

GA-1915

Pension Fund of the Christian Church

Todd A. Adams, President
1099 North Meridian Street, Ste. 720
Indianapolis, IN 46204
Toll-Free: 866-495-7322

E-mail: pfcc1@pensionfund.org

Report to the 2019 General Assembly

On May 11, 1895, Brother A.M Atkinson, husband of Nancy E. Atkinson, a founding member of the Christian Women's Board of Missions, received a telegram informing him of the passing of the beloved minister and former governor of Indiana, Rev. Ira J. Chase. Brother Chase left a nearly blind widow and four children with no means of support. "*Brother Atkinson could not forget the need of this preacher's family and set out immediately to raise a fund to provide the widow and family a home and a living.*"¹ Enough money was raised to purchase a home in Wabash, Indiana, which Mrs. Chase graciously received, provided \$1,000 was returned to the fund from the sale of the home upon her death.

Brother Atkinson called for a Conference on Ministerial Relief, which met on October 21, 1895 in advance of the General Missionary Convention. The purpose of this conference was to raise additional resources for the Chase Fund and formalize the process by which other widows and children would receive support. The outcome of this meeting was recommended changes to the By-Laws of General Christian Missionary Convention, creating the Board of Ministerial Relief and raising an offering which totaled \$3,567.25.²

In 2020, the Board of Ministerial Relief will celebrate 125 years of working to provide resources "*For the Support of Ministry.*" From its humble beginnings with two offerings totaling \$5,732.56, Pension Fund of the Christian Church, as the successor organization, has embodied our mission and carefully managed the resources of our pastors and lay employees and our legacy funds of Ministerial Relief and Assistance. At the close of 2017, the fund's value was \$3.25 billion³.

In 2020, Pension Fund will celebrate the expansion of Ministerial Relief and Assistance. The program will have three core functions: Retiree Support, Active Clergy Programs, and Congregational Partnership Grants.

¹ Smith, W.M; *For the Support of Ministry*; pg. 49.

² Ibid; pg. 54.

³ This reports was submitted on Dec. 27, 2018, therefore 2018 Finanacial Information was not available.

Retiree Support will continue for those who have no Pension, a Pension below 200% of the Federal Poverty Level, Healthcare Assistance with Medicare Supplemental plans, and 13th check. Our expanded support for retirees includes adding a Geographic Pay Differential for Supplemental Pensions for persons who retired in a high-cost area. To qualify, a person must meet the current supplemental guidelines and have retired in an area where the cost of living exceeds Indianapolis as a base market. Those persons then qualify for an increase based on the difference but capped at 250% of the Federal Poverty level for a single person.

Active Clergy Programs: Ministerial Relief and Assistance expansion includes Financial Literacy Education (the permanent role of Excellence in Ministry), Career Counseling Grants for Pastors Transitioning to bi-vocational ministry, and a biennial Pastor's Wellness Conference starting in the fall of 2020.

The career counseling grants are to combat the research which shows clergy who have a second source of income are most likely to serve in a high-crisis profession such as a funeral director or social worker. Continually dealing with crisis, leads to burnout. We want to help clergy work with a professional who can steer them toward a profession which compliments their ministry but also brings joy.

The biennial Pastor's Wellness Conference will rotate themes of emotional, physical, and financial wellness. The heavily subsidized conference will see to bring together clergy serving various size congregations. The first keynote speaker is Dr. Matt Bloom, a researcher at the University of Notre Dame, who specializes in clergy wellness. More information will be available at Pension Fund's booth in the exhibit hall. These are in addition to our historic clergy support programs for emergency aid and funeral assistance grants for clergy without pension plan death benefits.

We also desire to work in **Partnership with Congregations**. We will continue our historic programs, including Student Gift—expanded to include undergraduate internships and Global Mission Interns through Division of Overseas Ministries—and our Chaplaincy Dues program, which purchases pension credits for pastors called to active duty military service.

Our new **Congregational Partnership** programs include partnering with Week of Compassion to provide salary continuation grants to pastors if their home and/or the church is damaged during a natural disaster. We recognize if there is widespread damage in a community, offerings will decrease and the ability to pay the pastor will be threatened. If the pastor doesn't have to worry about their basic necessities, they can better lead the recovery in their community. In 2017, MRA provided over \$475,000 in salary continuation grants following natural disasters.

We are also responding to GA-1333 and adding salary continuation grants to support pastors at the birth or adoption of a child. The purpose of these programs is to extend the leave time previously granted for maternity and/or paternity leave and provide additional support for any extenuating circumstances related to the birth or health of the

newborn. The program will be open for maternity and paternity leave grants, natural birth or adoption—including single parent adoption.

At Pension Fund, we understand our mission is standing *For the Support of Ministry*, ensuring that pastors and lay employees of Stone-Campbell related employers have a **Strong ... Smart ... Secure** retirement. In the coming biennium, we are prepared (as a willing and capable partner) to challenge our members and the church to journey **The Road to Financial Wellness**.

Our work on your behalf is guided by our:

Mission: *For the Support of Ministry*

Vision: *Stone-Campbell pastors and lay employees will enjoy a **Strong ... Smart ... Secure** retirement.*

Core Values: Integrity, Security and Compassion

Integrity: the quality of being honest, making membership-oriented decisions

Security: the state of stability, providing freedom from worry or fear

Compassion: the ability to help others in times of need or distress

Guiding Scripture: Matthew 25:20-21 *“The one given five thousand dollars showed him how he had doubled his investment. His master commended him: ‘Good work! You did your job well. From now on be my partner.’”*

Ends Statements:

In service to our members, Pension Fund will ...

- Partner with employers to offer financially secure retirement savings options and education for pastors and lay employees of the Stone-Campbell movement including financial support of surviving family members and provisions for those who become disabled;
- Invest and prudently manage the resources of our members — maximizing returns, minimizing costs and assuming the burden of market risk;
- Engage members with compassionate care and personalized attention;
- Steward the assets and programs of Ministerial Relief and Assistance; and
- Utilize current and compliant processes.

Contractual Programs for the United States and Puerto Rico:

As of September 30, 2018, our total assets under management were \$3,270,106,921. Of these \$1,962,837,400 were Pension Plan; \$280,532,877 were Tax-Deferred; \$22,814,466 were IRA (combined) and \$299,719,104 were Benefit Accumulation Accounts (BAA). Additionally, Pension Fund has a General Fund of \$133,023,443. In 2018 our base rate for Tax Deferred was 3.5%, IRA products 3.5% and BAA 2.5%. In

2018, based on 2017 returns, Pension Fund awarded a Special Apportionment of 5.5% or \$96 million and a Good Experience Credits of 10.5% (TDRA), 9% BAA, and 5.5% IRAs or \$48 million.

Contractual Programs for Canada:

Pension Fund provides the Pension Plan for clergy and lay employees in Canada. Canada remains a separate corporation with a separate board consisting of two US based Pension Fund employees and two Canadian based board members who also participate in the programs. This structure allows us to comply with the laws and regulations of Revenue Canada.

Pension Fund provides access to membership in the Pension Plan by clergy and lay employees in the Stone-Campbell / Restoration Movement in Puerto Rico.

Investments:

Pension Fund maintains a fully-invested policy with long-term asset allocation of 50% equities, 35% fixed income and 15% alternatives. We are honored to co-sponsor a General Assembly resolution, reaffirming our commitment to socially responsible investing. We partner with Glass-Lewis for proxy vote servicing and research. Glass-Lewis follows the guidance of the Interfaith Center for Corporate Responsibility (ICCR).

Ministerial Relief and Assistance:

In 2017 and 2018, Ministerial Relief and Assistance provided more than \$3.6 million for the support of the ministry. Supplemental Gift Pensions are gift distributions to those retirees who have extremely low pensions. Relief Pensions are gift distributions to those who have no pension.

The 13th Check is a gift to all persons receiving a Ministerial Relief pension. The offering received at General Assembly, endowment income, and annual fund contributions provide resources that bless our members. Many recipients offer thanks for the church's generosity, as the 13th Check provides resources for heating bills, medicine and other necessities that these saints would forgo without this support.

We provided over \$450,000 in salary continuation grants in 2017 following Hurricanes Harvey and Maria. Additionally, we extended the grace period on pension payments from 3 to 6 months to help these communities in their recovery and restoration efforts.

Commitment to Churchwide Priorities:

Pro-Reconciliation / Anti-Racism: In addition to utilizing the principles of the Executive Search Process, Pension Fund staff engaged Reconciliation Ministries for Cultural Awareness Training with Rev. Sandhya Jha. Our Senior Leadership Team participated

in the Executive Leadership School, including Pro-Reconciliation / Anti-Racism Training, Prevention of Harrassment, and Financial Ethics.

Compliance with Board Diversity: For the first time in over a decade, Pension Fund’s Board of Directors meet the 30% racial-ethnic diversity requirements of the Assembly.

Young Adult Leadership Development: We have expanded Student Gift Pensions to include undergraduate students who are pre-ministerial studies, serving in paid internships and Global Mission Interns.

New Church: Pension Fund is exploring with our legal counsel the tax liability of partnering with regions to provide matching funds to new church planters, who are intentionally seeking to start a new worshipping community.

Board Membership

2019

Peggy Brittan*
Kelly Bauer
Randy Clayton*
Kelly Nelson
Rev. Esteban Doble-Gonzales
Greg Smith*

2020

Rev. Thaddaeus Allen
Brenda Cline
Charlene Butz
Rev. Bill Lee
Rev. Janet Long
Linda Hernandez-Williams*

2021

Josh Santana*
Camilla Lindsey
Rev. James Johnson
Rev. Jabari Butler
Chad Turner
Rev. Sydney Avent

*2019 Board Officers

Recommended Action

The General Board receives this report from the Pension Fund and forwards it to the 2019 General Assembly for consideration and discussion.

**Combined Financial Statements and Report of
Independent Certified Public Accountants**

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.**

December 31, 2017 and 2016

Contents

	Page
Report of Independent Certified Public Accountants	3
Combined Financial Statements	
Statements of net assets available for benefits	5
Statements of changes in net assets available for benefits	7
Notes to combined financial statements	8



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

T +1 312 856 0200
F +1 312 565 4719
grantthornton.com

**Members of the Financial Affairs Committee of the
Pension Fund of the Christian Church
(Disciples of Christ), Inc.**

Report on the financial statements

We have audited the accompanying combined financial statements of the Pension Fund of the Christian Church (Disciples of Christ), Inc.; the Health Care Benefit Trust and the Pension Fund Canada Trust, all of which are under common management (collectively referred to as the Pension Fund), which comprise the combined statements of net assets available for benefits as of December 31, 2017 and 2016, and the related combined statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pension Fund's preparation and fair presentation of the combined 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 Pension Fund'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 combined 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 combined financial statements referred to above present fairly, in all material respects, information regarding the Pension Fund of the Christian Church (Disciples of Christ), Inc.; the Health Care Benefit Trust and the Pension Fund Canada Trust's net assets available for benefits as of December 31, 2017 and 2016, and changes therein for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois

April 23, 2018

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
COMBINED STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
December 31,**

ASSETS	<u>2017</u>	<u>2016</u>
CASH	\$ 29,662,628	\$ 24,081,428
COLLATERAL UNDER SECURITIES LENDING AGREEMENT	73,387,056	57,459,436
INVESTMENTS		
Short term	200,190,139	208,309,030
Fixed income		
Fixed income securities	853,470,238	855,389,684
Mutual funds	<u>59,519,579</u>	<u>55,182,122</u>
	912,989,817	910,571,806
Equities		
Mutual funds and comingled funds	713,248,912	555,768,358
Common stock and preferred stock	<u>1,077,947,611</u>	<u>927,748,389</u>
	1,791,196,523	1,483,516,747
Other		
Private equity		
Emerging market	259,186	1,034,718
Fund of funds	39,082,674	45,997,209
Venture capital	253,707,147	223,444,425
Real estate	75,647,867	85,957,660
Joint investment trusts	<u>-</u>	<u>965,512</u>
	<u>368,696,874</u>	<u>357,399,524</u>
Total investments	3,273,073,353	2,959,797,107
OTHER ASSETS		
Interest and dividends receivable on investments	5,430,529	1,472,019
Amounts receivable on securities transactions	55,866,160	50,110,352
Foreign exchange contracts	-	852,968
Pension Fund Canada Trust	9,708,193	8,648,424
Other	<u>3,134,618</u>	<u>2,742,288</u>
Total other assets	<u>74,139,500</u>	<u>63,826,051</u>
TOTAL ASSETS	<u>\$3,450,262,537</u>	<u>\$3,105,164,022</u>

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.**

**COMBINED STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS - CONTINUED
December 31,**

LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS	<u>2017</u>	<u>2016</u>
LIABILITIES		
Amounts due on securities transactions	\$ 70,374,452	\$ 45,224,933
Liability to return collateral held under securities lending agreement	73,387,056	57,459,436
Securities sold under agreement to repurchase	53,918,563	53,088,939
Foreign exchange contracts	753,621	-
Health care claims payable	1,554,628	2,013,814
Escrow funds and other liabilities	<u>3,757,763</u>	<u>3,312,744</u>
Total liabilities	<u>\$ 203,746,083</u>	<u>\$ 161,099,866</u>
NET ASSETS AVAILABLE FOR BENEFITS		
Pension plan fund	\$2,345,861,787	\$2,140,371,539
Additional benefits fund	691,270,144	604,957,713
Annuity fund	4,941,146	4,856,303
Endowment fund	48,384,203	43,419,229
General fund	141,286,432	137,019,812
Ministerial relief and assistance fund	2,449,400	2,689,020
Pension Fund Canada Trust	10,051,224	8,933,834
Health care benefit trust	<u>2,272,118</u>	<u>1,816,706</u>
Total net assets available for benefits	<u>\$3,246,516,454</u>	<u>\$2,944,064,156</u>

The accompanying notes are an integral part of these statements.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
COMBINED STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Years ended December 31, with combining information for the year ended December 31, 2016**

	Combining information						Pension Fund totals	Pension Fund Canada Trust	Health care Benefit Trust	2017 Total	2016 Total
	Pension Plan fund	Additional Benefits fund	Annuity Fund	Endowment Fund	General Fund	Ministerial Relief Assistance Fund					
Additions											
Pension plan dues	\$ 18,782,065	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,782,065	\$ 92,596	\$ -	\$ 18,874,661	\$ 19,650,065
Additional benefits deposits	-	46,952,217	-	-	-	-	46,952,217	-	-	46,952,217	38,148,856
Annuity agreements issued	-	-	-	-	-	-	-	-	-	-	-
Gift receipts	-	-	-	-	-	-	-	-	-	-	-
Disciples Mission Fund	-	-	-	-	-	52,376	52,376	-	-	52,376	195,279
Other gifts and offerings	-	-	-	-	-	488,233	488,233	757	1,535	490,525	816,588
Bequests and gifts	-	-	-	151,584	-	-	151,584	-	-	151,584	230,178
Health care premiums	-	-	-	-	-	-	-	-	4,608,755	4,608,755	20,247,004
MR&A grant from endowment	-	-	-	-	-	1,547,676	1,547,676	-	-	1,547,676	2,566,900
Net investment gain	324,359,191	87,011,700	732,503	6,639,304	3,452,730	-	422,195,428	1,560,470	932	423,756,830	279,963,381
Program administration fees	-	-	-	-	10,721,111	-	10,721,111	-	-	10,721,111	8,155,192
Interest credited to funds	<u>84,876,999</u>	<u>16,042,745</u>	<u>170,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,090,704</u>	<u>-</u>	<u>-</u>	<u>101,090,704</u>	<u>99,968,507</u>
Total additions	428,018,255	150,006,662	903,463	6,790,888	14,173,841	2,088,285	601,981,394	1,653,823	4,611,222	608,246,439	469,941,950
Deductions											
Pension plan benefits	124,191,210	-	-	-	-	-	124,191,210	453,535	-	124,644,745	123,363,206
Annuity payments	-	-	618,216	-	-	-	618,216	-	-	618,216	652,254
Additional benefits withdrawals	-	43,402,554	-	-	-	-	43,402,554	-	-	43,402,554	50,325,975
Pension plan membership payouts	102,174	-	-	-	-	-	102,174	-	-	102,174	77,903
Supplemental gift benefits	-	-	-	-	-	479,607	479,607	2,272	-	481,879	496,237
Other ministerial relief and assistance	-	-	-	-	-	1,848,298	1,848,298	-	-	1,848,298	3,155,796
Health care claims	-	-	-	-	-	-	-	-	4,038,381	4,038,381	21,024,878
Endowment grant	-	-	-	1,551,745	-	-	1,551,745	-	-	1,551,745	566,900
Program administration fees	8,176,612	2,358,838	17,942	167,720	-	-	10,721,112	-	-	10,721,112	8,155,192
Interest expense	84,876,999	16,042,104	170,960	-	-	-	101,090,063	-	-	101,090,063	99,967,276
Fund to fund transfer	8,762,661	9,416,317	-	-	-	-	18,178,978	-	-	18,178,978	59,882,086
Investment fees	5,181,012	1,690,735	11,502	106,449	421,383	-	7,411,081	-	-	7,411,081	8,327,364
Management and general expense	-	-	-	-	9,685,838	-	9,685,838	80,626	117,429	9,883,893	8,842,375
Total deductions	231,290,668	72,910,548	818,620	1,825,914	10,107,221	2,327,905	319,280,876	536,433	4,155,810	323,973,119	384,837,442
NET INCREASE (DECREASE)	196,727,587	77,096,114	84,843	4,964,974	4,066,620	(239,620)	282,700,518	1,117,390	455,412	284,273,320	85,104,508
Fund to fund transfer - special apportionment and good experience credits	8,762,661	9,216,317	-	-	200,000	-	18,178,978	-	-	18,178,978	59,882,086
Net assets available for benefits, beginning of year	<u>2,140,371,539</u>	<u>604,957,713</u>	<u>4,856,303</u>	<u>43,419,229</u>	<u>137,019,812</u>	<u>2,689,020</u>	<u>2,933,313,616</u>	<u>8,933,834</u>	<u>1,816,706</u>	<u>2,944,064,156</u>	<u>2,799,077,562</u>
Net assets available for benefits, end of year	<u>\$2,345,861,787</u>	<u>\$691,270,144</u>	<u>\$4,941,146</u>	<u>\$48,384,203</u>	<u>\$141,286,432</u>	<u>\$2,449,400</u>	<u>\$3,234,193,112</u>	<u>\$10,051,224</u>	<u>\$2,272,118</u>	<u>\$3,246,516,454</u>	<u>\$2,944,064,156</u>

The accompanying notes are an integral part of these statements.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE A - NATURE OF OPERATIONS

Pension Fund of the Christian Church (Disciples of Christ), Inc. (Pension Fund) was organized to provide benefits to its members who are employed in serving the church and related organizations. It is incorporated as a not-for-profit organization under the laws of the state of Indiana. Benefits provided by Pension Fund include retirement, disability and death benefits, supplemental pensions and support, healthcare, and participation in additional benefits programs. Such benefits are provided through member contributions, gifts and special apportionments from Pension Fund operations.

Pension Fund is a Church Plan as defined in Section 414(e) of the Internal Revenue Code (the Code) and in Title 1 of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. Pension Fund has not elected to be subject to ERISA.

By virtue of its inclusion in the group exemption ruling of the General Assembly of the Christian Church (Disciples of Christ), Pension Fund is exempt from federal income taxes under Section 501(c)(3) of the Code.

In the event of termination of Pension Fund, the Board of Directors of Pension Fund (Board of Directors) would determine the priority order of participating members' claims to the assets of Pension Fund.

Pension Fund groups its plans and operations for reporting and managing purposes into funds that are briefly described as follows:

- a. US Pension Plan Fund - Reserves required to meet the Defined Benefit Pension Plan (the Plan) member retirement, death and disability benefit obligations. Contributions are made to the US Pension Plan Fund by its members and participating churches or organizations based upon a specified percentage of members' compensation and are credited to the members' individual accounts. The dues are converted into pension credits by taking the total compensation base upon which dues are paid to the Plan during a member's career, and multiplying it by 0.014966 for the portion that was full dues, and 0.00426 for the portion that was partial dues. The Plan provides for retirement benefits generally at age 65 based upon such accrued pension credits and includes provisions for early retirement, disability and death benefits. Certain members of the Plan are fully vested immediately, while others vest after two years of participation. The Plan provides for special apportionments awarded to all active and retired members of the Plan, if the fund is over the required funding level and as approved by the Board of Directors.
- b. Puerto Rico Pension Plan Fund - Reserves required to meet the Defined Benefit Pension Plan (the Puerto Rico Plan) member retirement, death and disability benefit obligations. Contributions are made to the Puerto Rico Pension Plan Fund by its members and participating churches or organizations based upon a specified percentage of members' compensation and are credited to the members' individual accounts. The dues are converted into pension credits by taking the total compensation base upon which dues were paid to the Puerto Rico Plan during a member's career, and multiplying it by 0.014966 for the portion that was full dues, and 0.00426 for the portion that was partial dues. The Puerto Rico Plan provides for retirement benefits generally at age 65 based upon such accrued pension credits and includes provisions for early retirement, disability and death benefits. Certain members of the Puerto Rico Plan are fully vested immediately, while others vest after two years of participation. The Puerto Rico Plan provides for special apportionments awarded to all active and retired members of the Puerto Rico Plan, if the fund is over the required funding level, and as approved by the Board of Directors.
The US Pension Plan Fund and Puerto Rico Pension Plan Fund (collectively, the Pension Plan Fund) are presented throughout the statements of net assets available for benefits and the statements of changes in net assets available for benefits in a combined format.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

- c. **Additional Benefits Fund** - This is a combination of several programs, including the Tax Deferred Retirement, Benefit Accumulation, Roth IRA, Traditional IRA and Annuity programs all offered with the intent of providing members the opportunity to enhance their retirement. Funds in such accounts earn stipulated rates of interest, and may be subject to withdrawal and deposit rules and regulations adopted by the Board of Directors. From January 1, 2011 to July 1, 2015, the Benefit Accumulation program was not available to new members. Effective July 1, 2015, the Benefit Accumulation program is available to new members.
- d. **Annuity Fund** - Funds received from donors and members to purchase annuities and make periodic annuity payments as specified.
- e. **Endowment Fund** - Gift funds, including those received through estates, bequests or memorials, which are restricted and are to be retained for designated purposes. The Endowment Fund is comprised of gifts and donations plus accumulated investment returns. Earnings from this fund primarily help support ministerial relief programs according to the spending policy that is designed for long-term sustainability of the endowment.
- f. **General Fund** - This unencumbered fund accumulates the administrative fees charged to each program fund. These funds are expendable for current operating and capital purposes. These funds can be used to support special apportionments and good experience credits at the approval of the Board of Directors.
- g. **Ministerial Relief and Assistance Fund** - Gifts and gift allocations of the church for the express purpose of meeting members' needs, such as supplemental gift pensions, ministerial relief, emergency aid, health care assistance and other services. The Board of Directors authorized a grant to the Healthcare Benefit Trust (HCBT) of \$2,000,000 to assist in the transition of the Healthcare plan from supporting both active and retiree members to a retiree member only plan. The transfer of funds is to be repaid only if the HCBT program has sufficient resources to repay the grant. Net of this grant, the Ministerial Relief and Assistance Fund has a surplus equal to more than one year of typical disbursements.
- h. **Pension Fund Canada Trust** - The Pension Fund Canada Trust executes the operations of the Pension Plan Fund as it pertains to members and beneficiaries in the fund who are employed in Canada. The Pension Fund Canada Trust maintains separate reserves to meet the benefit obligations of the Pension Plan Fund in Canada. Canadian members and beneficiaries are entitled to substantially the same benefits as U.S. members and beneficiaries based upon the same contribution percentage.
- i. **Health Care Benefit Trust** - The HCBT administers the operations of the former Health Care Fund and Health Care Claims Reserve Fund. The HCBT, effective December 31, 2016, discontinued support for the active Plan members. The Trust will continue to serve the retiree Plan participants with no change in benefits. This change was necessary given the fiscal challenges related to declining enrollment and increasing expenses. The year-end financial position of the HCBT includes accrued expenses related to claims incurred but not received and other related run out types of expenses related to the active Plan membership. Management will continue to monitor the health care industry trends as it relates to the retiree membership.

Pension Fund serves as the Trustee of the HCBT and the Pension Fund Canada Trust (collectively, the Trusts). As a result, the accompanying combined financial statements include the accounts of the Pension Fund and the Trusts. All significant transactions between Pension Fund and the Trusts have been eliminated.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying combined financial statements are prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Concentration of Credit Risk

Pension Fund has certain financial instruments that subject it to potential credit risk. Those financial instruments consist primarily of cash. Pension Fund maintains its cash balance with financial institutions. At times, these balances may exceed the Federal Deposit Insurance Corporation insured limits. Pension Fund has not experienced any loss on these accounts and believes there is no significant exposure of credit risk on cash.

Investment Valuation, Income Recognition and Presentation

Investments are reported at fair value. 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. If available, quoted market prices are used to value investments. See note C for a description of valuation techniques.

Purchases and sales of investments are recorded on a trade-date basis. Realized gains and losses on investments, recorded as the difference between proceeds received and carrying value, and net unrealized gains and losses on investments for the year are reflected in the combined statements of changes in net assets available for benefits as net investment gain or loss. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investments with original maturities of one year or less are reported as short-term investments.

Valuation of Investments (Securities with No Quoted Market Prices)

Certain investments held by Pension Fund do not have quoted market prices available. Such investments are valued at estimated fair value. Fair values for such investments are based on market value information provided by the investment brokers or managers of the investment funds. See note C for additional information.

Derivative Financial Instruments

Pension Fund's assets and liabilities include certain derivative financial instruments, including treasury and other interest rate futures contracts, options, swap contracts and forward currency exchange contracts. These financial instruments with off-balance-sheet market risk are used to enhance the overall yield of investments and are entered into as alternatives to investments in actual U.S. treasury securities or other investments. These financial instruments are also used on a daily basis to maintain Pension Fund's long-term asset class target allocations of the investment portfolio. Credit loss exposure exists in the event of nonperformance by the other parties, principally large brokerage firms, to such instruments. The gross and net credit risk associated with the related counterparties on open futures, swap contracts and option positions is insignificant. The market risk for these open futures and option positions is directly linked with exchange rates or market interest rates as the underlying securities bear a fixed rate of interest.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

Health Care Claims Payable

Health care claims payable are recorded as expense when the related claim is incurred by the participant.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits, and changes therein, at the date of the financial statements. Actual results could differ from those estimates.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Risks and Uncertainties

Pension Fund utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

The actuarial present value of the accumulated plan benefits is reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the combined financial statements.

In 2017, the Pension Fund experienced a cybersecurity incident. Management of the Pension Fund has investigated the incident and has determined that the matter does not have a material impact on the combined financial statements as of December 31, 2017.

NOTE C - INVESTMENTS

The following schedule summarizes net investment gains (losses) for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 50,070,655	\$ 52,499,422
Securities lending fees	572,480	767,835
Net realized and unrealized losses on investments	<u>373,113,695</u>	<u>226,696,124</u>
Net investment gain (loss)	<u>\$423,756,830</u>	<u>\$279,963,381</u>

Included within investments (short term, fixed income and equities) in the statements of net assets available for benefits and the statements of changes in net assets available for benefits are the fair value of derivative

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

contracts and related realized and unrealized gains and losses, as summarized below as of and for the year ended December 31:

	2017			
	<u>Derivative assets</u>	<u>Derivative liabilities</u>	<u>Realized gain (loss)</u>	<u>Unrealized gain (loss)</u>
Interest rate				
Interest rate swaps	\$ 727,384	\$ 516,062	\$ 205,196	\$ (92,315)
Inflation rate swaps	<u>215,380</u>	<u>212,674</u>	<u>30,255</u>	<u>(314,855)</u>
	942,764	728,736	235,451	(407,170)
Foreign currency exchange rate				
Forward contract	237,242	990,864	1,218,393	(2,079,452)
Equity price				
Futures contracts	1,067,095	477,540	34,530,537	2,100,498
Options	<u>57,457</u>	<u>29,686</u>	<u>319,740</u>	<u>(193,584)</u>
	1,124,552	507,226	34,850,277	1,906,914
Credit				
Credit default swaps	<u>10,713</u>	<u>564,678</u>	<u>(37,940)</u>	<u>(195,515)</u>
Total	<u>\$2,315,271</u>	<u>\$2,791,504</u>	<u>\$36,266,181</u>	<u>\$ (775,223)</u>

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

	2016			
	Derivative assets	Derivative liabilities	Realized gain (loss)	Unrealized gain (loss)
Interest rate				
Interest rate swaps	\$ 654,076	\$ 570,912	\$(1,984,274)	\$1,047,171
Inflation rate swaps	<u>775,172</u>	<u>437,171</u>	<u>15,364</u>	<u>801,691</u>
	1,429,248	1,008,083	(1,968,910)	1,848,862
Foreign currency exchange rate				
Forward contract	1,312,183	459,215	2,641,832	1,299,197
Equity price				
Futures contracts	3,564,541	9,515,087	26,036,179	3,551,627
Options	<u>655,486</u>	<u>483,264</u>	<u>98,639</u>	<u>89,556</u>
	4,220,027	9,998,351	26,134,818	3,641,183
Credit				
Credit default swaps	<u>15,445</u>	<u>219,829</u>	<u>(15,292)</u>	<u>89,410</u>
Total	<u>\$6,976,903</u>	<u>\$11,685,478</u>	<u>\$26,792,448</u>	<u>\$6,878,652</u>

Included in fixed income are written futures and option contracts. Open forward and written option positions as of December 31, 2017 and 2016, are summarized below:

	Fair value liability	
	2017	2016
Written options		
SWAP - fixed income securities (2017 and 2016 notional value of \$47,760 and \$559,522, respectively)	\$(12,993)	\$(464,851)
U.S. equities (2017 and 2016 notional value of \$46,458 and \$121,768, respectively)	(3,126)	(16,520)
Futures (2017 and 2016 proceeds of \$16,424 and \$11,485, respectively)	(19,117)	(1,893)

The notional values of these swaps were \$(30,009,565) and \$(35,097,771) as of December 31, 2017 and 2016, respectively.

Pension Fund's investments include alternative investments that do not have quoted market prices available. In the absence of readily ascertainable market values, the amounts used by Pension Fund were supplied by management of the funds. The market value of these types of investments that do not have quoted market prices available was \$916,392,610 and \$803,829,480 as of December 31, 2017 and 2016, respectively, which represent approximately 27% and 26% of total assets as of December 31, 2017 and 2016, respectively. However, because of the inherent uncertainty of valuation, those estimated market values may differ significantly from the values that would have been used had a ready market for the securities existed.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

Fair Value Measurements and Disclosures

In accordance with U.S. GAAP, Pension Fund classifies its investments into Level 1, Level 2 and Level 3, which are described below.

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in active markets that are not considered to be active of financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Assets or liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Short-term investments, typically cash and cash equivalents or futures contracts, are stated at amortized cost, which approximates fair value.

Common and preferred stocks and U.S. government securities are valued at the closing price reported in the active market in which the individual security is traded.

Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Institutional mutual funds and comingled funds are generally valued at its net asset value.

Fixed income investments include corporate bonds, government securities (U.S. and foreign), interest rate swaps, futures and credit default swaps.

Foreign government securities, interest rate swaps, futures and credit default swaps are stated according to institutional bid evaluation, which represents the price a dealer would pay for a security.

Pension Fund's investments in private equity funds are recorded at estimated fair value based on their proportionate share of the funds' fair value as recorded in the funds' audited financial statements. These funds invest primarily in readily marketable securities and allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

requires more judgement. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values might be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgement exercised by Pension Fund in determining fair value is greatest for securities categorized in Level 3.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, Pension Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability as the measurement date. Pension Fund uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy. Total Pension Fund investment assets at fair value classified within Level 3 were \$- and \$965,512 as of December 31, 2017 and 2016, respectively, which consists of certain fixed income securities and a joint investment trust.

	Assets at fair value as of December 31, 2017				Total
	Level 1	Level 2	Level 3	Recorded at NAV	
Short-term investments	\$ 193,170,727	\$ 7,019,412	\$ -	\$ -	\$ 200,190,139
Fixed income investments	302,249,326	610,740,491	-	-	912,989,817
Institutional mutual funds	165,553,176	-	-	-	165,553,176
Comingled funds	-	-	-	547,695,736	547,695,736
Common and preferred stocks	1,066,481,613	11,465,998	-	-	1,077,947,611
Private equity funds	-	-	-	368,696,874	368,696,874
Joint investment trusts	-	-	-	-	-
Total investments at fair value	1,727,454,842	629,225,901	-	916,392,610	3,273,073,353
Collateral under securities lending agreement	73,387,056	-	-	-	73,387,056
Pension Fund Canada Trust	-	10,051,224	-	-	10,051,224
Total assets at fair value	\$1,800,841,898	\$639,277,125	\$ -	\$916,392,610	\$3,356,511,633

	Liabilities at fair value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Securities sold under agreement to repurchase	\$ -	\$53,918,563	\$ -	\$53,918,563

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

	Assets at fair value as of December 31, 2016				Total
	Level 1	Level 2	Level 3	Recorded at NAV	
Short-term investments	\$ 195,475,368	\$ 12,833,662	\$ -	\$ -	\$208,309,030
Fixed income investments	363,902,260	546,669,546	-	-	910,571,806
Institutional mutual funds	108,372,890	-	-	-	108,372,890
Comingled funds	-	-	-	447,395,468	447,395,468
Common and preferred stocks	924,025,001	3,723,388	-	-	927,748,389
Private equity funds	-	-	-	356,434,012	356,434,012
Joint investment trusts	-	-	965,512	-	965,512
Total investments at fair value	1,591,775,519	563,226,596	965,512	803,829,480	2,959,797,107
Collateral under securities lending agreement	57,459,436	-	-	-	57,459,436
Pension Fund Canada Trust	-	8,933,834	-	-	8,933,834
Total assets at fair value	\$1,649,234,955	\$572,160,430	\$965,512	\$803,829,480	\$3,026,190,377

	Liabilities at fair value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Securities sold under agreement to repurchase	\$ -	\$53,088,939	\$ -	\$53,088,939

Pension Fund's policy is to recognize significant transfers between levels at the end of the reporting period. For the years ended December 31, 2017 and 2016, there were no significant transfers in or out of Levels 1, 2, or 3.

Level 3 Investments

The tables below set forth a summary of changes in the fair value of Pension Fund's Level 3 investment assets for the years ended December 31, 2017 and 2016.

	Joint investment trusts
Balance, January 1, 2016	\$ 920,802
Unrealized gains	<u>44,710</u>
Balance, December 31, 2016	965,512
Realized losses	(14,228)
Sales	<u>(951,284)</u>
Balance, December 31, 2017	\$ <u>-</u>

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

NOTE D - SECURED BORROWINGS

Pension Fund participates in a securities lending program through its master custodian bank, Bank of New York Mellon, in which Pension Fund lends securities to brokers who collateralize the loans with either cash, U.S. securities or foreign securities that must be collateralized equal to 102% of the fair market value of the U.S. security and/or 105% of the non-U.S. loaned security (including accrued interest, if any). Fees earned from participation in the program are recorded as investment income. In accordance with GAAP, Pension Fund continues to carry the loaned securities as investments. At December 31, 2017 and 2016, the fair value of securities loaned was \$213,180,423 and \$128,823,038, respectively. At December 31, 2017 and 2016, the cash collateral held was \$73,387,056 and \$57,459,436, respectively, and noncash collateral (consisting of securities issued or guaranteed by the United States government or its agencies or instrumentalities) held was \$145,278,497 and \$74,400,417, respectively. Pension Fund has recorded an asset and offsetting liability to reflect the cash collateral held and the related liability under the securities lending agreement.

Pension Fund also participates in transactions involving sales of securities under agreements to repurchase the securities before maturity at a fixed price. These repurchase agreements are accounted for as collateralized financings and collateral is valued daily. At December 31, 2017 and 2016, open repurchase agreements including accrued interest was \$53,918,563 and \$53,088,939, respectively.

Pension Fund presents gross obligations for secured borrowings by the type of collateral pledged and remaining time to maturity. The tables below outlines the nature of these obligations at December 31, 2017 and 2016, and the contractual maturities for the collateral.

	Year ended December 31, 2017				Total
	Overnight and continuous	Up to 30 days	30-90 days	Greater than 90 days	
Securities lending					
Fixed income	\$11,239,192	\$ -	\$ -	\$ -	\$ 11,239,192
Equity	<u>62,147,864</u>	-	-	-	<u>62,147,864</u>
Total securities lending	73,387,056	-	-	-	73,387,056
Repurchase agreements					
US T-Notes	-	<u>32,818,813</u>	<u>3,513,125</u>	<u>17,586,625</u>	<u>53,918,563</u>
Total secured borrowings	<u>\$73,387,056</u>	<u>\$32,818,813</u>	<u>\$3,513,125</u>	<u>\$17,586,625</u>	<u>\$127,305,619</u>

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

	Year ended December 31, 2016				
	Overnight and continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities lending					
Fixed income	\$ 5,596,475	\$ -	\$ -	\$ -	\$ 5,596,475
Equity	<u>51,862,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,862,961</u>
Total securities lending	57,459,436	-	-	-	57,459,436
Repurchase agreements					
US T-Notes	<u>-</u>	<u>24,224,064</u>	<u>9,941,125</u>	<u>18,923,750</u>	<u>53,088,939</u>
Total secured borrowings	<u>\$57,459,436</u>	<u>\$24,224,064</u>	<u>\$9,941,125</u>	<u>\$18,923,750</u>	<u>\$110,548,375</u>

NOTE E - ACTUARIAL VALUATION OF PENSION FUND

The actuarial present value of accumulated plan benefits is determined by an independent actuary to determine the adequacy of reserves of the Pension Plan Fund to cover the present value of accumulated benefits as of such date, which is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. Accumulated plan benefits include benefits expected to be paid to (1) retired or terminated participants or their beneficiaries, and (2) active participants and their beneficiaries. Benefits payable as a result of retirement, death, disability or termination of employment are included, to the extent they are deemed attributable to participant service rendered to the valuation date. It is at least reasonably possible that the actuarial present value of accumulated benefits will change in the near term and the effect of such change could be significant.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

The more significant assumptions underlying the actuarial computations used in the valuation as of and for the years ended December 31, 2017 and 2016, were as follows:

Assumed rate of return on investments	5% per annum, compounded annually
Investment and administrative expense loading	0.5% of net assets per annum, compounded annually
Mortality basis (ministers)	Annuity 2012 Mortality Table with no age adjustments for males or females and using scale G2 for males and females
Mortality basis (lay people)	RP-2014 Annuity Mortality Table with no age adjustment for either males or females and using scale MP-2015 for males and females
Retirement of present and future disability pensioners and inactive members	Latest of age 65, immediately or date disability pension benefits are scheduled to terminate
Salary increase	3% per annum, compounded annually

The foregoing actuarial assumptions are based on the presumption that the Pension Plan Fund will continue. If the Pension Plan Fund were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

The actuarial benefit information used in the actuarial valuations is as of December 31 of the Pension Plan Fund year. The actuarial present value of accumulated plan benefits and changes in accumulated plan benefits as of December 31, 2017 and 2016, for the US Pension Plan were as follows:

	<u>2017</u>	<u>2016</u>
Actuarial present value of accumulated plan benefits		
Participants and/or beneficiaries currently receiving payments	\$1,281,443,492	\$1,267,135,198
Other participants	<u>518,118,471</u>	<u>533,680,648</u>
Total vested benefits	1,799,561,963	1,800,815,846
Non-vested benefits	<u>17,262,827</u>	<u>7,306,470</u>
Total actuarial present value of accumulated plan benefits	<u>\$1,816,824,790</u>	<u>\$1,808,122,316</u>
Actuarial present value of accumulated plan benefits		
Beginning of year	\$1,808,122,316	\$1,784,554,066
Increase (decrease) during the year attributable to		
Benefits accumulated and experience gains or losses	20,569,981	19,220,113
Other non-investment experience gains (losses)	22,086,388	(12,827,161)
Increase in interest due to the decrease in discount period	80,787,535	80,304,933
Plan amendment related to disability benefits	748,470	-
Actuarial assumption changes	-	59,732,108
Benefits paid	(124,243,496)	(122,861,743)
Special apportionment: .5% 2017; 0% 2016	<u>8,753,596</u>	<u>-</u>
End of year	<u>\$1,816,824,790</u>	<u>\$1,808,122,316</u>

The effect of the Pension Plan Fund amendments on accumulated plan benefits is recognized during the year in which such amendments are adopted. The maximum compensation for disability benefits was increased from \$50,000 to \$70,000 effective July 15, 2017. For the year ended December 31, 2016, there were no amendments adopted.

During 2016, the following actuarial assumption changes were adopted: updated mortality tables, new retirement rates, new withdrawal rates and updates to family composition assumptions.

The Puerto Rico Plan was separated from the US Pension Plan on January 1, 2013. On December 31, 2014, the accumulated benefit obligations associated with the participants of the newly formed Puerto Rico Plan were transferred from the US Pension Plan to the Puerto Rico Plan. The actuarial present value of the accumulated plan benefits of the Puerto Rico Plan was \$2,873,969 and \$2,050,511 as of December 31, 2017 and 2016, respectively.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

NOTE F - POSTRETIREMENT PLAN

Pension Fund provides postretirement health care coverage to certain eligible administrative staff retirees through its participation in the church-wide defined-benefit health plan, which it administers. It continues to fund benefit costs on a pay-as-you-go basis and, for each of the years ended December 31, 2017 and 2016, Pension Fund made benefit payments to the church-wide health plan of \$29,640 and \$35,046 respectively.

As of December 31, 2017 and 2016, the related accumulated postretirement benefit obligation was \$393,083 and \$361,860, respectively. This liability was calculated using premium costs rather than claims experience, based on the nature of the church-wide plan.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7%. For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended December 31, 2017. The rate was assumed to decrease gradually to 5% by the year 2020 and remain level thereafter.

NOTE G - SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions through April 23, 2018, the date of issuance of the combined financial statements, for possible adjustments or disclosures in the combined financial statements. Through this date, Pension Fund did not identify any matters that would require adjustment or disclosure in the combined financial statements.

NOTE H - INCOME TAXES

U.S. GAAP requires Pension Fund management to evaluate tax positions taken by Pension Fund and recognize a tax liability (or asset) if Pension Fund has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Pension Fund has analyzed the tax positions taken by Pension Fund and has concluded that, as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the combined financial statements. Pension Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

NOTE I - NET ASSET VALUE (NAV) PER SHARE

Below is a summary of Pension Fund's investments at December 31, 2017 and 2016, where fair value is estimated based on the NAV.

Investment	2017			
	Fair value*	Unfunded commitment	Redemption frequency	Redemption notice period
Comingled Funds	\$547,695,736	\$ -	Daily and monthly	One day
Real Estate Private Equity Partnerships	75,647,867	34,357,476	N/A	N/A
Venture Capital Partnerships	28,374,808	10,373,820	N/A	N/A
Buyout Private Equity Partnership	27,647,573	39,423,687	N/A	N/A
Special Situation Private Equity Partnerships	112,498,370	29,465,609	N/A	N/A
Natural Resources Partnerships	99,652,411	58,936,482	N/A	N/A
Commodities Partnership	24,875,845	-	N/A	N/A
Total	<u>\$916,392,610</u>	<u>\$172,557,074</u>		

* The fair values of the investments have been estimated using the NAV of the investment.

Investment	2016			
	Fair value*	Unfunded commitment	Redemption frequency	Redemption notice period
Comingled Funds	\$447,395,468	\$ -	Daily and monthly	One day
Real Estate Private Equity Partnerships	85,957,660	44,596,239	N/A	N/A
Venture Capital Partnerships	28,320,141	12,631,738	N/A	N/A
Buyout Private Equity Partnership	25,620,429	28,997,041	N/A	N/A
Special Situation Private Equity Partnerships	109,259,811	29,281,517	N/A	N/A
Natural Resources Partnerships	81,387,376	77,167,165	N/A	N/A
Commodities Partnership	25,888,595	-	N/A	N/A
Total	<u>\$803,829,480</u>	<u>\$192,673,700</u>		

*The fair values of the investments have been estimated using the NAV of the investment.

Private equity - Comprised of various limited partnerships and like investments that most commonly invest in strategies such as venture capital, leveraged buyouts, growth capital, distressed investments and mezzanine capital. These investments are generally considered illiquid and cannot be redeemed prior to distributions based on the liquidation of the underlying assets. The fund manager expects the underlying assets of the fund will be fully liquidated over the life of the partnership, typically 10 to 12 years.

Real estate - Comprised of various limited partnerships investments that most commonly invest in strategies involved in real estate ownership, development and financing. These investments are generally considered illiquid and cannot be redeemed prior to distributions based on the liquidation of the underlying assets. The fund manager expects the underlying assets of the fund will be fully liquidated over the life of the partnership, typically 10 to 12 years.

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

Natural resources - Comprised of limited partnerships investments that most commonly invest in strategies such as oil and gas energy, forest and timber, mining and sustainable energy. These investments are generally considered illiquid and cannot be redeemed prior to distributions based on the liquidation of the underlying assets. The fund manager expects the underlying assets of the fund will be fully liquidated over the life of the partnership, typically 10 to 12 years.

Commingled funds - Comprised of pooled investment vehicles which invest in a diversified portfolio of securities with specified geographic focus and/or market strategies. Liquidity and fair market value determination varies based on the characteristics of the specific investment vehicle.

Commodities funds - Comprised of commodity investments which offer diverse exposure to a wide range of global commodities markets and value-added strategies. This may involve exposure to commodity-linked derivative instruments that provide exposure to the investment returns of commodities without directly investing in physical commodities.

NOTE J - UNITIZATION

On January 1, 2014, Pension Fund instituted unitization. Unitization is an accounting process whereby each program fund retains a restricted reserve for the sole benefit of the members of that program.

The individual funds' activity presented within the combined statements of changes in net assets available for benefits are now combined to reflect the fund balance, as well as the reserves. The following represent the individual line items in the combined statements of changes in net assets available for benefits that present the activity in the program reserves:

Net investment gain - All investment income is deposited into the reserves.

Program administration fees - All programs are charged an administration fee by the General Fund.

Interest expense - The interest is paid from the reserves into the fund balance of each program.

Fund to Fund transfer - The special apportionment and good experience credits are paid from the reserves into the fund balance.

Investment fees - All investment fees are charged to the reserves of each program. They are not included in the administration fee.

NOTE K - FINANCING ACTIVITIES

Line of Credit

The HCBT executed a line of credit agreement with Board of Church Extension of Disciples of Christ, Inc. for \$5,000,000 during 2016. There were no borrowings against the line at December 31, 2017 or 2016. The line bears interest at Church Extension's rate effective at the time of advance of funds, but not less than 3.25%,

**Pension Fund of the Christian Church
(Disciples of Christ), Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016**

nor more than 5.25%. The line is payable in full three years from the initial advancement date and is secured by a Guaranty Agreement. PFCC is the guarantor of the note for any remaining liability that exists at the time of the note coming due.