

**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, 2023 and 2022

And Report of Independent Auditor

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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, 2023 and 2022, 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, 2023 and 2022, 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 statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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
September 17, 2024

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

DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 234	\$ 250
Due from General Council on Finance and Administration ("GCFA")		
Cash Balance Pool ("CBP")	20,386,509	12,115,624
Accounts receivable, net	1,873	881,350
Investments	289,336,084	274,868,329
Due from related organizations	8,557,616	11,306,329
Other assets	935,679	932,760
Property and equipment, net	76,046	94,665
Funds held by outside trustees for the beneficial interests of GBHEM	6,090,480	6,058,391
Total Assets	\$ 325,384,521	\$ 306,257,698
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 6,064,916	\$ 6,854,845
Due to related organizations	3,049,268	86,313
Custodial funds payable	105,665,158	112,599,797
Total Liabilities	114,779,342	119,540,955
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	76,046	94,665
Board-designated	44,490,527	39,196,789
Undesignated	15,608,283	10,939,812
Total Without Donor Restrictions	60,174,856	50,231,266
With Donor Restrictions:		
Subject to purpose restrictions	88,622,851	80,625,826
Endowments	61,807,472	55,859,651
Total With Donor Restrictions	150,430,323	136,485,477
Total Net Assets	210,605,179	186,716,743
Total Liabilities and Net Assets	\$ 325,384,521	\$ 306,257,698

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, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue:						
General Church Funds:						
World Service Fund allocation	\$ 4,580,645	\$ -	\$ 4,580,645	\$ 4,897,207	\$ -	\$ 4,897,207
Ministerial Education Fund	-	13,217,971	13,217,971	-	14,693,371	14,693,371
Black College Fund	-	7,727,361	7,727,361	-	8,393,959	8,393,959
HANA Scholarships	104,150	-	104,150	123,650	-	123,650
Young Clergy Initiative	-	1,209,340	1,209,340	-	1,296,091	1,296,091
Central Conference Theological Education	-	1,739,452	1,739,452	-	1,864,231	1,864,231
Special Offerings:						
Student Day	-	160,148	160,148	-	168,969	168,969
World Communion-Ethnic Minority Scholarships	-	128,037	128,037	-	56,965	56,965
World Communion-In-Service	-	54,873	54,873	-	132,919	132,919
Native American Awareness	-	98,167	98,167	-	83,378	83,378
Total General Church Funds	4,684,795	24,335,349	29,020,144	5,020,857	26,689,883	31,710,740
Interest on student loans	-	-	-	-	357,903	357,903
Investment return from Cash Balance Pool, net	252,492	225,943	478,435	63,997	58,265	122,262
Investment return from Invested Fund draw for operations	1,010,850	3,463,161	4,474,011	-	4,259,646	4,259,646
Contributions and grants	355,514	1,283,786	1,639,300	286,299	1,071,243	1,357,542
Benefit trust distribution	862,274	-	862,274	847,726	-	847,726
Services received from GCFA	40,633	-	40,633	38,090	-	38,090
Net assets released from restrictions	27,991,100	(27,991,100)	-	37,402,365	(37,402,365)	-
Total Operating Revenue	35,197,658	1,317,139	36,514,797	43,659,334	(4,965,425)	38,693,909
Operating Expenses:						
Program Services:						
Division of Higher Education	8,296,820	-	8,296,820	9,174,609	-	9,174,609
Office of Loans and Scholarships	4,523,342	-	4,523,342	12,563,706	-	12,563,706
Division of Ordained Ministry	14,652,887	-	14,652,887	15,172,186	-	15,172,186
Special Initiatives	2,744,794	-	2,744,794	1,686,120	-	1,686,120
General Board	599,047	-	599,047	384,197	-	384,197
Total Program Services	30,816,890	-	30,816,890	38,980,818	-	38,980,818
Management and General	4,077,298	-	4,077,298	4,293,446	-	4,293,446
Total Operating Expenses	34,894,188	-	34,894,188	43,274,264	-	43,274,264
Change in Net Assets from Operations	303,470	1,317,139	1,620,609	385,070	(4,965,425)	(4,580,355)
Nonoperating Revenue (Expenses):						
Investment return, net	9,640,120	12,511,216	22,151,336	(16,353,027)	(25,063,203)	(41,416,230)
Change in value of funds held by outside trustees	-	32,089	32,089	-	(1,811,304)	(1,811,304)
Gifts held in perpetuity	-	84,402	84,402	-	101,035	101,035
Total Nonoperating Revenue (Expenses)	9,640,120	12,627,707	22,267,827	(16,353,027)	(26,773,472)	(43,126,499)
Change in net assets	9,943,590	13,944,846	23,888,436	(15,967,957)	(31,738,897)	(47,706,854)
Net assets, beginning of year	50,231,266	136,485,477	186,716,743	66,199,223	168,224,374	234,423,597
Net assets, end of year	\$ 60,174,856	\$ 150,430,323	\$ 210,605,179	\$ 50,231,266	\$ 136,485,477	\$ 186,716,743

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, 2023

	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	\$ 7,395,702	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,395,702
Distributions to theological schools	-	-	9,913,478	-	-	-	9,913,478
Special initiatives and other distributions	306,324	-	2,848	1,695,231	-	-	2,004,403
Scholarships	169,190	3,685,620	954,680	-	83,996	-	4,893,486
Events, training, and other program expenditures	90,610	2,000	1,569,259	1,029,616	370,599	17,859	3,079,943
Salaries and wages	217,338	343,760	1,505,096	-	14,005	1,868,235	3,948,434
Employee benefits	47,568	99,931	372,315	500	3,205	706,375	1,229,894
Administration provided by GCFA	-	-	-	-	-	40,633	40,633
Rent and occupancy	-	-	-	-	-	133,925	133,925
Travel and meetings	60,242	11,292	205,947	569	59,922	168,429	506,401
Professional fees	7,000	348,870	109,874	11,743	65,760	530,243	1,073,490
Supplies	-	502	1,145	70	121	58,663	60,501
Telephone and web service	1,400	4,550	14,596	-	910	127,394	148,850
Postage, shipping, and freight	623	4,988	2,453	-	-	1,066	9,130
Insurance	-	-	-	-	-	167,218	167,218
Depreciation	-	8,190	-	-	-	10,429	18,619
Promotional and informational material	258	13,465	79	-	-	1,368	15,170
Software	-	-	-	-	-	219,045	219,045
Miscellaneous	565	174	1,117	7,065	529	26,416	35,866
Total Operating Expenses	\$ 8,296,820	\$ 4,523,342	\$ 14,652,887	\$ 2,744,794	\$ 599,047	\$ 4,077,298	\$ 34,894,188

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	\$ 9,174,609	\$ 12,563,706	\$ 15,172,186	\$ 1,686,120	\$ 384,197	\$ 4,293,446	\$ 43,274,264

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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 23,888,436	\$ (47,706,854)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	18,619	25,281
Realized and unrealized (gains) losses on sale of investments	(24,261,680)	38,640,526
Gifts restricted for long-term investment	(84,402)	(101,035)
Student loan forgiveness	-	7,771,596
Changes in operating assets and liabilities:		
Due from GCFA Cash Balance Pool	(8,270,885)	14,473,594
Accounts receivable	879,477	-
Due from related organizations	2,748,713	(745,403)
Other assets	(2,919)	(160,545)
Student loans receivable	-	2,125,321
Funds held by outside trustees for the benefit of GBHEM	(32,089)	1,811,304
Accounts payable and accrued liabilities	(789,929)	16,627
Due to related organizations	2,962,955	(2,053,767)
Custodial funds payable	(6,934,639)	(22,788,735)
Net cash flows from operating activities	<u>(9,878,343)</u>	<u>(8,692,090)</u>
Cash flows from investing activities:		
Purchases of property and equipment	-	(7,963)
Purchases of investments	(146,329,735)	(258,927,046)
Sales and maturities of investments	156,123,660	267,526,064
Net cash flows from investing activities	<u>9,793,925</u>	<u>8,591,055</u>
Cash flows from financing activities:		
Proceeds from gifts restricted for long-term investment	84,402	101,035
Net cash flows from financing activities	<u>84,402</u>	<u>101,035</u>
Net change in cash and cash equivalents	(16)	-
Cash and cash equivalents, beginning of year	250	250
Cash and cash equivalents, end of year	<u>\$ 234</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, 2023 AND 2022

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% of GBHEM’s total operating revenue in 2023 and 2022. 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, 2023 AND 2022

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 \$44,490,527 and \$39,196,789 of board-designated endowments for the years ended December 31, 2023 and 2022, 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 ("CTE") and Young Clergy Initiative ("YCI"), and unspent income earned. The CTE 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.

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

DECEMBER 31, 2023 AND 2022

Note 2—Summary of significant accounting policies (continued)

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.

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 2023 and 2022) 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.

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 \$40,633 and \$38,090 for the years ended December 31, 2023 and 2022, 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 CBP 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.

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

DECEMBER 31, 2023 AND 2022

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 CBP. 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, 2023 and 2022 was 3.83% and 1.09%, 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 allocation of funds in CBP as of December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Texas Methodist Foundation loan fund	14.4%	11.8%
Mutual funds	35.4%	19.6%
Short-term collateralized loan fund	0.2%	0.2%
Fixed income	5.5%	8.9%
Corporate bonds	42.2%	46.3%
Cash	<u>2.3%</u>	<u>13.2%</u>
	<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.

Property and Equipment – Property and equipment is 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 6 years. GBHEM capitalizes assets with a cost greater than \$2,500.

Student Loans Forgiveness – Through December 31, 2021, GBHEM made uncollateralized loans to students based on a first come, first served basis until allocated funds were used. The loan program was ended during the year ended December 31, 2022 through a one-time gift of loan forgiveness of \$7,771,696. 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)

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 (“IRC”). 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 IRC. GBHEM had no significant unrelated business income during the years ended December 31, 2023 and 2022.

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 statements 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 3—Liquidity and availability of resources

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

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 234	\$ 250
Due from GCFA CBP	20,386,509	12,115,624
Accounts receivable, net	1,873	881,350
Investments	289,336,084	274,868,329
Due from related organizations	8,557,616	11,306,329
Funds held by outside trustees for the benefit of GBHEM	6,090,480	6,058,391
Total financial assets	<u>324,372,796</u>	<u>305,230,273</u>
Less amounts not available to be used for general expenditures within one year:		
Custodial funds payable	105,665,158	112,599,797
Purpose restrictions	88,622,851	80,625,826
Endowment funds held in perpetuity and accumulated earnings	61,807,472	55,859,651
Financial assets not available to be used within one year	<u>256,095,481</u>	<u>249,085,274</u>
Financial assets available to meet general expenditures within one year	<u>\$ 68,277,315</u>	<u>\$ 56,144,999</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 cash balance pool. 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 \$44,490,527 and \$39,196,789 as of December 31, 2023 and 2022, respectively.

Assets held as a custodian for other organizations and assets limited to use for purpose restrictions, which are more fully described in Notes 7, 11, and 12, are not available for general expenditure within the next year.

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Note 4—Investments

Investments at December 31 consist of the following:

	2023		2022	
	Fair Value	Cost	Fair Value	Cost
Cash, pending investment	\$ 18,076,965	\$ 18,076,965	\$ 9,985,252	\$ 9,985,252
Common and preferred stock	77,541,100	53,860,245	69,018,481	63,470,884
Equity mutual funds	62,158,161	58,325,733	64,442,447	69,738,289
U.S. government agency securities	15,519,364	15,624,769	18,607,324	19,112,756
U.S. government bonds	24,435,755	25,090,072	22,533,755	23,865,341
Other fixed income	695,213	744,150	1,384,155	1,494,660
Corporate bonds	19,264,850	20,449,598	21,264,223	23,527,490
U.S. Equity Index Fund - I (Wespath)	34,702,933	17,213,752	33,012,759	20,648,129
Multiple Asset Fund - I (Wespath)	16,213,870	16,500,000	14,182,767	16,500,000
Real estate	20,727,873	20,727,873	20,437,166	20,437,166
	<u>\$ 289,336,084</u>	<u>\$ 246,613,157</u>	<u>\$ 274,868,329</u>	<u>\$ 268,779,967</u>

Investments include funds held and invested on behalf of other organizations as well as GBHEM funds (see Note 7).

Return on GBHEM's portion of the total investments of \$183,670,926 and \$166,628,228 for the years ended December 31, 2023 and 2022, respectively, was as follows:

	2023	2022
Investment return:		
Investment income	\$ 3,426,079	\$ 2,221,309
Gains on investments:		
Realized gains on sales of investments	3,310,877	2,918,261
Unrealized gains (losses) on investments	20,950,803	(41,558,787)
Gains (losses) on investments	24,261,680	(38,640,526)
Less investment management expenses	(1,062,412)	(737,367)
Investment return, net	26,625,347	(37,156,584)
Investment return from invested fund draw for operations:		
Adjustment for investment income transferred to operations	(4,474,011)	(4,259,646)
Nonoperating Investment return, net	<u>\$ 22,151,336</u>	<u>\$ (41,416,230)</u>

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Note 5—Property and equipment, net

Property and equipment at December 31, 2023 and 2022 consists of the following:

	2023	2022
Computer equipment	\$ 22,395	\$ 22,395
Furniture and fixtures	169,725	169,725
	<u>192,120</u>	<u>192,120</u>
Less accumulated depreciation	<u>(116,074)</u>	<u>(97,455)</u>
Total property and equipment, net	<u>\$ 76,046</u>	<u>\$ 94,665</u>

Depreciation expense related to property and equipment for the years ended December 31, 2023 and 2022 was \$18,619 and \$25,281, respectively.

Note 6—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 Wespath Benefits and Investments (“Wespath”). GBHEM makes semi-monthly contributions to each eligible employee’s account held by Wespath 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 2023 and 2022 were \$410,657 and \$407,180, 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 \$440,072 and \$416,116 in 2023 and 2022, respectively, and the cost of benefits for retired employees was \$118,007 and \$111,178 in 2023 and 2022, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$26,626,000 and \$25,007,000 and the Plan’s unfunded expected postretirement benefit obligation was approximately \$36,004,000 and \$32,535,000 as of December 31, 2023 and 2022, respectively.

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Note 6—Employee benefits (continued)

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 \$156,194,000 and \$148,588,000 as of December 31, 2023 and 2022, respectively. The total amount available for reimbursement in 2023 and 2022 was \$11,887,000 and \$11,424,000, respectively, of which GBHEM's share was \$862,274 and \$847,726, respectively.

Note 7—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, 2023 and 2022, custodial funds payable totaled \$105,665,158 and \$112,599,797, respectively.

Note 8—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 9—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, 2023 and 2022, GBHEM had the following transactions with GCFA and other related parties:

	<u>2023</u>	<u>2022</u>
Statements of Financial Position:		
Due from GCFA Cash Balance Pool	\$ 20,386,509	\$ 12,115,624
Due from related organizations - World Service Fund Allocation receivable	8,326,276	9,821,156
Due from related organizations - other	231,340	283,275
Investments held in Wespath	50,916,803	47,195,526
Funds held by UMC Board of Trustees for the benefit of the GBHEM	5,198,239	5,239,821
Due (to) from related organizations - Africa University Inc., Tennessee	(3,000,104)	1,201,898
Due to related organizations - other	6,049,372	86,313
Custodial funds payable - Africa University, Inc., Tennessee	86,950,528	94,797,194
Statements of Activities:		
Revenue:		
General church funds	29,020,144	31,710,740
Interest income from GCFA	478,435	122,262
Investment return from Wespath	11,048,738	(10,540,901)
Change in value of funds held by outside trustees - Board of Trustees	32,089	(1,811,304)
Benefit trust distribution	862,274	847,726
Services received from GCFA	40,633	38,090
Expenses:		
Administration provided by GCFA	40,633	38,090
Employee benefits - group insurance expense	558,080	527,294

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Note 10—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, 2023 and 2022 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			
	Amounts Measured at Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Funds held by outside trustees for the benefit of GBHEM:	\$ 6,090,480	\$ -	\$ -	\$ 6,090,480
Investments:				
Cash pending investments	\$ 18,076,965	\$ 18,076,965	\$ -	\$ -
Common and preferred stock	77,541,100	77,541,100	-	-
Equity mutual funds	62,158,161	62,158,161	-	-
U.S. government agency securities	15,519,364	15,519,364	-	-
U.S. government bonds	24,435,755	24,435,755	-	-
Other fixed income	695,213	695,213	-	-
Corporate bonds	19,264,850	-	19,264,850	-
	217,691,408	\$ 198,426,558	\$ 19,264,850	\$ -
Investments reported at net asset value:				
U.S. Equity Index Fund - I (Wespath) *	34,702,933			
Multiple Asset Fund - I (Wespath) *	16,213,870			
Real Estate:				
Rockwood *	1,282,556			
Harrison Street *	8,362,765			
Stonelake *	6,452,047			
Griffis Residential *	4,630,505			
Total investments	\$ 289,336,084			

* 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.

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Note 10—Fair value of financial instruments (continued)

The fair value amounts presented in the following table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

	Fair Value Measurements at Reporting Date Using			
	Amounts Measured at Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
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	-
	<u>207,235,638</u>	<u>\$ 185,971,416</u>	<u>\$ 21,264,222</u>	<u>\$ -</u>
Investments reported at net asset value:				
U.S. Equity Index Fund - I (Wespath) *	33,012,759			
Multiple Asset 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	<u>\$ 274,868,329</u>			

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using 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 10—Fair value of financial instruments (continued)

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.

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, 2023:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency ^(g)</u>	<u>Redemption Notice Period</u>
U.S. Equity Index Fund - I (Wespath) ^(a)	\$ 34,702,933	\$ -	daily	daily
Multiple Asset Fund - I (Wespath) ^(b)	16,213,870	-	daily	daily
Real Estate:				
Rockwood ^(c)	1,282,556	74,259	variable	variable
Harrison Street ^(d)	8,362,765	2,111,801	variable	variable
Stonelake ^(e)	6,452,047	5,325,000	variable	14 days
Griffis Residential ^(f)	4,630,505	2,320,000	variable	variable
	<u>\$ 71,644,676</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) The objective of the Wespath’s Multiple Asset Fund (I series) is to maximize investment returns, including current income and capital appreciation, while reducing short-term risk by investing in a broad mix of investments. This fund holds a pre-specific allocation of units of the following Wespath funds: (1) Fixed Income Fund-I Series (FIF-I), (2) Inflation Protection Fund-I Series (IPF-I), (3) International Equity Fund-I Series (IEF-I), and (4) U.S. Equity Fund-I Series (USEF-I).

(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.

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Note 10—Fair value of financial instruments (continued)

The following is a reconciliation of activity for 2023 and 2022 for assets measured at fair value based on significant unobservable information:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 6,058,391	\$ 7,869,695
Change in fair value	881,421	(1,204,304)
Sales and redemptions	<u>(849,332)</u>	<u>(607,000)</u>
Balance, end of year	<u>\$ 6,090,480</u>	<u>\$ 6,058,391</u>

Note 11—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2023 and 2022 have been restricted by the donors for the following purpose restrictions:

	<u>2023</u>	<u>2022</u>
Subject to purpose restrictions:		
Loans and scholarships	\$ 57,727,713	\$ 52,075,417
Historical black colleges and universities	12,276,035	11,371,200
Ministerial purposes	10,003,888	9,609,293
Young clergy initiative	5,093,623	3,986,703
Central conference on theological education	2,841,831	2,934,162
Other program purposes	<u>679,761</u>	<u>649,051</u>
Total subject to purpose restrictions	<u>88,622,851</u>	<u>80,625,826</u>
Endowments:		
Accumulated earnings on GBHEM's endowment fund	42,970,628	37,042,247
GBHEM endowment fund held in perpetuity	<u>18,836,844</u>	<u>18,817,404</u>
Total endowments	<u>61,807,472</u>	<u>55,859,651</u>
Total net assets with donor restrictions	<u>\$ 150,430,323</u>	<u>\$ 136,485,477</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, 2023 and 2022 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified.

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Note 12—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.

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

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Note 12—Endowment (continued)

As of December 31, 2023 and 2022, GBHEM had the following endowment net asset composition by type of fund:

	December 31, 2023		
	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	\$ -	\$ 18,836,844	\$ 18,836,844
Accumulated investment gains	-	42,970,628	42,970,628
Board-designated quasi endowment	44,490,527	-	44,490,527
Endowment net assets, December 31, 2022	<u>\$ 44,490,527</u>	<u>\$ 61,807,472</u>	<u>\$ 106,297,999</u>

	December 31, 2022		
	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	\$ -	\$ 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, 2021	<u>\$ 39,196,789</u>	<u>\$ 55,859,651</u>	<u>\$ 95,056,440</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, 2023 and 2022, 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 2023 and 2022). 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.

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.

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

DECEMBER 31, 2023 AND 2022

Note 12—Endowment (continued)

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, 2023 and 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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	<u>(854,900)</u>	<u>(1,593,155)</u>	<u>(2,448,055)</u>
Endowment net assets, December 31, 2022	39,196,789	55,859,651	95,056,440
Investment return, net	6,220,988	7,796,021	14,017,009
Contributions and designations	-	84,402	84,402
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	<u>(927,250)</u>	<u>(1,932,602)</u>	<u>(2,859,852)</u>
Endowment net assets, December 31, 2023	<u>\$ 44,490,527</u>	<u>\$ 61,807,472</u>	<u>\$ 106,297,999</u>

Note 13—Subsequent events

Management has evaluated subsequent events through September 17, 2024, 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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Distributions to Historically Black Colleges and Universities:		
Bennett College	\$ 470,615	\$ 546,031
Bethune-Cookman College	949,595	803,408
Clafin College	666,498	640,801
Clark Atlanta University	765,523	1,109,696
Dillard University	699,459	881,089
Huston-Tillotson College	590,274	809,529
Meharry Medical College	525,783	1,002,532
Paine College	474,466	546,770
Philander Smith College	1,022,258	592,920
Rust College	468,624	772,068
Wiley College	762,607	590,869
Total Distributions to Historically Black Colleges and Universities	<u>\$ 7,395,702</u>	<u>\$ 8,295,713</u>

Distribution of residual capital funds of \$1,165,000 and \$1,420,000 in 2023 and 2022, respectively, were included in the above totals.

	<u>2023</u>	<u>2022</u>
Distributions to Theological Schools:		
Boston School of Theology	\$ 512,191	\$ 660,257
Drew University, the Theological School	596,081	686,167
Duke University, the Divinity School	1,574,592	1,692,956
Emory University, Candler School of Theology	1,175,993	1,230,368
Gammon Theological Seminary	367,513	425,472
Garrett Evangelical Theological Seminary	840,364	885,375
Illiff School of Theology	545,795	623,300
Methodist Theological School of Ohio	696,587	714,626
Southern Methodist University, Perkins School of Theology	928,283	1,092,271
St. Paul School of Theology	672,138	672,332
School of Theology at Claremont	424,894	469,262
United Theological Seminary	781,524	864,705
Wesley Theological Seminary	797,523	1,002,937
Total Distributions to Theological Schools	<u>9,913,478</u>	<u>11,020,028</u>
Total Distributions to Historically Black Colleges and Universities and Theological Schools	<u>\$ 17,309,180</u>	<u>\$ 19,315,741</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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
AFRICA UNIVERSITY	\$ 86,950,528	\$ 94,797,194
ARTHUR A. HENRY SCHOLARSHIP FUND-PHILANDER SMITH	2,037	1,849
ATKINS-DILLARD MALLALIEU FUND	332,095	301,391
AUSTIN COLLEGE	87,575	79,477
BALTIMORE CONF. - FRANCIS ASBURY	281,283	255,275
BALTIMORE CONF. - SOPHIA DIETSCH	304,481	276,326
BALTIMORE CONFERENCE SCHOLARSHIP	77,639	70,460
BALTIMORE WASHINGTON CONF	6,311	6,311
BIBLE & RELIGIOUS EDUCATION FUND	1,081,701	981,676
CENTENARY COLLEGE OF LOUISIANA	150,734	136,796
DAISY PEARSON FUND-CLAFLIN COLLEGE	191,051	173,385
EARLHAM COLLEGE	93,400	84,763
ECMT FUNDS PAYABLE	24,586	24,586
FACULTY ENRICHMENT FUND-PHILANDER SMITH	147,957	134,276
FLORENCE CLEAVER SCHOLARSHIP-PHILANDER SMITH	5,088	4,617
FORD FOUNDATION FUND-CLAFLIN COLLEGE	786,617	713,810
FRANCIS ASBURY INVESTED FUND	-	780,584
FRANCIS ASBURY LOAN	-	266,537
GAMMON BUILDING FUND	5,259,861	4,773,484
GAMMON CRUSADE FUND	3,393,934	3,069,132
GAMMON SALARIES & PENSIONS	101,417	91,436
GAMMON THEOLOGICAL SEMINARY-GEN FD	546,129	495,629
GARRETT TRUST SCHOLARSHIP FUND	1,356,240	1,218,497
GENERAL ENDOWMENT FUND-CLAFLIN COLLEGE	361,920	328,454
HARRIS MEMORIAL COLLEGE ENDOWMENT	122,835	106,011
HENDRIX COLLEGE	144,749	131,364
IAMSCU FUND	328,581	322,726
INVESTMENT IN GIP - NY FUND	-	1,035,344
LON MORRIS COLLEGE	151,774	137,740
LUBBOCK CHRISTIAN COLLEGE	87,585	79,486
LUBBOCK METHODIST HOSPITAL	128,744	116,839
M. W. DUNLAP TRUST-PHILANDER SMITH	9,604	8,680
MARIE L. HUTH SCHOLARSHIP-PHILANDER SMITH	11,880	10,781
MAVEETY SCHOLARSHIP FUND	181,169	164,415
MT. VERNON PLACE LOAN FUND	501,111	443,488

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

SCHEDULE 2

DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
NASCUMC INVESTED FUND	\$ 379,633	\$ 327,637
NASCUMC OPERATING FUND	270,366	263,399
NEBRASKA WESLEYAN	144,761	131,372
NELSON-HARRIS SCHOLARSHIP-PHILANDER SMITH	17,877	16,224
NEW YORK LOAN FUND	-	(408,084)
NORTHWEST TEXAS CONFERENCE	91,463	83,005
OKLAHOMA CITY UNIVERSITY	176,566	160,244
READER'S DIGEST SCHOLARSHIP-PHILANDER SMITH	7,524	6,829
SOUTH CENTRAL JURIS. CONF.	133,224	120,904
SOUTHERN METHODIST UNIVERSITY	11,839	10,744
SOUTHWESTERN COLLEGE	157,825	143,232
SOUTHWESTERN UNIVERSITY	273,721	248,421
SPECHT FUND	27,991	25,403
ST. PAUL SCHOOL OF THEOLOGY	94,432	85,699
STANTON ESTATE-CLAFLIN COLLEGE	15,896	14,427
STUDENT EMERGENCY LOAN FUND-PHILANDER SMITH	3,211	2,915
SUMMER SCHOLARSHIP ENDOWMENT-PHILANDER SMITH	76,392	69,329
TEXAS WESLEYAN COLLEGE	340,578	309,086
UNION COLLEGE	91,015	82,599
UNIV OF KANSAS - ENGLE FUND	69,865	63,404
UNIV OF WISC - LEAVITT FUND	40,684	36,922
WESLEY THEOLOGICAL SEMINARY	87,280	79,209
WEST TEXAS STATE UNIVERSITY	182,965	166,047
WILLSON LECTURESHIP FUND (DM/GBHEM)	196,264	177,776
	<u>106,101,988</u>	<u>113,839,560</u>
Losses incurred but not yet allocated fo funds held for others	<u>(436,830)</u>	<u>(1,239,763)</u>
	<u><u>\$ 105,665,158</u></u>	<u><u>\$ 112,599,797</u></u>