

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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

As of and for the Years Ended December 31, 2022 and 2021

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, 2022 and 2021, and the statements 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, 2022 and 2021, 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.

Cherry Bekaert LLP

Charlotte, North Carolina
August 18, 2023

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

DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 250	\$ 250
Due from General Council on Finance and Administration ("GCFA")		
Cash Balance Pool ("CBP")	12,115,624	26,589,218
Accounts receivable, net	881,350	881,350
Investments	274,868,329	322,107,873
Due from related organizations	11,306,329	10,560,926
Other assets	932,760	772,215
Student loans receivable, net of allowance for doubtful accounts	-	9,896,917
Property and equipment, net	94,665	111,983
Funds held by outside trustees for the beneficial interests of GBHEM	6,058,391	7,869,695
Total Assets	\$ 306,257,698	\$ 378,790,427
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 6,854,845	\$ 6,838,218
Due to related organizations	86,313	2,140,080
Custodial funds payable	112,599,797	135,388,532
Total Liabilities	119,540,955	144,366,830
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	94,665	111,983
Board-designated	39,196,789	48,066,286
Undesignated	10,939,812	18,020,954
Total Without Donor Restrictions	50,231,266	66,199,223
With Donor Restrictions:		
Subject to purpose restrictions	80,625,826	98,663,323
Endowments	55,859,651	69,561,051
Total With Donor Restrictions	136,485,477	168,224,374
Total Net Assets	186,716,743	234,423,597
Total Liabilities and Net Assets	\$ 306,257,698	\$ 378,790,427

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**

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
General Church Funds:						
World Service Fund allocation	\$ 4,897,207	\$ -	\$ 4,897,207	\$ 4,767,245	\$ -	\$ 4,767,245
Ministerial Education Fund	-	14,693,371	14,693,371	-	14,684,617	14,684,617
Black College Fund	-	8,393,959	8,393,959	-	8,474,232	8,474,232
HANA Scholarships	123,650	-	123,650	199,749	-	199,749
Young Clergy Initiative	-	1,296,091	1,296,091	-	1,282,187	1,282,187
Central Conference Theological Education	-	1,864,231	1,864,231	-	1,844,232	1,844,232
Special Offerings:						
Student Day	-	168,969	168,969	-	215,782	215,782
World Communion-Ethnic Minority Scholarships	-	56,965	56,965	-	59,346	59,346
World Communion-In-Service	-	132,919	132,919	-	138,475	138,475
Native American Awareness	-	83,378	83,378	-	89,887	89,887
Total General Church Funds	5,020,857	26,689,883	31,710,740	4,966,994	26,788,758	31,755,752
Interest on student loans	-	357,903	357,903	-	463,994	463,994
Investment return from GCFA short-term pooled investment fund, net	63,997	58,265	122,262	629,641	152,119	781,760
Investment return from Invested Fund draw for operations	-	4,259,646	4,259,646	-	4,196,846	4,196,846
Contributions and grants	286,299	1,071,243	1,357,542	1,190,855	1,250,284	2,441,139
Benefit Trust Distribution	847,726	-	847,726	918,491	-	918,491
Services received from GCFA	38,090	-	38,090	33,349	-	33,349
Net assets released from restrictions	37,402,365	(37,402,365)	-	28,941,896	(28,941,896)	-
Total Operating Revenue	43,659,334	(4,965,425)	38,693,909	36,681,226	3,910,105	40,591,331
Operating Expenses:						
Program Services:						
Division of Higher Education	9,174,609	-	9,174,609	8,985,954	-	8,985,954
Office of Loans and Scholarships	12,563,706	-	12,563,706	4,962,065	-	4,962,065
Division of Ordained Ministry	15,172,186	-	15,172,186	14,215,842	-	14,215,842
Special Initiatives	1,686,120	-	1,686,120	1,971,855	-	1,971,855
General Board	384,197	-	384,197	469,525	-	469,525
Total Program Services	38,980,818	-	38,980,818	30,605,241	-	30,605,241
Management and General	4,293,446	-	4,293,446	4,418,728	-	4,418,728
Total Operating Expenses	43,274,264	-	43,274,264	35,023,969	-	35,023,969
Change in Net Assets from Operations	385,070	(4,965,425)	(4,580,355)	1,657,257	3,910,105	5,567,362
Nonoperating Revenue (Expenses):						
Investment return, net	(16,353,027)	(25,063,203)	(41,416,230)	6,426,259	11,391,449	17,817,708
Change in value of funds held by outside trustees	-	(1,811,304)	(1,811,304)	-	334,584	334,584
Gain on sale of property and equipment	-	-	-	27,010,406	-	27,010,406
Gifts held in perpetuity	-	101,035	101,035	-	162,794	162,794
Total Nonoperating Revenue (Expenses)	(16,353,027)	(26,773,472)	(43,126,499)	33,436,665	11,888,827	45,325,492
Change in net assets	(15,967,957)	(31,738,897)	(47,706,854)	35,093,922	15,798,932	50,892,854
Net assets, beginning of year	66,199,223	168,224,374	234,423,597	31,105,301	152,425,442	183,530,743
Net assets, end of year	\$ 50,231,266	\$ 136,485,477	\$ 186,716,743	\$ 66,199,223	\$ 168,224,374	\$ 234,423,597

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, 2022

	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	\$ 8,295,713	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,295,713
Distributions to theological schools	-	-	11,020,028	-	-	-	11,020,028
Special initiatives and other distributions	310,172	-	2,967	1,400,117	-	-	1,713,256
Scholarships	169,190	3,298,095	90,000	-	59,025	-	3,616,310
Student loan forgiveness	-	7,771,596	-	-	-	-	7,771,596
Events, training, and other program expenditures	158,612	23,006	2,038,140	266,307	244,515	-	2,730,580
Salaries and wages	146,116	351,320	1,390,870	-	-	1,993,918	3,882,224
Employee benefits	42,374	102,331	334,657	500	-	696,220	1,176,082
Administration provided by GCFA	-	-	-	-	-	38,090	38,090
Rent and occupancy	-	-	-	-	-	133,913	133,913
Travel and meetings	45,715	2,921	98,230	-	18,459	128,554	293,879
Professional fees	3,700	860,265	181,568	11,583	60,804	495,096	1,613,016
Supplies	112	2,680	1,185	-	47	36,101	40,125
Telephone and web service	1,810	3,175	11,676	-	905	253,828	271,394
Postage, shipping, and freight	75	10,457	1,156	43	3	2,489	14,223
Insurance	-	-	-	-	-	160,410	160,410
Depreciation	-	9,662	-	-	-	15,619	25,281
Promotional and informational material	373	14,587	141	110	-	3,056	18,267
Software	-	-	-	-	-	325,874	325,874
Miscellaneous	647	113,611	1,568	7,460	439	10,278	134,003
Total Operating Expenses	<u>\$ 9,174,609</u>	<u>\$ 12,563,706</u>	<u>\$ 15,172,186</u>	<u>\$ 1,686,120</u>	<u>\$ 384,197</u>	<u>\$ 4,293,446</u>	<u>\$ 43,274,264</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**
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	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	\$ 8,164,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 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	<u>\$ 8,985,954</u>	<u>\$ 4,962,065</u>	<u>\$ 14,215,842</u>	<u>\$ 1,971,855</u>	<u>\$ 469,525</u>	<u>\$ 4,418,728</u>	<u>\$ 35,023,969</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 CASH FLOWS**

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (47,706,854)	\$ 50,892,854
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	25,281	5,664
Realized and unrealized losses (gains) on sale of investments	38,640,526	(21,556,613)
Gain on sale of property and equipment	-	(27,010,406)
Gifts restricted for long-term investment	(101,035)	(162,794)
Provision for doubtful accounts	-	166,911
Student loan forgiveness	7,771,596	-
Changes in operating assets and liabilities:		
Due from GCFA Cash Balance Pool	14,473,594	(219,761)
Accounts receivable	-	(881,350)
Due to related organizations	(2,053,767)	(6,849,046)
Due from related organizations	(745,403)	958,124
Other assets	(160,545)	(45,191)
Student loans receivable	2,125,321	1,683,478
Funds held by outside trustees for the benefit of GBHEM	1,811,304	(334,585)
Accounts payable and accrued liabilities	16,627	(366,774)
Custodial funds payable	(22,788,735)	22,038,750
Net cash flows from operating activities	<u>(8,692,090)</u>	<u>18,319,261</u>
Cash flows from investing activities:		
Purchases of property and equipment	(7,963)	(104,094)
Proceeds from sale of property and equipment	-	27,415,259
Purchases of investments held directly	(258,927,046)	(223,688,963)
Sales and maturities of investments held directly	267,526,064	177,895,743
Net cash flows from investing activities	<u>8,591,055</u>	<u>(18,482,055)</u>
Cash flows from financing activities:		
Proceeds from gifts restricted for long-term investment	101,035	162,794
Net cash flows from financing activities	<u>101,035</u>	<u>162,794</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, 2022 AND 2021

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 83% and 79% of GBHEM’s total operating revenue in 2022 and 2021, 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, 2022 AND 2021

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 \$39,196,789 and \$48,066,286 of board-designated endowments for the years ended December 31, 2022 and 2021, 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, 2022 AND 2021

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 2022 and 2021) 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 years ended December 31, 2022 and 2021, GBHEM claimed \$-0- and \$881,350, respectively, in grant funding from the Employee Retention Credit (“ERC”) through the Coronavirus Aid, Relief, and Economic Security Act, which is included in contributions and grants on the statements of activities and within accounts receivable on the statements of financial position. The ERC receivable amount for GBHEM was \$881,350 at December 31, 2022 and 2021.

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 \$38,090 and \$33,349 for the years ended December 31, 2022 and 2021, 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 Cash Balance Pool – The amounts presented as due from GCFA Cash Balance Pool (“CBP”) in the accompanying financial statements represent GBHEM’s portion of the CBP portfolio managed by GCFA on behalf of certain agencies and related organizations of The United Methodist 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 CBP includes funds invested in demand deposits, corporate bonds, taxable municipal bonds, mutual funds, and notes from other United Methodist organizations. Distributions of the investment return on the CBP are characterized as interest income and are based on GCFA’s policy in the following steps:

1. The net pool return for the month to be paid by GCFA to the beneficiary agencies is the one-month U.S. Treasury Bill Rate prevailing as of the 3:00 p.m. close of the first business day of the month plus a spread between 35 to 50 basis points. GCFA can modify the spread at its discretion, in which case the CBP beneficiaries will be notified of the new spread prior to the end of the prior month. This spread can be either an addition or subtraction from the one-month U.S. Treasury Bill Rate. In months when the return of the CBP is less than 50 basis points, the payout to the CPB beneficiaries will be set at 50 basis points. In months when the return of the CBP is more than 50 basis points, the payout to the CBP Beneficiaries shall not exceed the return of the CBP.

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Note 2—Summary of significant accounting policies (continued)

2. The net pool return will be earned on all monies deposited up to the individual agency limit of 1.5 times the average cash pool balance for the previous two years. Above this limit, the agency will earn a net portfolio return of one-month U.S. Treasury Bill Rate minus 15 basis points.

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 CBP for the years ended December 31, 2022 and 2021 was 1.09% and 2.73%, respectively. The overall rate of return for each agency may vary due to fluctuating balances throughout the year and the timing of investment gains and losses.

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. GCFA is the owner of the residual risk of the investment portfolio. The operating cash requirements of the general agencies are centrally managed by GCFA.

The current policy as described above became effective on January 1, 2022. Prior to this, the pool was previously referred to as the GCFA Short-Term Pooled Investment Fund and the investment return of the pool was allocated to the participating agencies based on their pro-rata share of the pool on a monthly basis.

The allocation of funds in CBP as of December 31, 2022 and 2021 were as follows:

	2022	2021
Texas Methodist Foundation loan fund	11.8%	17.3%
Mutual funds	19.6%	20.6%
Short-term collateralized loan fund	0.2%	0.2%
Fixed income	8.9%	9.4%
Corporate bonds	46.3%	40.9%
Cash	13.2%	11.6%
	100.0%	100.0%

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 – Through December 31, 2021, GBHEM made uncollateralized loans to students based on a first come, first served basis until allocated funds were used. GBHEM provided 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. The loan program was ended during the year ended December 31, 2022 through a one-time gift of loan forgiveness (see Note 4). For net assets with donor restrictions for student loans, GBHEM is currently reaching out to donors to discuss changing the purpose restrictions to scholarship opportunities.

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Note 2—Summary of significant accounting policies (continued)

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

A loan was in deferment under two circumstances: in school and hardship. For a deferred loan, student accounts remained under deferment as long as a student maintained at least a half-time status in school. Upon graduation, students received a six-month grace period before the account went into repayment. Students were required to verify enrollment annually. A borrower could 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 was set based upon the dates of deployment.

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. 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 Internal Revenue Code. GBHEM had no significant unrelated business income during the years ended December 31, 2022 and 2021.

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 presents 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.

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Note 2—Summary of significant accounting policies (continued)

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.

Recent Accounting Pronouncements – 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 was adopted by GBHEM, effective January 1, 2022, and had no impact on the statement of activities.

Note 3—Liquidity and availability of resources

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

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 250	\$ 250
Due from GCFA Cash Balance Pool	12,115,624	26,589,218
Accounts receivable, net	881,350	881,350
Investments	274,868,329	322,107,873
Due from related organizations	11,306,329	10,560,926
Student loans receivable, net of allowance for doubtful accounts	-	9,896,917
Funds held by outside trustees for the benefit of GBHEM	6,058,391	7,869,695
Total financial assets	<u>305,230,273</u>	<u>377,906,229</u>
Less amounts not available to be used for general expenditures within one year:		
Custodial funds payable	112,599,797	135,388,532
Purpose restrictions	80,625,826	98,663,323
Endowment funds held in perpetuity and accumulated earnings	55,859,651	69,561,051
Financial assets not available to be used within one year	<u>249,085,274</u>	<u>303,612,906</u>
Financial assets available to meet general expenditures within one year	<u>\$ 56,144,999</u>	<u>\$ 74,293,323</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 \$39,196,789 and \$48,066,286 as of December 31, 2022 and 2021, respectively.

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Note 3—Liquidity and availability of resources (continued)

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

Student loans receivable had been funded using donor-restricted resources. The net assets with donor restrictions associated with the student loans receivable had 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, 2022 and 2021, student loans, net of allowance for doubtful accounts totaled \$-0- and \$9,896,917, respectively.

Movements in the allowance of student loans for the years ended December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Allowance for doubtful accounts:		
Beginning of year	\$ 1,270,600	\$ 1,270,600
Write-offs	(9,160,273)	(166,911)
Provisions to expense	118,077	166,911
Student loan forgiveness	7,771,596	-
End of year	<u>\$ -</u>	<u>\$ 1,270,600</u>

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

	<u>60 days</u>	<u>90 days</u>	<u>120 +</u>
2021	187,294	69,452	711,880

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Note 5—Investments

Investments at December 31 consist of the following:

	2022		2021	
	Fair Value	Cost	Fair Value	Cost
Cash, pending investment	\$ 9,985,252	\$ 9,985,252	\$ 16,142,026	\$ 16,142,026
Common and preferred stock	69,018,481	63,470,884	124,672,875	78,713,235
Equity mutual funds	64,442,447	69,738,289	55,463,088	44,505,558
U.S. government agency securities	18,607,324	19,112,756	9,946,540	10,410,177
U.S. government bonds	22,533,755	23,865,341	28,179,767	28,242,058
Other fixed income	1,384,155	1,494,660	1,472,475	1,495,178
Corporate bonds	21,264,223	23,527,490	24,576,027	24,341,645
U.S. Equity Index Fund - I (Wespath)	33,012,759	20,648,129	41,114,484	20,648,129
Short Term Investment Fund - I (Wespath)	14,182,767	16,500,000	-	-
Real estate	20,437,166	20,437,166	20,540,591	20,540,591
	<u>\$ 274,868,329</u>	<u>\$ 268,779,967</u>	<u>\$ 322,107,873</u>	<u>\$ 245,038,597</u>

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

Return on GBHEM's portion of the total investments of \$166,628,228 and \$188,642,011 for the years ended December 31, 2022 and 2021, respectively, was as follows:

	2022	2021
Investment return:		
Investment income	<u>\$ 2,221,309</u>	<u>\$ 2,153,354</u>
Gains on investments:		
Realized gains on sales of investments	2,918,261	9,753,500
Unrealized (losses) gains on investments	<u>(41,558,787)</u>	<u>11,803,113</u>
(Losses) gains on investments	(38,640,526)	21,556,613
Less investment management expenses	<u>(737,367)</u>	<u>(1,695,413)</u>
Investment return, net	(37,156,584)	22,014,554
Investment return from invested fund draw for operations:		
Adjustment for investment income transferred to operations	<u>(4,259,646)</u>	<u>(4,196,846)</u>
Nonoperating Investment return, net	<u>\$ (41,416,230)</u>	<u>\$ 17,817,708</u>

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Note 6—Property and equipment, net

Property and equipment at December 31, 2022 and 2021 consists of the following:

	2022	2021
Computer equipment	\$ 22,395	\$ 22,395
Furniture and fixtures	169,725	161,763
	192,120	184,158
Less accumulated depreciation	(97,455)	(72,175)
Total property and equipment, net	<u>\$ 94,665</u>	<u>\$ 111,983</u>

Depreciation expense related to property and equipment for the years ended December 31, 2022 and 2021 was \$25,281 and \$5,664, 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.

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 2022 and 2021 were \$407,180 and \$395,584, 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 up to \$2,100 annually and \$2,000 annually for their spouse, if applicable. Unused reimbursement funds continue to rollover 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 is recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$416,116 and \$465,367 in 2022 and 2021, respectively, and the cost of benefits for retired employees was \$111,178 and \$122,746 in 2022 and 2021, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

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Note 7—Employee benefits (continued)

The Plan's unfunded accumulated postretirement benefit obligation was approximately \$25,007,000 and \$41,922,000 and the Plan's unfunded expected postretirement benefit obligation was approximately \$32,535,000 and \$60,056,000 as of December 31, 2022 and 2021, respectively.

Wespath has transferred certain excess pension assets to the Benefit Trust established by the 1996 General Conference. Annually, the Benefit Trust allows a stated percentage, not to exceed 6% of the fair market 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 retiree employee benefits. In December of 2022, the Benefit Trust agreement was amended to increase the annual distribution rate to a percentage not to exceed 8% beginning with Benefit Trust distributions on or after January 2023. Subsequent to year-end, in May of 2023, the agreement was amended to change the fair value measurement date from December 31st of the prior year to June 30th of the previous year starting on June 1, 2023. The fair value of the Benefit Trust's assets (not Plan assets) for which GCFA is the beneficiary, was approximately \$148,588,000 and \$190,403,000 as of December 31, 2022 and 2021, respectively. The total amount available for reimbursement in 2022 and 2021 was \$11,424,000 and \$11,167,000, respectively, of which GBHEM's share was \$847,726 and \$918,491, 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, 2022 and 2021, custodial funds payable totaled \$112,599,797 and \$135,388,532, respectively.

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.

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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, 2022 and 2021, GBHEM had the following transactions with GCFA and other related parties:

	<u>2022</u>	<u>2021</u>
Statements of Financial Position:		
Due from GCFA Cash Balance Pool	\$ 12,115,624	\$ 26,589,218
Due from related organizations - World Service Fund Allocation receivable	9,821,156	10,376,027
Due from related organizations - other	283,275	184,899
Funds held by UMC Board of Trustees for the benefit of the GBHEM	5,239,821	6,872,234
Due from (to) related organizations - Africa University Inc., Tennessee	1,201,898	(2,107,197)
Due to related organizations - other	86,313	32,883
Custodial funds payable - Africa University, Inc., Tennessee	94,797,194	111,658,356
Statements of Activities:		
Revenue:		
General church funds	31,710,740	31,755,752
Interest income from GCFA	122,262	781,760
Change in value of funds held by outside trustees - Board of Trustees	(1,811,304)	334,584
Benefit trust distribution	847,726	918,491
Services received from GCFA	38,090	33,349
Expenses:		
Administration provided by GCFA	38,090	33,349
Employee benefits - group insurance expense	527,294	588,113

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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, 2022 and 2021 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, 2022	Amounts Measured at Fair Value			
Funds held by outside trustees for the benefit of GBHEM:	\$ 6,058,391	\$ -	\$ -	\$ 6,058,391
Investments:				
Cash pending investments	\$ 9,985,252	\$ 9,985,252	\$ -	\$ -
Common and preferred stock	69,018,481	69,018,481	-	-
Equity mutual funds	64,442,447	64,442,447	-	-
U.S. government agency securities	18,607,326	18,607,326	-	-
U.S. government bonds	22,533,755	22,533,755	-	-
Other fixed income	1,384,155	1,384,155	-	-
Corporate bonds	21,264,222	-	21,264,222	-
	207,235,638	\$ 185,971,416	\$ 21,264,222	\$ -
Investments reported at net asset value:				
U.S. Equity Index Fund - I (Wespath) *	33,012,759			
Short Term Investment Fund - I (Wespath)	14,182,767			
Real Estate:				
TA Associates *	4,439			
Rockwood *	1,836,356			
Harrison Street *	9,036,503			
Stonelake *	5,811,972			
Griffis Residential *	3,747,895			
Total investments	\$ 274,868,329			

* 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, 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			
Real Estate:				
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.

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 – Fair value is based on the fair value of the underlying investments. Because timing of realization is an unobservable input, the fair value is determined using primarily Level 3 inputs.

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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, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency ^(g)	Redemption Notice Period
U.S. Equity Index Fund - I (Wespath) ^(a)	\$ 33,012,759	\$ -	daily	daily
Short Term Investment Fund - I (Wespath)	14,182,767	-	daily	daily
Real Estate:				
TA Associates ^(b)	4,439	-	variable	30 days
Rockwood ^(c)	1,836,356	279,714	variable	variable
Harrison Street ^(d)	9,036,503	2,843,440	variable	variable
Stonelake ^(e)	5,811,972	6,025,000	variable	14 days
Griffis Residential ^(f)	3,747,895	4,150,000	variable	variable
	<u>\$ 67,632,691</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 2022 and 2021 for assets measured at fair value based on significant unobservable information:

	2022	2021
Balance, beginning of year	\$ 7,869,695	\$ 7,535,110
Change in fair value	(1,204,304)	1,046,073
Sales and redemptions	(607,000)	(711,488)
Balance, end of year	<u>\$ 6,058,391</u>	<u>\$ 7,869,695</u>

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 12—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2022 and 2021 have been restricted by the donors for the following purpose restrictions:

	2022	2021
Subject to purpose restrictions:		
Loans and scholarships	\$ 52,075,417	\$ 70,048,785
Historical black colleges and universities	11,371,200	13,364,295
Ministerial purposes	9,609,293	9,100,057
Young clergy initiative	3,986,703	2,755,416
Central conference on theological education	2,934,162	2,657,307
Other program purposes	649,051	737,463
Total subject to purpose restrictions	<u>80,625,826</u>	<u>98,663,323</u>
Endowments:		
Accumulated earnings on GBHEM's endowment fund	37,042,247	49,006,356
GBHEM endowment fund held in perpetuity	18,817,404	20,554,695
Total endowments	<u>55,859,651</u>	<u>69,561,051</u>
Total net assets with donor restrictions	<u><u>\$ 136,485,477</u></u>	<u><u>\$ 168,224,374</u></u>

The amounts used as revolving loan fund were 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. As noted in Note 2, the loan program was ended during the year ended December 31, 2022 and GBHEM intends to pivot the student loan funds into scholarship funds in the upcoming year.

Net assets with donor restrictions for the years ended December 31, 2022 and 2021 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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DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, GBHEM had the following endowment net asset composition by type of fund:

	December 31, 2022		
	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	\$ -	\$ 18,817,404	\$ 18,817,404
Accumulated investment gains	-	37,042,247	37,042,247
Board-designated quasi endowment	39,196,789	-	39,196,789
Endowment net assets, December 31, 2022	<u>\$ 39,196,789</u>	<u>\$ 55,859,651</u>	<u>\$ 95,056,440</u>
	December 31, 2021		
	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	\$ -	\$ 20,554,695	\$ 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>

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, 2022 and 2021, 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 2022 and 2021). 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, 2022 AND 2021

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, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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	48,066,286	69,561,051	117,627,337
Investment return, net	(8,014,597)	(12,209,280)	(20,223,877)
Contributions and designations	-	101,035	101,035
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(854,900)	(1,593,155)	(2,448,055)
Endowment net assets, December 31, 2022	<u>\$ 39,196,789</u>	<u>\$ 55,859,651</u>	<u>\$ 95,056,440</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 August 18, 2023, the date the financial statements were available for issuance. Management has determined that there are no subsequent events requiring disclosure.

SUPPLEMENTARY 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, 2022 AND 2021

	2022	2021
Distributions to Historically Black Colleges and Universities:		
Bennett College	\$ 546,031	\$ 679,808
Bethune-Cookman College	803,408	1,019,178
Claflin College	640,801	927,982
Clark Atlanta University	1,109,696	1,075,660
Dillard University	881,089	605,273
Huston-Tillotson College	809,529	744,024
Meharry Medical College	1,002,532	674,238
Paine College	546,770	500,014
Philander Smith College	592,920	573,653
Rust College	772,068	533,785
Wiley College	590,869	830,737
Total Distributions to Historically Black Colleges and Universities	<u>\$ 8,295,713</u>	<u>\$ 8,164,352</u>

Distribution of residual capital funds of \$1,420,000 and \$1,400,000 in 2022 and 2021, respectively, were included in the above totals.

	2022	2021
Distributions to Theological Schools:		
Boston School of Theology	\$ 660,257	\$ 659,871
Drew University, the Theological School	686,167	685,765
Duke University, the Divinity School	1,692,956	1,691,944
Emory University, Candler School of Theology	1,230,368	1,229,637
Gammon Theological Seminary	425,472	425,215
Garrett Evangelical Theological Seminary	885,375	884,852
Iliff School of Theology	623,300	622,936
Methodist Theological School of Ohio	714,626	714,193
Southern Methodist University, Perkins School of Theology	1,092,271	1,091,623
St. Paul School of Theology	672,332	671,925
School of Theology at Claremont	469,262	477,255
United Theological Seminary	864,705	864,181
Wesley Theological Seminary	1,002,937	1,002,329
Total Distributions to Theological Schools	<u>11,020,028</u>	<u>11,021,726</u>
Total Distributions to Historically Black Colleges and Universities and Theological Schools	<u>\$ 19,315,741</u>	<u>\$ 19,186,078</u>

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

SCHEDULE 2

DECEMBER 31, 2022 AND 2021

	2022	2021
AFRICA UNIVERSITY	\$ 94,797,194	\$ 111,658,356
ARTHUR A. HENRY SCHOLARSHIP FUND-PHILANDER SMITH	1,849	2,344
ATKINS-DILLARD MALLALIEU FUND	301,391	382,110
AUSTIN COLLEGE	79,477	100,730
BALTIMORE CONF. - FRANCIS ASBURY	255,275	323,541
BALTIMORE CONF. - SOPHIA DIETSCH	276,326	350,220
BALTIMORE CONFERENCE SCHOLARSHIP	70,460	89,303
BALTIMORE WASHINGTON CONF	6,311	6,311
BIBLE & RELIGIOUS EDUCATION FUND	981,676	1,244,189
CENTENARY COLLEGE OF LOUISIANA	136,796	173,378
DAISY PEARSON FUND-CLAFLIN COLLEGE	173,385	219,751
EARLHAM COLLEGE	84,763	107,431
ECMT FUNDS PAYABLE	24,586	24,585
FACULTY ENRICHMENT FUND-PHILANDER SMITH	134,276	170,190
FLORENCE CLEAVER SCHOLARSHIP-PHILANDER SMITH	4,617	5,852
FORD FOUNDATION FUND-CLAFLIN COLLEGE	713,810	904,693
FRANCIS ASBURY INVESTED FUND	780,584	936,789
FRANCIS ASBURY LOAN	266,537	524,628
FRANCIS ASBURY LOAN FUND RECEIVABLE	-	(351,802)
GAMMON BUILDING FUND	4,773,484	6,049,971
GAMMON CRUSADE FUND	3,069,132	3,889,855
GAMMON SALARIES & PENSIONS	91,436	109,733
GAMMON THEOLOGICAL SEMINARY-GEN FD	495,629	628,169
GARRETT TRUST SCHOLARSHIP FUND	1,218,497	1,521,198
GENERAL ENDOWMENT FUND-CLAFLIN COLLEGE	328,454	416,286
HARRIS MEMORIAL COLLEGE ENDOWMENT	106,011	127,225
HENDRIX COLLEGE	131,364	166,494
IAMSCU FUND	322,726	326,619
INVESTMENT IN GIP - NY FUND	1,035,344	1,242,530
LON MORRIS COLLEGE	137,740	174,574
LUBBOCK CHRISTIAN COLLEGE	79,486	100,742
LUBBOCK METHODIST HOSPITAL	116,839	148,083
M. W. DUNLAP TRUST-PHILANDER SMITH	8,680	10,952
MARIE L. HUTH SCHOLARSHIP-PHILANDER SMITH	10,781	13,664
MAVEETY SCHOLARSHIP FUND	164,415	208,356
MT. VERNON PLACE LOAN FUND	443,488	542,439

**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, 2022 AND 2021

	2022	2021
NASCUMC INVESTED FUND	\$ 327,637	\$ 393,201
NASCUMC OPERATING FUND	263,399	270,868
NEBRASKA WESLEYAN	131,372	166,498
NELSON-HARRIS SCHOLARSHIP-PHILANDER SMITH	16,224	20,563
NEW YORK LOAN FUND	(408,084)	(126,644)
NEW YORK LOAN FUND RECEIVABLE	-	(264,094)
NORTHWEST TEXAS CONFERENCE	83,005	105,202
OKLAHOMA CITY UNIVERSITY	160,244	203,097
READER'S DIGEST SCHOLARSHIP-PHILANDER SMITH	6,829	8,655
SOUTH CENTRAL JURIS. CONF.	120,904	153,236
SOUTHERN METHODIST UNIVERSITY	10,744	13,618
SOUTHWESTERN COLLEGE	143,232	181,533
SOUTHWESTERN UNIVERSITY	248,421	314,868
SPECHT FUND	25,403	32,196
ST. PAUL SCHOOL OF THEOLOGY	85,699	108,617
STANTON ESTATE-CLAFLIN COLLEGE	14,427	18,286
STUDENT EMERGENCY LOAN FUND-PHILANDER SMITH	2,915	3,696
SUMMER SCHOLARSHIP ENDOWMENT-PHILANDER SMITH	69,329	87,870
TEXAS WESLEYAN COLLEGE	309,086	391,739
UNION COLLEGE	82,599	104,688
UNIV OF KANSAS - ENGLE FUND	63,404	80,360
UNIV OF WISC - LEAVITT FUND	36,922	46,796
WESLEY THEOLOGICAL SEMINARY	79,209	100,391
WEST TEXAS STATE UNIVERSITY	166,047	210,451
WILLSON LECTURESHIP FUND (DM/GBHEM)	177,776	213,352
	113,839,560	135,388,532
Losses incurred but not yet allocated fo funds held for others	(1,239,763)	-
	<u>\$ 112,599,797</u>	<u>\$ 135,388,532</u>