



2019 Financial Statements

Combined
Financial Statements

For Years Ended:
December 31, 2019 and 2018

Report of
Management

Report of
Independent Auditors



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

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.

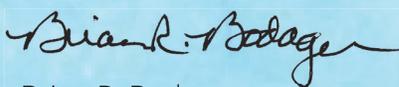
Report of Management

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, 2019 and 2018. 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.



Brian R. Bodager
President/Chief Executive Officer



John E. Linzey
Chief Financial and Operations Officer

March 23, 2020



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, 2019 and 2018, 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, 2019 and 2018, 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 27, 2020

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

	December 31, 2019	December 31, 2018
ASSETS		
Cash	\$ 1,795,812	\$ 5,149,948
Investments	3,480,740,835	3,108,133,470
Investments held for others	4,670,520	-
Collateral provided by securities borrowers	132,638,723	65,473,956
Accrued investment income receivable	13,222,601	12,862,252
Receivable from brokers for securities sales	2,079,943	8,542,438
Fixed assets	609,461	1,998,898
Other assets	5,874,032	4,487,768
TOTAL ASSETS	\$ 3,641,631,927	\$ 3,206,648,730
LIABILITIES AND NET ASSETS		
Cash overdraft	\$ -	\$ 4,910,060
Payable to securities borrowers	132,638,722	65,473,956
Payable to brokers for securities purchases	892,065	6,580,903
Health benefits payable	3,761,968	3,561,548
Deferred health benefits premiums	497,977	680,277
Amounts due to others managed by Generations Investment Services, Inc.	4,670,520	-
Accrued expenses and other liabilities	9,004,512	7,589,844
Total liabilities	151,465,764	88,796,588
ANNUITY PLAN NET ASSETS		
Annuitant fund	\$ 2,028,148,981	\$ 1,800,631,668
Accumulation fund	1,196,091,226	1,079,768,432
Total Annuity Plan net assets	3,224,240,207	2,880,400,100
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Benefit services fund	135,284,507	120,064,144
Operating fund	5,261,445	5,566,239
Total net assets without donor restrictions	140,545,952	125,630,383
NET ASSETS WITH DONOR RESTRICTIONS		
Ministerial Assistance fund	80,965,277	70,868,920
Operating fund	44,414,727	40,952,739
Total net assets with donor restrictions	125,380,004	111,821,659
TOTAL LIABILITIES AND NET ASSETS	\$ 3,641,631,927	\$ 3,206,648,730

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, 2019</u>	<u>Year Ended</u> <u>December 31, 2018</u>
REVENUES AND OTHER SUPPORT		
Investment return, net	\$ 520,215,618	\$ (181,528,386)
Health services premiums	58,981,588	57,555,945
Employer pension contributions	30,238,844	28,049,704
Member pension contributions	8,276,261	8,173,529
Christmas Fund appeal	1,522,345	1,540,158
Lilly Endowment Grant receipt	1,000,000	-
Our Church's Wider Mission	280,099	274,404
Donations and legacies	841,818	2,953,174
Other	18,392	2,233
Total revenues and other support	<u>621,374,965</u>	<u>(82,979,239)</u>
EXPENSES		
Pension payments to annuitants	148,942,689	142,397,489
Partial withdrawals and lump-sum payments	16,764,654	20,755,628
Health services claims	59,190,872	54,005,024
Health services costs	5,713,435	6,401,915
Administrative costs	13,134,172	12,145,059
Ministerial Assistance grants	2,806,052	3,105,471
Ministerial Assistance programs and administrative costs	2,509,070	2,620,244
Total expenses	<u>249,060,944</u>	<u>241,430,830</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 372,314,021</u>	<u>\$ (324,410,069)</u>
COMPOSITION OF CHANGE IN NET ASSETS		
Increase (Decrease) in Annuity Plan net assets	343,840,107	(302,481,576)
Increase (Decrease) in net assets without donor restrictions	14,915,569	(12,661,910)
Increase (Decrease) in net assets with donor restrictions	13,558,345	(9,266,583)
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 372,314,021</u>	<u>\$ (324,410,069)</u>
Beginning net assets	<u>3,117,852,142</u>	<u>3,442,262,211</u>
Ending net assets	<u>\$ 3,490,166,163</u>	<u>\$ 3,117,852,142</u>

See notes to Combined Financial Statements.

**THE PENSION BOARDS-UNITED CHURCH OF CHRIST, INC.
COMBINED STATEMENTS OF CASH FLOWS**

	<u>Year Ended</u> <u>December 31, 2019</u>	<u>Year Ended</u> <u>December 31, 2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members and employers for pension plan	\$ 38,576,121	\$ 36,441,135
Cash received from members and employers for health services premiums	58,571,147	54,319,797
Cash received from Our Church's Wider Mission	301,434	269,353
Cash received from Christmas Fund appeal	1,527,147	1,538,758
Cash received from contributors	872,667	407,161
Cash received by Generations Investment Services, Inc. from external parties	1,835,869	-
Cash received from the Lilly Endowment Grant	1,000,000	-
Cash received from income on investments	87,115,645	86,031,010
Miscellaneous receipts (payments)	18,392	2,233
Payments made to annuitants, members, and beneficiaries from the pension plan	(167,054,305)	(164,606,167)
Payments made to participants, and providers for health services claims and costs	(59,057,430)	(54,314,222)
Cash paid to employees, suppliers, and providers of services	(30,261,580)	(32,230,190)
Grants disbursed	(1,512,134)	(1,278,421)
Net cash used in operating activities	(68,067,027)	(73,419,553)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	3,284,836,462	2,149,975,466
Purchase of investments	(3,215,099,393)	(2,082,538,249)
Purchase of equipment	(114,118)	(1,696,923)
Net cash provided by investing activities	69,622,951	65,740,294
NET INCREASE (DECREASE) IN CASH	1,555,924	(7,679,259)
NET CASH, BEGINNING OF YEAR	239,888	7,919,147
NET CASH, END OF YEAR	\$ 1,795,812	\$ 239,888
COMPOSITION OF NET CASH, END OF YEAR		
Cash	\$ 1,795,812	\$ 5,149,948
Cash overdraft	-	(4,910,060)
NET CASH, END OF YEAR	\$ 1,795,812	\$ 239,888
Securities received by Generations Investment Services, Inc. from external parties	\$ 2,834,651	\$ -

See notes to Combined Financial Statements.

THE PENSION BOARDS-UNITED CHURCH OF CHRIST, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018

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 a 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.

Generations Financial Services, Inc.

Generations Financial Services, Inc., is a controlled affiliate of The Pension Boards–United Church of Christ, Inc. The Corporation is an exempt non-profit corporation under Section 501(c)(3) of the Code organized exclusively for religious and charitable purposes to support the mission of and for the benefit of the Pension Boards, including to promote financial literacy of clergy members of the United Church of Christ as well as to offer programs to them for refinancing a portion of their education debt on more favorable terms. Generations Financial Resources aims to further the Faith and Finance mission of the Pension Boards by improving the financial wellness of UCC clergy.

Generations Investment Services, Inc.

Generations Investment Services, Inc. is a controlled affiliate of The Pension Boards–United Church of Christ, Inc. The Corporation is an exempt non-profit corporation under Section 501(c)(3) of the Code organized exclusively for religious and charitable purposes to support the mission of and for the benefit of the Pension Boards, including for the management of endowment assets for the benefit of UCC conferences, churches, related entities and ecumenical partners. Generations Investment Services utilizes investment principles that incorporate Environmental, Social, and Governance (ESG) criteria to provide UCC and related entities with options and that are in alignment with their faith and values. The Pension Boards also offers additional investment related services to support client operations as needed.

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

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Account Standards Update (“ASU”) 2016-01, *Financial Instruments – Overall* which updates certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the Pension Boards for fiscal years beginning after December 15, 2018. The Pension Boards has adopted this standard with an immaterial impact on its combined 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 is effective for fiscal years beginning after December 15, 2018. Management has adopted this ASU with an immaterial impact on its combined financial statements.

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, the Annuity Plan, Generations Financial Services, Inc. and Generations Investment Services, Inc. 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 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 combined Statements of Financial Position.

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

Generations Investment Services, Inc.

The Pension Boards sponsored the establishment of Generations Investment Services, Inc. to receive and manage endowment assets of UCC churches, conferences, foundations and ecumenical partners. The assets, liabilities, and activities of Generations Investment Services, Inc. are consolidated into the combined financial statements of the Pension Boards.

It is the policy of Pension Boards and Generations Investment Services, Inc. management that assets received from external entities for the purpose of investment management by Generations Investment Services, Inc. will not be allocated to the net assets of Pension Boards, and thus have no impact on the Statement of Activities. Assets returned to external entities by Generations Investment Services, Inc. also bear no impact to the Statement of Activities. The policy is consistent with FASB issued *ASC 958-605-25 – Transfers of Assets to a Not-for-Profit Entity of Charitable Trust That Raises or Holds Contributions for Others*; wherein Generations Investment Services, Inc. accepts assets in an agent capacity and transfers of assets are not contributions, which would otherwise impact net assets.

Amounts managed by Generations Investment Services, Inc. for other entities are recorded as asset “investments held for others” with offsetting liability “amounts due to others managed by Generations Investment Services, Inc.” in the combined financial statements.

Investment management fee income due to Generations Investment Services, Inc. will be included in the Statement of Activities and increase the net assets in the combined financial statements accordingly. Expenses incurred by Generations Investment Services, Inc. will be included in the Statement of Activities and decrease the net assets in the combined financial statements.

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. The Pension Boards annually files Internal Revenue Service Form 990-T tax returns. For the years ended December 31, 2019 and 2018, 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 combined 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 2021. The Pension Boards anticipates recording a related right-to-use asset and an offsetting liability related primarily to office space leases.

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, 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.

Net Assets 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, 2019 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, 2018	\$ 2,880,400,100	\$ 125,630,383	\$ 111,821,659	\$ 3,117,852,142
Revenues and other support:				
Our Church's Wider Mission	-	-	280,099	280,099
Christmas Fund donations	-	-	1,522,345	1,522,345
Gifts and other receipts	-	38,268	821,942	860,210
Lilly Endowment (Grant Receipt)	-	1,000,000	-	1,000,000
Income from Pilgrim Memorial Fund	-	2,139,776	-	2,139,776
Interfund transfers	(9,470,309)	9,212,172	258,137	-
Health services premiums	-	58,981,588	-	58,981,588
Annuity Plan contributions	38,515,105	-	-	38,515,105
Investment return, net	480,502,654	21,826,244	15,746,944	518,075,842
Total revenues and other support	509,547,450	93,198,048	18,629,467	621,374,965
Expenses and grants and Endowments				
Grants	-	(244,000)	(2,562,052)	(2,806,052)
Programs costs	-	-	(905,184)	(905,184)
Health services claims and costs	-	(64,904,307)	-	(64,904,307)
Payments to annuitants	(165,707,343)	-	-	(165,707,343)
Administrative costs	-	(13,134,172)	(1,603,886)	(14,738,058)
Total expenses and grants	(165,707,343)	(78,282,479)	(5,071,122)	(249,060,944)
Increase in net assets	343,840,107	14,915,569	13,558,345	372,314,021
Net Assets at December 31, 2019	\$ 3,224,240,207	\$ 140,545,952	\$ 125,380,004	\$ 3,490,166,163

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	\$ 2,880,400,100	\$ 125,630,383	\$ 111,821,659	\$ 3,117,852,142

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Stable Value Fund Investments

At December 31, 2019 and 2018, 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 "AAA" 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 2019 and 2018, the average yield and annualized crediting interest rates of the portfolio were 2.37% and 2.07%, 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 Yield investments managed by PGIM invests 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 "Ba" or lower by Moody's or "BB" or lower by Standard & Poor's). Investing in high-income bond funds is subject to credit risk, market volatility, interest rate risk, and liquidity 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, 2019 with various investment styles. At December 31, 2019 and 2018, common stock included approximately 39.34% and 19.13% 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 36 and 20 different foreign countries for December 31, 2019 and 2018, respectively, with 28 and 14 different currency denominations in December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, non-U.S. investments include securities purchased in the currencies of non-U.S. developed nations (87.9% and 96.02%, respectively) and in U.S. dollars (12.1% and 3.98%, 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, 2019, this portfolio included 68 stocks, representing 23 countries. At December 31, 2018, this portfolio included 69 stocks, representing 24 countries. Equities in non-U.S. developed markets accounted for 79.8% and 75% of the portfolio, with emerging markets accounting for 20.2% and 25.0%, at December 31, 2019 and 2018, 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 and other private 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, 2019 and at December 31, 2018. 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, 2019 and 2018, 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, 2019 and 2018. The Combined Statements of Activities includes income received from PMF of \$2.14 million and \$2.10 million in 2019 and 2018 respectively, and the changes in the Pension Boards’ interest in the PMF fund of \$3.3 million in 2019 and (\$4.8) million in 2018, 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, 2019 and extends automatically for additional one-year terms thereafter. As of December 31, 2019, 88.20% of the Fund's assets may be liquidated within 12 months or less; 96.04% 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, 2019, and 2018, there are no unfunded commitments related to hedge fund investments. 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.

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, 2019 and 2018 were as follows:

	2019 Fair Value	2018 Fair Value
Hedge Funds		
Relative Value	\$ 29,485,574	\$ 37,785,671
Long/Short Equities	37,601,508	25,538,034
Opportunistic/Macro	11,869,574	8,395,070
Credit	13,473,337	13,064,329
Merger Arbitrage/Event Driven	820,405	12,173
Total Hedge Funds	\$ 93,250,398	\$ 84,795,277

Real and Other Private Assets

Real and other private 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, 2019, the Pension Boards had 11 private equity investments with a fair value of \$72.8 million. Ten out of the 11 investments are subject to “lock-up” provisions, ranging from 4-7 years, during which time the investments of \$47 million cannot be liquidated. The one Real Asset investment of \$25.8 million may be redeemed 15 business days following the end of the quarter with 30 days’ written notice. 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 2-8 years, during which time the investments of \$37.5 million cannot be liquidated. The two other real and other private assets investments of \$35.9 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, 2019 and 2018 were \$41.5 million and \$40.3 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

	2019	2018
Realized gains on investment sales	\$ 140,179,018	\$ 60,025,849
Unrealized appreciation (depreciation) on investments	304,426,744	(316,171,680)
Earned investment income	89,835,991	89,266,786
Investment management costs	(14,226,135)	(14,649,341)
<u>Total investment return, net</u>	<u>\$ 520,215,618</u>	<u>\$ (181,528,386)</u>

Derivative Financial Investments

Equity Futures

Equity 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 market value of open equity futures contracts was approximately \$9.5 million and \$8.4 million at December 31, 2019 and 2018, respectively. The maximum gross notional exchange-traded equity futures position open for both 2019 and 2018 to equitize cash was \$9.6 million and \$9.8 million, respectively. Futures contracts require daily cash settlement of the prior day’s change in fair value. These settlements total a gain of \$2.1 million and a loss of \$542 thousand for the years ended December 31, 2019 and 2018, respectively, and are recorded in the accompanying combined financial statements as a component of Investment return, net.

Fixed Income Futures

In 2019, the Pension Boards entered into fixed-income futures contracts as a simple and cost-effective tool to better manage portfolio interest rate exposure without reducing portfolio yield or selling attractive and illiquid bonds. Purchases of Treasury futures would increase interest rate exposure (duration); conversely, sales of Treasury futures would lower interest rate exposure. The market value of open fixed income futures contract was approximately \$5.2 million at December 31, 2019. The maximum gross notional exchange-traded fixed income futures position open for 2019 was \$196,000. Futures contracts require daily cash settlement of the prior day's change in fair value. These settlements had no impact on the accompanying combined financial statements.

Swaps

In accordance with its investment strategies, the Pension Boards entered into interest rate swaps during the year ended December 31, 2019. Swaps are marked to market and unrealized appreciation or (depreciation) on derivatives contracts is recorded at each Valuation Date. An interest rate swap is an agreement between two parties where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often LIBOR). The Pension Boards enters into interest rate swap contracts with the objective to hedge its interest rate exposure, and/or for speculative trading purposes. Entering into interest rate swap contracts involves the risk of dealing with counterparties and their ability to meet the terms of the contract. Market risk exists with such contracts to the extent that the underlying index or benchmark rates change. The realized and unrealized loss of the interest rate swap contract were \$37 thousand and \$49 thousand respectively for the year ended December 31, 2019 and are recorded in the accompanying combined financial statements as a component of Investment return, net. The market value of the swap contract was (\$164,562) as of December 31, 2019 and is included in the fair value hierarchy investment assets and liabilities footnote as a component of Corporate Bonds under Fixed Income Investments section.

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 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 and other private 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 combined financial statements.

At December 31, 2019, the High Yield investments managed by PGIM may be redeemed monthly with one business day's notice for partial redemption and 30 business days' notice for full redemption; 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, 2019, and 2018, 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 and Other Private Assets paragraphs for the redemption periods of the Hedge Funds and the Real Asset investments.

The following table sets forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2019:

	Investments as of December 31, 2019			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>Stable Value Investments:</i>				
Institutional Money Market Fund shares	\$ 13,443,389	\$ -	\$ -	\$ 13,443,389
<i>Liquidity Strategy:</i>				
Asset-backed and Mortgage-backed securities	-	32,358,665	-	32,358,665
U.S. Government Notes	5,221,904	-	-	5,221,904
<i>Total Return Strategy:</i>				
Corporate Bonds	-	32,697,513	-	32,697,513
U.S. Government Notes	83,434,064	-	-	83,434,064
Asset-backed and Mortgage-backed securities	-	14,846,350	-	14,846,350
<i>Short-term Investments:</i>				
Institutional Money Market Fund shares	92,903,198	-	-	92,903,198
<i>Fixed-Income Investments:</i>				
Corporate Bonds	-	673,332,403	-	673,332,403
U.S. Government Notes and Bonds	362,077,671	-	-	362,077,671
Asset-backed and Mortgage-backed securities	-	204,373,574	-	204,373,574
Emerging Markets Debt Funds	54,796,502	57,170,158	-	111,966,660
<i>Equity Investments:</i>				
<i>Common Stock:</i>				
U.S. Large-Cap Equity	630,158,268	-	-	630,158,268
Non-U.S. Developed Markets	334,944,880	-	-	334,944,880
U.S. Small and Mid-Cap Equity	93,038,653	-	-	93,038,653
<i>Equity funds:</i>				
Emerging Markets Funds	115,655,172	-	-	115,655,172
Non-U.S. Developed Markets	136,084,365	-	-	136,084,365
U.S. Small-Cap Equity Funds	105,197,880	-	-	105,197,880
Northern Trust Global Sustainability Index Fund	21,783,534	-	-	21,783,534
<i>Other Investment:</i>				
Participation in United Church Funds, Inc.	-	-	42,516,447	42,516,447
SUB-TOTAL INVESTMENTS	\$ 2,048,739,480	\$ 1,014,778,663	\$ 42,516,447	\$ 3,106,034,590
INVESTMENTS VALUED AT NAV AS A PRACTICAL EXPEDIENT				
Emerging Market Equity Fund (Equity Investments)				\$ 105,841,867
Income Loan Trust Fund (Fixed-Income Investments)				107,448,761
Hedge Funds (Other Investments)				93,250,398
Real and Other Private Assets (Other Investments)				72,835,739
TOTAL INVESTMENTS VALUED AT NAV AS A PRACTICAL EXPEDIENT				\$ 379,376,765
TOTAL INVESTMENTS				\$3,485,411,355
COLLATERAL PROVIDED BY SECURITIES BORROWERS				
Cash collateral (Valued at NAV as Practical Expedient)	\$ -	\$ -	\$ -	\$ 11,540,774
Non-cash collateral	-	121,097,949	-	121,097,949
TOTAL COLLATERAL PROVIDED BY SECURITIES BORROWERS	\$ -	\$ 121,097,949	\$ -	\$ 132,638,723

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			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>Stable Value Investments:</i>				
Institutional Money Market Fund shares	\$ 5,883,323	\$ -	\$ -	\$ 5,883,323
<i>Fixed maturity synthetic guaranteed investment contracts:</i>				
Mortgage-backed and asset-backed securities	-	33,210,743	-	33,210,743
Corporate Bonds	-	-	-	-
U.S. Government Notes	5,221,904	-	-	5,221,904
<i>Constant duration synthetic guaranteed investment contracts:</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
<i>Short-term Investments:</i>				
Institutional Money Market Fund shares	81,970,854	-	-	81,970,854
<i>Fixed Income Investments:</i>				
Corporate Bonds	-	708,974,965	-	708,974,965
U.S. Government Notes & 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
<i>Equity Investments:</i>				
<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 and Mid-Cap Equity	88,423,035	-	-	88,423,035
<i>Equity funds:</i>				
Emerging Markets Funds	103,778,289	-	-	103,778,289
Non-U.S. Developed Markets	88,680,731	-	-	88,680,731
U.S. Small-Cap Equity	104,205,082	-	-	104,205,082
Northern Trust Global Sustainability Index Fund	16,568,844	-	-	16,568,844
<i>Other Investment:</i>				
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 and Other Private 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

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 \$121.1 million and \$52.3 million at December 31, 2019 and 2018 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 \$132.6 million and \$65.5 million at December 31, 2019 and 2018, respectively. Loaned securities in the program include equities and fixed income.

5. LEASE COMMITMENTS

The Pension Boards has entered into several non-cancelable operating leases for office space, software, and equipment. At December 31, 2019, the aggregate future minimum payments for these commitments were as follows:

Total Lease Commitments	
Year Ending	Amount
2020	\$ 838,728
2021	830,844
2022	733,270
2023	733,270
2024	733,270
2025	733,270
2026	733,270
2027	733,270
2028	733,270
2029	488,847
	\$ 7,291,311

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, 2019 and 2018 was \$827,339 and \$748,269, respectively.

6. 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, 2019 and 2018, Board designated funds functioning as endowment are \$3.8 million and \$4 million, respectively.

During 2019 and 2018, endowments were invested in the Equity, Bond, and Balanced Funds of the Pension Boards.

Endowment net asset composition as of December 31, 2019, is as follows:

Endowments

	Without Donor Restrictions	With Donor Restrictions	Total
Designated to function as endowment	\$ 3,802,614	\$ -	\$ 3,802,614
Donor-restricted gifts to be maintained in perpetuity	-	5,792,148	5,792,148
Accumulated investment earnings on gifts	-	4,403,128	4,403,128
Total endowments	<u>\$ 3,802,614</u>	<u>\$ 10,195,276</u>	<u>\$ 13,997,890</u>

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>

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

Changes in Endowments

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at December 31, 2018	\$ 4,027,982	\$ 8,590,167	\$ 12,618,149
Donations	22,892	1,971,781	1,994,673
Transfer from annuity plan net assets	9,195,309	-	9,195,309
Income from the Pilgrim Memorial Fund	2,139,776	-	2,139,776
Appropriation for grants and expense	(11,885,875)	(1,833,001)	(13,718,876)
Investment return	302,530	1,466,329	1,768,859
Endowment net assets at December 31, 2019	<u>\$ 3,802,614</u>	<u>\$ 10,195,276</u>	<u>\$ 13,997,890</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>

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.

7. COMBINED ACTIVITIES BY FUND

The combined activities by fund for the year ended December 31, 2019 are as follows:

	ANNUITANT FUND	ACCUMULATION FUND	BENEFIT SERVICES FUND	MINISTERIAL ASSISTANCE FUND	OPERATING FUND	TOTAL
REVENUES AND OTHER SUPPORT						
Investment return, net	\$ 297,472,187	\$ 183,030,467	\$ 21,401,219	\$ 12,270,532	\$ 6,041,213	\$ 520,215,618
Health services premiums	-	-	58,981,588	-	-	58,981,588
Employer pension contributions	-	30,238,844	-	-	-	30,238,844
Member pension contributions	-	8,276,261	-	-	-	8,276,261
Christmas Fund appeal	-	-	-	1,522,345	-	1,522,345
Our Church's Wider Mission	-	-	-	280,099	-	280,099
Donations and legacies	-	-	-	818,926	22,892	841,818
Lilly Grant Receipts	-	-	-	-	1,000,000	1,000,000
Interfund transfers	78,987,815	(88,458,124)	(258,137)	258,137	9,470,309	-
Other	-	-	-	17,440	952	18,392
Total revenues and other support	376,460,002	133,087,448	80,124,670	15,167,479	16,535,366	621,374,965
EXPENSES						
Pension payments to annuitants	148,942,689	-	-	-	-	148,942,689
Partial withdrawals and lump-sum payments	-	16,764,654	-	-	-	16,764,654
Health services claims	-	-	59,190,872	-	-	59,190,872
Health services costs	-	-	5,713,435	-	-	5,713,435
Administrative costs	-	-	-	-	13,134,172	13,134,172
Ministerial Assistance grants	-	-	-	2,562,052	244,000	2,806,052
Ministerial Assistance programs and administrative costs	-	-	-	2,509,070	-	2,509,070
Total expenses	148,942,689	16,764,654	64,904,307	5,071,122	13,378,172	249,060,944
INCREASE IN NET ASSETS	\$ 227,517,313	\$ 116,322,794	\$ 15,220,363	\$ 10,096,357	\$ 3,157,194	\$ 372,314,021
DECEMBER 31, 2018 NET ASSETS	1,800,631,668	1,079,768,432	120,064,144	70,868,920	46,518,978	3,117,852,142
INCREASE IN NET ASSETS	227,517,313	116,322,794	15,220,363	10,096,357	3,157,194	372,314,021
DECEMBER 31, 2019 NET ASSETS	\$ 2,028,148,981	\$ 1,196,091,226	\$ 135,284,507	\$ 80,965,277	\$ 49,676,172	\$ 3,490,166,163

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	(3,755,966)	(135,572,493)	49,728,733	955,976	5,664,511	(82,979,239)
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	142,397,489	20,755,628	60,406,939	5,313,715	12,557,059	241,430,830
DECREASE IN NET ASSETS	\$ (146,153,455)	\$ (156,328,121)	\$ (10,678,206)	\$ (4,357,739)	\$ (6,892,548)	\$ (324,410,069)
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	(146,153,455)	(156,328,121)	(10,678,206)	(4,357,739)	(6,892,548)	(324,410,069)
DECEMBER 31, 2018 NET ASSETS	\$ 1,800,631,668	\$ 1,079,768,432	\$ 120,064,144	\$ 70,868,920	\$ 46,518,978	\$ 3,117,852,142

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, 2019:

	Ministerial Assistance	Endowment Fund	Benefit Service Fund	Annuity Fund	Management and General	Total
Salaries and benefits	\$ 1,315,616	\$ -	\$ 1,358,968	\$ -	\$ 6,855,819	\$ 9,530,403
Professional services	22,061	52,133	3,708,686	-	1,413,629	5,196,509
Pension payments to annuitants	-	-	-	165,707,343	-	165,707,343
Health service claims	-	-	59,190,872	-	-	59,190,872
Grants and Programs	3,467,236	244,000	-	-	-	3,711,236
Facilities	48,258	-	27,852	-	866,165	942,275
Depreciation	6,356	-	25,226	-	1,361,352	1,392,934
Information technology	2,747	-	2,884	-	165,307	170,938
Fundraising	-	43,603	256,724	-	407,856	708,183
Travel	45,342	-	254,555	-	826,471	1,126,368
Banking services	163,506	-	78,540	-	156,552	398,598
Other	-	-	-	-	985,285	985,285
Total expenses by function	\$ 5,071,122	\$ 339,736	\$ 64,904,307	\$ 165,707,343	\$ 13,038,436	\$ 249,060,944

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

Functional Expense

	Ministerial Assistance	Endowment Fund	Benefit Service Fund	Annuity Fund	Management and General	Total
Salaries and benefits	\$ 1,069,521	\$ -	\$ 1,865,765	\$ -	\$ 5,718,462	\$ 8,653,748
Professional services	24,972	52,000	4,248,048	-	1,631,820	5,956,840
Pension payments to annuitants	-	-	-	163,153,117	-	163,153,117
Health service claims	-	-	54,005,024	-	-	54,005,024
Grants and Programs	3,872,934	-	-	-	412,000	4,284,934
Facilities	42,498	-	191,132	-	1,111,738	1,345,368
Depreciation	11,441	-	69,708	-	1,693,865	1,775,014
Information technology	1,173	-	2,767	-	589,328	593,268
Fundraising	225,601	-	-	-	360,114	585,715
Travel	18,811	-	24,495	-	316,351	359,657
Banking services	38,978	-	-	-	210,192	249,170
Other	7,786	-	-	-	461,189	468,975
Total expenses by function	\$ 5,313,715	\$ 52,000	\$ 60,406,939	\$ 163,153,117	\$ 12,505,059	\$ 241,430,830

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:

Expense	Allocation Method
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 \$14.9 million and \$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 at December 31, 2019 and 2018, respectively. 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, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditure are as follows:

Financial assets at year end	2019	2018
Cash	\$ 1,795,812	\$ 5,149,948
Investments	3,480,740,835	3,108,133,470
Accrued investment income receivable and other	17,322,380	16,740,624
Total financial assets	<u>3,499,859,027</u>	<u>3,130,024,042</u>
Less amounts not available to be used within one year		
Net assets with donor restrictions	(125,380,004)	(111,821,659)
Annuity plan net assets	(3,224,240,207)	(2,880,400,100)
Health services net assets	(135,284,507)	(114,064,144)
Total amounts not available within one year	<u>(3,484,904,718)</u>	<u>(3,106,285,903)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 14,954,309</u>	<u>\$ 23,738,139</u>

10. SUBSEQUENT EVENTS

The Pension Boards has evaluated through March 27, 2020 subsequent events that occurred after the combined financial statements' date but before these statements are issued. On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic. This has resulted in substantial volatility in financial markets and has had a significant adverse impact on Pension Boards' investment portfolios, primarily in equity holdings. As a result, the Pension Boards' investments have incurred a significant decline in fair value since December 31, 2019. We cannot reasonably estimate the length or severity of this pandemic, but we cannot rule out a material adverse impact on our combined statements of financial position, combined statements of activities, and combined statements of cash flow in fiscal 2020.

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