

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

Financial Statements  
With Independent Auditors' Report

December 31, 2020

**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

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, 2020, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year 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.

### *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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 the Free Church Ministers' and Missionaries' Retirement Plans and FCMM Benefits as of December 31, 2020, and the changes in net assets available for benefits and financial status for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the 2019 financial statements of the Free Church Ministers' and Missionaries' Retirement Plans and FCMM Benefits, and our report dated May 15, 2020, 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Capin Crouse LLP*

Naperville, Illinois  
June 3, 2021

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

**Statement of Net Assets Available for Benefits – Retirement Plan**

December 31, 2020  
(With Comparative Totals for 2019)

	Annuity Reserve Fund	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 2020	Total 2019
<b>ASSETS:</b>										
Investments:										
Pooled investments:										
Stock portfolio	\$ -	\$ 53,389,870	\$ 49,602,560	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,992,430	\$ 95,022,639
Bond/income portfolio	-	28,801,136	-	7,163,747	-	-	-	-	35,964,883	34,907,473
Annuity reserve portfolio	30,286,973	-	-	-	-	-	-	-	30,286,973	29,448,405
	<u>30,286,973</u>	<u>82,191,006</u>	<u>49,602,560</u>	<u>7,163,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,244,286</u>	<u>159,378,517</u>
Other investments	-	-	-	-	67,269,601	63,708,477	4,671,069	4,748,375	140,397,522	112,631,893
Total investments	<u>30,286,973</u>	<u>82,191,006</u>	<u>49,602,560</u>	<u>7,163,747</u>	<u>67,269,601</u>	<u>63,708,477</u>	<u>4,671,069</u>	<u>4,748,375</u>	<u>309,641,808</u>	<u>272,010,410</u>
Cash	-	1,772,751	-	-	182,933	419,435	7,845	126,948	2,509,912	1,383,819
Contributions receivable	-	370,885	-	-	-	-	-	-	370,885	316,963
Prepaid expenses and annuity payroll	-	407,185	-	-	-	-	-	-	407,185	389,334
Accrued participant fee income	-	213,045	-	-	-	-	-	-	213,045	173,340
	<u>-</u>	<u>1,772,751</u>	<u>-</u>	<u>-</u>	<u>182,933</u>	<u>419,435</u>	<u>7,845</u>	<u>126,948</u>	<u>2,509,912</u>	<u>1,383,819</u>
Total Assets	<u>30,286,973</u>	<u>84,954,872</u>	<u>49,602,560</u>	<u>7,163,747</u>	<u>67,452,534</u>	<u>64,127,912</u>	<u>4,678,914</u>	<u>4,875,323</u>	<u>313,142,835</u>	<u>274,273,866</u>
<b>LIABILITIES:</b>										
Accounts payable and accrued expenses	-	69,965	-	-	-	-	-	-	69,965	55,017
Due to FCMM Benefits	-	110,378	-	-	-	-	-	-	110,378	108,683
	<u>-</u>	<u>180,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,343</u>	<u>163,700</u>
Total Liabilities	<u>-</u>	<u>180,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,343</u>	<u>163,700</u>
<b>Net Assets Available for Benefits and Operations:</b>										
Contingency reserves	-	500,000	-	-	-	-	-	-	500,000	227,000
Available for benefits	<u>30,286,973</u>	<u>84,274,529</u>	<u>49,602,560</u>	<u>7,163,747</u>	<u>67,452,534</u>	<u>64,127,912</u>	<u>4,678,914</u>	<u>4,875,323</u>	<u>312,462,492</u>	<u>273,883,166</u>
	<u>\$ 30,286,973</u>	<u>\$ 84,774,529</u>	<u>\$ 49,602,560</u>	<u>\$ 7,163,747</u>	<u>\$ 67,452,534</u>	<u>\$ 64,127,912</u>	<u>\$ 4,678,914</u>	<u>\$ 4,875,323</u>	<u>\$ 312,962,492</u>	<u>\$ 274,110,166</u>

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, 2020  
(With Comparative Totals for 2019)

	Annuity Reserve Fund	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 2020	Total 2019
<b>ADDITIONS TO NET ASSETS:</b>										
Investment income:										
Net appreciation in fair value of investments	\$ 2,351,484	\$ 3,907,433	\$ 4,866,110	\$ 81,217	\$ 9,939,921	\$ 8,377,568	\$ -	\$ 507,233	\$ 30,030,966	\$ 39,355,315
Dividends and interest	338,027	2,491,672	1,089,222	319,463	-	-	83,579	-	4,321,963	3,656,769
	2,689,511	6,399,105	5,955,332	400,680	9,939,921	8,377,568	83,579	507,233	34,352,929	43,012,084
Less investment expenses:										
Consulting and fund management fees	3,046	165,531	145,646	6,294	-	-	-	-	320,517	321,395
Net investment income	2,686,465	6,233,574	5,809,686	394,386	9,939,921	8,377,568	83,579	507,233	34,032,412	42,690,689
Employer contributions	-	2,637,310	2,083,066	286,725	2,117,349	2,195,537	124,025	245,629	9,689,641	9,428,294
Employee contributions	-	1,195,811	1,411,771	344,960	1,946,963	2,578,798	134,639	194,032	7,806,974	7,358,219
Roll-in contributions	-	877,226	74,823	22,938	155,526	359,261	5,757	200,598	1,696,129	2,099,655
<b>Total Additions</b>	<b>2,686,465</b>	<b>10,943,921</b>	<b>9,379,346</b>	<b>1,049,009</b>	<b>14,159,759</b>	<b>13,511,164</b>	<b>348,000</b>	<b>1,147,492</b>	<b>53,225,156</b>	<b>61,576,857</b>
<b>DEDUCTIONS FROM NET ASSETS:</b>										
Benefits paid to participants:										
Annuity and recurring payments	3,220,215	435,953	238,910	66,683	206,763	180,618	173,576	-	4,522,718	4,273,918
Roll-out payments	-	1,334,349	1,479,541	224,148	1,110,762	1,603,991	173,166	252,149	6,178,106	3,866,855
Withdrawals and one-time payments	-	1,210,342	569,966	81,214	541,080	383,030	105,456	1,271	2,892,359	2,237,223
	3,220,215	2,980,644	2,288,417	372,045	1,858,605	2,167,639	452,198	253,420	13,593,183	10,377,996
Administrative fees	140,725	422,907	314,711	51,304	-	-	-	-	929,647	930,303
<b>Total Deductions</b>	<b>3,360,940</b>	<b>3,403,551</b>	<b>2,603,128</b>	<b>423,349</b>	<b>1,858,605</b>	<b>2,167,639</b>	<b>452,198</b>	<b>253,420</b>	<b>14,522,830</b>	<b>11,308,299</b>
Net increase (decrease) before transfers	(674,475)	7,540,370	6,776,218	625,660	12,301,154	11,343,525	(104,198)	894,072	38,702,326	50,268,558
Option to Option transfers	39,000	(2,205,480)	(1,431,779)	(113,310)	1,030,182	2,314,742	(45,570)	412,215	-	-
Transfer from FCMM Benefits	-	150,000	-	-	-	-	-	-	150,000	-
New annuity purchases	1,474,043	(1,226,358)	(176,586)	-	-	-	(71,099)	-	-	-
<b>Net Increase (Decrease)</b>	<b>838,568</b>	<b>4,258,532</b>	<b>5,167,853</b>	<b>512,350</b>	<b>13,331,336</b>	<b>13,658,267</b>	<b>(220,867)</b>	<b>1,306,287</b>	<b>38,852,326</b>	<b>50,268,558</b>
Net Assets Available for Benefits and Operations:										
Beginning of Year	29,448,405	80,515,997	44,434,707	6,651,397	54,121,198	50,469,645	4,899,781	3,569,036	274,110,166	223,841,608
End of Year	\$ 30,286,973	\$ 84,774,529	\$ 49,602,560	\$ 7,163,747	\$ 67,452,534	\$ 64,127,912	\$ 4,678,914	\$ 4,875,323	\$ 312,962,492	\$ 274,110,166

See notes to financial statements

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

**Statement of Accumulated Plan Benefits (Annuity Reserve Fund)**

December 31, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Actuarial Present Value of Accumulated Plan Benefits:		
Vested benefits:		
Participants currently receiving payments	\$ 32,438,102	\$ 32,564,388
Nonvested benefits	<u>-</u>	<u>-</u>
Total Actuarial Present Value of Accumulated Plan Benefits	<u>\$ 32,438,102</u>	<u>\$ 32,564,388</u>

See notes to financial statements

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

**Statement of Changes in Accumulated Plan Benefits (Annuity Reserve Fund)**

Year Ended December 31, 2020  
(With Comparative Totals for 2019)

Actuarial Present Value of Accumulated Plan Benefits at December 31, 2018	<u>\$ 31,693,293</u>
Increase (decrease) during the year attributable to:	
Increase for interest due to decrease in discount period	1,675,977
New annuity obligations	2,220,166
Benefits paid	(3,133,843)
Change in assumptions	108,795
Net increase	<u>871,095</u>
Actuarial Present Value of Accumulated Plan Benefits at December 31, 2019	<u>32,564,388</u>
Increase (decrease) during the year attributable to:	
Increase for interest due to decrease in discount period	1,619,886
New annuity obligations	1,474,043
Benefits paid	(3,220,215)
Net decrease	<u>(126,286)</u>
Actuarial Present Value of Accumulated Plan Benefits at December 31, 2020	<u><u>\$ 32,438,102</u></u>

See notes to financial statements



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

**Statement of Net Assets Available for Benefits – FCMM Benefits**

December 31, 2020  
(With Comparative Totals for 2019)

	2020	2019
<b>ASSETS:</b>		
Cash	\$ 408,130	\$ 302,284
Prepaid expenses and other assets	27,782	-
Due from Retirement Plan	110,378	108,683
Goodwill	551,000	551,000
Total Assets	1,097,290	961,967
<b>LIABILITIES:</b>		
Due to related party	133,709	124,278
Deferred revenue	192,019	156,220
Accounts payable	447	472
Paycheck Protection Program loan	214,034	-
Total Liabilities	540,209	280,970
Net Assets Available for Benefits	\$ 557,081	\$ 680,997

See notes to financial statements

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

**Statement of Changes in Net Assets Available for Benefits – FCMM Benefits**

Year Ended December 31, 2020  
(With Comparative Totals for 2019)

	2020	2019
<b>ADDITIONS TO NET ASSETS:</b>		
Premium contributions	\$ 753,723	\$ 661,169
Fees and other	36,282	24,677
	790,005	685,846
<b>DEDUCTIONS FROM NET ASSETS:</b>		
Premium fees	432,443	365,674
Compensation	267,219	224,119
Administration and other	64,259	43,206
Transfer to FCMM Retirement Plan	150,000	-
Total Deductions	913,921	632,999
Net (Decrease) Increase	(123,916)	52,847
<b>Net Assets Available for Benefits:</b>		
Beginning of Year	680,997	628,150
End of Year	\$ 557,081	\$ 680,997

See notes to financial statements

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

## Notes to Financial Statements

December 31, 2020

### 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, and is a Section 403(b)(9) Church Plan, also known as a church retirement income account. It operates as a defined contribution plan. Established in 2004, the Plans provide retirement income and benefits, including options of lump sum withdrawals or lifetime monthly income. 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 (Annuity Reserve Fund). The Plans' FCMM-provided funds and annuity pool investments are invested using four investment portfolios managed by investment advisors selected and overseen by the Trustees of FCMM and a management portfolio: (1) a Lifetime Fund invested in stocks, bonds and alternative investments using an asset allocation model; (2) a Managed Stock Fund; (3) a Managed Bond/Income Fund; and (4) an Annuity Pool invested in fixed income and alternative investments.

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, 2020

### 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, 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 staff members of 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 to members during 2020 was 2.0%. 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.

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

## Notes to Financial Statements

December 31, 2020

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

#### INVESTMENT OPTIONS, continued

*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 invest in these three options 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.

*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.

The Annuity Reserve Fund is not available for current participant investment election, but is used by FCMM to account for the value of a participant's account who selects an annuity payment through FCMM at retirement. Contributions are subject to certain limitations prescribed by law.

#### RETIREMENT BENEFITS

Beginning any time after age 59½, participants in the Plan may choose a Monthly Income Benefit (MIB or "in-plan annuity"), or recurring withdrawals, or a distribution according to Required Minimum Distribution rules. The MIB uses 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 2020, the rate was 2.0%, based on the RP-2017 Mortality Tables. 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, 2020

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

#### TERMINATION OF EMPLOYMENT

A participant who leaves the employment of a qualified employer may continue with their account, but may not receive contributions, unless subsequently employed by a participating employer. Any form of qualified distribution may be requested.

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.

#### INCOME TAX STATUS

The Internal Revenue Service (IRS) 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.

### 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, 2019, 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.

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

## Notes to Financial Statements

December 31, 2020

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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 recorded at the fair value of the mutual funds underlying the contract. Other investments include alternative investments and CIF certificates. Alternative investments are valued based upon the net asset value of each fund as a practical expedient to fair value. 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 primarily relates to LTD Insurance premiums received in advance of the period to which the premiums relate. Revenue is recognized when the premiums are earned.

#### 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 2020 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).

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

## Notes to Financial Statements

December 31, 2020

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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 the Annuity Reserve Fund was determined by FCMM management as of December 31, 2020, using the same actuarial assumptions used by an actuary for the year ended December 31, 2019. 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, 2020, 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 5.13% for participants currently receiving payments. Anticipated administrative expenses associated with providing benefits are assumed to be met by investment earnings in excess of 5.13%.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

As of January 1, 2020, FCMM adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*. The new standard is designed to simplify the disclosures related to fair value measurements. Adoption of this standard had no effect on change in net assets or net assets in total.



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

## Notes to Financial Statements

December 31, 2020

### 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. RELATED PARTY TRANSACTIONS:

The Plans and FCMM Benefits reimburse the EFCA for their 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, 2020, the total expenses to EFCA were \$120,267. The balance due to the EFCA by FCMM Benefits at December 31, 2020, totaled \$133,709.

During the year ended December 31, 2020, as part of the response to the impact of the Coronavirus (COVID-19), the EFCA applied for a Paycheck Protection Program (PPP) loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. As FCMM employees are paid under the Employee Identification Number of the EFCA, FCMM was allocated \$214,034 of the PPP loan. The PPP loan provides for potential forgiveness up to the full amount of the loan provided EFCA/FCMM meet certain loan stipulations. If the loan is not forgiven, it bears annual interest of 1% and repayment is due in full in April 2022.

At December 31, 2020, participants in Option H had \$4,671,069 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

December 31, 2020

### 5. 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' Annuity Reserve Fund, and Options C, D and E. Each Option has an undivided interest in the pooled assets. At December 31, 2020, each Option's interest in the investment pool was as follows:

Annuity Reserve Fund	18%
Option C	49%
Option D	29%
Option E	4%
	<hr/>
	100%
	<hr/> <hr/>

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

The *Fair Value Measurements and Disclosures* topic of the Financial Accounting Standards Board Accounting 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 are model-based techniques using significant assumptions that are not observable. These unobservable assumptions reflect estimates of assumptions that market participants would use. 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.

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

**Notes to Financial Statements**

December 31, 2020

5. 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, 2020:

	Total	Level 1	Level 2	Level 3
Investments Held in Investment Pool at Fair Value:				
Equity mutual funds	\$ 52,222,294	\$52,222,294	\$ -	\$ -
Fixed income mutual funds	51,562,214	51,562,214	-	-
Common stocks	30,982,490	30,982,490	-	-
AXA Equitable (guaranteed minimum death benefit totaling \$21,459,067) *	19,088,247	19,088,247	-	-
Corporate bonds	1,325,994	-	1,325,994	-
Preferred stocks	76,236	76,236	-	-
Limited partnership	2,508,426	-	-	2,508,426
Total Pooled Investments at Fair Value	<u>157,765,901</u>	<u>153,931,481</u>	<u>1,325,994</u>	<u>2,508,426</u>
Investments Held Outside Investment Pool at Fair Value:				
American Funds (mutual funds)	67,269,601	67,269,601	-	-
Vanguard Funds (mutual funds)	63,708,477	63,708,477	-	-
Biblically Responsible Funds (mutual funds)	4,748,375	4,748,375	-	-
Total Investments Held Outside Investment Pool at Fair Value	<u>135,726,453</u>	<u>135,726,453</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value	<u>293,492,354</u>	<u>289,657,934</u>	<u>1,325,994</u>	<u>2,508,426</u>
Investments Held at Cost: **				
CIF certificates	4,671,069			
Money market funds	418,778			
	<u>5,089,847</u>			
Investments at Net Asset Value:				
Hedge funds	9,916,635			
Open-ended real estate fund	1,142,972			
	<u>11,059,607</u>			
Total Investments	<u>\$ 309,641,808</u>			

\* Reflects the fair value of the mutual funds underlying the contract.

\*\* Approximates fair value

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

## Notes to Financial Statements

December 31, 2020

5. 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 values for stocks, mutual funds and the AXA Equitable underlying securities are determined by reference to quoted market prices.

*Level 2* - Fair values for corporate bonds 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 following table provides further details for the Level 3 fair value measurements for the year ended December 31, 2020:

Balance, December 31, 2019	\$ 2,514,170
Sales	(125,041)
Dividends	62,850
Unrealized gain	<u>56,447</u>
 Balance, December 31, 2020	 <u><u>\$ 2,508,426</u></u>

The limited partnership investment allows for semi-annual liquidity with 90 days notice, 18-24 month soft lock up, subject to a 5% early redemption fee, one-third or one-fifth, investor level gate.

The Plans use 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, 2020:

	Fair Value	Redemption Frequency
Hedge fund (a)	\$ 823,472	Quarterly, 70 days notice
Real estate fund (b)	\$ 1,142,972	Quarterly, 10 business days notice
Hedge fund (c)	\$ 3,115,788	Quarterly, 65 calendar days notice
Hedge fund (d)	\$ 5,977,375	Generally up to 5% of NAV per quarter via a tender offer, 2% soft lock up for 12 months

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

## Notes to Financial Statements

December 31, 2020

### 5. INVESTMENTS, continued:

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

(a) 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.

(b) 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.

(c) This hedge fund uses an actively managed, discretionary strategy, which seeks to capture the opportunities that exist in the global securitized products market. The fund pursues its investment objectives by investing in assets in global residential and commercial mortgage backed securities, collateralized debt obligations, collateralized loan obligations, other asset backed securities, derivatives and other securitized products, as well as other types of asset classes and hedging investments.

(d) This hedge fund's objective is to provide attractive risk-adjusted returns through a flexible and diversified approach targeting what the manager believes to be the most promising investment opportunities from across the entire global private equity market. The fund utilizes an integrated portfolio construction approach combining control-oriented direct equity investments, private debt investments, secondary private equity investments and primary fund commitments.

There were no unfunded commitments as of December 31, 2020.

### 6. 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 participants' 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' RETIREMENT PLANS AND FCMM BENEFITS**

## **Notes to Financial Statements**

December 31, 2020

6. RISKS AND UNCERTAINTIES, continued:

In March of 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Plans for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

7. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through June 3, 2021, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.