

FREE CHURCH MINISTERS'  
AND MISSIONARIES'  
RETIREMENT PLANS AND  
FCMM BENEFITS

Financial Statements  
With Independent Auditors' Report

December 31, 2017 and 2016

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
RETIREMENT PLANS AND  
FCMM BENEFITS**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Free Church Ministers' and Missionaries' Retirement Plans and  
FCMM Benefits  
Minneapolis, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Free Church Ministers' and Missionaries' Retirement Plans and FCMM Benefits (FCMM), which comprise the statements of net assets available for benefits and of accumulated plan benefits as of December 31, 2017, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 FCMM'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 FCMM's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees  
Free Church Ministers' and Missionaries' Retirement Plans and  
FCMM Benefits  
Minneapolis, Minnesota

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits and financial status of FCMM as of December 31, 2017, and the changes in net assets available for benefits and financial status for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the 2016 financial statements of the Free Church Ministers' and Missionaries' Retirement Plans and FCMM Benefits, and our reported dated May 5, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Capin Crouse LLP*

Wheaton, Illinois  
May 17, 2018

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
RETIREMENT PLANS AND FCMM BENEFITS**

Statement of Net Assets Available for Benefits – Retirement Plan  
December 31, 2017  
(With Comparative Totals for 2016)

	Annuity Reserve (Option A)	Lifetime Fund (Option C)	Stock Fund (Option D)	Bond/Income Fund (Option E)	American Funds (Option F)	Vanguard Funds (Option G)	CIF Funds (Option H)	Biblically Responsible Funds (Option J)	Total 2017	Total 2016
<b>ASSETS:</b>										
Investments at fair value:										
Pooled investments:										
Stock portfolio	\$ -	\$ 42,229,244	\$ 36,974,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79,203,313	\$ 68,068,280
Bond/income portfolio	255,816	28,808,909	-	5,872,955	-	-	-	-	34,937,680	22,004,051
Annuity reserve portfolio	27,355,627	-	-	-	-	-	-	-	27,355,627	39,629,185
	27,611,443	71,038,153	36,974,069	5,872,955	-	-	-	-	141,496,620	129,701,516
Other investments	-	-	-	-	41,962,986	36,591,451	5,618,530	2,134,093	86,307,060	58,260,374
Total investments at fair value	27,611,443	71,038,153	36,974,069	5,872,955	41,962,986	36,591,451	5,618,530	2,134,093	227,803,680	187,961,890
Cash	74,439	122,269	14,180	19,981	156,646	533,970	15,082	56,289	992,856	19,176,948
Contributions receivable	-	433,427	-	-	-	-	-	-	433,427	405,202
Prepaid expenses and annuity payroll	-	356,592	-	-	-	-	-	-	356,592	17,839
Accrued participant fee income	-	84,000	-	-	-	-	-	-	84,000	68,142
Total Assets	27,685,882	72,034,441	36,988,249	5,892,936	42,119,632	37,125,421	5,633,612	2,190,382	229,670,555	207,630,021
<b>LIABILITIES:</b>										
Accounts payable and accrued expenses	-	27,457	-	-	-	-	-	-	27,457	24,405
Due to FCMM Benefits	-	108,395	-	-	-	-	-	-	108,395	114,960
Total Liabilities	-	135,852	-	-	-	-	-	-	135,852	139,365
Net Assets Available for Benefits	\$ 27,685,882	\$ 71,898,589	\$ 36,988,249	\$ 5,892,936	\$ 42,119,632	\$ 37,125,421	\$ 5,633,612	\$ 2,190,382	\$ 229,534,703	\$ 207,490,656

See notes to financial statements

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
RETIREMENT PLANS AND FCMM BENEFITS**

Statement of Changes in Net Assets Available for Benefits – Retirement Plan  
Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	Annuity Reserve (Option A)	Lifetime Fund (Option C)	Stock Fund (Option D)	Bond/Income Fund (Option E)	American Funds (Option F)	Vanguard Funds (Option G)	CIF Funds (Option H)	Biblically Responsible Funds (Option J)	Total 2017	Total 2016
<b>ADDITIONS TO NET ASSETS:</b>										
Investment income:										
Net appreciation (depreciation) in fair value of investments	\$ 2,746,595	\$ 6,298,161	\$ 4,888,839	\$ 72,257	\$ 5,838,347	\$ 4,354,915	\$ -	\$ 216,905	\$ 24,416,019	\$ 7,508,938
Dividends and interest	648,080	1,722,597	768,091	222,416	-	-	116,710	-	3,477,894	3,280,044
	3,394,675	8,020,758	5,656,930	294,673	5,838,347	4,354,915	116,710	216,905	27,893,913	10,788,982
Less investment expenses:										
Fund management fees	-	66,107	52,790	(560)	-	-	-	-	118,337	185,596
Consulting and advisory fees	40,875	94,131	64,916	3,675	-	-	-	-	203,597	212,296
Net investment income	3,353,800	7,860,520	5,539,224	291,558	5,838,347	4,354,915	116,710	216,905	27,571,979	10,391,090
Employer contributions	-	2,760,342	1,962,359	214,297	1,787,227	1,721,287	131,520	129,564	8,706,596	8,295,605
Employee contributions	-	595,324	1,102,946	346,568	1,555,906	1,976,766	164,697	134,235	5,876,442	5,223,424
Roll-in contributions	-	545,101	253,500	102,549	499,342	677,502	302,982	182,830	2,563,806	3,798,465
<b>Total Additions</b>	<b>3,353,800</b>	<b>11,761,287</b>	<b>8,858,029</b>	<b>954,972</b>	<b>9,680,822</b>	<b>8,730,470</b>	<b>715,909</b>	<b>663,534</b>	<b>44,718,823</b>	<b>27,708,584</b>
<b>DEDUCTIONS FROM NET ASSETS:</b>										
Benefits paid to participants:										
Annuity payments	2,606,099	158,062	-	-	-	-	-	-	2,764,161	5,635,814
Roll-out payments	9,440,215	1,411,753	1,507,631	142,894	1,085,469	639,801	251,001	1,637	14,480,401	1,966,942
Withdrawals, recurring and one-time	1,533,972	822,530	453,750	118,121	497,314	310,736	398,131	17,480	4,152,034	1,249,153
	13,580,286	2,392,345	1,961,381	261,015	1,582,783	950,537	649,132	19,117	21,396,596	8,851,909
Administrative expenses	302,011	599,202	323,239	53,728	-	-	-	-	1,278,180	1,236,933
<b>Total Deductions</b>	<b>13,882,297</b>	<b>2,991,547</b>	<b>2,284,620</b>	<b>314,743</b>	<b>1,582,783</b>	<b>950,537</b>	<b>649,132</b>	<b>19,117</b>	<b>22,674,776</b>	<b>10,088,842</b>
Net increase (decrease) before transfers	(10,528,497)	8,769,740	6,573,409	640,229	8,098,039	7,779,933	66,777	644,417	22,044,047	17,619,742
Option to Option transfers	(20,543,538)	6,108,744	2,477,480	131,278	3,640,390	4,684,674	2,977,416	523,556	-	-
<b>Net Increase (Decrease)</b>	<b>(31,072,035)</b>	<b>14,878,484</b>	<b>9,050,889</b>	<b>771,507</b>	<b>11,738,429</b>	<b>12,464,607</b>	<b>3,044,193</b>	<b>1,167,973</b>	<b>22,044,047</b>	<b>17,619,742</b>
Net Assets Available for Benefits:										
Beginning of Year	58,757,917	57,020,105	27,937,360	5,121,429	30,381,203	24,660,814	2,589,419	1,022,409	207,490,656	189,870,914
<b>End of Year</b>	<b>\$ 27,685,882</b>	<b>\$ 71,898,589</b>	<b>\$ 36,988,249</b>	<b>\$ 5,892,936</b>	<b>\$ 42,119,632</b>	<b>\$ 37,125,421</b>	<b>\$ 5,633,612</b>	<b>\$ 2,190,382</b>	<b>\$ 229,534,703</b>	<b>\$ 207,490,656</b>

See notes to financial statements

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
RETIREMENT PLANS AND FCMM BENEFITS**

Statements of Accumulated Plan Benefits (Option A)  
December 31, 2017 and 2016

	2017	2016
Actuarial present value of accumulated plan benefits:		
Vested benefits:		
Participants currently receiving payments	\$ 30,961,722	\$ 5,012,875
Active and vested inactive participants	-	57,378,338
	30,961,722	62,391,213
Nonvested benefits	-	-
Total actuarial present value of accumulated plan benefits	\$ 30,961,722	\$ 62,391,213

See notes to financial statements

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
RETIREMENT PLANS AND FCMM BENEFITS**

Statements of Changes in Accumulated Plan Benefits (Option A)  
Years Ended December 31, 2017 and 2016

Actuarial present value of accumulated plan benefits at December 31, 2015 (Pension Plan)	<u>\$ 81,112,695</u>
Increase (decrease) during the year attributable to:	
Increase for interest due to decrease in discount period	2,457,245
Benefits paid	(5,138,435)
Reduction in obligation due to future merger of Pension Plan into Retirement Plan (see Note 1)	<u>(16,040,292)</u>
Net decrease	<u>(18,721,482)</u>
Actuarial present value of accumulated plan benefits at December 31, 2016 (Pension Plan)	<u>62,391,213</u>
Increase (decrease) during the year attributable to:	
Increase for interest due to decrease in discount period	1,288,232
Net transfers in/out of Option A	(31,239,626)
Benefits paid	(2,764,161)
Change in assumptions	<u>1,286,064</u>
Net decrease	<u>(31,429,491)</u>
Actuarial present value of accumulated plan benefits at December 31, 2017 (Retirement Plan)	<u><u>\$ 30,961,722</u></u>

See notes to financial statements

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
RETIREMENT PLANS AND FCMM BENEFITS**

Statements of Net Assets Available for Benefits – FCMM Benefits  
December 31, 2017 and 2016

	2017	2016
<b>ASSETS:</b>		
Cash	\$ 188,709	\$ 197,154
Accounts receivable	-	7,595
Due from Retirement Plan	108,395	114,960
Goodwill	551,000	551,000
Total Assets	848,104	870,709
<b>LIABILITIES:</b>		
Due to related party	122,289	120,705
Deferred revenue	137,027	142,433
Acquisition payable–due to related party	30,250	149,750
Total Liabilities	289,566	412,888
Net Assets Available for Benefits	\$ 558,538	\$ 457,821

See notes to financial statements

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
RETIREMENT PLANS AND FCMM BENEFITS**

Statements of Changes in Net Assets Available for Benefits – FCMM Benefits  
Years Ended December 31, 2017 and 2016

	2017	2016
<b>ADDITIONS TO NET ASSETS:</b>		
Premium contributions	\$ 632,484	\$ 609,707
<b>DEDUCTIONS FROM NET ASSETS:</b>		
Premium fees	349,314	341,866
Compensation	150,744	122,448
Service fees	24,256	20,376
Program costs	2,670	1,190
Printing and postage	2,775	2,859
Administration	2,008	4,221
Total Deductions	531,767	492,960
Net Increase	100,717	116,747
<b>Net Assets Available for Benefits:</b>		
Beginning of Year	457,821	341,074
End of Year	\$ 558,538	\$ 457,821

See notes to financial statements

# **FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS**

Notes to Financial Statements  
December 31, 2017

1. DESCRIPTION OF CORPORATION AND PLANS:

FCMM is incorporated as the church benefits board of the Evangelical Free Church of America (EFCA), and is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code). FCMM serves as the trustee and fiduciary of the Free Church Ministers' and Missionaries' Retirement Plans (Plans). FCMM Benefits sponsors and administers employee benefits and other programs for churches and other employing organizations that are associated with or share common bonds of faith with the EFCA.

The following brief description of the Plans and FCMM Benefits is provided for general information purposes only. Participants should refer to the Plan documents for more complete information.

## **GENERAL – FCMM RETIREMENT PLANS**

The Plans cover ministers, missionaries and other eligible persons affiliated with the EFCA. It consists of a Section 401(a) defined benefit pension plan (The Pension Plan, or Investment Option A, frozen on January 1, 2004) and a Section 403(b)(9) defined contribution plan (The Retirement Plan, Investment Options C through J). Established in 1971 and 2004, respectively, the Plans provide retirement income and death benefits. Since the Plans are church related, they are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). FCMM became incorporated on August 1, 2012, in the State of Minnesota.

The Plans offer three FCMM-provided options (Options C, D and E), three participant-directed mutual fund options (Options F, G, and J), investment at Christian Investors Financial (Option H), and an in-plan annuity for retirement income. The Plans' FCMM-provided funds and annuity pool investments are invested using three investment portfolios managed by investment advisors selected and overseen by the Trustees of FCMM and a management portfolio: (1) a stock portfolio invested in the stock market through an asset allocation model and contra-cyclical securities; (2) a broadly diversified bond portfolio invested in short, intermediate and long-term municipal, federal, foreign and high-quality corporate bonds; (3) an annuity invested in stocks with a 6.0% death benefit guarantee; and (4) the "FCMM Managed" portfolio that handles cash flow, miscellaneous income and retirement and other payments.

The stock and income portfolios gains and/or losses over any given month are distributed to the options based on their actual value at the beginning of each month. After the gains and/or losses are distributed, any expenses, transfers or withdrawals are added to the accounts, and an end-of-month balance is calculated for each option. All expenses are distributed based on the asset value of each option after the gains or losses are calculated.

# FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

Notes to Financial Statements  
December 31, 2017

## 1. DESCRIPTION OF CORPORATION AND PLANS, continued:

### GENERAL – FCMM BENEFITS

FCMM also provides affordable long-term disability group coverage to pastors and support staff serving in EFCA churches. This coverage is intended to ensure the continuation of a portion of an employee's salary should a disability occur. In 2014, a \$10,000 term life policy and AD&D insurance benefit were added. Eligible participants must be in active employment at least 25 hours per week at an EFCA church or organization in the United States. FCMM acquired the Long Term Disability Insurance program (LTD Insurance) from the EFCA on April 1, 2013. A payroll service was added in 2015. Health insurance, through cooperation between FCMM and Guidestone (Southern Baptist), became available to all EFCA churches in 2015. Additionally, long term care insurance, through cooperation between FCMM and Newman Long Term Care, became available to all EFCA churches in 2017. FCMM has no liability for the health insurance or long term care options, as participants are required to enroll directly with Guidestone or Newman Long Term Care, respectively.

### INVESTMENT OPTIONS

The Plans currently offer the following investment options:

*Option C – FCMM Lifetime Fund:* This fund uses a mix of the stock and bond portfolios with an investment strategy designed to build consistent long-term growth through a professionally designed asset allocation plan. The rate of return during 2017 was 3%. This rate may be modified in the future, but it does allow one to anticipate what an eventual retirement benefit might look like at some future point of time. The interest rate is applied by the Trustees of FCMM and may be positive or negative in any calendar year. At retirement, one may apply the full value of this fund towards an annuity benefit. If one chooses to withdraw this fund as a “lump sum,” a Fair Market Value adjustment may be applied to determine the actual amount that can be withdrawn.

*Option D – FCMM Managed Stock Fund:* This fund is invested in the stock portfolio. It is generally more aggressive in approach than the FCMM Lifetime Fund (Option C). It offers the potential of a greater average return over the years than Option C while also carrying a greater risk factor for the participant. The value of this account is more volatile in moving with market trends and more difficult to estimate long term.

*Option E – FCMM Managed Bond/Income Fund:* This fund is invested in the bond portfolio. Option E can gain or lose value depending on the economic climate. Bond funds are subject to interest-rate risk, which means that bond values move in the opposite direction of interest rates. When interest rates rise, the price of existing bonds and bond fund shares generally will decline. Conversely, when interest rates fall, the price of bonds and bond fund shares generally will rise.

*Options F, G and J – Self-Directed Mutual Funds:* These options allow a participant to “self direct” contributions to mutual fund choices managed by American Funds (Option F), Vanguard Funds (Option G) and/or Biblically responsible funds (Option J). Those who use American Funds or Biblically responsible funds through FCMM will not have any upfront load fees. Financial advice is available to help in choosing FCMM and/or American Funds and Biblically responsible funds. Vanguard is designed for the advanced investor who makes his/her own investment decisions.

# FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

Notes to Financial Statements  
December 31, 2017

## 1. DESCRIPTION OF CORPORATION AND PLANS, continued:

### INVESTMENT OPTIONS, continued

*Option H – Adjustable Rate Investment:* This option allows participants to invest in an adjustable interest rate Investment Certificate with Christian Investors Financial (CIF). The rate can be adjusted by CIF the first of any month. CIF provides real estate loans to EFCA affiliated churches and ministries, so in addition to earning a competitive rate of interest and providing for capital preservation, investment dollars in this option will also help expand EFCA ministries. CIF pays the administrative fees to FCMM, so there are no fees paid by the participants on the dollars invested in this option. Prospective investors should refer to CIF's current Offering Circular for risk factors and other information needed to make an informed investment decision. Current interest rate information is available at [www.ChristianInvestors.org](http://www.ChristianInvestors.org).

### CONTRIBUTIONS

Participating employers may, at their sole discretion, make employer contributions on behalf of eligible employees. Employer contributions may be in the form of a nonelective contribution or a contribution matching a salary deferral contribution, or both. Participants can choose to have these contributions deposited into investment options C, D, E, F, G, H or J.

Employees may make salary deferral contributions on either a pre-tax basis or as Roth contributions. The Plans also permit rollover contributions subject to any applicable legal restrictions. Participants can choose to have these contributions deposited into investment options C, D, E, F, G, H or J.

Contributions are subject to certain limitations prescribed by law.

### PENSION BENEFITS

Beginning at normal retirement age (65), participants in the Pension Plan were entitled to an annuity equal to an annual pension benefit based on a 6.0% interest assumption and the 1983 Group Annuity Mortality Table (Male rates) with no age set. However, after many years of the Pension Plan being significantly underfunded, FCMM management made the decision to merge the Pension Plan assets into the Retirement Plan effective January 1, 2017. As of December 31, 2016, participant accounts balances were mathematically adjusted so that the obligations in the Pension Plan matched the contract value of the assets. Participants were then given the option to re-annuitize their adjusted account balances in the new Option A (now under the Retirement Plan), move their funds to a different FCMM Option, or request a full withdrawal of their account balance. In addition to the Option A net assets available for benefits as noted on the Statement of Net Assets Available for Benefits - Retirement Plan, there is also approximately \$2,429,000 of additional AXA Equitable assets (which is the difference between the guaranteed minimum death benefit value of the AXA contracts over market value at December 31, 2017) that are anticipated to be received at a future date to cover the remaining obligation.

### RETIREMENT BENEFITS

Beginning at normal retirement age (65), participants in the Plans may choose an annuity calculated using a 2.0% base interest rate plus a variable interest rate and the applicable mortality table. The interest rate and mortality table to be used are determined by FCMM. In 2017, the rate was 3.0%, based on the RP-2010 table. Participants in Options C, D, E, F, G, H and J can take their current cash value as a cash distribution or as an annuity as described above. Option C cash distributions may be adjusted to reflect market value.

# FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

Notes to Financial Statements  
December 31, 2017

## 1. DESCRIPTION OF CORPORATION AND PLANS, continued:

*NORMAL RETIREMENT:* The normal retirement date (NRD) of a participant shall be on the first day of the month following the participant's 65th birthday.

*EARLY RETIREMENT:* The Plans permit early retirement at age 60.

*LATE RETIREMENT:* A participant may continue to work beyond NRD and will receive the actuarial equivalent benefit that would have been payable at the NRD. Benefit payments will begin upon actual retirement.

### TERMINATION OF EMPLOYMENT

A participant who leaves the employment of a qualified employer for reasons other than retirement or death may be entitled to retirement benefits at NRD. The participant may elect to be paid a monthly income, as well as a complete distribution of the participant's balance in Options D, E, F, G, H and J. See pension and retirement benefits above for more detail.

An inactive participant, who has left the employment of a qualified employer for reasons other than retirement, may apply for complete termination of participation in the Plans and receive rollover benefits based on the present value of their accounts. Rollover benefits are payable only to plans qualified under the income tax laws of the United States or Canada.

### DEATH BENEFIT BEFORE RETIREMENT

When an active participant dies while employed by a qualified employer and before normal retirement age, there shall be paid to his or her beneficiary a death benefit equal to the sum of (a) an amount determined by the participant's total compensation credits in Option A and age in the year of death and (b) the total amount in his or her Options C, D, E, F, G, H and J accounts. The minimum death benefit paid to the beneficiary of an active participant employed by a qualified employer in Option A is \$10,000 less any amounts previously withdrawn. Death benefits shall be payable in a lump sum or the beneficiary may select an installment method which is actuarially equivalent. If an inactive participant dies before normal retirement age, the death benefit shall be as described above for an active participant but with no minimum payment. Effective January 1, 2017, due to the merger of the Pension Plan into the Retirement Plan, the Pension Plan minimum death benefit amount noted above was discontinued.

### INCOME TAX STATUS

The Internal Revenue Service has determined and informed FCMM by a letter dated January 31, 1972, that the Plans and related trust are designed in accordance with applicable sections of the Code. The Plans have been amended since receiving the determination letter. The Plan administrator, other management and the Plans' counsel believe that the Plans are currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, no provision for income taxes has been included in the Plans' financial statements.

# **FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS**

Notes to Financial Statements  
December 31, 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### BASIS OF ACCOUNTING

The accompanying financial statements are prepared on the accrual basis of accounting.

### PRIOR YEAR SUMMARIZED INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by Option. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with FCMM's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

### INVESTMENT VALUATION AND INCOME RECOGNITION

Investments are dispersed across different economic areas and different geographic regions. Marketable securities are valued at quoted prices in active markets for identical assets. AXA Equitable Accumulator Variable Deferred Annuities are valued at quoted market prices. Other investments include alternative investments and CIF certificates. Alternative investments are valued based upon the net asset value of each fund. CIF certificates are recorded at cost plus accrued interest. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

### NET APPRECIATION OR DEPRECIATION IN FAIR VALUE OF INVESTMENTS

In accordance with the policy of stating investments at fair value, the net change in appreciation or depreciation for the year is reflected in the statement of changes in net assets available for benefits. Net appreciation or depreciation includes realized and unrealized gains and losses on investments that were purchased, sold or held during the year.

### GOODWILL

Goodwill relates to the purchase of the LTD Insurance program from the EFCA and is carried at the initial amount recorded at the time of the purchase. It is evaluated for impairment on an annual basis.

### DEFERRED REVENUE

Deferred revenue relates to LTD Insurance premiums received in advance of the period to which the premiums relate. Revenue is recognized when the premiums are earned.

# FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

Notes to Financial Statements  
December 31, 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### CONTRIBUTIONS

Contributions are allowed under the specific limitations for 403(b)(9) programs in the IRS Code as agreed upon by the participant and employing organization. Contributions to the Plans are subject to certain limitations in accordance with federal income tax regulations. Contributions received by the Plans within approximately two weeks after December 31 are recorded as contributions in the previous year if they related to 2017 payroll for the participating employers.

Premium payments for LTD insurance come from the participating employers. The local church board decides for each class of employees if the payment is an employee benefit (i.e., funded by the church as part of the compensation package) or a payroll deduction (i.e., funded by the employee).

### PAYMENT OF BENEFITS

Benefit payments to participants in the Plans are recorded upon distribution or at the time of death.

All benefit payments to participants in the LTD Insurance program are paid for by a third-party insurance company.

### ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

Accumulated Plan benefits are those estimated future periodic benefits that individual participants have accumulated under the Retirement Plan's provisions to services rendered by the employees to the valuation date. The actuarial present value of those accumulated plan benefits for Option A was determined by an actuary as of December 31, 2017. It is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as death, withdrawals or retirement) between the valuation date and the expected date of payment.

The significant actuarial assumptions used in the valuation as of December 31, 2017, were (a) life expectancy of participants (the RP-2014 Mortality Tables with Projection Scale MP-2017 were used), (b) present value of annuities in payment, with payments payable at the beginning of each month, and (c) investment return. The assumed average rate of return was 5.0% for participants currently receiving payments. Anticipated administrative expenses associated with providing benefits are assumed to be met by investment earnings in excess of 5.0%.

# FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

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## 3. PLAN TERMINATION:

In the event that the Plans terminate, the net assets of the Plans will be allocated to provide the following benefits in the order indicated:

- a) To provide for all participants and for beneficiaries of deceased participants, who are entitled at that time to receive benefit payments from the funds, the full value of their accrued and unpaid benefits to the extent not already provided for above.
- b) To provide for all participants the full value of their respective accrued benefits to the extent not provided for above.

In the event the funds shall not be sufficient to provide in full for all benefits specified in any one of the preceding categories, the benefits to be provided in that category shall be prorated in proportion to the value of the respective benefits which would be provided if the funds were sufficient.

## 4. PLAN MERGER:

The Pension Plan may be merged at the end of any calendar quarter into another church 401(a) or 403(b) plan maintained by FCMM at its sole discretion. A Member's or Beneficiary's Accrued Benefit immediately after the merger shall be equal to or greater than the Member or Beneficiary's Accrued Benefit immediately before the merger, and such Accrued Benefit shall be nonforfeitable after the merger. Effective January 1, 2017, the Pension Plan was merged into FCMM's Retirement Plan.

## 5. RELATED PARTY TRANSACTIONS:

The Plans and FCMM reimburse the EFCA for its share of building operating costs, support services, postage, office supplies and other miscellaneous expenses provided by EFCA. FCMM's payroll is also processed through the EFCA payroll department for a fee. For the year ended December 31, 2017, the total expenses to EFCA were \$145,449. The balance due to the EFCA at December 31, 2017, totaled \$122,289.

On April 1, 2013, FCMM purchased the LTD Insurance program from the EFCA. The purchase resulted in a transfer of \$35,510 in net assets related to the program and \$551,000 in goodwill. The purchase price is due as follows: Year 1 \$100,000, Year 2 \$105,000, Year 3 \$110,000, Year 4 \$115,000, and Year 5 \$121,000. Payments are due quarterly and the agreement contains certain provisions for delays in payments based on net income earned through the program.

At December 31, 2017, participants in Option H had \$5,618,530 invested in certificates sold by CIF. CIF is a nonprofit, tax-exempt corporation whose Board members are nominated by CIF and approved by the EFCA Board. CIF's purpose is to provide financing for the construction, remodeling, refinancing or purchase of church buildings and other projects for the EFCA, local churches of the EFCA and other affiliated organizations of the EFCA and like minded organizations throughout the United States.

# FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

Notes to Financial Statements  
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6. INVESTMENTS:

All investments, except for a savings account, certain money market funds and other investments, are held in a combined investment pool which was established for the investment of assets of each of the Plans' Options A, C, D and E. Each Option has an undivided interest in the pooled assets. At December 31, 2017, each Option's interest in the investment pool was as follows:

Option A	20%
Option C	50%
Option D	26%
Option E	4%
	<u>100%</u>

Investment income and administrative expenses relating to the investment pool are allocated to the individual options based upon actual values at the beginning of the month.

#### FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements: The *Fair Value Measurements and Disclosures* topic of the Financial Accounting Standards Board Standards Codification (ASC), establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. FCMM uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, FCMM measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

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Notes to Financial Statements  
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6. INVESTMENTS, continued:

FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

The following table presents the fair value measurements of investments in the investment pool and the fair value measurements of investments held outside the investment pool at December 31, 2017:

	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments held in investment pool at fair value:			
Money market funds	\$ 2,553,485	\$ 2,553,485	\$ -
Equity mutual funds	40,644,806	40,644,806	-
Fixed income mutual funds	34,258,165	34,258,165	-
Common stocks	31,098,608	31,098,608	-
AXA Equitable (Guaranteed Minimum Death Benefit totaling \$20,244,402)	17,815,755	17,815,755	-
Government securities	1,305,898	-	1,305,898
Corporate bonds	748,548	-	748,548
Preferred stocks	62,612	62,612	-
Total pooled investments at fair value	<u>128,487,877</u>	<u>126,433,431</u>	<u>2,054,446</u>
Investments held outside investment pool at fair value:			
American Funds (mutual funds)	41,962,986	41,962,986	-
Vanguard Funds (mutual funds)	36,591,451	36,591,451	-
Biblically Responsible Funds (mutual funds)	2,134,093	2,134,093	-
Total investments held outside investment pool at fair value	<u>80,688,530</u>	<u>80,688,530</u>	<u>-</u>
Total investments at fair value	<u>209,176,407</u>	<u>207,121,961</u>	<u>2,054,446</u>
Investments held at cost:			
CIF certificates	<u>5,618,530</u>		
Investments at net asset value:			
Hedge funds	12,005,538		
Open-ended real estate fund	1,003,205		
	<u>13,008,743</u>		
Total investments	<u><u>\$227,803,680</u></u>		

## FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

Notes to Financial Statements  
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### 6. INVESTMENTS, continued:

#### FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of net assets available for benefits.

#### *Level 1 Fair Value Measurements*

Fair values for stocks, money market funds, mutual funds and AXA Equitable are determined by reference to quoted market prices.

#### *Level 2 Fair Value Measurements*

Fair values for corporate bonds and government securities are estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit-default swap spreads and volatility.

The Plan uses the Net Asset Value (NAV) to determine the fair value for all investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category in accordance with the *Fair Value Measurements and Disclosure* topic of the ASC as of December 31, 2017:

	Fair Value	Redemption Frequency	Redemption Notice Period
Hedge fund (a)	\$ 4,541,074	Generally, quarterly with 45-65 days notice after lock-up. Lock-up: Class I shares are subject to a 12 month lock-up and Class II shares are subject to a 36 month lock-up	N/A
Hedge fund (b)	\$ 2,394,871	Quarterly, via tender offer, generally with a 5%-25% cap on re-purchases for any given period, at the Board's discretion.	N/A
Hedge fund (c)	\$ 3,572,780	Quarterly tender offers. Generally, 10%-25% of the Fund's net assets at the Board of Trustees' discretion. A 2% repurchase fee applies to shares tendered within 12 months of purchase. This early withdrawal fee will be waived for any shareholder who purchases shares during the initial offering period.	N/A
Hedge fund (d)	\$ 750,000	Quarterly, 70 days notice	N/A
Hedge fund (e)	\$ 746,813	Quarterly, 60 calendar days notice	N/A
Open-ended real estate fund (f)	\$ 1,003,205	Quarterly, 10 business days notice	N/A

# FREE CHURCH MINISTERS' AND MISSIONARIES' RETIREMENT PLANS AND FCMM BENEFITS

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## 6. INVESTMENTS, continued:

FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

(a) This hedge fund is designed to achieve long-term returns through the use of a bottom-up manager selection approach that not only accounts for the type of strategy executed but also places a strong emphasis on a manager's unique talent.

(b) This hedge fund is designed to achieve capital appreciation principally through investing in investment funds managed by third-party investment managers who employ a variety of strategies in pursuit of attractive risk-adjusted returns and capital preservation.

(c) This hedge fund is designed to achieve long-term total return, with an emphasis on current income, by primarily investing in a broad range of real estate-related debt instruments.

(d) This hedge fund is designed to be a diversified high-yielding credit portfolio with minimal interest rate duration. The Fund focuses on achieving a substantial return on capital through opportunistic investments primarily in a broad-range of public and private credit instruments, with an expected emphasis of corporate credit securities, asset-backed securities, mortgage-backed securities, commercial real estate, structured credit and collateralized loan obligations, though at times the fund may have exposure to other assets, instruments and markets.

(e) This hedge fund is designed to achieve capital appreciation by generating high risk-adjusted absolute returns with low correlation to the broader markets. The fund takes long and short positions primarily in structured mortgage-backed and asset-backed securities.

(f) This fund is designed to achieve steady income returns, long-term appreciation, and preservation of capital. The fund is a diversified open-end commingled fund investing primarily in high-quality core income-producing office, industrial, retail and multi-family properties.

There were no unfunded commitments as of December 31, 2017.

## 7. RISKS AND UNCERTAINTIES:

The Plans invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participant's account balances and the amounts reported in the statement of net assets available for benefits.

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.

**FREE CHURCH MINISTERS' AND MISSIONARIES'  
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8. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 17, 2018, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.