

FINANCIAL Statements | 2018



FOR YEARS ENDED: DECEMBER 31, 2018 AND 2017

REPORT OF MANAGEMENT

REPORT OF INDEPENDENT AUDITORS



The Pension Boards
United Church of Christ, Inc.
A FAITH AND FINANCE MINISTRY



OUR MISSION

Operating at the intersection of faith and finance, we are caring professionals partnering with those engaged in the life of the Church to provide valued services leading to greater financial security and wellness.

OUR VISION

The Pension Boards delivers benefits and services from the intersection of faith and finance, providing clergy, lay employees, and all persons served with the peace of mind that comes through greater financial security and better health.

The Pension Boards achieves these results through:

- Thought leadership regarding faith-based, socially responsible investing
- Professional investment expertise that enhances returns,
- A comprehensive mix of products and services that meet diverse needs,
- Innovative application of technology,
- Outreach to all settings of the UCC and the greater Church, and
- Fees and expenses that are at or below industry average



Report of Management

We have prepared the accompanying combined financial statements of The Pension Boards-United Church of Christ, Inc. (the "Pension Boards") for the years ended December 31, 2018 and 2017. We are responsible for the content, integrity, and objectivity of the financial information presented in this Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The statements include amounts based on management's best estimates and judgments.

We believe that the financial statements present fairly in all material aspects the financial condition and results of operations for the Pension Boards for the periods presented in this report.

The 13-member Board of Trustees, all of whom are independent of the Pension Boards' internal management, oversees the financial statements through its Audit Committee. The Audit Committee is responsible for the appointment of independent public accountants and for approving their compensation.

The Pension Boards' financial statements have been audited by RSM US LLP, independent auditors, whose report appears on page 4 and 5. The independent auditors, engaged to express an opinion on the financial statements, meet periodically with, and have been given free access to, the Audit Committee without management present, to discuss internal controls, auditing, and financial reporting matters.

The Pension Boards' recognizes its system of internal control plays an important role for reliable financial statements. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly and executed in accordance with management's authorization. The control environment is enhanced by the selection and training of competent management; maintaining the highest standards of conduct by employees; appropriately segregating duties and delegating authority; and communicating accounting and operating policies and procedures to Pension Boards' employees.

A handwritten signature in black ink, appearing to read "Brian R. Bodager". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Brian R. Bodager
President/Chief Executive Officer

A handwritten signature in black ink, appearing to read "John E. Linzey". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

John E. Linzey
Director of Treasury/Accounting Operations

March 29, 2019



Independent Auditor's Report

RSM US LLP

To the Board of Trustees
The Pension Boards – United Church of Christ, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Pension Boards – United Church of Christ, Inc. (the Pension Boards), which comprise the combined statements of financial position as of December 31, 2018 and 2017, the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pension Boards – United Church of Christ, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Entity adopted ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, during the current year. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and the disclosures related to net assets. The adoption was retrospectively applied to January 1, 2017, the earliest year presented. Our opinion is not modified with respect to this matter.

RSM US LLP

New York, New York
March 29, 2019

THE PENSION BOARDS-UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION

	December 31, 2018	December 31, 2017
ASSETS		
Cash	\$ 5,149,948	\$ 7,919,147
Investments	3,108,133,470	3,432,362,048
Collateral provided by securities borrowers	65,473,956	83,892,613
Accrued investment income receivable	12,862,252	11,793,869
Receivable from brokers for securities sales	8,542,438	4,249,921
Fixed assets	1,998,898	3,148,415
Other assets	4,487,768	1,608,665
TOTAL ASSETS	\$ 3,206,648,730	\$ 3,544,974,678
LIABILITIES AND NET ASSETS		
Cash overdraft	\$ 4,910,060	\$ -
Payable to securities borrowers	65,473,956	83,892,613
Payable to brokers for securities purchases	6,580,903	3,001,759
Health benefits payable	3,561,548	3,870,919
Deferred health benefits premiums	680,277	3,487,231
Accrued expenses and other liabilities	7,589,844	8,459,945
Total liabilities	88,796,588	102,712,467
ANNUITY PLAN NET ASSETS		
Annuitant fund	\$ 1,800,631,668	\$ 1,946,785,123
Accumulation fund	1,079,768,432	1,236,096,553
Total Annuity Plan net assets	2,880,400,100	3,182,881,676
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Benefit services fund	120,064,144	130,742,350
Operating fund	5,566,239	7,549,943
Total net assets without donor restrictions	125,630,383	138,292,293
NET ASSETS WITH DONOR RESTRICTIONS		
Ministerial Assistance fund	70,868,920	75,226,659
Operating fund	40,952,739	45,861,583
Total net assets with donor restrictions	111,821,659	121,088,242
TOTAL LIABILITIES AND NET ASSETS	\$ 3,206,648,730	\$ 3,544,974,678

See notes to Combined Financial Statements.

THE PENSION BOARDS-UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF ACTIVITIES

	<u>Year Ended</u> <u>December 31, 2018</u>	<u>Year Ended</u> <u>December 31, 2017</u>
REVENUES AND OTHER SUPPORT		
Investment return, net	\$ (181,528,386)	\$ 413,650,900
Health services premiums	57,555,945	54,767,906
Employer pension contributions	28,049,704	30,678,943
Member pension contributions	8,173,529	7,832,858
Christmas Fund appeal	1,540,158	1,507,088
Our Church's Wider Mission	274,404	288,844
Donations and legacies	2,953,174	402,210
Other	2,233	4,650
Total revenues and other support	<u>(82,979,239)</u>	<u>509,133,399</u>
EXPENSES		
Pension payments to annuitants	142,397,489	136,710,138
Partial withdrawals and lump-sum payments	20,755,628	22,105,759
Health services claims	54,005,024	50,179,723
Health services costs	6,401,915	5,760,640
Administrative costs	12,145,059	11,619,434
Ministerial Assistance grants	3,105,471	2,895,801
Ministerial Assistance programs and administrative costs	2,620,244	2,518,288
Total expenses	<u>241,430,830</u>	<u>231,789,783</u>
(DECREASE) INCREASE IN NET ASSETS	<u>\$ (324,410,069)</u>	<u>\$ 277,343,616</u>
COMPOSITION OF CHANGE IN NET ASSETS		
(Decrease) Increase in Annuity Plan net assets	(302,481,576)	251,960,303
(Decrease) Increase in net assets without donor restrictions	(12,661,910)	15,279,188
(Decrease) Increase in net assets with donor restrictions	(9,266,583)	10,104,125
(DECREASE) INCREASE IN NET ASSETS	<u>\$ (324,410,069)</u>	<u>\$ 277,343,616</u>
Beginning net assets	3,442,262,211	3,164,918,595
Ending net assets	<u>\$ 3,117,852,142</u>	<u>\$ 3,442,262,211</u>

See notes to Combined Financial Statements.

THE PENSION BOARDS-UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members and employers for health services premiums	\$ 36,441,135	\$ 38,662,295
Cash received from members and employers for pension plan	54,319,797	55,649,550
Cash received from Our Church's Wider Mission	269,353	343,038
Cash received from Christmas Fund appeal	1,538,758	1,506,771
Cash received from contributors	407,161	402,088
Cash received from income on investments	86,031,010	75,713,823
Miscellaneous receipts (payments)	2,233	4,650
Payments made to annuitants, members, and beneficiaries from the pension plan	(164,606,167)	(158,815,896)
Payments made to participants, and providers for health services claims and costs	(54,314,222)	(50,540,388)
Cash paid to employees, suppliers, and providers of services	(32,230,190)	(29,292,586)
Grants disbursed	(1,278,421)	(2,895,801)
Net cash used in operating activities	<u>(73,419,553)</u>	<u>(69,262,456)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	2,149,975,466	2,276,329,634
Purchase of investments	(2,082,538,249)	(2,202,204,875)
Purchase of equipment	(1,696,923)	(1,230,298)
Net cash provided by investing activities	<u>65,740,294</u>	<u>72,894,461</u>
NET (DECREASE) INCREASE IN CASH	(7,679,259)	3,632,005
NET CASH, BEGINNING OF YEAR	7,919,147	4,287,142
NET CASH, END OF YEAR	<u>\$ 239,888</u>	<u>\$ 7,919,147</u>
COMPOSITION OF NET CASH, END OF YEAR		
Cash	\$ 5,149,948	\$ 7,919,147
Cash overdraft	(4,910,060)	-
NET CASH, END OF YEAR	<u>\$ 239,888</u>	<u>\$ 7,919,147</u>

See notes to Combined Financial Statements.

THE PENSION BOARDS—UNITED CHURCH OF CHRIST, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

1. ORGANIZATION

The Pension Boards-United Church of Christ, Inc. (the “Pension Boards”), an Affiliated Ministry of the United Church of Christ (“UCC”), provides retirement, disability, life insurance, medical, dental, and vision benefits for clergy and lay employees of the UCC, its predecessor religious denominations, and UCC-related organizations, through the administration of retirement and other benefit plans. As an Affiliated Ministry of the UCC, the Pension Boards is able to serve all other ministries of the UCC. The Pension Boards also acts as the investment-holding corporation and manages investments in commingled pools of common investment types.

United Church Board for Ministerial Assistance, Inc. (“Ministerial Assistance”) holds, manages, and distributes funds to provide direct support to authorized ministers and lay church employees of the UCC whose circumstances call for compassionate responses, and offers specialized initiatives and insightful witness to promote sustainable ministry within the church. Ministerial Assistance maintains The Christmas Fund for the Veterans of the Cross and the Emergency Fund to receive contributions from an annual church-wide appeal. These contributions help provide small pension supplementation; health benefits supplementation for retirees; emergency grants; and Christmas “thank you” checks to lower-income retirees and their spouses/partners.

The Pension Boards is the plan sponsor of **The Annuity Plan for the United Church of Christ**, as amended, (the “Annuity Plan”), which is a defined contribution plan and is a tax-exempt retirement income account program described in section 403(b)(9) of the Internal Revenue Code of 1986, as amended (“Code”). The Annuity Plan is a Church Plan within the meaning of Code section 414(e) and is not subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The Pension Boards is the Trustee of the Annuity Fund Trust, which was established to hold in trust money and other property of the Annuity Plan on behalf of and for the benefit of members and beneficiaries of the Annuity Plan.

Annuity Plan - Accumulation Fund

The Pension Boards maintains a separate account or accounts for each member. Member and employer contributions are credited to members’ accounts and are invested according to instructions received from members. Contributions may be allocated by members, in five percent increments, among any or all of the following investment funds: the Pension Boards’ Stable Value Fund, the Pension Boards’ Bond Fund, the Pension Boards’ Equity Fund, the Pension Boards’ Balanced Fund, five Pension Boards’ Target Annuitization Date Funds, and the Northern Trust Global Sustainability Index Fund. Investment results are credited or charged to members’ accounts in accordance with provisions of the Annuity Plan. With prior online or written notice, members may change their allocation of current account balances and future contributions effective the first day of the following month. The accounts of active and inactive members who have not yet annuitized are included in the Accumulation Fund in addition to retirement savings account contributions made by or on behalf of annuitants and lump sum transfers by members at the time of annuitization.

Annuity Plan - Annuitant Fund

Reserves for Annuitants, which contain funds designated to provide for annuity payments to annuitant members, are included in the Annuitant Fund. Upon retirement, all or a portion of the value of a member's individual accumulation account in the Annuity Plan is transferred to Reserves for Annuitants and is used to fund actuarially-determined monthly benefit payments of a variable amount. Members may choose among two annuity options (Basic and Participating as described below), both of which provide a lifetime income for members and all but one of which makes provision for beneficiaries named by the members. Monthly retirement income is determined based upon the age of the member (and that of a Joint Annuitant, if applicable), the amount of assets in a member's accumulation account, and the form in which the benefit will be paid (for example, Single Life Annuity, or Joint and Survivor Annuity), using an assumed investment rate of return of 4% per year. Annuitants may elect to receive either a Basic or Participating Annuity. The Basic Annuity has supporting investments in fixed-income securities. The Participating Annuity has supporting investments comprised of fixed-income, equity securities, and real assets with a target allocation of 55% to equities, 35% to fixed-income securities, and 10% to real assets.

Welfare Plan Trust

The Pension Boards is also a plan sponsor of church welfare benefits plans, including plans providing employer group medical, long-term and short-term disability, death benefits, dental benefits, and vision benefits ("Welfare Plans"). The Pension Boards established the Welfare Plans Trust to hold title to certain assets of the Welfare Plans for the sole and exclusive benefit of the participants of the Welfare Plans. The Welfare Plans Trust is held within the Benefit Services Fund.

Other Funds

In addition to the Accumulation, Annuitant, and Ministerial Assistance Funds described in Note 1, the financial statements include Benefit Services and Operating Funds. The Benefit Services Fund includes net assets and activities relating to Welfare Plans, as described above. Self-insured short-term disability, medical, dental, and vision plans are administered by third-party administrators. The Pension Boards also offers members a life insurance and long-term disability income benefit plan, which is underwritten by an independent commercial insurance carrier. The Operating Fund includes net assets and activities relating to the administrative functions of the Pension Boards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of Accounting Standards - Not-for-Profit Financial Statements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, a new authoritative guidance related to the not-for-profit financial reporting model. The standard changes the existing classes of net assets, improves the transparency and utility of liquidity information, changes the required presentation of cash flow information, and requires the presentation of expenses by both function and natural classification. The Pension Boards adopted the standard in 2018 and applied the changes retroactively. Net assets previously reported as unrestricted are now described as net assets without donor restriction, and temporarily and permanently restricted net assets are now described as net assets with donor restrictions. Net assets of Ministerial Assistance totaling approximately \$61.0 million as of January 1, 2017, are now classified as net assets restricted by donor

as they are not available for purposes other than Ministerial Assistance. Functional expenses by natural classification are presented in Note 8 and additional liquidity information is provided in Note 9.

Basis of Accounting and Combination

The accompanying combined, accrual basis, comparative financial statements include the assets, liabilities, activities, and cash flows of the Pension Boards (which include Benefit Services and Operating Funds), Ministerial Assistance, and the Annuity Plan on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All inter-corporate balances have been eliminated in the combination. Included within the Pension Boards is a consolidated entity, 475 Fund, Ltd., an exempted company with limited liability, incorporated under the laws of the Cayman Islands. The Pension Boards owns 100% of the voting shares of 475 Fund, Ltd., which was established to hold investments in hedge funds, managed on a discretionary basis, by an external investment manager. Please see Note 4 for additional information.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses and realized and unrealized gains and losses during the reporting period. The fair values of investments represent the most significant estimates and assumptions. Actual results could differ from those estimates and assumptions.

Investments

Investments under management are commingled and held by the Pension Boards' custodial bank pursuant to a Master Custody Agreement. The Investment Committee of the Board of Trustees is responsible for supervising the Pension Boards' investment program.

The Statement of Investment Policy of the Pension Boards establishes guidelines relating to permissible investments and to diversification, liquidity, duration, concentration, and quality of investments. This policy permits the purchase and sale of S&P 500 Index futures contracts by an external investment manager to equitize cash in the management of the S&P 500 Index strategy. The policy also permits the Chief Investment Officer ("CIO") to use certain exchange-traded futures to shift among asset classes and managers within the Pension Boards' Equity Fund and to rebalance the Pension Boards' Balanced Fund among asset classes subject to certain restrictions. Pension Boards staff continues to monitor adherence to the policy and guidelines by investment managers.

Investments are reported at fair value in accordance with Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Topic No. 820, Fair Value Measurement. Securities traded in active markets on national and international securities exchanges are valued at closing prices on the last business day of each year presented. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Note 4 provides additional information concerning fair value measurement including valuations of non-marketable securities.

Investment transactions are accounted for on the date the securities are purchased or sold, which is the trade date. A corresponding payable to or receivable from the transaction counterparty is recorded until cash and securities are exchanged on the settlement date. Dividend income is recorded on the ex-dividend date. Interest income is accrued as earned. Realized gain or loss represents the difference between the proceeds received on a sale of a security and its historical cost. Unrealized appreciation or depreciation is the difference between the fair value of a security and its historical cost.

Investments denominated in non-U.S. dollar currencies are translated at the exchange rates in effect at each financial statement date. Gains and losses from the sale of such investments are translated at the exchange rates in effect at the transaction date.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, liquidity, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the Statements of Financial Position.

Revenue Recognition

Employer and member pension contributions and benefit services premiums are recorded when received. Benefit Services premiums that are received prior to the insured period are shown as deferred health benefits premiums on the accompanying Statements of Financial Position.

Donations and legacies are recognized as revenue in the year in which the unconditional promise to give is received.

Income Taxes

The Pension Boards, a New Jersey nonprofit corporation, and Ministerial Assistance, a Connecticut non-stock (nonprofit) corporation, are private organizations exempt from federal income tax under Section 501(c)(3) of the Code. The Annuity Plan is exempt from federal income tax as a retirement income account plan under Section 403(b)(9) of the Code. The Welfare Plans Trust is exempt from tax pursuant to Section 501(a) of the Code. While exempt from federal income tax, the Pension Boards, Ministerial Assistance, the Annuity Plan, and the Welfare Plans Trust are subject to tax on income unrelated to their exempt purposes.

To the extent certain investments in limited partnerships generate income, the Pension Boards is required to pay federal and state income taxes. Since January 1, 2018, transportation and parking benefits provided by the Pension Boards, or provided as a pre-tax benefit for the employees of the Pension Boards, is also subject to unrelated business income tax. The Pension Boards annually files Internal Revenue Service Form 990-T tax returns. For the years ended December 31, 2018 and 2017, there were no interest or penalties recorded or included in the financial statements.

Included within the Pension Boards is a consolidated entity, 475 Fund, Ltd., a Cayman Islands exempted company, which is treated as a corporation for U.S. federal income tax purposes; there is no direct taxation in the Cayman Islands. The 475 Fund, Ltd. intends to conduct its business in a manner so as to meet the requirements of a safe harbor provision under the Code whereby the 475 Fund, Ltd. should not be subject to U.S. federal income tax. The Pension Boards is the sole shareholder of the 475 Fund, Ltd. which, for U.S. tax purposes, is a controlled foreign corporation. It is not anticipated that unrelated business taxable income will be generated by the 475 Fund, Ltd.

ASC Topic No. 740, Income Taxes, requires management to evaluate tax positions taken by the Pension Boards and to recognize a tax liability (or asset) if the Pension Boards has taken an uncertain position that more likely than not would not be sustained upon examination by the authorities. The definition of "tax position" includes an entity's status as a tax-exempt nonprofit entity. Management believes there are no material uncertain positions that require recognition in the accompanying financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, a new authoritative guidance on leasing transactions. The guidance will require organizations that lease assets - referred to as "lessees" - to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. This accounting standard will be applicable to the Pension Boards for calendar year 2020. The Pension Boards anticipates recording a related right-to-use asset and an offsetting liability related primarily to office space leases.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall* which updates certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 will be effective for the Pension Boards for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance presented in Topic 958, "Not-for-Profit Entities," of the FASB ASC for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU may be adopted using either: (a) the modified prospective basis, with no restatement of opening net assets, or (b) the full retrospective method. Under the modified prospective basis, the ASU is applied to agreements that are not completed as of the effective date, with the ASU's guidance applied to the portion of revenue or expenses not yet recognized, or entered into after the effective date. The ASU will be effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted. Management has not evaluated the impact of this ASU on the financial statements.

3. NET ASSETS

Net Assets are classified as Annuity Plan, Net Assets Without Donor Restrictions, and Net Assets With Donor Restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Annuity Plan

Comprised of net assets of the Annuitant Fund and the Accumulation Fund. Please see Note 1 for additional information.

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations, or for which the donor-imposed restrictions have expired and may be used for any purpose in performing the operations of the organization. Net assets without donor restrictions may be directed to specific uses by action of the Board of Trustees.

With Donor Restrictions

Net assets that are subject to donor-imposed restrictions. These restrictions may be for finite periods or for specific purposes. When a restriction is fulfilled or when a specified period ends, amounts may be reclassified to net assets without donor restrictions. Donors may stipulate perpetual restrictions which must be adhered to indefinitely.

Statement of Activities

The changes in net assets by composition through December 31, 2018 are as follows:

Changes in Net Assets by Composition

	Annuity Plan	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net Assets at December 31, 2017	\$ 3,182,881,676	\$ 138,292,293	\$ 121,088,242	\$ 3,442,262,211
<u>Revenues and other support:</u>				
Our Church's Wider Mission	-	-	274,404	274,404
Christmas Fund donations	-	-	1,540,158	1,540,158
Gifts and other receipts	-	28,714	2,926,693	2,955,407
Income from Pilgrim Memorial Fund	-	2,100,035	-	2,100,035
Interfund transfers	(8,915,916)	8,422,543	493,373	-
Health services premiums	-	57,555,945	-	57,555,945
Annuity Plan contributions	36,223,233	-	-	36,223,233
Investment return, net	(166,635,776)	(7,805,149)	(9,187,496)	(183,628,421)
Total revenues and other support	<u>(139,328,459)</u>	<u>60,302,088</u>	<u>(3,952,868)</u>	<u>(82,979,239)</u>
<u>Expenses and grants</u>				
Grants	-	(412,000)	(2,693,471)	(3,105,471)
Programs costs	-	-	(1,179,463)	(1,179,463)
Health services claims and costs	-	(60,406,939)	-	(60,406,939)
Payments to annuitants	(163,153,117)	-	-	(163,153,117)
Administrative costs	-	(12,145,059)	(1,440,781)	(13,585,840)
Total expenses and grants	<u>(163,153,117)</u>	<u>(72,963,998)</u>	<u>(5,313,715)</u>	<u>(241,430,830)</u>
Decrease in net assets	<u>(302,481,576)</u>	<u>(12,661,910)</u>	<u>(9,266,583)</u>	<u>(324,410,069)</u>
Net Assets at December 31, 2018	<u>\$ 2,880,400,100</u>	<u>\$ 125,630,383</u>	<u>\$ 111,821,659</u>	<u>\$ 3,117,852,142</u>

The changes in net assets by composition through December 31, 2017 are as follows:

Changes in Net Assets by Composition

	Annuity Plan	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net Assets at December 31, 2016	\$ 2,930,921,373	\$ 123,013,105	\$ 110,984,117	\$ 3,164,918,595
Revenues and other support:				
Our Church's Wider Mission	-	-	288,844	288,844
Christmas Fund donations	-	-	1,507,088	1,507,088
Gifts and other receipts	-	34,822	372,038	406,860
Income from Pilgrim Memorial Fund	-	2,092,673	-	2,092,673
Interfund transfers	(8,976,648)	8,436,648	540,000	-
Health services premiums	-	54,767,906	-	54,767,906
Annuity Plan contributions	38,511,801	-	-	38,511,801
Investment return, net	381,241,047	17,521,936	12,795,244	411,558,227
Total revenues and other support	<u>410,776,200</u>	<u>82,853,985</u>	<u>15,503,214</u>	<u>509,133,399</u>
Expenses and grants				
Grants	-	(15,000)	(2,880,801)	(2,895,801)
Programs costs	-	-	(1,190,437)	(1,190,437)
Health services claims and costs	-	(55,940,363)	-	(55,940,363)
Payments to annuitants	(158,815,897)	-	-	(158,815,897)
Administrative and investment costs	-	(11,619,434)	(1,327,851)	(12,947,285)
Total expenses and grants	<u>(158,815,897)</u>	<u>(67,574,797)</u>	<u>(5,399,089)</u>	<u>(231,789,783)</u>
Increase in net assets	<u>251,960,303</u>	<u>15,279,188</u>	<u>10,104,125</u>	<u>277,343,616</u>
Net Assets at December 31, 2017	<u>\$ 3,182,881,676</u>	<u>\$ 138,292,293</u>	<u>\$ 121,088,242</u>	<u>\$ 3,442,262,211</u>

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Stable Value Fund Investments

At December 31, 2018 and 2017, the portfolio included institutional money market fund shares and synthetic guaranteed investment contracts held for liquidity and total return strategies. The Liquidity Strategy includes an underlying fixed-income security portfolio of asset-backed and mortgage-backed securities, Corporate bonds, U.S. government notes, and a book value, fully-benefit-responsive wrap contract issued by one insurance company, rated "AA+" by S&P. Constant duration synthetic guaranteed investment contracts is a Total Return Strategy consisting of an underlying fixed-income security portfolio of corporate bonds, U.S. government notes, asset-backed and mortgage backed securities, and book value, fully-benefit-responsive wrap contracts. They were issued by a non-U.S. investment bank and a U.S. retirement insurance and annuity company, each rated "AA-" by S&P. The Pension Boards has contracted for fully-benefit-responsive wrap agreements that permit members to make routine withdrawals and transfers as permitted by the Annuity Plan, at a stable unit value of \$1.00. Stable value investments are reported at contract value, which approximates fair value. For 2018 and 2017, the average yield and annualized crediting interest rates of the portfolio were 2.07% and 1.85%, respectively. Crediting rates are set monthly and are not less than zero.

Short-Term Investments

Short-Term Investments consists of institutional money market fund shares.

Fixed-Income Investments

Fixed-Income Investments include corporate bonds, U.S. government notes and bonds, U.S. government agency and commercial asset-backed and mortgage-backed securities, emerging markets debt funds, high-income bond funds, and income loan trust fund.

The emerging market debt funds invest primarily in local currency and U.S. dollar-denominated emerging market fixed-income securities and derivative instruments that are economically tied to an emerging market country. Performance of the emerging market debt funds is linked to those countries' currencies, markets, economies, or ability to repay loans. Investing in emerging markets has special risks such as currency market volatility, and political and social instability.

The high-income bond funds invest in a diversified portfolio of U.S. dollar-denominated high-yield bonds with an emphasis on debt securities below investment grade. High-yield bonds are debt securities that are rated below investment grade (rated below BBB by S&P). Investing in high-income bond funds is subject to credit risk, market volatility, interest rate risk, and prepayment risk.

The income loan trust fund invests in floating rate senior loans and other senior floating rate debt instruments issued by U.S. and Non-U.S. corporations and other business entities. Investing in senior loan funds is subject to credit risk, interest rate risk, liquidity risk, country risk, redemption/withdrawal risk, and dilution risk.

Equity Investments

Common Stock includes domestic and international issues diversified among 10 investment managers at December 31, 2018 with various investment styles. At December 31, 2018 and 2017, common stock included approximately 19.13% and 30.79% respectively, in non-U.S. securities. Investments in non-U.S. securities add certain risks related to the currency of the foreign markets in which the securities are issued. Those investments with currency risk are spread over 20 and 21 different foreign countries for December 31, 2018 and 2017, respectively, with 14 different currency denominations in December 31, 2018 and 2017. At December 31, 2018 and 2017, non-U.S. investments include securities purchased in the currencies of non-U.S. developed nations (96.02% and 96.9%, respectively) and in U.S. dollars (3.98% and 3.1%, respectively).

Equity funds include emerging markets, non-U.S. developed markets, U.S. Small-Cap equity funds, and the Northern Trust Global Sustainability Index Fund. Equity funds are recorded at the reported net asset value on the day of valuation.

Emerging markets funds purchase a broad and diverse group of securities associated with emerging markets, including frontier markets (emerging market countries in an earlier stage of development). Investments in emerging markets may be more likely to experience political turmoil or rapid changes in market or economic conditions than more developed countries. Additional restrictions may be imposed under other conditions. Frontier market countries generally have smaller economies or less developed capital markets and, as a result, the risks of investing in emerging market countries are magnified in frontier market countries.

The non-U.S. developed market fund invests primarily in a diversified portfolio of non-U.S. equity securities. At December 31, 2018, this portfolio included 69 stocks, representing 24 countries. At December 31, 2017, this portfolio included 69 stocks, representing 25 countries. Equities in non-U.S. developed markets accounted for 75% and 73.9% of the portfolio, with emerging markets accounting for 25.0% and 26.1%, at December 31, 2018 and 2017, respectively.

The U.S. Small-Cap equity funds invests in a broad and diverse group of readily marketable common stocks of U.S. small-cap companies. Securities of small companies are often less liquid than those of large companies and this could make it difficult to sell a small company security at a desired time or price. As a result, small company stocks may fluctuate relatively more in price. In general, smaller capitalization companies are also more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources.

The Northern Trust Global Sustainability Index Fund is a registered mutual fund with enhanced environmental, social, and governance (ESG) criteria, based on the MSCI World ESG Index, which measures not only the traditional investment performance of publicly-traded companies, but also the quality of their performance in ESG factors and sustainability.

Other Investments

Other Investments include participation in the United Church Funds, Inc. ("UCF"), an Associated Ministry of the UCC, and investments in hedge funds and real assets.

Participation in United Church Funds, Inc.

The Pension Boards is the income beneficiary of the Pilgrim Memorial Fund (“PMF”), a perpetual endowment fund held by UCF. Under the terms of the endowment, income calculated at five percent (5%) of the five-year moving average of PMF as of the previous September 30 is distributed quarterly by UCF to the Pension Boards. The interest in the PMF endowment fund is included in Investments in the Combined Statements of Financial Position and is valued based on the fair market value of the investments held in the UCF Beyond Fossil Fuels Balanced Fund, Alternatives Fund, and the Moderate Balanced Fund at December 31, 2018 and at December 31, 2017. Based on this valuation, the Pension Boards’ investment in the PMF is included at Level 3 in the fair value hierarchy. For the years ended December 31, 2018 and 2017, no additional funds were invested in the PMF. Other than the reclassification of this investment into Level 3, there were no transfers into and out of Level 3 for the years ended December 31, 2018 and 2017. The Combined Statements of Activities includes income received from PMF of \$2.1 million in 2018 and 2017, and the changes in the Pension Boards’ interest in the PMF fund of (\$4.8) million in 2018 and \$3.3 million in 2017, and were classified in investment return, net.

Hedge Funds (475 Fund, Ltd.)

Hedge Funds are interests in limited partnerships and investment companies, that use a variety of investment strategies and whose portfolios may comprise U.S. and non-U.S., publicly and non-publicly traded equity and debt securities, options, derivatives (futures), and commodities. The 475 Fund, Ltd. was established to hold investments, managed on a discretionary basis by an external investment manager. The Pension Boards' agreement with the external investment manager remained in effect through December 31, 2018 and extends automatically for additional one-year terms thereafter. As of December 31, 2018, 86.04% of the Fund's assets may be liquidated within 12 months or less; 96.88% of the Fund's assets may be liquidated with 24 months or less; and 100% of the Fund's assets may be liquidated with 36 months or less. As of December 31, 2018 and 2017, there are no unfunded commitments related to hedge fund investments. As of December 31, 2017, 87.89% of the Fund's assets may be liquidated within 12 months or less; 96.65% of the Fund's assets may be liquidated with 24 months or less; and 100% of the Fund's assets may be liquidated with 36 months or less.

The Pension Boards' hedge fund investments utilize various strategies such as:

- **Relative value:** Managers attempt to capture pricing inefficiencies/differentials between related securities while trying to minimize the impact of general market movements.
- **Long/Short equities:** Managers make long and short investments in equity securities that are deemed to be under- or over-valued.
- **Opportunistic/macro:** Managers invest in a wide variety of instruments using a broad range of primarily directional strategies. It is common for portfolio managers in this strategy to assume an aggressive risk posture relying on a combination of macroeconomic models, fundamental research, and quantitative algorithms.
- **Credit:** Managers may take long or short positions in corporate bonds, loans, credit derivatives, convertible bonds, asset-backed securities, equities, and equity derivatives. In most cases, portfolio managers will take long or short positions that reflect fundamental views on underlying credits.
- **Merger arbitrage/event-driven:** Managers seek to make profitable investments by investing in securities of companies involved in mergers, acquisitions, restructurings, liquidations, spin-offs, or other special situations that alter a company's financial structure or operating strategy.

In accordance with ASC Topic No. 820, *Fair Value Measurement*, the Pension Boards uses the net asset value reported by each fund as a practical expedient to estimate the fair value of the Pension Boards' interest therein. The Pension Boards' hedge fund investments, by strategy type, at December 31, 2018 and 2017 were as follows:

	2018	2017
	<u>Fair Value</u>	<u>Fair Value</u>
Hedge Funds		
Relative Value	\$ 37,785,671	\$ 47,998,602
Long/Short Equities	25,538,034	20,404,743
Opportunistic/Macro	8,395,070	10,114,296
Credit	13,064,329	6,098,710
Merger Arbitrage/Event Driven	<u>12,173</u>	<u>764,067</u>
Total Hedge Funds	<u>\$ 84,795,277</u>	<u>\$ 85,380,418</u>

Real Assets

Real Assets may include real estate, energy-related investments, infrastructure, hard and soft commodities, and other strategies that derive their value from their physical properties. Leverage may be utilized in real estate strategies to enhance yields of various investments and/or facilitate the diversification of the portfolio. At December 31, 2018, the Pension Boards had 10 private equity investments with a fair value of \$73.4 million. Eight out of the 10 investments are subject to “lock-up” provisions, ranging from 5-8 years, during which time the investments of \$37.5 million cannot be liquidated. The two other Real Asset investments of \$35.9 million may be redeemed 15 business days following the end of the quarter with 30 days’ written notice. At December 31, 2017, the Pension Boards had 10 private equity investments with a fair value of \$77.6 million. Eight out of the 10 investments are subject to “lock-up” provisions, ranging from 6-9 years, during which time the investments of \$42.4 million cannot be liquidated. The two other Real Asset investments of \$35.2 million may be redeemed 15 business days following the end of the quarter with 30 days’ written notice. The Pension Boards is not permitted to redeem these investments until the termination of the investment period. The fair value of these investments is based upon the Pension Boards’ share of the fair value of the partnership while giving consideration, from a market participant’s perspective, to the features unique to the partnership agreements. Because of the inherent uncertainty of the valuations of these investments, the estimated fair values may differ, perhaps materially, from the values that would have been used had a ready market for the investments existed. Unfunded commitments at December 31, 2018 and 2017 were \$40.3 million and \$44.5 million, respectively.

Investment return, net includes realized gains (losses) on investment sales, change in unrealized appreciation (depreciation) on investments held at year-end, earned investment income, and investment management costs. The net amounts are comprised of the following:

Investment return, net

	2018	2017
Realized gains on investments sales	\$ 60,025,849	\$ 159,640,424
Unrealized appreciation (depreciation) on investments	(316,171,680)	188,064,852
Earned investment income	89,266,786	81,241,365
Investment management costs	(14,649,341)	(15,295,741)
Total investment return, net	\$ (181,528,386)	\$ 413,650,900

Derivative Financial Investments

Futures contracts are used by an external investment manager to equitize cash in the management of the S&P 500 Index strategy and can be used by the CIO for asset rebalancing purposes. Such futures contracts trade on recognized exchanges and margin requirements are met by pledging cash and cash equivalents. The contracts are liquid instruments, usually with a 90-day settlement period, and their prices are observable daily on a nationally recognized exchange. The contractual amount of open futures contracts aggregated approximately \$8.4 million and \$9.4 million at December 31, 2018 and 2017, respectively. The maximum gross notional exchange-traded futures position open for both 2018 and 2017 to equitize cash was \$9.8 million. Futures contracts require daily cash settlement of the prior day’s change in fair value. These settlements total a loss of \$542 thousand and a gain of \$1.4 million for the years ended December 31, 2018 and 2017, respectively, and are recorded in the accompanying financial statements as a component of realized investment gains (losses).

Fair Value Hierarchy

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). All financial instruments that are measured and reported on a fair value basis are classified according to a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The three levels of fair value hierarchy are:

- **Level 1:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The types of investments generally included in this category are exchange-traded equities, short-term money market instruments, actively-traded U.S. Government bonds and notes, and exchange-traded mutual funds. The fair values of these securities are generally based on quotations obtained from national securities exchanges.
- **Level 2:** Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly. Where securities are not listed on an exchange, quotations are obtained from brokerage firms. Level 2 investments generally included in this category are corporate bonds and non-exchange traded equities, debt, and mutual funds.
- **Level 3:** Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A review of fair value hierarchy classifications is conducted annually. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications of the fair value hierarchy are reported as transfers in/out of the category as of the beginning of the period in which the reclassifications occur.

Investments Measured at Net Asset Values. As a practical expedient, the Pension Boards uses net asset value (“NAV”) as the fair value for certain investments. The practical expedient is applied to measure the fair value of investments in certain entities that do not have a quoted market value price but calculate NAV per share or its equivalent, including a high-income bond fund, an income loan trust fund, an emerging markets commingled equity fund, participation in United Church Fund, Inc., cash collateral provided by securities borrowers, Hedge Funds, and Real Assets. These securities are excluded from the Fair Value Hierarchy level classification. Instead, these securities are disclosed separately and shown as a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the financial statements.

At December 31, 2018, the high-income bond fund may be redeemed monthly with 5 business days’ notice; the emerging markets equity fund may be redeemed at the beginning of each calendar month by giving prior notice on or before the 15th day of the prior month; and income loan trust fund may be redeemed on the 15th day of the month by giving prior notice on or before the 15th day of the prior month. As of December 31, 2018, and 2017, there are no unfunded commitments related to high-income bond fund, an income loan trust fund, an emerging markets commingled equity fund.

Please see Hedge Funds (475 Fund, Ltd.) and Real Assets paragraphs for the redemption periods of the Hedge Funds and the Real Asset investments.

Securities Lending Program

The Pension Boards participates in a securities lending program with various brokers and dealers in securities through its custodian bank. It is the policy to hold, as collateral, cash or short-term fixed-income securities in amounts at least equal to or greater than the market value of the investments on loan until the loaned securities are returned. By the end of the business day on which securities are delivered to the borrower, collateral equal to 102% of the market value of a loaned U.S. security and/or 105% of a non-U.S. security, including any accrued interest, is obtained from the borrower.

The cash collateral obtained is invested in the Northern Institutional Liquid Asset Portfolio Fund and is measured at NAV per share as provided by the issuer. There are no known or anticipated redemptions, no unfunded commitments, and no notice required to sell the shares/units at any given time. The fair value of the non-cash collateral was \$52.3 million and \$64.6 million at December 31, 2018 and 2017 respectively. The fair value of the non-cash collateral under a securities lending program is based upon quoted market close prices for identical securities from the exchanges upon which they trade. For securities for which market prices are not readily available, fair values are determined by a pricing service based upon quoted market close prices for similar issues, dealer quotes or pricing models utilizing market observable inputs from comparable securities. Amortized cost of short-term financial instruments, including time deposits, repurchase agreements, commercial paper, and other short-term investments approximates the fair value of these instruments. The fair value of securities on loan was \$65.5 million and \$81.4 million at December 31, 2018 and 2017, respectively. Loaned securities in the program include equities and fixed income.

The following table sets forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2018.

	Investments as of December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Stable Value Investments				
Institutional Money Market Fund shares	\$ 5,883,323	\$ -	\$ -	\$ 5,883,323
<i>Liquidity Strategy:</i>				
Asset-backed and Mortgage-backed securities	-	33,210,743	-	33,210,743
Corporate Bonds	-	-	-	-
U.S. Government Notes	5,221,904	-	-	5,221,904
<i>Total Return Strategy:</i>				
Corporate Bonds	-	60,127,795	-	60,127,795
U.S. Government Notes	50,686,200	-	-	50,686,200
Asset-backed and Mortgage-backed securities	-	14,199,372	-	14,199,372
Short-term Investments				
Institutional Money Market Fund shares	81,970,854	-	-	81,970,854
Fixed-Income Investments				
Corporate Bonds	-	708,974,965	-	708,974,965
U.S. Government Notes and Bonds	233,831,437	-	-	233,831,437
Asset-backed and Mortgage-backed securities	-	171,329,415	-	171,329,415
Emerging Markets Debt Funds	38,122,324	38,539,543	-	76,661,867
High-Income Bond Fund	16,659,236	-	-	16,659,236
Equity Investments				
<i>Common Stock:</i>				
U.S. Large-Cap Equity	568,086,518	-	-	568,086,518
U.S. Mid-Cap Equity	36,340,972	-	-	36,340,972
Non-U.S. Developed Markets	222,137,787	-	-	222,137,787
U.S. Small-Cap Equity Funds	88,423,035	-	-	88,423,035
<i>Equity funds:</i>				
Emerging Markets	103,778,289	-	-	103,778,289
Non-U.S. Developed Markets	88,680,731	-	-	88,680,731
U.S. Small-Cap Equity Funds	104,205,082	-	-	104,205,082
Northern Trust Global Sustainability Index Fund	16,568,844	-	-	16,568,844
Other Investment:				
Participation in United Church Funds, Inc.			39,213,758	39,213,758
SUB-TOTAL INVESTMENTS	\$ 1,660,596,535	\$ 1,026,381,833	\$ 39,213,758	\$ 2,726,192,126
INVESTMENTS VALUED AT NAV AS A PRACTICAL EXPEDIENT				
High-Income Bond Fund (Fixed-Income Investments)				\$ 29,324,873
Emerging Markets Equity Fund (Equity Investments)				80,771,238
Income Loan Trust Fund (Fixed-Income Investments)				113,632,281
Hedge Funds (Other Investments)				84,795,277
Real Assets (Other Investments)				73,417,675
TOTAL INVESTMENTS VALUED AT NAV AS A PRACTICAL EXPEDIENT				\$ 381,941,344
TOTAL INVESTMENTS				\$ 3,108,133,470
COLLATERAL PROVIDED BY SECURITIES BORROWERS				
Cash collateral (Valued at NAV as Practical Expedient)	\$ -	\$ -	\$ -	\$ 13,155,663
Non-cash collateral	-	52,318,293	-	52,318,293
TOTAL COLLATERAL PROVIDED BY SECURITIES BORROWERS	\$ -	\$ 52,318,293	\$ -	\$ 65,473,956

The following table sets forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2017.

	Investments as of December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Stable Value Investments				
Institutional Money Market Fund shares	\$ 16,475,360	\$ -	\$ -	\$ 16,475,360
<i>Liquidity Strategy:</i>				
Asset-backed and Mortgage-backed securities	-	36,484,145	-	36,484,145
Corporate Bonds	-	-	-	-
U.S. Government Notes	4,628,763	-	-	4,628,763
<i>Total Return Strategy:</i>				
Corporate Bonds	-	64,145,229	-	64,145,229
U.S. Government Notes	47,090,655	-	-	47,090,655
Asset-backed and Mortgage-backed securities	-	11,518,051	-	11,518,051
Short-term Investments				
Institutional Money Market Fund shares	87,067,538	-	-	87,067,538
Fixed-Income Investments				
Corporate Bonds	-	668,081,939	-	668,081,939
U.S. Government Notes and Bonds	331,383,545	-	-	331,383,545
Asset-backed and Mortgage-backed securities	-	111,190,613	-	111,190,613
Emerging Markets Debt Funds	40,113,138	42,088,576	-	82,201,714
High-Income Bond Fund	32,133,590	-	-	32,133,590
Equity Investments				
<i>Common Stock:</i>				
U.S. Large-Cap Equity	698,807,399	-	-	698,807,399
U.S. Mid-Cap Equity	24,204,232	-	-	24,204,232
Non-U.S. Developed Markets	254,296,772	-	-	254,296,772
U.S. Small-Cap Equity	108,804,576	-	-	108,804,576
<i>Equity funds:</i>				
Emerging Markets	-	96,061,989	-	96,061,989
Non-U.S. Developed Markets	108,126,430	-	-	108,126,430
U.S. Small-Cap Equity Funds	121,363,871	-	-	121,363,871
Northern Trust Global Sustainability Index Fund	16,793,633	-	-	16,793,633
Other Investment:				
Participation in United Church Funds, Inc.			44,029,370	44,029,370
SUB-TOTAL INVESTMENTS	\$ 1,891,289,502	\$ 1,029,570,542	\$ 44,029,370	\$ 2,964,889,414
INVESTMENTS VALUED AT NAV AS A PRACTICAL EXPEDIENT				
High-Income Bond Fund (Fixed-Income Investments)				\$ 29,264,158
Emerging Markets Equity Fund (Equity Investments)				161,866,967
Income Loan Trust Fund (Fixed-Income Investments)				113,361,538
Hedge Funds (Other Investments)				85,380,418
Real Assets (Other Investments)				77,599,553
TOTAL INVESTMENTS VALUED AT NAV AS A PRACTICAL EXPEDIENT				\$ 467,472,634
TOTAL INVESTMENTS				\$ 3,432,362,048
COLLATERAL PROVIDED BY SECURITIES BORROWERS				
Cash collateral (Valued at NAV as Practical Expedient)	\$ -	\$ -	\$ -	\$ 19,296,025
Non-cash collateral	-	64,596,588	-	64,596,588
TOTAL COLLATERAL PROVIDED BY SECURITIES BORROWERS	\$ -	\$ 64,596,588	\$ -	\$ 83,892,613

5. ENDOWMENTS

Endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Endowment funds are administered in accordance with the laws of the state in which the corporations are incorporated and are accounted for in accordance with GAAP. The Board of Trustees has interpreted these laws to anticipate maintenance of the original gift; however, these laws also permit the appropriation of funds from both the original gift and the accumulated investment return following specific criteria set out in these laws.

Board-designated funds functioning as endowments include the original principal amounts of certain gifts and legacies received that have no donor-imposed restrictions on their use and related accumulated gains and losses and income. These funds, which can be used for the general purpose of the corporation to which they were donated, are classified as net assets without donor restrictions. At December 31, 2018 and 2017, Board designated funds functioning as endowment are \$4 million and \$4.5 million, respectively.

During 2018 and 2017, endowments were invested in the Equity, Bond, and Balanced Funds of the Pension Boards.

Endowment net asset composition as of December 31, 2018, is as follows:

Endowments

	Without Donor Restrictions	With Donor Restrictions	Total
Designated to function as endowment	\$ 4,027,982	\$ -	\$ 4,027,982
Donor-restricted gifts to be maintained in perpetuity	-	5,791,748	5,791,748
Accumulated investment earnings on gifts	-	2,798,419	2,798,419
Total endowments	<u>\$ 4,027,982</u>	<u>\$ 8,590,167</u>	<u>\$ 12,618,149</u>

Endowment net asset composition as of December 31, 2017, is as follows:

Endowments

	Without Donor Restrictions	With Donor Restrictions	Total
Designated to function as endowment	\$ 4,587,078	\$ -	\$ 4,587,078
Donor-restricted gifts to be maintained in perpetuity	-	5,790,548	5,790,548
Accumulated investment earnings on gifts	-	3,687,015	3,687,015
Total endowments	<u>\$ 4,587,078</u>	<u>\$ 9,477,563</u>	<u>\$ 14,064,641</u>

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

Changes in Endowments

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at December 31, 2017	\$ 4,587,078	\$ 9,477,563	\$ 14,064,641
Donations	28,714	1,541,358	1,570,072
Transfer from Annuity Plan net assets	8,415,916	-	8,415,916
Income from the Pilgrim Memorial Fund	2,100,035	-	2,100,035
Appropriation for grants and expense	(10,688,612)	(1,007,641)	(11,696,253)
Investment return	(415,149)	(1,421,113)	(1,836,262)
Endowment net assets at December 31, 2018	<u>\$ 4,027,982</u>	<u>\$ 8,590,167</u>	<u>\$ 12,618,149</u>

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

Changes in Endowments

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at December 31, 2016	\$ 4,827,872	\$ 9,133,807	\$ 13,961,679
Donations	30,172	1,508,288	1,538,460
Transfer from Annuity Plan net assets	8,476,648	-	8,476,648
Income from the Pilgrim Memorial Fund	2,092,673	-	2,092,673
Appropriation for grants and expense	(11,001,380)	(2,515,938)	(13,517,318)
Investment return	161,093	1,351,406	1,512,499
Endowment net assets at December 31, 2017	<u>\$ 4,587,078</u>	<u>\$ 9,477,563</u>	<u>\$ 14,064,641</u>

In addition to the endowment net assets described above, the Pension Boards has a perpetual interest in the Pilgrim Memorial Fund as described in Note 4.

6. LEASE COMMITMENTS

The Pension Boards has entered into several non-cancelable operating leases for office space, software, and equipment. At December 31, 2018, the aggregate future minimum payments for these commitments were as follows:

<u>Year Ending</u>	<u>Amount</u>
2019	<u>529,247</u>
	<u>\$ 529,247</u>

The annual lease amount for rent is subject to modification based upon actual operating costs of the building. The Pension Boards' rental expense for the years ended December 31, 2018 and 2017 was \$486,651 and \$675,292, respectively.

7. COMBINED ACTIVITIES BY FUND

The combined activities by fund for the year ended December 31, 2018 are as follows:

	ANNUITANT FUND	ACCUMULATION FUND	BENEFIT SERVICES FUND	MINISTERIAL ASSISTANCE FUND	OPERATING FUND	TOTAL
REVENUES AND OTHER SUPPORT						
Investment return, net	\$ (100,770,069)	\$ (65,865,707)	\$ (7,333,839)	\$ (4,278,652)	\$ (3,280,119)	\$ (181,528,386)
Health services premiums	-	-	57,555,945	-	-	57,555,945
Employer pension contributions	-	28,049,704	-	-	-	28,049,704
Member pension contributions	-	8,173,529	-	-	-	8,173,529
Christmas Fund appeal	-	-	-	1,540,158	-	1,540,158
Our Church's Wider Mission	-	-	-	274,404	-	274,404
Donations and legacies	-	-	-	2,926,693	26,481	2,953,174
Interfund transfers	97,014,103	(105,930,019)	(493,373)	493,373	8,915,916	-
Other	-	-	-	-	2,233	2,233
Total revenues and other support	<u>(3,755,966)</u>	<u>(135,572,493)</u>	<u>49,728,733</u>	<u>955,976</u>	<u>5,664,511</u>	<u>(82,979,239)</u>
EXPENSES						
Pension payments to annuitants	142,397,489	-	-	-	-	142,397,489
Partial withdrawals and lump-sum payments	-	20,755,628	-	-	-	20,755,628
Health services claims	-	-	54,005,024	-	-	54,005,024
Health services costs	-	-	6,401,915	-	-	6,401,915
Administrative costs	-	-	-	-	12,145,059	12,145,059
Ministerial Assistance grants	-	-	-	2,693,471	412,000	3,105,471
Ministerial Assistance programs and administrative costs	-	-	-	2,620,244	-	2,620,244
Total expenses	<u>142,397,489</u>	<u>20,755,628</u>	<u>60,406,939</u>	<u>5,313,715</u>	<u>12,557,059</u>	<u>241,430,830</u>
DECREASE IN NET ASSETS	<u>\$ (146,153,455)</u>	<u>\$ (156,328,121)</u>	<u>\$ (10,678,206)</u>	<u>\$ (4,357,739)</u>	<u>\$ (6,892,548)</u>	<u>\$ (324,410,069)</u>
DECEMBER 31, 2017 NET ASSETS	1,946,785,123	1,236,096,553	130,742,350	75,226,659	53,411,526	3,442,262,211
DECREASE IN NET ASSETS	<u>(146,153,455)</u>	<u>(156,328,121)</u>	<u>(10,678,206)</u>	<u>(4,357,739)</u>	<u>(6,892,548)</u>	<u>(324,410,069)</u>
DECEMBER 31, 2018 NET ASSETS	<u>\$ 1,800,631,668</u>	<u>\$ 1,079,768,432</u>	<u>\$ 120,064,144</u>	<u>\$ 70,868,920</u>	<u>\$ 46,518,978</u>	<u>\$ 3,117,852,142</u>

The combined activities by fund for the year ended December 31, 2017 are as follows:

	ANNUITANT FUND	ACCUMULATION FUND	BENEFIT SERVICES FUND	MINISTERIAL ASSISTANCE FUND	OPERATING FUND	TOTAL
REVENUES AND OTHER SUPPORT						
Investment return, net	\$ 223,328,638	\$ 157,912,409	\$ 17,374,675	\$ 9,435,580	\$ 5,599,598	\$ 413,650,900
Health services premiums	-	-	54,767,906	-	-	54,767,906
Employer pension contributions	-	30,678,943	-	-	-	30,678,943
Member pension contributions	-	7,832,858	-	-	-	7,832,858
Christmas Fund appeal	-	-	-	1,507,088	-	1,507,088
Our Church's Wider Mission	-	-	-	288,844	-	288,844
Donations and legacies	-	-	-	372,038	30,172	402,210
Interfund transfers	98,243,117	(107,219,765)	(540,000)	540,000	8,976,648	-
Other	-	-	-	-	4,650	4,650
Total revenues and other support	321,571,755	89,204,445	71,602,581	12,143,550	14,611,068	509,133,399
EXPENSES						
Pension payments to annuitants	136,710,138	-	-	-	-	136,710,138
Partial withdrawals and lump-sum payments	-	22,105,759	-	-	-	22,105,759
Health services claims	-	-	50,179,723	-	-	50,179,723
Health services costs	-	-	5,760,640	-	-	5,760,640
Administrative costs	-	-	-	-	11,619,434	11,619,434
Ministerial Assistance grants	-	-	-	2,880,801	15,000	2,895,801
Ministerial Assistance programs and administrative costs	-	-	-	2,518,288	-	2,518,288
Total expenses	136,710,138	22,105,759	55,940,363	5,399,089	11,634,434	231,789,783
INCREASE IN NET ASSETS	\$ 184,861,617	\$ 67,098,686	\$ 15,662,218	\$ 6,744,461	\$ 2,976,634	\$ 277,343,616
DECEMBER 31, 2016 NET ASSETS	1,761,923,506	1,168,997,867	115,080,132	68,482,198	50,434,892	3,164,918,595
INCREASE IN NET ASSETS	184,861,617	67,098,686	15,662,218	6,744,461	2,976,634	277,343,616
DECEMBER 31, 2017 NET ASSETS	\$ 1,946,785,123	\$ 1,236,096,553	\$ 130,742,350	\$ 75,226,659	\$ 53,411,526	\$ 3,442,262,211

8. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing plan administration, investment management, programs, and other activities are summarized on a functional basis through December 31, 2018:

Functional Expenses

	Ministerial Assistance	Management and General	Total
Salaries and benefits	\$ 1,069,521	\$ 7,820,406	\$ 8,889,927
Professional services	24,972	5,697,377	5,722,349
Grants	4,284,934	-	4,284,934
Facilities	42,498	1,301,188	1,343,686
Depreciation	11,441	1,763,574	1,775,015
Information technology	1,173	592,095	593,268
Fundraising	225,601	360,113	585,714
Travel	18,811	340,845	359,656
Banking services	38,978	210,192	249,170
Other	7,786	461,184	468,970
Total expenses by function	<u>\$ 5,725,715</u>	<u>\$ 18,546,974</u>	<u>\$ 24,272,689</u>

The costs of providing plan administration, investment management, programs, and other activities are summarized on a functional basis through December 31, 2017:

Functional Expenses

	Ministerial Assistance	Management and General	Total
Salaries and benefits	\$ 983,080	\$ 7,207,381	\$ 8,190,461
Professional services	14,885	5,364,468	5,379,353
Grants	4,086,239	-	4,086,239
Facilities	45,033	1,618,694	1,663,727
Depreciation	44,543	1,106,085	1,150,628
Information technology	5,853	651,411	657,264
Fundraising	202,047	300,583	502,630
Travel	4,613	469,797	474,410
Banking services	27,796	211,577	239,373
Other	-	450,078	450,078
Total expenses by function	<u>\$ 5,414,089</u>	<u>\$ 17,380,074</u>	<u>\$ 22,794,163</u>

Certain costs have been allocated among Ministerial Assistance functions and general management of the organization. Such allocations are determined on an equitable basis according to the following methods:

<u>Expense</u>	<u>Allocation Method</u>
Salaries and benefits	Time and effort
Professional services	Full-time equivalent
Programs	Time and effort
Facilities	Square footage
Depreciation	Square footage
Information technology	Time and effort
Fundraising	Time and effort
Travel	Time and effort
Banking services	Time and effort
Other	Time and effort

9. AVAILABILITY AND LIQUIDITY

The Pension Boards has \$23.7 million of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash, marketable securities, and accrued investment income receivable and other. The organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, cash in excess of daily requirements is invested in short-term money market accounts.

At December 31, 2018, financial assets and liquidity resources available within one year for general expenditure are as follows:

Financial assets at year end	<u>2018</u>
Cash	\$ 5,149,948
Investments	3,108,133,470
Accrued investment income receivable and other	<u>16,740,624</u>
Total financial assets	<u>3,130,024,042</u>
Less amounts not available to be used within one year	
Net assets with donor restrictions	(111,821,659)
Annuity Plan net assets	(2,880,400,100)
Health services net assets	<u>(114,064,144)</u>
Total amounts not available within one year	<u>(3,106,285,903)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 23,738,139</u></u>

10. SUBSEQUENT EVENTS

The Pension Boards has evaluated through March 29, 2019 subsequent events that occurred after the financial statements' date but before these statements are issued. The Pension Boards has concluded that no other events or transactions have occurred that would require adjustments to, or disclosures in, the financial statements.



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