,525 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, 2021 and 2020 was 2.73% and 3.63%, respectively.

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

DECEMBER 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

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, 2021 and 2020 were as follows:

	2021	2020
Texas Methodist Foundation loan fund	17.3%	28.3%
Mutual funds	20.6%	13.2%
Short-term collateralized loan fund	0.2%	3.5%
Fixed income	9.4%	9.8%
Corporate bonds	40.9%	34.0%
Cash	11.6%	11.2%
	<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.

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 \$10,000 per year with a \$40,000 lifetime maximum. 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 next 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 AmeriCorps is set based upon the dates of deployment.

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Note 2—Summary of significant accounting policies (continued)

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, 2021 and 2020.

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 the various programs and other activities of GBHEM have been summarized on a functional basis in the statements 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.

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.

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Note 2—Summary of significant accounting policies (continued)

Future Pronouncement – In September 2020, FASB issued Accounting Standards Update ("ASU") 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. The GBHEM is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Note 3—Liquidity and availability of resources

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

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 250	\$ 250
Due from GCFA short-term pooled investment fund	26,589,218	26,369,457
Accounts receivable, net	881,350	-
Investments	322,107,873	254,758,040
Due from related organizations	10,560,926	11,519,050
Student loans receivable, net of allowance for doubtful accounts	9,896,917	11,747,306
Funds held by outside trustees for the benefit of GBHEM	7,869,695	7,535,110
Total financial assets	<u>377,906,229</u>	<u>311,929,213</u>
Less amounts not available to be used for general expenditures within one year:		
Custodial funds payable	135,388,532	113,349,782
Purpose restrictions	98,663,323	89,229,217
Endowment funds held in perpetuity and accumulated earnings	69,561,051	63,196,225
Financial assets not available to be used within one year	<u>303,612,906</u>	<u>265,775,224</u>
Financial assets available to meet general expenditures within one year	<u>\$ 74,293,323</u>	<u>\$ 46,153,989</u>

GBHEM considers general expenditures to include program expenses, supporting services, and any commitments or liabilities to be paid in the subsequent year. 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. In addition, the GBHEM's board of directors has designated a portion of its liquid financial assets, resulting from operations and not related to donor restrictions, to its operating reserve quasi endowment and building proceeds fund, which was \$48,066,286 and \$18,313,046 as of December 31, 2021 and 2020, respectively.

GBHEM has assets held as a custodian for other organizations and limited to use for donor-restricted purposes. 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.

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Note 3—Liquidity and availability of resources (continued)

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.

Note 4—Student loans receivable, net

At December 31, 2021 and 2020, student loans, net of allowance for doubtful accounts totaled \$9,896,917 and \$11,747,306, respectively.

Movements in the allowance of student loans for the years ended December 31, 2021 and 2020 consisted of the following:

	2021	2020
Allowance for doubtful accounts:		
Beginning of year	\$ 1,270,600	\$ 1,270,600
Write-offs	(166,911)	(196,698)
Provisions to expense	166,911	196,698
End of year	<u>\$ 1,270,600</u>	<u>\$ 1,270,600</u>

At December 31, 2021 and 2020, the following amounts were past due under the student loan program:

	60 days	90 days	120 +
2021	\$ 187,294	\$ 69,452	\$ 711,880
2020	80,493	84,873	784,083

Note 5—Investments

Investments at December 31 consist of the following:

	2021		2020	
	Fair Value	Cost	Fair Value	Cost
Cash, pending investment	\$ 16,142,026	\$ 16,142,026	\$ 10,818,181	\$ 10,818,181
Common and preferred stock	124,672,875	78,713,235	104,464,410	65,848,305
Equity mutual funds	55,463,088	44,505,558	44,981,268	35,393,547
U.S. government agency securities	9,946,540	10,410,177	8,571,534	8,793,296
U.S. government bonds	28,179,767	28,242,058	13,257,735	13,031,803
Other fixed income	1,472,475	1,495,178	-	-
Corporate bonds	24,576,027	24,341,645	25,599,662	24,276,221
U.S. Equity Index Fund - I (Wespath)	41,114,484	20,648,129	32,931,611	20,916,037
Real estate	20,540,591	20,540,591	14,133,639	14,133,640
	<u>\$ 322,107,873</u>	<u>\$ 245,038,597</u>	<u>\$ 254,758,040</u>	<u>\$ 193,211,030</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 \$188,642,011 and \$143,344,229 for the years ended December 31, 2021 and 2020, respectively, was as follows:

	2021	2020
Investment return:		
Investment income	\$ 2,153,354	\$ 1,945,380
Gains on investments:		
Realized gains on sales of investments	9,753,500	5,717,781
Unrealized gains on investments	11,803,113	11,623,347
Gains on investments	21,556,613	17,341,128
Less investment management expenses	(1,695,413)	(869,043)
Investment return, net	22,014,554	18,417,465
Investment return from invested fund draw for operations:		
Adjustment for investment income transferred to operations	(4,196,846)	(3,250,295)
Nonoperating Investment return, net	<u>\$ 17,817,708</u>	<u>\$ 15,167,170</u>

Note 6—Property and equipment, net

Property and equipment at December 31, 2021 and 2020 consists of the following:

	2021	2020
Land	\$ -	\$ 257,319
Buildings and improvements	-	2,409,572
Computer equipment	22,395	1,370,922
Furniture and fixtures	161,763	711,424
	184,158	4,749,237
Less accumulated depreciation	(72,175)	(4,330,831)
Total property and equipment, net	<u>\$ 111,983</u>	<u>\$ 418,406</u>

Depreciation expense, related to property and equipment, for the years ended December 31, 2021 and 2020 was \$5,664 and \$47,900, respectively.

In July 2021, the Kern building was sold for \$55,000,000. The all-cash proceeds were split equally by GBHEM and Discipleship Ministries, each receiving \$27,500,000. The GBHEM net gain on this sale of \$27,010,406 has been reflected on the statement of activities for the year ended December 31, 2021.

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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 Wespeth Benefits and Investments (“Wespeth”). GBHEM makes semi-monthly contributions to each eligible employee’s account held by Wespeth 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 2021 and 2020 were \$395,584 and \$451,378, respectively.

Healthcare and Life Insurance 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.

GBHEM 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 of GBHEM’s active employees are covered by the Plan. The cost of benefits are recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$465,367 and \$625,254 in 2021 and 2020, respectively, and the cost of benefits for retired employees was \$122,746 and \$133,007 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.

Wespeth has transferred certain excess pension assets to the Benefit Trust established by the 1996 General Conference. Annually, the Benefit Trust allows a stated percentage, not to exceed 6% for 2021 and 2020 of the fair value of Benefit Trust assets at year-end for which GCFA is the beneficiary to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retired employee benefits. The fair value of the Benefit Trust’s assets (not plan assets) for which GCFA is the beneficiary, was approximately \$190,403,000 and \$186,112,000 as of December 31, 2021 and 2020, respectively. The total amount available for reimbursement in 2021 and 2020 was \$11,167,000 and \$10,047,000, respectively, of which GBHEM’s share was \$918,491 and \$879,199, 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, 2021 and 2020, custodial funds payable totaled \$131,304,524 and \$113,349,782, 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, 2021 and 2020, GBHEM had the following transactions with GCFA and other related parties:

	2021	2020
Statements of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 26,589,218	\$ 26,369,457
Due from related organizations - World Service Fund Allocation receivable	10,376,027	11,226,574
Due from related organizations - other	184,899	292,476
Funds held by UMC Board of Trustees for the benefit of the GBHEM	6,872,234	6,586,375
Due to related organizations - Africa University Inc., Tennessee	2,107,197	8,747,575
Due to related organizations - other	32,883	96,689
Custodial funds payable - Africa University, Inc., Tennessee	111,658,356	91,954,440
Statements of Activities:		
Revenue:		
General church funds	31,755,752	32,886,979
Interest income from GCFA	781,760	872,525
Change in value of funds held by outside trustees - Board of Trustees	334,584	(89,574)
Benefit trust distribution	918,491	879,199
Services received from GCFA	33,349	24,713
Expenses:		
Administration provided by GCFA	33,349	24,713
Employee benefits - group insurance expense	588,113	758,261

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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, 2021 and 2020 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			
		Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021	Amounts Measured at Fair Value			
Funds held by outside trustees for the benefit of GBHEM:	\$ 7,869,695	\$ -	\$ -	\$ 7,869,695
Investments:				
Cash pending investments	\$ 16,142,026	\$ 16,142,026	\$ -	\$ -
Common and preferred stock	124,672,875	124,672,875	-	-
Equity mutual funds	55,463,088	55,463,088	-	-
U.S. government agency securities	9,946,540	9,946,540	-	-
U.S. government bonds	28,179,767	28,179,767	-	-
Other fixed income	1,472,475	1,472,475	-	-
Corporate bonds	24,576,027	-	24,576,027	-
	260,452,798	\$ 235,876,771	\$ 24,576,027	\$ -
Investments reported at net asset value:				
U.S. equity index fund - I (Wespath) *	41,114,484			
TA Associates *	34,097			
Rockwood *	2,101,359			
Harrison Street *	10,616,785			
Stonelake *	5,156,890			
Griffis Residential *	2,631,460			
Total Investments	\$ 322,107,873			

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value ("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.

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Note 11—Fair value of financial instruments (continued)

	Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020	Amounts Measured at Fair Value			
Funds held by outside trustees for the benefit of GBHEM:	\$ 7,535,110	\$ -	\$ -	\$ 7,535,110
Investments:				
Cash pending investments	\$ 10,818,181	\$ 10,818,181	\$ -	\$ -
Common and preferred stock	104,464,410	104,464,410	-	-
Equity mutual funds	44,981,268	44,981,268	-	-
U.S. government agency securities	8,571,534	8,571,534	-	-
U.S. government bonds	13,257,735	13,257,735	-	-
Corporate bonds	25,599,662	-	25,599,662	-
	207,692,790	\$ 182,093,128	\$ 25,599,662	\$ -
Investments reported at net asset value:				
U.S. equity index fund - I (Wespath) *	32,931,611			
TA Associates *	421,442			
Rockwood *	2,174,811			
Harrison Street *	8,465,972			
Stonelake *	2,441,932			
Griffis Residential *	629,482			
Total Investments	\$ 254,758,040			

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value ("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 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 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:

	Fair Value	Unfunded Commitments	Redemption Frequency ^(g)	Redemption Notice Period
Wespath - U.S. equity index fund - I ^(a)	\$ 41,114,484	\$ -	daily	daily
TA Associates ^(b)	34,097	-	variable	30 days
Rockwood ^(c)	2,101,359	229,714	variable	variable
Harrison Street ^(d)	10,616,785	3,912,349	variable	variable
Stonelake ^(e)	5,156,890	2,925,000	variable	14 days
Griffis Residential ^(f)	2,631,460	630,000	variable	variable
	<u>\$ 61,655,075</u>			

(a) A U.S. Equity Index Fund – I (USEIF-I) 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) Griffis Residential is a real estate manager focused only on investing in apartment homes in thriving areas throughout Colorado, Texas, California, Oregon, and Washington.

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

The following is a reconciliation of activity for 2021 and 2020 for assets measured at fair value based on significant unobservable information:

	2021	2020
Balance, beginning of year	\$ 7,535,110	\$ 7,624,685
Change in fair value	1,046,073	649,250
Sales and redemptions	(711,488)	(738,825)
Balance, end of year	<u>\$ 7,869,695</u>	<u>\$ 7,535,110</u>

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Note 12—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:		
Loans and scholarships	\$ 70,048,785	\$ 64,869,379
Historical black colleges and universities	13,364,295	12,455,745
Ministerial purposes	9,100,057	7,302,202
Young clergy initiative	2,755,416	1,536,929
Central conference on theological education	2,657,307	2,594,189
Other program purposes	737,463	470,773
Total subject to purpose restrictions	<u>98,663,323</u>	<u>89,229,217</u>
Endowments:		
Accumulated earnings on GBHEM's endowment fund	49,006,356	43,138,908
GBHEM endowment fund held in perpetuity	20,554,695	20,057,317
Total endowments	<u>69,561,051</u>	<u>63,196,225</u>
Total net assets with donor restrictions	<u>\$ 168,224,374</u>	<u>\$ 152,425,442</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, 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 13—Endowment

GBHEM's endowment consists of individual funds established for a variety of purposes restricted by donors. Additionally, GBHEM's board of directors has established a quasi-endowment operating reserve to ensure long-term financial sustainability of GBHEM and position them to respond to varying economic conditions and changes affecting GBHEM financial position and the ability of GBHEM to continuously carry out its mission by holding assets in place to be used to fund the on-going budget of GBHEM.

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, 2021 and 2020, GBHEM had the following endowment net asset composition by type of fund:

	December 31, 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	\$ -	\$ 20,554,695	\$ 20,554,695
Accumulated investment gains	-	49,006,356	49,006,356
Board-designated quasi endowment	48,066,286	-	48,066,286
Endowment net assets, December 31, 2021	<u>\$ 48,066,286</u>	<u>\$ 69,561,051</u>	<u>\$ 117,627,337</u>
	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 20,057,317	\$ 20,057,317
Accumulated investment gains	-	43,138,908	43,138,908
Board-designated quasi endowment	18,313,046	-	18,313,046
Endowment net assets, December 31, 2020	<u>\$ 18,313,046</u>	<u>\$ 63,196,225</u>	<u>\$ 81,509,271</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, 2021 and 2020, 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 (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.

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

DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2019	\$ 15,997,629	\$ 57,976,516	\$ 73,974,145
Investment return, net	2,315,417	7,025,901	9,341,318
Contributions and designations	-	34,742	34,742
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	(1,840,934)	(1,840,934)
Endowment net assets, December 31, 2020	18,313,046	63,196,225	81,509,271
Investment return, net	2,973,481	7,850,636	10,824,117
Contributions and designations	27,415,259	162,794	27,578,053
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(635,500)	(1,648,604)	(2,284,104)
Endowment net assets, December 31, 2021	<u>\$ 48,066,286</u>	<u>\$ 69,561,051</u>	<u>\$ 117,627,337</u>

Note 14—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 GBHEM is unknown at this time.

Note 15—Subsequent events

Management has evaluated subsequent events through July 26, 2022, the date the financial statements were available for issuance. Management has determined that there are no subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

**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, 2021 AND 2020

	2021	2020
Distributions to Historically Black Colleges and Universities:		
Bennett College	\$ 679,808	\$ 627,743
Bethune-Cookman College	1,019,178	899,414
Claflin College	927,982	725,280
Clark Atlanta University	1,075,660	893,647
Dillard University	605,273	792,203
Huston-Tillotson College	744,024	776,213
Meharry Medical College	674,238	661,206
Paine College	500,014	732,744
Philander Smith College	573,653	656,077
Rust College	533,785	760,483
Wiley College	830,737	682,490
Total Distributions to Historically Black Colleges and Universities	8,164,352	8,207,500
Distribution of residual capital funds of \$1,400,000 and \$1,500,000 in 2021 and 2020, respectively, were included in the above totals.		
Distributions to Theological Schools:		
Boston School of Theology	659,871	695,122
Drew University, the Theological School	685,765	739,987
Duke University, the Divinity School	1,691,944	1,702,435
Emory University, Candler School of Theology	1,229,637	1,378,946
Gammon Theological Seminary	425,215	445,904
Garrett Evangelical Theological Seminary	884,852	994,227
Iliff School of Theology	622,936	639,375
Methodist Theological School of Ohio	714,193	782,596
Southern Methodist University, Perkins School of Theology	1,091,623	968,950
St. Paul School of Theology	671,925	734,446
School of Theology at Claremont	477,255	574,187
United Theological Seminary	864,181	1,017,471
Wesley Theological Seminary	1,002,329	1,095,260
Total Distributions to Theological Schools	11,021,726	11,768,906
Total Distributions to Historically Black Colleges and Universities and Theological Schools	\$ 19,186,078	\$ 19,976,406

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

SCHEDULE 2

DECEMBER 31, 2021 AND 2020

	2021	2020
AFRICA UNIVERSITY	\$ 111,658,356	\$ 91,954,440
ARTHUR A. HENRY SCHOLARSHIP FUND-PHILANDER SMITH	2,344	2,148
ATKINS-DILLARD MALLALIEU FUND	382,110	350,062
AUSTIN COLLEGE	100,730	92,258
BALTIMORE CONF. - FRANCIS ASBURY	323,541	296,330
BALTIMORE CONF. - SOPHIA DIETSCH	350,220	320,765
BALTIMORE CONFERENCE SCHOLARSHIP	89,303	81,793
BALTIMORE WASHINGTON CONF	6,311	6,311
BIBLE & RELIGIOUS EDUCATION FUND	1,244,189	1,139,550
CENTENARY COLLEGE OF LOUISIANA	173,378	158,796
DAISY PEARSON FUND-CLAFLIN COLLEGE	219,751	201,269
EARLHAM COLLEGE	107,431	98,396
ECMT FUNDS PAYABLE	24,585	24,585
FACULTY ENRICHMENT FUND-PHILANDER SMITH	170,190	155,893
FLORENCE CLEAVER SCHOLARSHIP-PHILANDER SMITH	5,852	5,360
FORD FOUNDATION FUND-CLAFLIN COLLEGE	904,693	828,606
FRANCIS ASBURY INVESTED FUND	936,789	822,934
FRANCIS ASBURY LOAN	524,628	477,949
FRANCIS ASBURY LOAN FUND RECEIVABLE	(351,802)	(436,721)
GAMMON BUILDING FUND	6,049,971	5,541,155
GAMMON CRUSADE FUND	3,889,855	3,562,710
GAMMON SALARIES & PENSIONS	109,733	-
GAMMON THEOLOGICAL SEMINARY-GEN FD	628,169	575,358
GARRETT TRUST SCHOLARSHIP FUND	1,521,198	1,385,119
GENERAL ENDOWMENT FUND-CLAFLIN COLLEGE	416,286	381,276
HARRIS MEMORIAL COLLEGE ENDOWMENT	127,225	111,762
HENDRIX COLLEGE	166,494	152,491
IAMSCU FUND	326,619	306,398
INVESTMENT IN GIP - NY FUND	1,242,530	1,091,517
LON MORRIS COLLEGE	174,574	159,891
LUBBOCK CHRISTIAN COLLEGE	100,742	92,270
LUBBOCK METHODIST HOSPITAL	148,083	135,629
M. W. DUNLAP TRUST-PHILANDER SMITH	10,952	9,997
MARIE L. HUTH SCHOLARSHIP-PHILANDER SMITH	13,664	12,516
MAVEETY SCHOLARSHIP FUND	208,356	190,774
MT. VERNON PLACE LOAN FUND	542,439	483,868

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

SCHEDULE 2

DECEMBER 31, 2021 AND 2020

	2021	2020
NASCUMC INVESTED FUND	\$ 393,201	\$ 345,413
NASCUMC OPERATING FUND	270,868	264,078
NEBRASKA WESLEYAN	166,498	152,491
NELSON-HARRIS SCHOLARSHIP-PHILANDER SMITH	20,563	18,833
NEW YORK LOAN FUND	(126,644)	(71,917)
NEW YORK LOAN FUND RECEIVABLE	(264,094)	(310,959)
NORTHWEST TEXAS CONFERENCE	105,202	96,354
OKLAHOMA CITY UNIVERSITY	203,097	186,016
READER'S DIGEST SCHOLARSHIP-PHILANDER SMITH	8,655	7,927
SOUTH CENTRAL JURIS. CONF.	153,236	140,348
SOUTHERN METHODIST UNIVERSITY	13,618	12,472
SOUTHWESTERN COLLEGE	181,533	166,266
SOUTHWESTERN UNIVERSITY	314,868	288,387
SPECHT FUND	32,196	29,488
ST. PAUL SCHOOL OF THEOLOGY	108,617	99,482
STANTON ESTATE-CLAFLIN COLLEGE	18,286	16,748
STUDENT EMERGENCY LOAN FUND-PHILANDER SMITH	3,696	3,386
SUMMER SCHOLARSHIP ENDOWMENT-PHILANDER SMITH	87,870	80,481
TEXAS WESLEYAN COLLEGE	391,739	358,794
UNION COLLEGE	104,688	95,883
UNIV OF KANSAS - ENGLE FUND	80,360	73,601
UNIV OF WISC - LEAVITT FUND	46,796	42,861
WESLEY THEOLOGICAL SEMINARY	100,391	91,948
WEST TEXAS STATE UNIVERSITY	210,451	192,751
WILLSON LECTURESHIP FUND (DM/GBHEM)	213,352	195,195
	<u>\$ 135,388,532</u>	<u>\$ 113,349,782</u>