GENERAL AGENCIES OF THE UNITED METHODIST CHURCH BENEFIT PLAN

FINANCIAL STATEMENTS

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

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

GENERAL AGENCIES OF
THE UNITED METHODIST CHURCH BENEFIT PLAN
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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The General Council on Finance and Administration of
The United Methodist Church – Plan Sponsor

To the Committee on Audit and Review of
The General Council on Finance and Administration of
The United Methodist Church

We have audited the accompanying financial statements of the General Agencies of the United Methodist Church Benefit Plan (the "Plan"), which comprise the statements of benefit obligations and net assets available for plan benefits as of December 31, 2017 and 2016, and the related statements of changes in benefit obligations and net assets available for plan 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan'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 Plan'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 status of the Plan as of December 31, 2017 and 2016, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Atlanta, Georgia
September 4, 2018

GENERAL AGENCIES OF
THE UNITED METHODIST CHURCH BENEFIT PLAN
STATEMENTS OF BENEFIT OBLIGATIONS AND NET ASSETS AVAILABLE FOR PLAN BENEFITS

DECEMBER 31, 2017 AND 2016

	2017	2016
Benefit Obligations:		
Incurred but not reported health plan claims reserve (Note 2)	$ 702,000	$ 1,074,399
Postretirement benefit obligations (Note 3):		
Current retirees	50,710,427	49,669,187
Other participants fully eligible for benefits	26,123,210	25,697,723
Other participants not yet fully eligible for benefits	32,226,899	26,842,556
Total Postretirement Benefit Obligations	109,060,536	102,209,466
Total Benefit Obligations	109,762,536	103,283,865
Net Assets Available for Plan Benefits:		
Assets:		
Cash	281,308	177,607
Due from GCFA short-term pooled investment fund (Note 2)	4,909,143	5,624,121
Participant contributions receivable	85,320	35,515
Prepaid expenses	30,314	33,687
Investments at the United Methodist Church Foundation and the Texas Methodist Foundation, at fair value (Note 4)	5,254,767	4,655,193
Equipment, net of accumulated depreciation of $463,915 and $371,183 at December 31, 2017 and 2016, respectively	-	92,732
Total Assets	10,560,852	10,618,855
Liabilities - accrued expenses	67,278	59,625
Net Assets Available for Plan Benefits	10,493,574	10,559,230
Excess of Benefit Obligations over Net Assets Available for Plan Benefits	$ 99,268,962	$ 92,724,635

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

GENERAL AGENCIES OF
THE UNITED METHODIST CHURCH BENEFIT PLAN
STATEMENTS OF CHANGES IN BENEFIT OBLIGATIONS AND NET ASSETS AVAILABLE FOR PLAN BENEFITS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Net increase (decrease) in benefit obligations:		
(Decrease) increase during the year attributable to:		
Demographic impact on liability	$ 334,438	$ (9,036,783)
Update to claim costs and participant contributions	3,167,305	11,339,610
Update to trend assumptions	(9,617,149)	(12,405,868)
Change due to update in discount rate	7,154,470	4,620,006
Passage of time	6,718,102	5,311,583
Change due to Mortality Table Change	(906,096)	(2,363,139)
Change in incurred but not reported claims reserve	(372,399)	(49,255)
Total net increase (decrease) in benefit obligations	6,478,671	(2,583,846)
Net decrease in net assets available for plan benefits:		
Additions:		
Participant and plan sponsor contributions	15,938,201	15,707,572
Contributions – flexible spending accounts	485,474	479,621
Interest income	289,313	289,111
Net appreciation (depreciation) in investments	519,401	(32,568)
Other contributions	2,700	-
Total additions	17,235,089	16,443,736
Deductions:		
Insurance claims paid (Note 1)	13,986,894	13,517,691
Premiums paid	933,858	942,191
Benefits paid – flexible spending accounts	497,014	574,100
Administrative expenses:		
Medical and dental fees	626,887	626,955
Flexible spending accounts	20,131	21,938
Plan sponsor service fees	557,279	480,066
Consultant fees	43,006	24,523
Maintenance and support	252,255	183,377
Wellness	156,680	-
Audit fees	26,101	29,860
Depreciation	92,732	92,986
Bad debt expense	89,228	-
Other	18,680	85,581
Total expenses for administration	1,882,979	1,545,286
Total deductions	17,300,745	16,579,268
Net decrease in net assets available for plan benefits	(65,656)	(135,532)
Increase (decrease) in excess of benefit obligations over net assets available for plan benefits	6,544,327	(2,448,314)
Excess of benefit obligations over net assets available for plan benefits:		
Beginning of year	92,724,635	95,172,949
End of year	$ 99,268,962	$ 92,724,635

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

Note 1—Nature of the Plan

The following description of the General Agencies of the United Methodist Church Benefit Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General – The Plan, a health and welfare benefit plan, was established effective January 1, 1986 for the purpose of maintaining group insurance benefits, including medical, dental, life, and short and long-term disability defined benefits, for active and retired employees of certain General Agencies of the United Methodist Church ("General Agencies") and two other United Methodist related organizations. Effective January 1, 1987, the Plan also began maintaining group insurance benefits for active and retired bishops provided through the Episcopal Fund of the United Methodist Church (Episcopal Fund). The General Council on Finance and Administration of the United Methodist Church ("GCFA") sponsors the Plan. The Plan is exempt from compliance with the participation, vesting, and funding rules of the Employee Retirement Income Security Act of 1974.

Benefits – General agency employees working a minimum of 20 hours per week, and their eligible dependents, are eligible to receive health, medical, life, and disability benefits from the Plan upon hire. Employees may be eligible to retire with medical and dental benefits for themselves and their dependents. All retirees are eligible for the retiree life insurance plan.

Effective January 1, 1997, GCFA adopted a policy whereby employees are eligible to retire with medical, dental, and life benefits if they meet one of four conditions:

- Retire with a total of 78 "points" (the sum of an employee's age and years of service);
- If hired after January 1, 1997, retire at age 62 or older with seven years of active service;
- If hired prior to January 1, 1997, retire at age 62 or older with five years of active service; or
- Employees who retire at an age less than 62 with 70 to 77 total points are eligible for medical benefits for themselves and their dependents, provided that 100% of the premiums are paid by the retiree until the retiree reaches age 62 or the retiree can provide proof of insurability for the retiree and their eligible dependents at age 62. At age 62, the agency resumes paying premiums on behalf of the retiree.

Contributions – In addition to deductibles and copayments, the costs of the Plan are funded by contributions from employees, retirees, and participating employers as follows:

	Participant Contribution		Employer Contribution	
	2017	2016	2017	2016
Employee	15%	10%	85%	90%
Employee with dependents	20%	20%	80%	80%
Retiree	15%	10%	85%	90%
Retiree with dependents	25%	20%	75%	80%

Note 1—Nature of the Plan (continued)

Medical and Dental Insurance Funding – The medical and dental insurance benefits are provided under a self-insured, administrative services only arrangement. The individual stop loss for the years ended December 31, 2017 and 2016 was $350,000. This arrangement requires that GCFA pay United Healthcare, the Plan administrator, a per-person fee each month to provide the network access and process the claims for participants. The administrative fee is paid via monthly invoice while claims are funded weekly.

Life and Disability Insurance Funding – GCFA collects amounts from the General Agencies and other participants for the premiums for life and disability insurance. Employees of all General Agencies are grouped together for experience rating purposes and the premiums for these agencies are remitted in full to the insurance company.

The life and disability plans are fully insured on a straight premium basis with any surplus or deficit remaining with the insurance company. Premiums paid for these benefits were $822,044 and $800,282 for the years ended December 31, 2017 and 2016, respectively.

Flexible Spending Accounts – The Plan allows employees to participate in two flexible spending account programs. The Health Care Spending account allowed a participant to set aside up to $2,500 for the years ended December 31, 2017 and 2016 on a pretax basis to pay for unreimbursed health care expenses. The Dependent Care Spending account allowed a participant to set aside up to $5,000 for the years ended December 31, 2017 and 2016 on a pretax basis to pay for unreimbursed dependent care expenses. Any amounts remaining in the spending accounts at the end of the year must be forfeited; additionally claims that exceed deposits are paid by the Plan. Claims may be submitted for expenses incurred during the previous year until the following March 31st. Forfeitures were $37,102 and $554 for the years ended December 31, 2017 and 2016, respectively, and are used to decrease the GCFA's contribution into the Plan.

Plan Termination – Although it has not expressed any intention to do so, the Committee on Personnel, Policies, and Practices (the "Committee"), consisting of representatives from participating General Agencies, has the right to modify the benefits provided to active employees. In addition, the Plan may be terminated by the Committee at any time. Upon termination, the assets then remaining shall be subject to the applicable provisions of the Plan then in effect and shall be used until exhausted to pay benefits to participants in order of entitlement.

Note 2—Summary of significant accounting policies

Basis of Accounting – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Benefits are recorded when paid and an accrual is made at period end for an estimate of claims incurred but not reported.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, claims incurred but not reported, and postretirement benefit obligations as of the date of the financial statements, and the reported amounts of changes in net assets available for plan benefits and plan benefit obligations during the reporting period. Actual results could differ from those estimates.

Note 2—Summary of significant accounting policies (continued)

Equipment, Net – Equipment is recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of three to six years. Equipment consists primarily of computer equipment and software.

Due from GCFA Short-Term Pooled Investment Fund – The amounts presented as due from GCFA in the accompanying financial statements represent the Plan's portion of the short-term investment portfolio managed by GCFA on behalf of certain agencies and related organizations of the United Methodist Church. The amount due from this fund effectively represents the amount of cash deposits that are available to the Plan to be disbursed out of GCFA's centralized cash management system. Since these deposits are legally invested in GCFA's name and not in a separate demand account in the Plan'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, taxable municipal bonds, mutual funds, and notes from other United Methodist Plans. GCFA allocates interest earned on the portfolio to the participating entities. For the years ended December 31, 2017 and 2016, GCFA allocated $209,141 and $226,293, respectively, in interest income to the Plan. While interest income can be earned based on the performance of the pooled investment funds, the Plan 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.

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:

	2017	2016
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%
	100.0%	100.0%

Postretirement Benefits – The postretirement benefit obligations represent the actuarial present value of those estimated future benefits that are attributed to employee service rendered through December 31, 2017 and 2016. The actuarial report was prepared as of January 1 of the respective years, for the periods ending December 31. Postretirement benefits include future benefits expected to be paid to or for (1) current retirees, (2) other participants fully eligible for benefits, and (3) other participants not yet fully eligible for benefits. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligations is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data in order to estimate future annual incurred claims costs per participant, and the probability of payment (by means of decrements such as those for death, disability, or retirement) between the valuation date and the expected date of payment.

Note 2—Summary of significant accounting policies (continued)

Income Recognition – Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded as earned. Net appreciation includes the Plan's gains and losses on investments bought and sold, as well as held, during the year.

Assumptions used in the postretirement benefit valuation as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	3.54%	3.98%
Mortality	RP-2014 Table with improvement scale MP-2017	RP-2014 Table with improvement scale MP-2016
Average retirement age	66	66
Initial Annual Healthcare Trend rates - Medical premiums:		
Pre-65	5.10%	5.30%
Post-65	5.30%	5.60%
Initial Annual Healthcare Trend rates - Dental premiums	4.74%	4.74%
Ultimate Annual Healthcare Trend rates - Medical premiums:		
Pre-65	4.00%	4.40%
Post-65	4.30%	4.70%
Ultimate Annual Healthcare Trend rate - Dental premiums	3.83%	4.18%
Year Ultimate Healthcare Trend Rate is Reached:		
Medical		
Pre-65	2079	2090
Post-65	2090	2094
Dental	2075	2072
Participation Rates	50% of future retirees are assumed to elect spousal coverage upon retirement. Males are assumed to be 3 years older than their spouse. Actual plan participation is used for retirees and their spouses. 85% of future retirees elect medical coverage upon retirement and all future retirees elect dental and life insurance.	50% of future retirees are assumed to elect spousal coverage upon retirement. Males are assumed to be 3 years older than their spouse. Actual plan participation is used for retirees and their spouses. 85% of future retirees elect medical coverage upon retirement and all future retirees elect dental and life insurance.

Note 2—Summary of significant accounting policies (continued)

The forgoing assumptions are based on the assumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation

The healthcare cost trend assumption has a significant effect on the amounts reported in the accompanying financial statements. If the assumed trend rates increased by 1 percentage point each year in the future, the postretirement benefit obligation as of December 31, 2017 and 2016 would increase by approximately $18,500,000 and $17,700,000, respectively.

Incurred but Not Reported Health Plan Claims Reserve – Plan obligations for health claims incurred by all participants but not reported as of December 31, 2017 and 2016 are estimated based upon actual claims expense trends. Estimates of $702,000 and $1,074,399 for claims incurred by all participants are included in the current benefit obligation as of December 31, 2017 and 2016, respectively.

Risks and Uncertainties – As of December 31, 2017 and 2016, the Plan utilized an investment instrument including the Balanced Fund of the United Methodist Church Foundation (Note 4). Investments, 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 those changes could materially affect the amounts reported in the financial statements.

Plan contributions are made and the actuarial present value of accumulated plan benefits are 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 estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Fair Value Measurements – GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. Assets recorded at fair value in the statements of benefit obligations and net assets available for plan benefits are categorized based on the level of judgment used in the measurement of their fair value. These judgment levels, as defined by Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Note 2—Summary of significant accounting policies (continued)

The Plan's investments are held by the United Methodist Church Foundation and the Texas Methodist Foundation. Fair value is determined using the fair value of the underlying net assets of the fund divided by the number of shares outstanding ("NAV"). In accordance with Accounting Standards Codification Subtopic 820-10, certain investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

The Plan believes its valuation methods are appropriate and consistent with other market participants; however, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3—Benefit obligations

The Plan's unfunded accumulated postretirement benefit obligation (APBO) was approximately $99 million and $93 million as of December 31, 2017 and 2016, respectively. It is expected that premiums for future years with respect to the Plan's postretirement benefit obligations will be funded by either the Benefit Trust or the participating General Agencies.

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

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act") for employers that sponsor postretirement health care plans that provide prescription drug benefits was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.1. Under the Act, for multiemployer plans, the Medicare subsidy was received directly by the Plan and not individual employers participating in the Plan. The Plan adopted the Medicare Advantage Plan and as a result, the Plan is no longer eligible to receive the federal subsidy.

Note 4—Fair value of investments at the United Methodist Church Foundation and the Texas Methodist Foundation

In July 2007, the Plan invested $3,650,000 in the Balanced Fund of the United Methodist Church Foundation. As of December 31, 2017 and 2016, the Plan's investment in the United Methodist Church Foundation was $5,253,926 and $4,654,361, respectively, and is carried at fair value. Investment income, net of dividends, and interest on these funds totaled $808,714 and $256,543 during the years ended December 31, 2017 and 2016, respectively.

In April 2006, the Plan invested $8,965,578 in the Methodist Loan Fund with the Texas Methodist Foundation. The investment matured in June 2012. As of December 31, 2017 and 2016, the Plan's investment at the Texas Methodist Foundation was $841 and $832, respectively.

Note 5—Federal income tax exemption

The Plan is organized exclusively for charitable, religious, and educational purposes and is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code under the group ruling for United Methodist affiliated organizations.

The Plan 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 Plan include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Plan has determined that such tax positions do not result in an uncertainty requiring recognition.

Note 6—Related party transactions

During the years ended December 31, 2017 and 2016, the Plan sponsor provided services on behalf of the Plan for certain accounting and administrative services. Those amounts incurred by the Plan sponsor were allocated to the Plan in the amount of $557,279 and $480,066, respectively, and are included in the Plan sponsor service fees on the accompanying statements of changes in benefit obligations and net assets available for plan benefits. As discussed in Note 2, at December 31, 2017 and 2016, certain of the Plan’s investments, totaling $4,909,143 and $5,624,121, respectively, are held by the Plan sponsor in the short-term pooled investment fund.

Note 7—Subsequent events

Management has evaluated subsequent events through September 4, 2018, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.