

**GENERAL COMMISSION ON
ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS

*As of and for the Years Ended December 31, 2017
and 2016*

And Report of Independent Auditor

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THE UNITED METHODIST CHURCH
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Report of Independent Auditor

The Board of Trustees
General Commission on Archives and History of
The United Methodist Church
Madison, New Jersey

To Committee on Audit and Review of
General Council on Finance and Administration of
The United Methodist Church
Nashville, Tennessee

We have audited the accompanying financial statements of the General Commission on Archives and History of the United Methodist Church (a non-profit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and cash flows for the years ended December 31, 2017 and 2016, the related statement of functional expenses for the year ended December 31, 2017, 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 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 audits 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 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 General Commission on Archives and History of the United Methodist Church as of December 31, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note 2, the General Commission on Archives and History of the United Methodist Church adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expense and the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Charlotte, North Carolina
July 10, 2018

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,107	\$ 1,828
Due from General Council on Finance and Administration short-term pooled investment fund	486,337	-
Investments held at:		
United Methodist Development Fund	-	600,000
United Methodist Church Foundation	194,963	170,638
United Methodist Church Foundation - Forman	86,678	83,284
United Methodist Church Foundation - A&H Endowment Fund	61,194	54,297
Wespath Benefits and Investments	122,959	104,217
Accrued General Administration Fund allocation	264,695	254,291
Inventory	2,498	3,330
Prepaid expense	13,900	2,414
Property and equipment, net	1,559	5,579
Total Assets	\$ 1,235,890	\$ 1,279,878
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to General Council on Finance and Administration short-term pooled investment fund	\$ -	\$ 164,318
Accounts payable and accrued liabilities	149,779	33,598
Grants payable	19,000	23,430
Deferred subscription revenue	4,188	2,748
Total Liabilities	172,967	224,094
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	1,559	5,579
Board-designated	405,937	413,881
Undesignated	423,788	429,001
Total without Donor Restrictions	831,284	848,461
With Donor Restrictions:		
Subject to purpose restrictions	26,193	10,072
Endowments	205,446	197,251
Total with Donor Restrictions	231,639	207,323
Total Net Assets	1,062,923	1,055,784
Total Liabilities and Net Assets	\$ 1,235,890	\$ 1,279,878

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
General Administrative Fund:						
General operating budget	\$ 946,167	\$ -	\$ 946,167	\$ 933,964	\$ -	\$ 933,964
Methodist History subscriptions	11,421	-	11,421	10,445	-	10,445
Investment return from General Council on Finance and Administration short-term pooled investment fund	18,225	-	18,225	(1,924)	-	(1,924)
Investment return, net	45,513	8,170	53,683	12,948	7,652	20,600
Other Revenue:						
Heritage landmarks and historical sites	1,425	-	1,425	975	-	975
Printed materials	79	-	79	1,459	-	1,459
Gifts and grants	17,316	2,575	19,891	8,444	1,500	9,944
Distributions from Benefit Trust	26,605	-	26,605	34,409	-	34,409
Services received from General Council on Finance and Administration	32,535	-	32,535	44,816	-	44,816
Sand Creek	-	46,331	46,331	-	5,714	5,714
Other income	5,602	-	5,602	7,857	-	7,857
Net assets released from restrictions	32,760	(32,760)	-	46,516	(46,516)	-
Total Revenue	1,137,648	24,316	1,161,964	1,099,909	(31,650)	1,068,259
Expenses:						
Program Services:						
Archives	462,504	-	462,504	495,970	-	495,970
Research and publications	14,961	-	14,961	10,893	-	10,893
Total Program Services	477,465	-	477,465	506,863	-	506,863
Supporting Services:						
Management and general	677,360	-	677,360	842,788	-	842,788
Total Expenses	1,154,825	-	1,154,825	1,349,651	-	1,349,651
Change in net assets	(17,177)	24,316	7,139	(249,742)	(31,650)	(281,392)
Net assets, beginning of year	848,461	207,323	1,055,784	1,098,203	238,973	1,337,176
Net assets, end of year	\$ 831,284	\$ 231,639	\$ 1,062,923	\$ 848,461	\$ 207,323	\$ 1,055,784

The accompanying notes to the financial statements are an integral part of these statements.

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	Program Services		Supporting Services	Total
	Archives	Research and Publications	Management and General	
Grants	\$ 119,729	\$ -	\$ -	119,729
Salaries and wages	256,106	-	232,507	488,613
Employee benefits	62,380	-	56,906	119,286
Administration provided by General				
Council on Finance and Administration	-	-	32,535	32,535
Rent and occupancy	1,951	-	-	1,951
Pro rata share of maintenance - building	-	-	170,516	170,516
Pro rata share library expense	-	-	50,831	50,831
Travel and meetings	7,373	-	68,418	75,791
Retiree benefit expense	-	-	13,120	13,120
Supplies	6,858	-	1,550	8,408
Publications	-	13,880	-	13,880
Postage, shipping, and freight	1,031	1,081	2,208	4,320
Telephone/internet	-	-	16,121	16,121
Repairs and maintenance	2,703	-	9,878	12,581
Insurance	1,841	-	13,097	14,938
Depreciation	2,334	-	1,686	4,020
Promotional and information material	-	-	7,727	7,727
Other expenses	198	-	260	458
	<u>\$ 462,504</u>	<u>\$ 14,961</u>	<u>\$ 677,360</u>	<u>\$ 1,154,825</u>

The accompanying notes to the financial statements are an integral part of this statement.

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,139	\$ (281,392)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	4,020	10,085
Realized and unrealized gain on investments	(47,781)	(2,720)
Changes in operating assets and liabilities:		
Accrued General Administration Fund allocation	(10,404)	21,380
Inventory	832	570
Prepaid expense	(11,486)	(1,820)
Due to General Council on Finance and Administration short-term pooled investment fund	(650,655)	64,523
Accounts payable and accrued liabilities	116,181	1,839
Grants payable	(4,430)	(3,070)
Deferred subscription revenue	1,440	(1,238)
Net cash flows from operating activities	<u>(595,144)</u>	<u>(191,843)</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(2,503)
Net sale of investments	594,423	194,973
Net cash flows from investing activities	<u>594,423</u>	<u>192,470</u>
Net change in cash and cash equivalents	(721)	627
Cash and cash equivalents, beginning of year	1,828	1,201
Cash and cash equivalents, end of year	<u>\$ 1,107</u>	<u>\$ 1,828</u>

The accompanying notes to the financial statements are an integral part of these statements.

GENERAL COMMISSION ON ARCHIVES AND HISTORY OF THE UNITED METHODIST CHURCH

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 1—Nature of the organization

The General Commission on Archives and History of the United Methodist Church (the “Commission”) was established to gather, preserve, hold title to, and disseminate materials on the history of the United Methodist Church (the “Church”).

Funding for the Commission’s operations is principally provided by allocations received from the General Funds of the United Methodist Church which are administered by the General Council on Finance and Administration of the United Methodist Church (“GCFA”) and allocated to the Commission based on a four-year budget developed from projections of expected program costs. The General Administrative Fund allocation accounts for 81% and 87% of the Commission’s total revenue in 2017 and 2016, respectively. The Commission’s continued existence is dependent upon the Church’s future support. The Church’s future support is dependent upon contributions from its congregations (i.e. congregational participation in the apportionment covenant).

Note 2—Summary of significant accounting policies

The financial statements have been prepared on the accrual basis of accounting. The Commission’s significant accounting policies are described below.

Basis of Presentation – To ensure the observance of limitations and restrictions placed on the use of resources, the Commission maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives of the Commission. Separate accounts are maintained for each fund.

For reporting purposes, however, the Commission’s financial statements have been prepared to focus on the organization as a whole. Resources are classified into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Commission and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Commission. These net assets may be used at the discretion of the Commission’s management and the board of trustees. The Commission has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The sub classifications are as follows:

Invested in Property and Equipment – Represents net assets invested in property and equipment, net of accumulated depreciation.

Board-Designated – Represents resources set aside by the board of trustees to be used for specific activities within guidelines established by the board.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and designated for specific activities.

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Commission or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Services Received from Personnel of an Affiliate – Services received from personnel of an affiliate for which the affiliate does not charge the Commission have been measured at the cost recognized by the affiliate in providing those services. The revenue and expense relating to those services received are presented in Note 4 and totaled \$32,535 and \$44,816 for the years ended December 31, 2017 and 2016, respectively.

Use of Estimates – Management of the Commission has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts or revenue and expenses during the reporting period to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

Financial Instruments – Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 – Quoted prices in active markets that are accessible at the measurement date for identical securities.

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. Inputs include quoted prices for similar assets and liabilities in active markets, inputs that are derived from investment manager reporting or corroborated by an independent advisor, and inputs obtained with benchmarks for similar assets for substantially the full term on the financial investments. If market quotations are not readily available for valuations, assets may be valued by a method the investment manager of the fund believes accurately reflects fair value.

Level 3 – Prices or valuations that require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager. The investment manager uses either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors. The inputs used by the manager in estimating the value of Level 3 investments include the original transaction price.

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

Due to/from GCFA Short-Term Pooled Investment Fund – The amounts presented as due to/from GCFA short-term pooled investment fund in the accompanying financial statements represent the Commission's portion of the short-term investment portfolio managed by GCFA on behalf of certain agencies and related organizations of the Church. The amount due from this fund effectively represents the amount of cash deposits that are available to the Commission to be disbursed out of GCFA's centralized cash management system. The amount due to this fund effectively represents the Commission's overdraft or borrowing position with GCFA. Since these deposits are legally invested in GCFA's name and not in a separate demand account in the Commission's name, they are not classified as cash and cash equivalents, but rather are considered an amount due from GCFA. The short-term investment portfolio includes funds invested in demand deposits, corporate bonds, taxable municipal bonds, mutual funds, and notes from other United Methodist organizations. GCFA allocates interest earned on the portfolio to the participating entities. For the years ended December 31, 2017 and 2016, GCFA allocated \$18,225 and (\$1,924) of interest income (expense), respectively, to the Commission. While interest income can be earned based on the performance of the pooled investment funds, the Commission believes there is little to no risk exposure to losses due to the relationship with GCFA and policy under which the pooled funds are invested. The operating cash requirements of the general agencies are centrally managed by GCFA.

When an agency has surplus funds, they are invested by GCFA in the short-term pooled investment fund. GCFA allocates interest earned to the agencies invested in the pool based upon their pro-rata share of the pool on a monthly basis. The overall return for the short-term pooled investment fund for the years ended December 31, 2017 and 2016 was 4.38% and 4.13%, respectively. The overall rate of return for each agency may vary due to fluctuating balances throughout the year and the timing of investment gains and losses. The allocation of funds in the short-term investment pool as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Texas Methodist Foundation loan fund	25.8%	26.4%
Mutual funds	3.2%	3.0%
Short-term collateralized loan fund	0.5%	0.5%
Fixed income	11.4%	11.7%
Corporate bonds	59.1%	58.2%
United Methodist Development Fund	0.0%	0.2%
	<u>100%</u>	<u>100%</u>

Inventory – Inventory consists of historical markers to be sold to support activities of the Commission and is stated at cost.

Valuation of Historical Records and Materials – Historical records and materials are part of a library collection at Drew University and are not reflected in the accompanying financial statements due to the nature of the items. The Commission does not purchase or sell such items. Contributions of historical items are accepted by the Commission, but due to the fact that they are not revenue-producing assets, no contribution revenue is recognized.

Property and Equipment – Property and equipment, which consists primarily of computer and office equipment, are reported at cost at date of acquisition, or fair value at date of donation in the case of gifts. The Commission capitalizes assets with a cost greater than \$1,000. Depreciation is computed using the straight-line method with a modified half-year convention over the estimated useful lives of three to six years. The modified half-year convention treats property placed in service or retired during the first half of the year as being made on the first day of the year. Thus, a full-year's depreciation under this method is allowed on property placed in service in the first six months, and no depreciation is allowed on property placed in service in the second six months.

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

Income Taxes – The Commission is covered under GCFA’s group determination letter from the Internal Revenue Service indicating that it is a nonprofit corporation and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). The Commission is also exempt from filing a form 990 due to its affiliation with a religious organization as described in Section 509(a) of the Code.

The Commission accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Commission include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

Contributions – Unconditional promises to give cash and other assets to the Commission are recognized as revenue at their fair value in the period the unconditional promises are received. Conditional promises to give are recognized at fair value when the conditions on which they depend are substantially met

Contributions made, including unconditional promises to give, are recognized as expenses at their fair value in the periods made.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities.

New Accounting Pronouncement – On August 18, 2016, FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Commission has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expense and the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

Future Pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact the pending adoption will have on the Commission’s financial statements.

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

Note 3—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at December 31, 2017:

Financial assets at year end:	
Cash and cash equivalents	\$ 1,107
Due from General Council on Finance and Administration short-term pooled investment fund	486,337
Investments	465,794
Accrued General Administration Fund allocation	264,695
	<u>1,217,933</u>
Total financial assets	
Less amounts not available to be used for general expenditures within one year:	
Donor restricted funds held in perpetuity	182,867
Subject to purpose restrictions and accumulated earnings on endowment	48,772
Board-designated funds	405,937
	<u>637,576</u>
Financial assets not available to be used within one year	637,576
Financial assets available to meet general expenditures within one year	<u>\$ 580,357</u>

The Commission has assets limited to use for donor-restricted purposes. Additionally, certain other board-designated assets are designated for future capital expenditures and other specific purposes. These assets limited to use, which are more fully described in Notes 8, 9, and 10 are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Commission's liquidity management plan, cash in excess of daily requirements are invested in GCFA's short-term pooled investment fund.

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

Note 4—Related parties

The Commission receives the majority of its revenue through apportionments from the General Funds of The Church, which are administered by GCFA. In addition, GCFA provides various services to the Commission, such as general ledger processing and maintenance, cash management, and group insurance plan administration. The Commission had the following transactions with GCFA and related entities:

	<u>2017</u>	<u>2016</u>
Statements of Financial Position:		
Investment in:		
United Methodist Development Fund ("UMDF")	\$ -	\$ 600,000
United Methodist Church Foundation ("UMCF")	342,835	308,219
Accrued General Administration Fund allocation	264,695	254,291
Due from (to) GCFA short-term pooled investment fund	486,337	(164,318)
Statements of Activities:		
Revenue:		
General Administrative Fund:		
General operating budget	946,167	933,964
Distributions from Benefit Trust	26,605	34,409
Services provided by GCFA	32,535	44,816
Investment return from GCFA short-term pooled investment fund	18,225	(1,924)
Investment return, net	34,942	12,515
Expenses:		
Administration provided by GCFA	32,535	44,816
Group insurance expense	54,924	44,042

The Commission is located at Drew University, a related United Methodist organization. The University provides the Commission with approximately 16,000 square feet of space for operations. Under an agreement with Drew University, the Commission pays maintenance fees and a pro rata share of library expense to Drew University. These expenses were \$170,516 and \$50,831, respectively, in 2017 and \$195,709 and \$149,342, respectively, in 2016.

Note 5—Investments

The Commission's investments at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
UMDF	\$ -	\$ -	\$ 600,000	\$ 600,000
UMCF	194,963	178,001	170,638	170,278
UMCF - Forman	86,678	86,320	83,284	86,101
UMCF - A&H Endowment Fund	61,194	56,080	54,297	54,193
Wespath	122,959	71,159	104,217	71,159
	<u>\$ 465,794</u>	<u>\$ 391,560</u>	<u>\$ 1,012,436</u>	<u>\$ 981,731</u>

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

Note 5—Investments (continued)

The following is a summary of the primary funds in which the Commission's investments are held:

UMCF – The UMCF fund is within the Balanced Fund. The objective of the Balanced Fund is to provide a reasonable level of current income and, simultaneously, to protect the purchasing power of the principal against inflation. The targeted allocation of the fund is 35% invested in a fixed income fund, 30% in a domestic large capitalization equity portfolio, 10% in a domestic small/mid-capitalization equity portfolio, and 25% in an international equity portfolio. This fund is designed for those investors who are seeking a single fund to provide broad diversification, reasonable current income, and protection against inflation.

UMCF - Forman – The UMCF - Forman fund is within the Fixed Income Fund. The Fixed Income Fund's objective is to provide current income and preservation of nominal capital. No provision is made for protection against inflation. The fund is primarily invested in government and corporate bonds, commercial paper, mortgage-backed securities, and collateralized mortgage securities. The fund is permitted to invest up to 10% in securities with "BB" or "B" ratings. The fund may invest up to 5% of portfolio market value in bank loans, interest-only or principal only securities as conditions warrant. The fund is designed for investors whose main objective is current income.

UMCF - A&H Endowment Fund – The UMCF - A&H Endowment Fund is within the Balanced Plus Fund. The Balanced Plus Fund's objective is to provide similar investment returns as the Balanced Fund, but to reduce the volatility of the returns by increased portfolio diversification through the use of alternative investment strategies. The targeted allocation of the fund is 30% invested in a fixed income fund, 25% in a domestic large cap equity portfolio, 10% in domestic small/mid-cap equity portfolios, 15% in an international equity portfolio, and 20% in alternative investments consisting of funds of hedge funds and managed futures portfolios. This fund is designed for those investors who are seeking a single fund to provide broad diversification, reasonable current income, and protection against inflation.

Wespath – Wespath Benefits and Investments ("Wespath") investment is within the Multiple Asset Fund. Wespath's Multiple Asset Fund is invested as follows: 34.8% in U.S. equity funds, 24.6% in fixed income funds, 30.3% in international equity funds, 9.9% in inflation protection funds, and 0.4% in cash.

United Methodist Development Fund Notes - The investments consist of fixed interest bearing notes. Notes are stated at cost, which approximate fair value. These are Level 3 investments.

Investment return, net consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Dividends and interest	\$ 7,200	\$ 20,628
Realized gain (loss) on investments	4,254	(31,911)
Unrealized gain on investments	43,527	34,631
Investment expense	(1,298)	(2,748)
	<u>\$ 53,683</u>	<u>\$ 20,600</u>

**GENERAL COMMISSION ON ARCHIVES AND HISTORY OF
THE UNITED METHODIST CHURCH
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

Note 6—Fair value of financial instruments

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Commission's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2017 and 2016 for assets measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*. The assets measured at fair value in the table below use one of three levels for defining their fair value:

	Fair Value Measurements at Reporting Date			
	Total Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable at Fair Value Level 3
December 31, 2017				
Investments:				
UMDF	\$ -	\$ -	\$ -	\$ -
Investments reported at net asset value ("NAV"):				
UMCF *	194,963			
UMCF - Forman *	86,678			
UMCF - A&H Endowment Fund *	61,194			
Wespath *	122,959			
Total Investments	<u>\$ 465,794</u>			

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Note 6—Fair value of financial instruments (continued)

	Fair Value Measurements at Reporting Date			
	Total Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable at Fair Value Level 3
December 31, 2016				
Investments:				
UMDF	\$ 600,000	\$ -	\$ -	\$ 600,000
Investments reported at net asset value ("NAV"):				
UMCF *	170,638			
UMCF - Forman *	83,284			
UMCF - A&H Endowment Fund *	54,297			
Wespath *	104,217			
Total Investments	<u>\$ 1,012,436</u>			

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The investments in UMDF represent two \$300,000 investment notes, each with a two-year term and interest rate of 1.50%. One note matured in April 2017 and the other matures April 2018, respectively. These notes are carried at cost, which approximates fair value.

The following is a reconciliation of activity for 2017 and 2016 for assets measured at fair value based on significant unobservable information:

	2017	2016
Balance, beginning of year	\$ 600,000	\$ 600,000
Interest income	351	9,000
Sales and redemptions	(600,351)	(309,000)
Purchases	-	300,000
Balance, end of year	<u>\$ -</u>	<u>\$ 600,000</u>

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Note 6—Fair value of financial instruments (continued)

For entities that calculate NAV per share (or its equivalent), the following table provides information about the probability of investments being sold at amounts different from NAV per share for the year ended December 31, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
UMCF	\$ 194,963	none	daily	3 days
UMCF - Forman	86,678	none	daily	3 days
UMCF - A&H Endowment Fund	61,194	none	daily	3 days
Wespath	122,959	none	daily	daily
Total	<u>\$ 465,794</u>			

Note 7—Employee benefits

Retirement Benefits – Full-time laypersons and clergy employed by the Commission participate in the Retirement Plan for General Agencies (“RPGA”). This defined contribution plan is administered by the Wespath.

The Commission makes semi-monthly contributions to each eligible employee’s account held by Wespath based on 8% of annual employee compensation. Additionally, the Commission matches up to 2% of each employee’s compensation to their United Methodist Personal Investment Plan (“UMPIP”). Total contributions made by the Commission for both components during 2017 and 2016 were \$51,291 and \$50,043, respectively.

Health, Life, and Other Employee Benefits – The Commission provides health, dental, life, and other employee benefits for its active employees and health, dental and life benefits to retirees through a group plan which qualifies for treatment as a multi-employer plan under Financial Accounting Standards Board ASC 715, *Compensation-Retirement Benefits*. Substantially all retired employees are eligible to participate in the Plan if they have attained normal retirement age while in the employment of the Commission.

The General Agencies of the United Methodist Church Benefit Plan (the “Plan”) provides medical, dental, life, and long and short-term disability defined benefits to participants of 11 general agencies, all Bishops covered by the Episcopal Fund, and employees of other United Methodist related organizations. Effective January 1, 2004, Plan amendments were made to change the retiree benefits offered and increase the related premiums paid by retirees.

The Plan’s unfunded accumulated postretirement benefit obligation was approximately \$98,600,000 and \$91,600,000 and the Plan’s unfunded expected postretirement benefit obligation was approximately \$148,700,000 and \$127,500,000 as of December 31, 2017 and 2016, respectively.

The cost of benefits is recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$41,804 and \$30,913 in 2017 and 2016, respectively, and the cost of benefits for retired employees was \$13,120 and \$13,129 in 2017 and 2016, respectively, exclusive of reimbursement from the General Agency Benefit Trust (“Benefit Trust”).

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Note 7—Employee benefits (continued)

Wespath has transferred certain excess pension assets to the Benefit Trust established by the 1996 General Conference as of December 31, 1996. Annually, the Benefit Trust allows a stated percentage, 6% for 2017 and 2016, of the fair market value of Benefit Trust assets at year end to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retiree employee benefits. The fair value of the Benefit Trust's assets (not plan assets) was approximately \$165,800,000 and \$149,300,000 as of December 31, 2017 and 2016, respectively. The total amount available for reimbursement in 2017 and 2016 was \$8,957,614 and \$8,822,895, respectively, of which the Commission's share, excluding retiree health benefits, was \$26,605 and \$34,409, respectively.

Note 8—Board-designated net assets

Certain net assets without donor restrictions at December 31, 2017 and 2016 have been designated by the board of directors for the following purposes:

	<u>2017</u>	<u>2016</u>
Plant fund	\$ 19,433	\$ 19,433
Ethnic History fund	53,640	55,640
Women's History fund	18,261	20,761
Josephine Forman fund	281,557	288,162
A&H quasi-endowment	28,161	25,000
Other	4,885	4,885
Total board-designated net assets	<u>\$ 405,937</u>	<u>\$ 413,881</u>

The board-designated quasi endowment was established by the board of trustees and its purpose and use are more fully described in Note 10.

From time to time, the board may designate other net assets without donor restrictions for specific purposes. The following are descriptions of each board designation:

Plant Fund – Funds set aside for maintenance of property, plant, and equipment.

Ethnic History Fund – The purpose of this fund is to grant research grants (awards) to individuals or organizations to promote excellence in research and writing in the history of the following four groups Asian, Black, Hispanic, and Native American in the United Methodist Church or its antecedents.

Women's History Fund – The purposes of this fund are to provide seed money for research projects or reward excellence in research and writing relating specifically to the history of women in the United Methodist Church or its antecedents. The grant money is not to be used for equipment, publication costs, or researcher salaries.

Josephine Forman Fund – To provide racial/ethnic scholarships in Archival Studies in order to attract racially and ethnically diverse individuals to pursue professional careers in archival studies.

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Note 9—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2017 and 2016 have been restricted by the donors for the following purpose restrictions:

	<u>2017</u>	<u>2016</u>
Subject to purpose restriction:		
Committee on Latino Church History	\$ 10,149	\$ 10,072
Sand Creek	16,044	-
Total subject to purpose restriction	<u>26,193</u>	<u>10,072</u>
Endowments:		
Accumulated earnings on the GCAH endowment fund	22,579	14,409
GCAH endowment fund held in perpetuity	<u>182,867</u>	<u>182,842</u>
Total endowments	<u>205,446</u>	<u>197,251</u>
Total net assets with donor restrictions	<u>\$ 231,639</u>	<u>\$ 207,323</u>

Net assets with donor restrictions for the years ended December 31, 2017 and 2016 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 10—Endowments

The Commission has established the A&H Endowment Fund with donor funds solely for the charitable purposes of the Church, with its principal objectives being the promotion and development of religious, charitable, and educational activities that benefit mission and ministry of the Commission. These funds are held in a separate investment account at the UMC Foundation.

The Board of Trustees of the Commission has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Commission classifies as donor-restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Commission in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with applicable state laws, the Commission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Commission
- The investment policies of the Commission

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Note 10—Endowments (continued)

As of December 31, 2017 and 2016, the Commission had the following endowment net asset composition by type of fund:

	December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 25,000	\$ -	\$ 25,000
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	182,867	182,867
Accumulated investment gains	3,161	22,579	25,740
Endowment net assets, December 31, 2017	<u>\$ 28,161</u>	<u>\$ 205,446</u>	<u>\$ 233,607</u>
	December 31, 2016		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 25,000	\$ -	\$ 25,000
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	182,842	182,842
Accumulated investment gains	-	14,409	14,409
Endowment net assets, December 31, 2016	<u>\$ 25,000</u>	<u>\$ 197,251</u>	<u>\$ 222,251</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Commission has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2017 and 2016, the Commission had no underwater endowments.

Investment and Spending Policies – The Commission may choose to make distributions of the income to any proper recipient, including the Commission itself. Distributions may only be made after the corpus of the endowment has reached \$50,000 with the exception of special approval by the Board of Trustees to distribute earnings prior to reaching \$50,000. Distributions from the endowment will follow the distribution policy of the United Methodist Church, which is based on a policy of total long-term return of 6.5%. The following percentages may be used to guide the Commission’s distribution policy: 3.5% for Ministry distributions; 2.0% for inflation; and 1.0% for fees and expenses. To smooth the allowable annual distributions based on valuation of the underlying assets, the Commission uses a five-year moving average of quarterly portfolio values. The moving average is determined for the five-year period immediately preceding the fiscal year in which the funds are to be spent.

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Note 10—Endowments (continued)

Return Objectives and Risk Parameters – The Commission has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Commission must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by The Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide for the preservation of capital and income for support of programs while assuming a moderate level of investment risk. The Commission expects its endowment funds, over time, to produce current income within the total return strategy. Actual returns may vary.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Commission relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Commission targets a diversified asset allocation that places a greater emphasis on corporate bonds and equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2015	\$ 25,000	\$ 189,901	\$ 214,901
Investment income, net	-	7,350	7,350
Contributions	-	-	-
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	-	-
Other changes:			
Distribution from board-designated endowment pursuant to distribution policy	-	-	-
Endowment net assets, December 31, 2016	25,000	197,251	222,251
Investment income, net	3,161	8,170	11,331
Contributions	-	25	25
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	-	-	-
Other changes:			
Distribution from board-designated endowment pursuant to distribution policy	-	-	-
Endowment net assets, December 31, 2017	<u>\$ 28,161</u>	<u>\$ 205,446</u>	<u>\$ 233,607</u>

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Note 11—Commitments

The Commission leases office and library space from Drew University under an operating lease which expired December 2017. The Commission also has an agreement with Drew University to provide library services through December 2017. The pro rata share of library expenses for the years ended December 31, 2017 and 2016 were \$50,831 and \$149,342, respectively. The commission is in the process of negotiating a new lease with Drew University and is currently on a month-to-month basis.

Note 12—Subsequent events

Management has evaluated subsequent events through July 10, 2018, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.