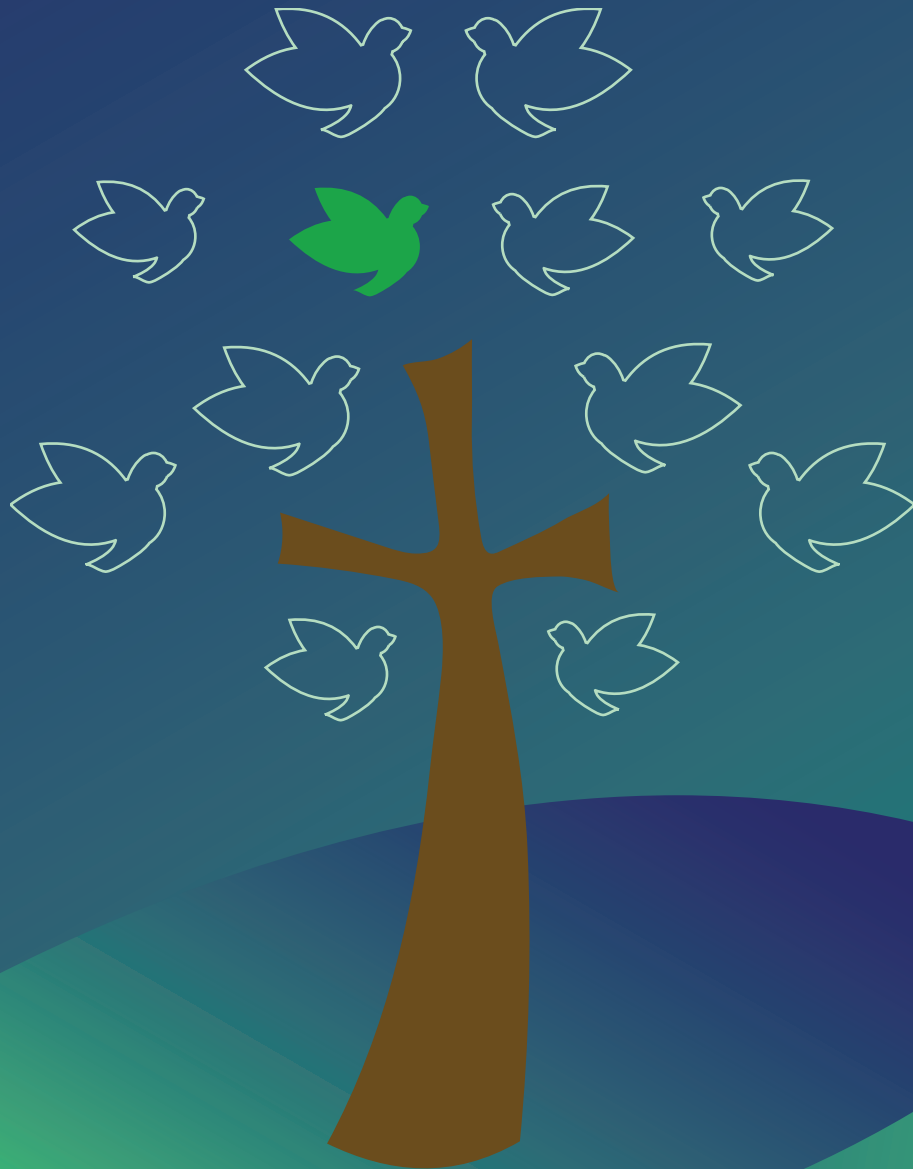




**The Pension Boards**  
United Church of Christ, Inc.  
WHERE FAITH AND FINANCE INTERSECT



# FINANCIAL Statements | 2017

COMBINED FINANCIAL STATEMENTS  
FOR YEARS ENDED: DECEMBER 31, 2017 AND 2016

REPORT OF MANAGEMENT  
REPORT OF INDEPENDENT AUDITORS

## 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.



A child is standing on a wooden step ladder, painting a large, vibrant, abstract mural on a wall. The mural features a mix of colors including red, orange, yellow, blue, and green, with expressive brushstrokes and splatters. The child is wearing a light-colored long-sleeved shirt and dark pants, and is reaching up with their right hand to apply paint. The background wall is a mix of these colors, creating a dynamic and artistic atmosphere.

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### 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, 2017 and 2016. 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 15-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 3. 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. The Pension Boards appointed a general auditor in 2018, to independently evaluate the effectiveness of the system of internal control.

Brian R. Bodager  
President/Chief Executive Officer

John E. Linzey  
Director of Treasury/Accounting Operations

March 30, 2018





## 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, 2017 and 2016, 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, 2017 and 2016, 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.

*RSM US LLP*

New York, New York  
March 30, 2018

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

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

	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
Cash	\$ 7,919,147	\$ 4,287,142
Investments	3,432,362,048	3,272,065,394
Collateral provided by securities borrowers	83,892,613	-
Accrued investment income receivable	11,793,869	9,771,390
Receivable from brokers for securities sales	4,249,921	320,805
Fixed assets	3,148,415	2,514,634
Other assets	1,608,665	4,313,795
<b>Total assets</b>	<b>3,544,974,678</b>	<b>3,293,273,160</b>
<b>LIABILITIES</b>		
Payable to securities borrowers	83,892,613	-
Payable to brokers for securities purchases	3,001,759	114,180,975
Health benefits payable	3,870,919	4,231,584
Deferred health benefits premiums	3,487,231	2,605,587
Accrued expenses and other liabilities	8,459,945	7,336,419
<b>Total liabilities</b>	<b>102,712,467</b>	<b>128,354,565</b>
<b>NET ASSETS</b>	<b>\$ 3,442,262,211</b>	<b>\$ 3,164,918,595</b>
<b>NET ASSETS BY FUND</b>		
<b>ANNUITY PLAN NET ASSETS</b>		
Annuitant fund	\$ 1,946,785,123	\$ 1,761,923,506
Accumulation fund	1,236,096,553	1,168,997,867
<b>Total Annuity Plan net assets</b>	<b>3,182,881,676</b>	<b>2,930,921,373</b>
<b>UNRESTRICTED NET ASSETS</b>		
Benefit services fund	130,742,350	115,080,132
Ministerial Assistance fund	67,600,258	61,127,899
Operating fund	7,549,943	7,932,973
<b>Total unrestricted net assets</b>	<b>205,892,551</b>	<b>184,141,004</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Ministerial Assistance fund	2,736,783	2,465,881
Operating fund	952,177	890,314
<b>Total temporarily restricted net assets</b>	<b>3,688,960</b>	<b>3,356,195</b>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Ministerial assistance fund endowments	4,889,618	4,888,418
Operating fund endowments	44,909,406	41,611,605
<b>Total permanently restricted net assets</b>	<b>49,799,024</b>	<b>46,500,023</b>
<b>TOTAL NET ASSETS</b>	<b>\$ 3,442,262,211</b>	<b>\$ 3,164,918,595</b>

See notes to Combined Financial Statements.

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
<b>ADDITIONS</b>		
Realized and unrealized gains (net)	\$ 347,705,276	\$ 116,345,435
Investment income	81,241,365	76,981,622
Health services premiums	54,767,906	51,749,038
Employer pension contributions	30,678,943	30,861,870
Member pension contributions	7,832,858	8,216,761
Christmas Fund appeal	1,507,088	1,562,260
Lilly Endowment grant receipt	-	1,000,000
Our Church's Wider Mission	288,844	323,108
Donations and legacies	402,210	171,260
Other	4,650	(12,857)
Total additions	<u>524,429,140</u>	<u>287,198,497</u>
<b>DEDUCTIONS</b>		
Pension payments to annuitants	136,710,138	134,105,566
Partial withdrawals and lump-sum payments	22,105,759	17,409,683
Health services claims	50,179,723	54,022,831
Health services costs	5,760,640	5,939,166
Retirement benefits administration and investment costs	26,915,175	24,203,267
Ministerial Assistance grants	2,895,801	2,901,428
Ministerial Assistance programs and administration costs	2,518,288	1,814,985
Total deductions	<u>247,085,524</u>	<u>240,396,926</u>
<b>INCREASE IN NET ASSETS</b>	<u>\$ 277,343,616</u>	<u>\$ 46,801,571</u>
<b>COMPOSITION OF CHANGE IN NET ASSETS</b>		
Increase in Annuity Plan net assets	251,960,303	46,644,496
Increase (Decrease) in unrestricted net assets	21,751,547	1,320,116
Increase (Decrease) in temporarily restricted net assets	332,765	(275,160)
Increase (Decrease) in permanently restricted net assets	3,299,001	(887,881)
<b>INCREASE IN NET ASSETS</b>	<u>\$ 277,343,616</u>	<u>\$ 46,801,571</u>

See notes to Combined Financial Statements.

**THE PENSION BOARDS-UNITED CHURCH OF CHRIST, INC.**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from members and employers for health services premiums	\$ 38,662,295	\$ 51,351,317
Cash received from members and employers for pension plan	55,649,550	38,607,381
Cash received from Our Church's Wider Mission	343,038	328,959
Cash received from Christmas Fund appeal	1,506,771	1,559,175
Cash received from contributors	402,088	171,260
Cash received from income on investments	75,713,823	68,710,556
Cash received from the Lilly Endowment grant	-	1,000,000
Miscellaneous receipts (payments)	4,650	(12,857)
Payments made to annuitants, members, and beneficiaries from the pension plan	(158,815,896)	(151,515,249)
Payments made to participants, and providers for health services claims and costs	(50,540,388)	(53,611,512)
Cash paid to employees, suppliers and providers of services	(29,292,586)	(27,977,707)
Grants disbursed	(2,895,801)	(2,901,428)
Net cash used in operating activities	<u>(69,262,456)</u>	<u>(74,290,105)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	2,276,329,634	2,121,258,814
Purchase of investments	(2,202,204,875)	(2,046,667,252)
Purchase of equipment	(1,230,298)	(680,684)
Net cash provided by investing activities	<u>72,894,461</u>	<u>73,910,878</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	3,632,005	(379,227)
<b>NET CASH, BEGINNING OF YEAR</b>	4,287,142	4,666,369
<b>NET CASH, END OF YEAR</b>	<u>\$ 7,919,147</u>	<u>\$ 4,287,142</u>
		Continued

See notes to Combined Financial Statements.



**THE PENSION BOARDS-UNITED CHURCH OF CHRIST, INC.**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2017 and 2016**

(Continued)

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 277,343,616	\$ 46,801,571
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	596,518	688,083
Realized and unrealized (gains-net)	(347,705,276)	(116,345,436)
Accretion of discount on investments	(381,331)	(6,650,733)
(Increase) Decrease in accrued investment income receivable	(2,022,479)	811,540
Decrease (Increase) in receivable from service agreements and prepaid expenses	1,261,991	(178,167)
(Decrease) Increase in health benefits payable	(360,665)	411,319
Increase in deferred health benefits premiums	881,644	36,130
Increase in accrued expenses and other liabilities	1,123,526	135,588
Net cash used in operating activities	<u>\$ (69,262,456)</u>	<u>\$ (74,290,105)</u>

See notes to Combined Financial Statements.

## THE PENSION BOARDS—UNITED CHURCH OF CHRIST, INC. NOTES TO COMBINED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

### 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 to offer 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 are not yet retired are included in the Accumulation Fund in addition to retirement savings account contributions made by or on behalf of annuitants and lump sum transfer 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, all 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. Retirees 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.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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, Ministerial Assistance, and the Annuity Plan in conformity with accounting principals 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.

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 in Note 1. 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.

### Management 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 Board's 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 between asset classes and managers within the Pension Boards' Equity Fund and to rebalance the Pension Boards' Balanced Fund between 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 retirement 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 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. Federal and state income taxes incurred during the years ended December 31, 2017 and 2016 were not material. The Pension Boards filed Internal Revenue Service Form 990-T tax returns. For the years ended December 31, 2017 and 2016, 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.

## Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to the Combined Statements of Financial Position for year-ended December 31, 2016, to reclassify unrealized gains from Real Asset investments of \$2.6 million within the Annuity Plan assets (from the Annuitant Fund to the Accumulation Fund). This change in classification does not affect previously reported cash flows from operating activities in the Consolidated Statements of Cash Flows.

## Recent Accounting Pronouncements

In May 2014, the FASB issued new authoritative guidance on revenue from contracts with customers. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The Pension Boards is still in the process of completing its analysis on the impact this guidance will have on the financial statements and related disclosures. This accounting standard will be applicable to the Pension Boards for calendar year 2019.

In February 2016, the FASB issued 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 August 2016, the FASB issued new authoritative guidance related to the not-for-profit financial reporting model. Under the new guidance, among other changes, net asset reporting will be streamlined and clarified. The accounting standard will be applicable to the Pension Boards for calendar year 2018. The Pension Boards does not anticipate there will be a material impact on the statement of financial position and is evaluating the impact on the statement of activities and enhanced disclosures related to expenses, liquidity, and financial flexibility.



### 3. NET ASSETS

Net Assets are classified as Annuity Plan, unrestricted, temporarily restricted, and permanently restricted. 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.

#### **Unrestricted Net Assets**

Net assets that are not subject to donor-imposed stipulations or for which the donor-imposed restrictions have expired. At December 31, 2017, unrestricted net assets of Ministerial Assistance included Board-designated funds functioning as endowments of \$51.3 million; Board-designated funds for the Next Generation Leadership Initiative of \$7.0 million; and the Fund for supplementing small annuities of \$9.2 million. At December 31, 2017, unrestricted net assets of the Benefit Services Fund included \$59.3 million held in the Welfare Plans Trust. At December 31, 2016, unrestricted net assets of Ministerial Assistance included Board-designated funds functioning as endowments of \$45.8 million; Board-designated funds for the Next Generation Leadership Initiative of \$6.7 million; and the Fund for supplementing small annuities of \$8.5 million. At December 31, 2016, unrestricted net assets of the Benefit Services Fund included \$49.8 million held in the Welfare Plans Trust.

#### **Temporarily Restricted Net Assets**

Net assets that are subject to donor-imposed restrictions either for use during a specified time period or for a particular purpose. When a donor-imposed restriction is fulfilled or when a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets.

#### **Permanently Restricted Net Assets**

Net assets that are subject to permanent, donor-imposed restrictions.

### 4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

#### **Stable Value Fund Investments**

At December 31, 2017 and 2016, the portfolio included institutional money market fund shares and fixed maturity and constant duration synthetic guaranteed investment contracts. 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. Fixed maturity synthetic guaranteed investment contracts ("GICs") include an underlying fixed-income security portfolio of mortgage-backed and asset-backed securities, U.S. government notes, and a book value, fully-benefit-responsive wrap issued by one insurance company, rated "AA+" by S&P. Constant duration synthetic GICs are investments which include an underlying fixed-income security portfolio of corporate bonds, U.S. government notes, mortgage-backed and asset backed securities, and book value, fully-benefit-responsive wraps. 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. For 2017 and 2016, the average yield and annualized crediting interest rates of the portfolio were 1.85% and 1.91%, 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 mortgage-backed securities, asset-backed securities, emerging market debt funds, high-income bond funds, Senior loan trust fund, and Ultra short fixed income 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 senior 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.

The Northern Trust Ultra-Short Fixed Income Fund seeks to invest in investment grade securities and targets an average portfolio quality of 'A' or better with an average maturity between 6 and 18 months. The fund will focus primarily on U.S. securities, but may invest in fixed-income securities of foreign issuers. The fund's investments in foreign securities will consist of only U.S. dollar-denominated securities.

### **Equity Investments**

*Common Stock includes domestic and international issues diversified among 10 investment managers at December 31, 2017 with various investment styles. At December 31, 2017 and 2016, common stock included approximately 30.79% and 23.9% 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 21 and 19 different foreign countries at December 31, 2017 and 2016, respectively, with 14 different currency denominations in December 31, 2017 and 2016. At December 31, 2017 and 2016, non-U.S. investments include securities purchased in the currencies of non-U.S. developed nations (96.9% and 98.0%, respectively) and in U.S. dollars (3.1% and 2.0%, respectively).*

*The Emerging Markets Discounted Assets investment seeks long-term capital appreciation by investing in companies trading at a discount to their estimated net asset value. These companies include closed-end funds, investment trusts, holding companies, and special situations, which also own attractively priced underlying holdings, investments, or businesses. At December 31, 2017 and 2016, this portfolio included 60 and 62 securities representing 21 and 20 countries, 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, 2017 and 2016, this portfolio included 69 and 72 stocks, respectively, representing 25 countries at December 31, 2017 and 2016, respectively. Equities in non-U.S. developed markets accounted for 73.9% and 75.0% of the portfolio, with emerging markets accounting for 26.1% and 25.0%, at December 31, 2017 and 2016, respectively.*

*The U.S. Small-Cap equity fund 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 UCF Alternatives Balanced Fund of United Church Funds, Inc. ("UCF"), an Associated Ministry of the UCC, and investments in hedge funds and private equity.

*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, 2017 and at December 31, 2016. The Combined Statements of Activities includes income transferred from PMF of \$2.1 million in 2017 and in 2016 respectively, classified as Investment Income and the change in the Pension Boards' interest in the PMF endowment fund of \$3.3 million in 2017 and (\$891 thousand) in 2016 were classified as realized and unrealized gains/(losses), respectively.

### Hedge Funds

Hedge Funds are interests in limited partnerships and investment companies which 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, 2017 and extends automatically for additional one-year terms thereafter. 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. As of December 31, 2017 and 2016, there are no unfunded commitments related to hedge fund investments. As of December 31, 2016, 86.4% of the Fund's assets may be liquidated within 12 months or less; 96.9% 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 Board's interest therein. The Pension Boards' hedge fund investments, by strategy type, at December 31, 2017 and 2016 were as follows:

	2017 Fair Value	2016 Fair Value
<b>Hedge Funds</b>		
Relative value	\$ 47,998,602	\$ 62,859,940
Long/Short equities	20,404,743	19,169,193
Opportunistic/macro	10,114,296	16,666,977
Credit	6,098,710	15,836,925
Merger arbitrage/event driven	764,067	10,746,943
<b>Total Hedge Funds</b>	<u>\$ 85,380,418</u>	<u>\$ 125,279,978</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, 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. At December 31, 2016, the Pension Boards had nine private equity investments with a fair value of \$89.2 million. Seven out of the nine investments are subject to "lock-up" provisions, ranging from 7-10 years, during which time the investment cannot be liquidated with a fair value of \$47.4 million. One of the two Real Asset investments of \$16.9 million may be redeemed on the last business day of the month upon 30 days' written notice and the other investment of \$24.9 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, 2017 and 2016 were \$44.5 million and \$23.9 million, respectively. Net investment gains include realized gains (losses) on investment sales and the change in unrealized appreciation (depreciation) on investments held at year-end. The net amounts are comprised of the following:

<b>Net investment gains</b>	<u>2017</u>	<u>2016</u>
Realized gains on investment sales	\$ 159,640,424	\$ 84,195,974
Unrealized appreciation (depreciation) on investments	188,064,852	32,149,461
<b>Net Investment Gains</b>	<u>\$ 347,705,276</u>	<u>\$ 116,345,435</u>

### 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 \$9.4 million and \$4.0 million at December 31, 2017 and 2016, respectively. The maximum gross notional exchange-traded futures position open during 2017 and 2016 to equitize cash was \$9.8 million and \$14.3 million, respectively. Futures contracts require daily cash settlement of the prior day's change in fair value. These settlements total \$1.4 million and \$852 thousand for the years ended December 31, 2017 and 2016, respectively; and are recorded in the accompanying financial statements as a component of realized investment gains for both years.

### 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 floating rate high-income commingled bond fund, a high-income commingled bond 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, 2017, 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.

Please see Note 4 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 is \$64.6 million. 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 \$81.4 million at December 31, 2017. 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, 2017.

	Investments at Fair Value 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
<i>Stable Value Investments:</i>				
Institutional money market fund shares	\$ 16,475,360	\$ -	\$ -	\$ 16,475,360
<i>Fixed maturity synthetic guaranteed investment contracts:</i>				
Asset-backed securities	-	36,484,145	-	36,484,145
Corporate Bonds				
U.S. Government Notes	4,628,763	-	-	4,628,763
<i>Constant duration synthetic guaranteed investment contracts:</i>				
Corporate Bonds	-	64,145,229	-	64,145,229
U.S. Government Notes	47,090,655	-	-	47,090,655
Asset-backed securities	-	11,518,051	-	11,518,051
<i>Short-term Investments:</i>				
Institutional money market fund shares	87,067,538	-	-	87,067,538
<i>Fixed Income Investments:</i>				
Corporate bonds	-	668,081,939	-	668,081,939
U.S. Treasury securities	331,383,545	-	-	331,383,545
Asset-backed securities	-	111,190,613	-	111,190,613
Emerging Markets Debt Funds	40,113,138	42,088,576	-	82,201,714
Bond funds	32,133,590	-	-	32,133,590
<i>Equity Investments:</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
Emerging Markets Discounted Assets	-	96,061,989	-	96,061,989
<i>Equity funds:</i>				
Non-U.S. Developed Markets	108,126,430	-	-	108,126,430
U.S. Small-Cap Equity	121,363,871	-	-	121,363,871
Northern Trust Global Sustainability Index Fund	16,793,633	-	-	16,793,633
<b>SUB-TOTAL INVESTMENTS</b>	<b>\$ 1,891,289,502</b>	<b>\$ 1,029,570,542</b>	<b>\$ -</b>	<b>\$ 2,920,860,044</b>
<b>INVESTMENTS VALUED AT NAV AS PRACTICAL EXPEDIENT</b>				
High-Income Bond Fund (Fixed-Income Investments)				\$ 29,264,158
Income Loan Trust Fund (Fixed-Income Investments)				113,361,538
Emerging Markets (Equity Investments)				161,866,967
Participation in United Church Funds, Inc. (Other Investments)				44,029,370
Hedge Funds (Other Investments)				85,380,418
Real Assets (Other Investments)				77,599,553
<b>TOTAL INVESTMENTS VALUED AT NAV AS PRACTICAL EXPEDIENT</b>				<b>\$ 511,502,004</b>
<b>TOTAL INVESTMENTS</b>				<b>\$ 3,432,362,048</b>
<b>COLLATERAL PROVIDED BY SECURITIES BORROWERS</b>				
Cash collateral (Valued at NAV as Practical Expedient)	\$ -	\$ -	\$ -	\$ 19,296,025
Non-cash collateral	-	64,596,588	-	64,596,588
<b>TOTAL COLLATERAL PROVIDED BY SECURITIES BORROWERS</b>	<b>\$ -</b>	<b>\$ 64,596,588</b>	<b>\$ -</b>	<b>\$ 83,892,613</b>

The following table sets forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2016.

	Investments at Fair Value as of December 31, 2016			
	Quoted Prices in	Significant Other	Significant	Total
	Active Markets for			
	Identical Assets	Level 2	Inputs	
	Level 1		Level 3	
<i>Stable Value Investments:</i>				
Institutional money market fund shares	\$ 29,071,661	\$ -	\$ -	\$ 29,071,661
<i>Fixed maturity synthetic guaranteed investment contracts:</i>				
Asset-backed securities	-	34,697,625	-	34,697,625
Corporate Bonds				
U.S. Government Notes	4,628,763	-	-	4,628,763
<i>Constant duration synthetic guaranteed investment contracts:</i>				
Corporate Bonds	-	60,470,016	-	60,470,016
U.S. Government Notes	65,387,623	-	-	65,387,623
Asset-backed securities	-	11,510,972	-	11,510,972
<i>Short-term Investments:</i>				
Institutional money market fund shares	157,527,889	-	-	157,527,889
<i>Fixed Income Investments:</i>				
Corporate bonds	-	551,324,142	-	551,324,142
U.S. Treasury securities	436,623,873	-	-	436,623,873
Asset-backed and Mortgage-backed securities	-	49,837,581	-	49,837,581
Emerging Markets Debt Funds	35,426,222	35,882,338	-	71,308,560
Bond funds	49,964,763	-	-	49,964,763
<i>Equity Investments:</i>				
U.S. Large-Cap Equity	566,636,949	-	-	566,636,949
U.S. Mid-Cap Equity	115,497,236	-	-	115,497,236
Non-U.S. Developed Markets	196,910,090	-	-	196,910,090
U.S. Small-Cap Equity	110,382,351	-	-	110,382,351
Emerging Markets Discounted Assets	-	69,301,396	-	69,301,396
<i>Equity funds:</i>				
Emerging Markets	2,802,759	-	-	2,802,759
Non-U.S. Developed Markets	100,610,505	-	-	100,610,505
U.S. Small-Cap Equity	42,665,717	-	-	42,665,717
Northern Trust Global Sustainability Index Fund	9,778,022	-	-	9,778,022
<b>SUB-TOTAL INVESTMENTS</b>	<b>\$ 1,923,914,423</b>	<b>\$ 813,024,070</b>	<b>\$ -</b>	<b>\$ 2,736,938,493</b>
<b>INVESTMENTS VALUED AT NAV AS PRACTICAL EXPEDIENT</b>				
Floating Rate High-Income Fund (Fixed-Income Investments)				\$ 109,567,866
High-Income Bond Fund (Fixed-Income Investments)				140,573,812
Emerging Markets (Equity Investments)				27,363,833
Participation in United Church Funds, Inc. (Other Investments)				40,728,794
Hedge Funds (Other Investments)				125,279,978
Real Assets (Other Investments)				91,612,618
<b>TOTAL INVESTMENTS VALUED AT NAV AS PRACTICAL EXPEDIENT</b>				<b>535,126,901</b>
<b>TOTAL INVESTMENTS</b>				<b>\$ 3,272,065,394</b>

## 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.

Board-designated funds functioning as endowments include the original principal amounts of gifts and legacies received which 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 unrestricted net assets.

Donor-restricted endowment funds are classified as restricted net assets. Permanently restricted endowment funds include the Pension Boards' interest in the PMF endowment fund as described in Note 4 and receipts of gifts and legacies where the principal balance must be maintained in perpetuity. The original principal of permanently restricted gifts and legacies which had donor-imposed restrictions on income remained unchanged for December 2017 at \$2,472,309. The original principal amount of permanently restricted gifts and legacies which has no donor-imposed restrictions on the use of income was \$3,318,239 at December 31, 2017 and \$3,317,037 at December 31, 2016. Accumulated gains and losses and interest income on permanently restricted gifts and legacies, in addition to temporarily restricted donations, are classified as temporarily restricted net assets until appropriated for expenditure.

During 2017 and 2016, permanently restricted endowments were invested in the Equity, Bond, and Balanced Funds of the Pension Boards and the Beyond Fossil Fuels Balanced, Alternatives Balanced, and Moderate Balanced Funds of UCF.

## 6 LEASE COMMITMENTS

The Pension Boards has entered into several non-cancelable operating leases for office space, software and equipment. At December 31, 2017, the aggregate future minimum payments for these commitments were as follows:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 950,408
2019	677,095
	<u>\$ 1,627,503</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, 2017 and 2016 was \$675,292 and \$641,039, respectively.



## 7. COMBINED ACTIVITIES BY FUND

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

	ANNUITANT FUND	ACCUMULATION FUND	BENEFIT SERVICES FUND	MINISTERIAL ASSISTANCE FUND	OPERATING FUND	TOTAL
<b>ADDITIONS:</b>						
Realized and unrealized investment gains	\$ 181,273,299	\$ 139,572,443	\$ 15,125,302	\$ 8,330,475	\$ 3,403,757	\$ 347,705,276
Investment income	50,281,849	24,370,933	2,883,729	1,487,349	2,217,505	81,241,365
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
<b>Total additions</b>	<b>329,798,265</b>	<b>95,235,412</b>	<b>72,236,937</b>	<b>12,525,794</b>	<b>14,632,732</b>	<b>524,429,140</b>
<b>DEDUCTIONS:</b>						
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
Retirement benefits administration and investment costs	8,226,510	6,030,967	634,356	382,244	11,641,098	26,915,175
Ministerial Assistance grants	-	-	-	2,880,801	15,000	2,895,801
Ministerial assistance programs and administration costs	-	-	-	2,518,288	-	2,518,288
<b>Total deductions</b>	<b>144,936,648</b>	<b>28,136,726</b>	<b>56,574,719</b>	<b>5,781,333</b>	<b>11,656,098</b>	<b>247,085,524</b>
<b>DECREASE IN NET ASSETS</b>	<b>\$ 184,861,617</b>	<b>\$ 67,098,686</b>	<b>\$ 15,662,218</b>	<b>\$ 6,744,461</b>	<b>\$ 2,976,634</b>	<b>\$ 277,343,616</b>
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	<b>\$ 1,946,785,123</b>	<b>\$ 1,236,096,553</b>	<b>\$ 130,742,350</b>	<b>\$ 75,226,659</b>	<b>\$ 53,411,526</b>	<b>\$ 3,442,262,211</b>

The combined activities by fund for the year ended December 31, 2016 are as follows:

	ANNUITANT FUND	ACCUMULATION FUND	BENEFIT SERVICES FUND	MINISTERIAL ASSISTANCE FUND	OPERATING FUND	TOTAL
<b>ADDITIONS:</b>						
Realized and unrealized investment gains (net)	\$ 61,726,784	\$ 47,818,021	\$ 4,093,054	\$ 3,143,686	\$ (436,110)	\$ 116,345,435
Investment income	46,408,885	24,062,708	2,879,114	1,468,399	2,162,516	76,981,622
Health Services premiums	-	-	51,749,038	-	-	51,749,038
Employer pension contributions	-	30,861,870	-	-	-	30,861,870
Member pension contributions	-	8,216,761	-	-	-	8,216,761
Christmas Fund appeal	-	-	-	1,562,260	-	1,562,260
Lilly Endowment Grant Receipt	-	-	-	-	1,000,000	1,000,000
Our Church's Wider Mission	-	-	-	323,108	-	323,108
Donations and Legacies	-	-	-	132,913	38,347	171,260
Interfund transfers	94,113,237	(101,971,565)	-	-	7,839,117	(19,211)
Other	-	-	-	-	6,354	6,354
<b>TOTAL ADDITIONS</b>	<b>202,248,906</b>	<b>8,987,795</b>	<b>58,721,206</b>	<b>6,630,366</b>	<b>10,610,224</b>	<b>287,198,497</b>
<b>DEDUCTIONS:</b>						
Pension payments to annuitants	134,105,566	-	-	-	-	134,105,566
Partial withdrawals and Lump-sum payments	-	17,409,683	-	-	-	17,409,683
Health services claims	-	-	54,022,831	-	-	54,022,831
Health services costs	-	-	5,939,166	-	-	5,939,166
Retirement benefits administration and investment costs	7,561,834	5,515,245	589,077	374,755	10,162,356	24,203,267
Ministerial Assistance grants	-	-	-	2,901,428	-	2,901,428
Ministerial Assistance programs and administration costs	-	-	-	1,814,985	-	1,814,985
<b>TOTAL DEDUCTIONS</b>	<b>141,667,400</b>	<b>22,924,928</b>	<b>60,551,074</b>	<b>5,091,168</b>	<b>10,162,356</b>	<b>240,396,926</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 60,581,506</b>	<b>\$ (13,937,133)</b>	<b>\$ (1,829,868)</b>	<b>\$ 1,539,198</b>	<b>\$ 447,868</b>	<b>\$ 46,801,571</b>
DECEMBER 31, 2015 NET ASSETS	1,701,342,000	1,182,935,000	116,910,000	66,943,000	49,987,024	3,118,117,024
INCREASE (DECREASE) IN NET ASSETS	60,581,506	(13,937,133)	(1,829,868)	1,539,198	447,868	46,801,571
<b>DECEMBER 31, 2016 NET ASSETS</b>	<b>\$ 1,761,923,506</b>	<b>\$ 1,168,997,867</b>	<b>\$ 115,080,132</b>	<b>\$ 68,482,198</b>	<b>\$ 50,434,892</b>	<b>\$ 3,164,918,595</b>

## 8. SUBSEQUENT EVENTS

The Pension Boards has evaluated through March 30, 2018, subsequent events which 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.





**The Pension Boards**  
United Church of Christ, Inc.

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