

2010 Annual Report



GENERAL BOARD OF PENSION AND HEALTH BENEFITS
OF THE UNITED METHODIST CHURCH

Caring For Those Who Serve

Table of Contents

A Message from the Chairperson of the Board and the General Secretary	1
Summary of 2010 Markets and Investment Results	5
Management's Report on Financial Statements	11
Combined Statements of Assets and Liabilities and Net Assets	12
Combined Statements of Operations and Changes in Net Assets	13
Combined Statements of Changes in Plan Accumulations, Plan Sponsor Deposits, Endowments and Net Assets	14
Notes to the Combined Financial Statements	15
Report of Independent Certified Public Accountants	29
Other Information	30
Investment Managers, Positive Social Purpose Lending Program Intermediaries, Banks, Auditors and Consultants	31



A Message from the Chairperson of the Board and the General Secretary

... everyone who hears these words of mine and puts them into practice is like a wise man who built his house on the rock. The rain came down, the streams rose, and the winds blew and beat against that house, yet it did not fall because it had its foundation on the rock ...

Luke 6:48



Bishop Mike Watson
Chairperson,
Board of Directors

2010 was a year of anticipation—of positive investment returns; of improved stewardship; and of offering our institutional investment services more broadly within The United Methodist Church (UMC). Building a firm foundation requires anticipating the next challenge, taking the next bold steps and preparing in advance to help maintain the long-term security of the participants we serve.

In 2010, the General Board of Pension and Health Benefits' (General Board) long-term investment strategy saw assets under management return to \$17 billion. Our headquarters was consecrated on July 17, 2010; our agency staff relocated to Glenview, Illinois, on September 20, 2010. We were fortunate to sell the former Evanston properties at the height of the real estate market in 2007 and build during the downturn in 2009–10. And, this year, we took the first step in broadening the reach of our investment management services to new clients by branding our institutional investment services “Wespath,” with the goal of helping institutional investors achieve returns aligned with the values of The United Methodist Church. By the grace of God, we accomplished these results in very difficult economic times.



Barbara A. Boigegrain
General Secretary

FOUNDATION FOR GROWTH

Everything we do is driven by established policy governance, much as *The Book of Discipline* sets the framework for Church governance. We have established a personal financial infrastructure for participants that balances stability and risk, intended to enhance their quality of life and support their focus on ministry. Our policy goal is financial support in retirement and throughout life's transitions for clergy and lay workers serving the UMC. This year we have explored the viability of retirement plan design through Church-wide listening sessions; focused on the health and continued well-being of our ministers with the work of the Church Systems Task Force; and expanded our Central Conference Pension Initiative, helping to provide a secure future for many clergy outside the United States. The General Board is preparing for the future with a long-term vision rooted in the evolving needs and values of the Church.

STRENGTH OF CONNECTION

As a financial institution we know that organizational strength does not come from bricks and mortar. It is deeply rooted in a personal foundation and a connection nurtured over time. Our dedicated, diverse work force exists to help ensure that our plan participants feel secure in life's transitions. Our agency exists to help participants achieve sound retirement futures and help assure they have resources available during times of illness and disability. We serve in a partnership with conferences and other plan sponsors. The strength of the conferences drives the strength of this agency and our ability to care for those who serve the Church. We are dedicated to our participants—we are an organization deeply rooted in and highly focused on customer service.

STEWARDSHIP AND FIDUCIARY ROLE

The annual conferences and the General Board form a unique financial community. Our work demands we shore up one another in support of the values of the Church. From a financial perspective, the General Board designs and administers the plans and programs for the Church based on what the Church wants and needs—what it values. What the Church values may change over time, and we are engaged in preparing plan design options in anticipation. Pension programs, personal savings and investments are the foundation for retirement security. While the conferences have the heaviest financial burdens to navigate, the General Board is responsive by raising awareness about the drivers of our agency's products and services.

A Message from the Chairperson of the Board and the General Secretary

We are the largest reported denominational investor in the world and among the 100 largest pension fund managers in the United States. The management and staff of the General Board bring personal and professional integrity to their work, upholding the values of the UMC while striving to exceed best practices in the financial, health and benefits services industries. Members of the board of directors' Audit and Fiduciary committees are people of great faith and professional expertise in financial management. They oversee internal and external agency audits, benefit studies and valuations, and spend considerable time reviewing reports and soliciting expert advice from independent third-party consultants and actuaries as part of their oversight role. We are committed to providing clear, consistent and timely information and reporting—accessible, transparent information, like that contained in this annual report.

BROADENING FINANCIAL CONVERSATIONS

The General Board's board of directors and staff are aligned to support conferences, and have been working very closely with them in broader financial conversations over the course of the year to understand conference pension plan funding requirements, participants' needs and their particular financial circumstances. We responded to the financial challenges, in partnership with the General Council on Finance and Administration, by instituting the Sustainability Advisory Group (SAG) whose May 2010 report brought to light the scope of the financial challenges for conferences and the broader Church—some with local implications and others with far-reaching consequences for the Church's mission and ministry. From studying the costs of local church real estate, to investments made in clergy education, to the compensation and benefits that support guaranteed appointments—the General Board became a voice in these conversations. We are encouraged that a more robust conversation has begun at all levels in ways that are increasingly productive for the continued sustainability of the Church.

CENTER FOR HEALTH

The Center for Health's mission and long-term goal is to change collective behaviors across the connection to improve the health of active and retired Church workers. The Church Systems Task Force (CSTF), jointly convened with the General Board of Higher Education and Ministry, continued its work studying the impact of UMC employment systems and culture on clergy health. Using results of a rigorous multi-phased research approach to understand key factors that are highly correlated with health, the CSTF drafted recommendations in response to clergy health factors. The recommendations and proposed legislation, released in May 2011, will be included in the Task Force Report for General Conference 2012.

A Center for Health Awareness Tool (CHAT), designed and released for the collection, analysis and exchange of plan sponsor health information, was launched with nearly 80% plan sponsor participation. Two Renew "U"niversity events, focusing on self-care across the five dimensions of health (physical, mental, spiritual, social and financial), were held in five conferences. In addition, six conferences hosted eight Self-Care Covenant Workshops. In 2010, eight non-HealthFlex plan sponsors joined the 31 HealthFlex plan sponsors in the Virgin HealthMiles walking program.

HEALTH CARE REFORM

In March, President Obama signed sweeping national health care reform legislation that is intended to ensure nearly universal private and public health coverage. The law substantially affects the General Board's HealthFlex health plan and the health plans of many annual conferences and agencies of the Church. Our legal department continuously monitors the implementation of the law for the denomination, and has devoted a portion of our website http://www.gbophb.org/health_welfare/healthcarereform/index.asp to providing valuable information about the law. Most significantly, we worked with the benefits boards of other mainline denominations to obtain a favorable interpretation from the Internal Revenue Service, so that United Methodist Church small employers (mainly local churches) could benefit from the small business health care tax credit contained in the law, which has the potential to save money for many church employers.

GLOBAL CITIZEN

Central Conference Pension Initiative (CCPI)

The General Board continued its tradition of caring for those who serve in the central conferences with the launch of a pension plan in Angola—the third pension plan launched under CCPI. Both annual conferences in Angola are served under a single pension program, covering 77 retirees and 85 surviving spouses who receive pensions quarterly. Payments are distributed by check, cash or bank transfer into the pensioners' personal banking accounts.

These new pension plans combine to serve 367 pastors and 479 surviving spouses across five annual conferences—one in Liberia, two in Mozambique and two in Angola. Two additional pension plans were readied for launch in January 2011; they will serve Cote d'Ivoire and the two annual conferences in Zimbabwe.

In addition, we celebrated a fundraising milestone—reaching the initial minimum goal of \$20 million in June 2010. We continue to work toward the challenge goal of at least \$25 million needed to accommodate growth in the central conferences since the initiative began 10 years ago.

Emergency Grants

While CCPI staff continues to develop sustainable pension plans, retired United Methodist pastors and surviving spouses not currently covered by CCPI pension plans may be provided immediate assistance through annual emergency grants. In 2010, CCPI distributed emergency grant money to 1,676 recipients in conferences worldwide—860 clergy and 816 surviving spouses.

Responsible Investing

We continued to demonstrate our commitment to responsible investing through our involvement with the United Nations Principles for Responsible Investment (UNPRI). The General Board helped author and was one of the original signatories to this international initiative dedicated to promoting the consideration of environmental, social and governance factors in investment decision-making. Since its launch in 2006, nearly 900 organizations representing \$25 trillion in assets have formally agreed to honor the UNPRI. In 2010, the UNPRI recognized the General Board as one of its most active signatories. In addition, based on a 2010 survey to measure progress in implementing the UNPRI, the General Board scored among the top 25% of all signatories for our work in fulfilling each of the six Principles for Responsible Investment.

RETIREMENT, HEALTH AND WELFARE PLANS AND PROGRAMS

We continued to provide the personal financial planning services of Ernst & Young at no direct cost to retirement plan participants in 2010; call volume and financial planning activity remained strong. Ninety-six new plan sponsors joined the United Methodist Personal Investment Plan (UMPIP), extending this retirement savings vehicle to additional lay and non-CRSP-eligible clergy participants. In response to UMC financial concerns, the board of directors embarked upon a clergy retirement plan design study in order to take a proposal to General Conference 2012 to decrease retirement benefits and help reduce costs.

As of December 31, 2010, the HealthFlex plan, which includes a comprehensive array of wellness programs in addition to medical, prescription drug, dental and vision benefits, serves 31 plan sponsors covering approximately 28,000 lives in 28 annual conferences and three non-conference plan sponsors. The Comprehensive Protection Plan (CPP) continued to provide 22,000 eligible clergy with long-term disability (LTD) coverage and also provided clergy, retirees and dependents with death benefit coverage. As of December 31, 2010, there were 208 UMLifeOptions plan sponsors with approximately 6,600 plan participants. Through UMLifeOptions, plan sponsors are able to provide additional or supplemental life insurance to eligible clergy, and long-term disability and life insurance coverage for eligible lay employees.

A Message from the Chairperson of the Board and the General Secretary

ECONOMIC IMPACT ON INVESTMENTS

The U.S. and world financial markets continued their recovery in 2010 from the tumultuous financial conditions precipitated by the failure of numerous financial institutions in 2008 and early 2009. Led by continued economic growth in the developing world, as well as fiscal and monetary stimulus in the U.S. and other developed nations, global stock markets responded with additional gains in 2010. As a result, the value of the General Board's investments increased to \$17.0 billion (December 2010) from \$15.3 billion (December 2009). As we will describe later in this report, the performance of our core funds in 2010 and longer periods compares very favorably to funds similar to ours. The General Board remains committed to our focused, disciplined, long-term approach, ensuring that our investments remain broadly diversified across multiple investment strategies.

COST OF OPERATIONS

The General Board receives no general church funds to support its operating expenses, in accordance with *The Book of Discipline*. As a result, our operations are funded solely from investment income and the pass-through to our funds of investment management, bank custody and fund administration expenses related to the various plans. The annual cost from the three components, as a ratio to our average portfolio value, was 60.6 basis points (bps) (0.606%) in 2010, compared with 61.4 bps (0.614%) in 2009.

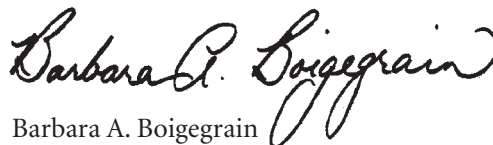
LOOKING FORWARD...

The 240-strong General Board staff represents a diversity of backgrounds and talents, serving shoulder-to-shoulder, combining a variety of skills in their support of participants, conferences, plan sponsors and institutional investors. Our staff personifies the General Board's core values—Teamwork, Integrity, Stewardship, Spirituality, Customer Satisfaction and Mutual Respect—in their individual gifts of service that help to assure a secure future for our participants.

This is the foundation they provide and that we continue to build upon. We hold the connection for tens of thousands in ministry, served through the welfare benefits and pension plans administered for UMC clergy and lay workers. At the General Board, there is a sense of serving in historic times, knowing that where we are in the continuum today reflects our unique contribution. We remain connected to our century-old heritage as we pave the way for the future.



Bishop Mike Watson
Chairperson, Board of Directors



Barbara A. Boigegrain
General Secretary

Summary of 2010 Markets and Investment Results

FINANCIAL MARKETS

In 2010, the U.S. and global economies continued their recovery from what investors now refer to as the “Great Recession” that began in 2008. Whereas the U.S. economy has historically led the world out of recession, the current recovery is largely attributed to the continued rapid growth of Brazil, China, India and other developing countries. When this rapid growth combined with various forms of fiscal and monetary stimulus engineered by the U.S. and other developed economies, investors experienced robust returns across nearly all financial markets in 2010.

Two of the more important programs administered by the U.S. were the First-Time Home Buyer Tax Credit and the Federal Reserve’s (the Fed’s) bond buying program. Although the tax credit program expired in September for home purchase contracts through April, investors and the public-at-large generally endorsed the program, and experts largely credit the initiative for forestalling an even greater decline in housing prices. The Fed’s bond buying program, also known as quantitative easing, was far more controversial. The Fed committed to purchase up to \$600 billion of U.S. government-issued debt for the express purpose of controlling interest rate levels. As a result, interest rates remain historically low. This has affected earnings on money market accounts and traditional passbook savings accounts offered by banks. Accordingly, investors shifted funds from lower-risk to higher-risk investments such as corporate bonds, stocks and alternative investments, in an attempt to attain higher returns.

U.S. stocks as measured by the broad Russell 3000 Index advanced nearly 17% in 2010. When combined with the 28% return in 2009, the U.S. equity markets have doubled from the low set on March 9, 2009. However, when looking at the performance of the stock market for the decade ending December 31, 2010, the combined returns from 2009 and 2010 could not make up for the significant market losses in 2008. For the decade, the average annual compounded rate of return for the S&P 500 Index was a mere 1.4%. This was the worst ten-year performance for the stock market since the decade ending in 1860.

While unable to keep pace with the U.S. stock market, international stock markets, as measured by the MSCI All Country World (ex US) Index, gained nearly 13% in 2010. The stock markets of the developing world advanced approximately 19% for the year, although investors were less enthusiastic about the prospects for developed country stock markets. This primarily was because of the failure of Greece, Ireland and Portugal in controlling the size of their debt, and the need for the more stable euro zone countries to provide these countries with financial support.

Credit markets also fared well with investment grade and non-investment grade corporate debt, as measured by widely recognized benchmark indexes, advancing 8% and 15% respectively. In addition, an index of bonds issued by developing countries gained more than 12% for the year.

Along with economic recovery, particularly in the developing world, came an increased demand for all types of commodities. The most widely watched measure of commodity prices is the price paid for a barrel of oil. At the end of 2010, the price had risen 15% from \$79 per barrel to over \$91 per barrel. The price of other commodities, however, increased much more with a basket of agricultural products increasing 35% and the price of cotton doubling.

Also, 2010 was a year of significant geopolitical events that will undoubtedly affect the future investment landscape. The world observed a devastating earthquake in Haiti as well as earthquakes in Chile, Indonesia, New Zealand, the Philippines and elsewhere. The significant environmental damage resulting from the BP oil spill resulted in widespread discussion of energy policy and the future of offshore drilling. Health care legislation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the 2010 Congressional election and the extension of the existing income tax rates were other political events closely watched by investors and the general public.

LOOKING AHEAD

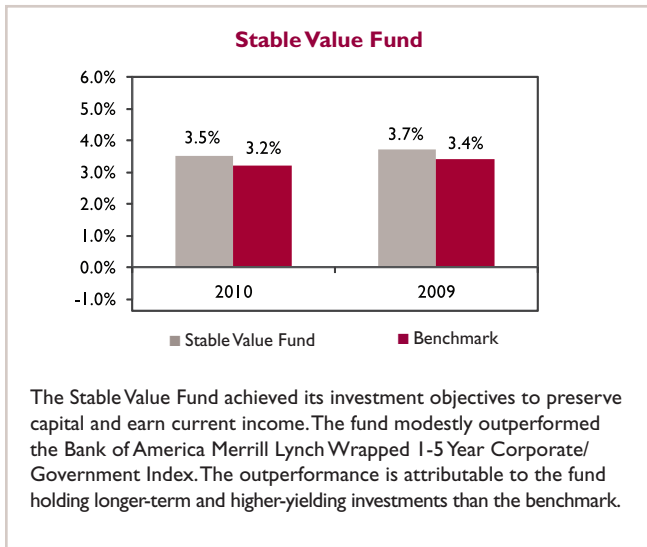
As 2011 began, market experts were collectively optimistic about the future prospects for the U.S. and global economies. Perhaps the biggest fear is the prospect for higher inflation as the demand for commodities continues to drive prices higher. In addition, though the rate of unemployment declined from a peak of 10.1% in October of 2009 to 9.4% at the end of 2010, economists remain concerned that persistent unemployment could derail the U.S. economic recovery. Wall Street has benefitted from rising asset prices, while the value of Main Street’s most visible asset—homes—continues to decline. Further decreases in home prices could adversely affect consumer psychology and negatively influence their willingness to maintain or increase levels of discretionary spending.

The financial markets appear to have gained traction and economic conditions have improved, and the General Board remains vigilant in its commitment to its long-term diversified investment strategy. We are confident that such an approach will help provide our participants with a secure retirement.

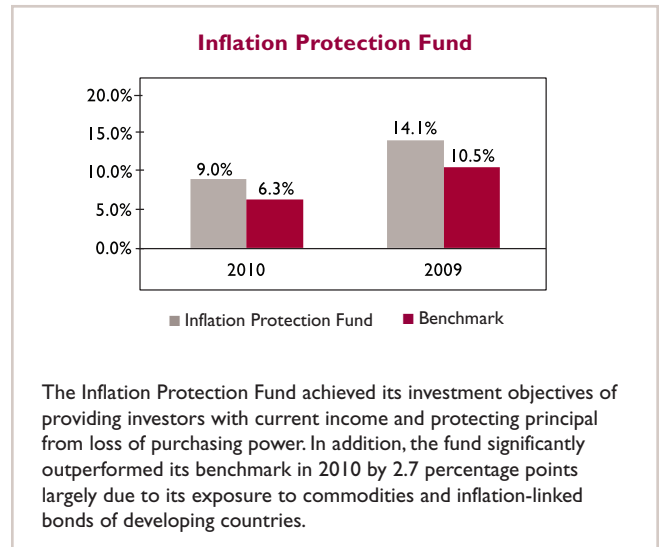
Summary of 2010 Markets and Investment Results *(continued)*

INVESTMENT FUND PERFORMANCE

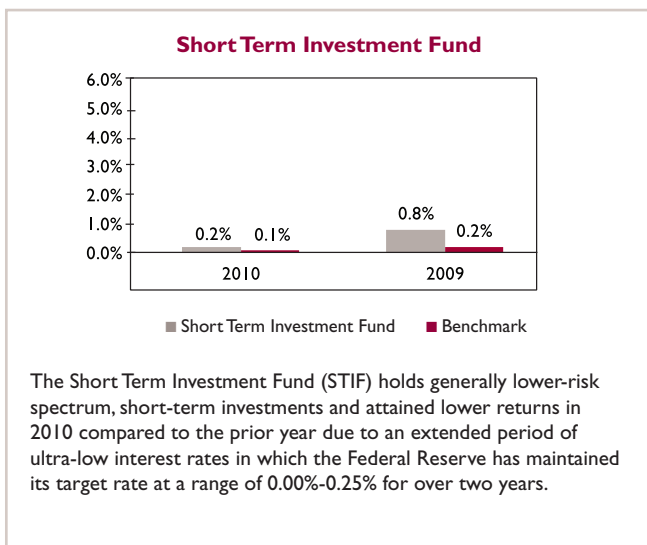
For the year, all of the General Board's funds produced positive investment returns. All funds, with the exception of the Balanced Social Values Plus Fund, outperformed their respective benchmarks and ranked among the top 25% when compared against a universe of mutual funds with similar investment goals. The following charts and tables recap 2009-2010 investment performance for each of the General Board's funds directly available for investment by individual and institutional investors compared with each fund's respective performance benchmark. All investment results are net of investment management and fund administration expenses.



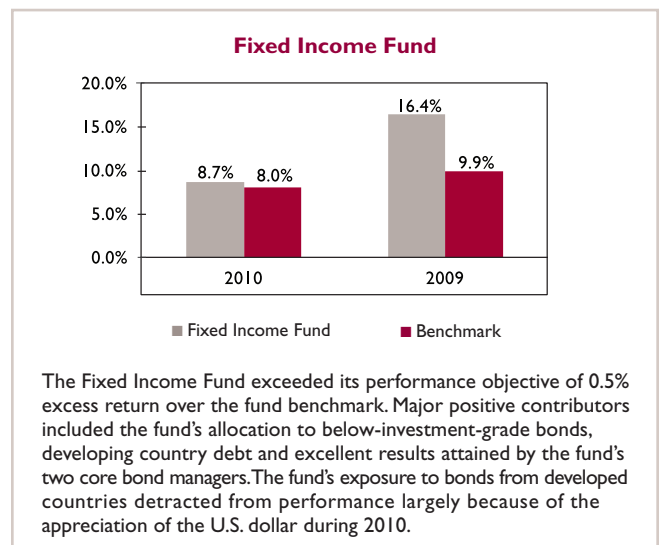
The benchmark for the Stable Value Fund changed to the Bank of America Merrill Lynch Wrapped 1-5 Year Corporate/Government Index in 2010. The 2009 data has been updated to reflect this change.



The benchmark for the Inflation Protection Fund is the Barclays Capital U.S. Government Inflation-Linked Bond Index.

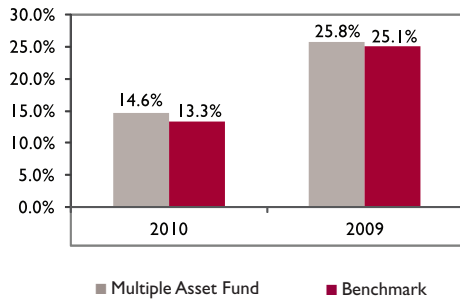


The benchmark for the Short Term Investment Fund is the Bank of America Merrill Lynch 90-Day Treasury Bill Index.



The benchmark for the Fixed Income Fund is the Barclays Capital U.S. Universal Index (excluding mortgage-backed securities).

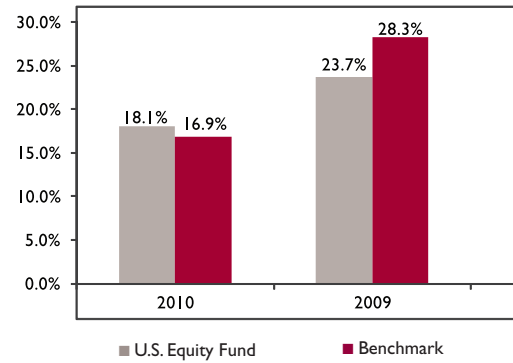
Multiple Asset Fund



All four of the underlying funds in the Multiple Asset Fund outperformed their respective benchmarks.

The benchmark for the Multiple Asset Fund is 45% Russell 3000 Index, 20% MSCI ACWI ex U.S. Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index (ex-mortgage backed securities) and 10% Barclays Capital U.S. Government Inflation-Linked Bond Index.

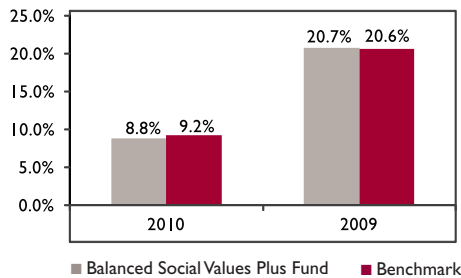
U.S. Equity Fund



The U.S. Equity Fund exceeded its performance objective of 0.75% excess return over the fund benchmark. The fund's approximate 60% allocation to large company equities closely matched the performance of the benchmark. The fund's higher-than-benchmark allocation to small and mid-sized companies contributed positively as the Russell 2000 Index of small companies and the S&P 400 Index of mid-sized companies both gained 27%. In addition, the fund's public real estate securities gained 30% for the year, though the fund's investments in private real estate only gained 5%. Private equity investments positively contributed to performance, with a gain of nearly 24%.

The benchmark for the U.S. Equity Fund is the Russell 3000 Index.

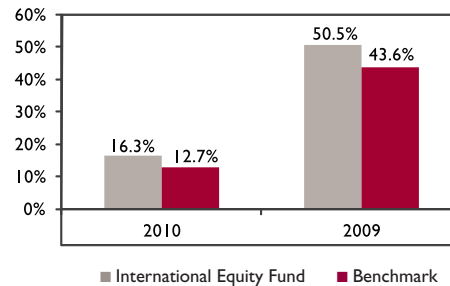
Balanced Social Values Plus Fund



The Balanced Social Values Plus Fund underperformed its benchmark by a margin of 0.4% for the year as its investments in positive social purpose mortgages detracted from performance.

The benchmark composition is 60% MSCI KLD 400 Social Index, 30% Barclays Capital Mortgaged Backed Securities Index and 10% Bank of America Merrill Lynch 90-Day Treasury Bill Index.

International Equity Fund



The International Equity Fund outperformed its benchmark as nearly every strategy in the fund added value. A notable contributor to the fund's excellent benchmark-relative performance was the fund's value manager (and largest manager in terms of assets managed), which outperformed its benchmark by over 11 percentage points. In addition, one of the fund's managers of developing country equities produced a return of nearly 26%, eclipsing its benchmark return by nearly seven percentage points.

The benchmark for the International Equity Fund is the MSCI ACWI ex U.S. Investable Market Index (IMI).

Summary of 2010 Markets and Investment Results *(continued)*

PERFORMANCE RETURNS

Returns for periods ended December 31, 2010 except for the return information for 2009

General Board Funds	2010	2009	3 Years	5 Years	10 Years	Inception
Stable Value Fund	3.5%	3.7%	3.9%	4.1%	N/A	3.8%
Benchmark	3.2%	3.4%	3.5%	3.8%	N/A	3.5%
Short Term Investment Fund	0.2%	0.8%	0.8%	2.4%	N/A	2.2%
Benchmark	0.1%	0.2%	0.8%	2.4%	N/A	2.2%
Inflation Protection Fund	9.0%	14.1%	4.7%	5.1%	N/A	5.3%
Benchmark	6.3%	10.5%	4.9%	5.3%	N/A	5.4%
Fixed Income Fund	8.7%	16.4%	8.7%	7.4%	6.4%	6.4%
Benchmark	8.0%	9.9%	5.6%	5.6%	5.7%	5.8%
Multiple Asset Fund	14.6%	25.8%	2.1%	5.6%	N/A	7.1%
Benchmark	13.3%	25.1%	0.7%	4.7%	N/A	6.1%
Balanced Social Values Plus Fund	8.8%	20.7%	1.5%	3.6%	2.5%	4.0%
Benchmark	9.2%	20.6%	1.8%	4.4%	3.6%	5.0%
U.S. Equity Fund	18.1%	23.7%	-1.5%	3.2%	2.3%	4.4%
Benchmark	16.9%	28.3%	-2.0%	2.7%	2.2%	4.3%
International Equity Fund	16.3%	50.5%	-2.2%	6.3%	5.4%	7.8%
Benchmark	12.7%	43.6%	-4.4%	5.3%	4.9%	5.9%

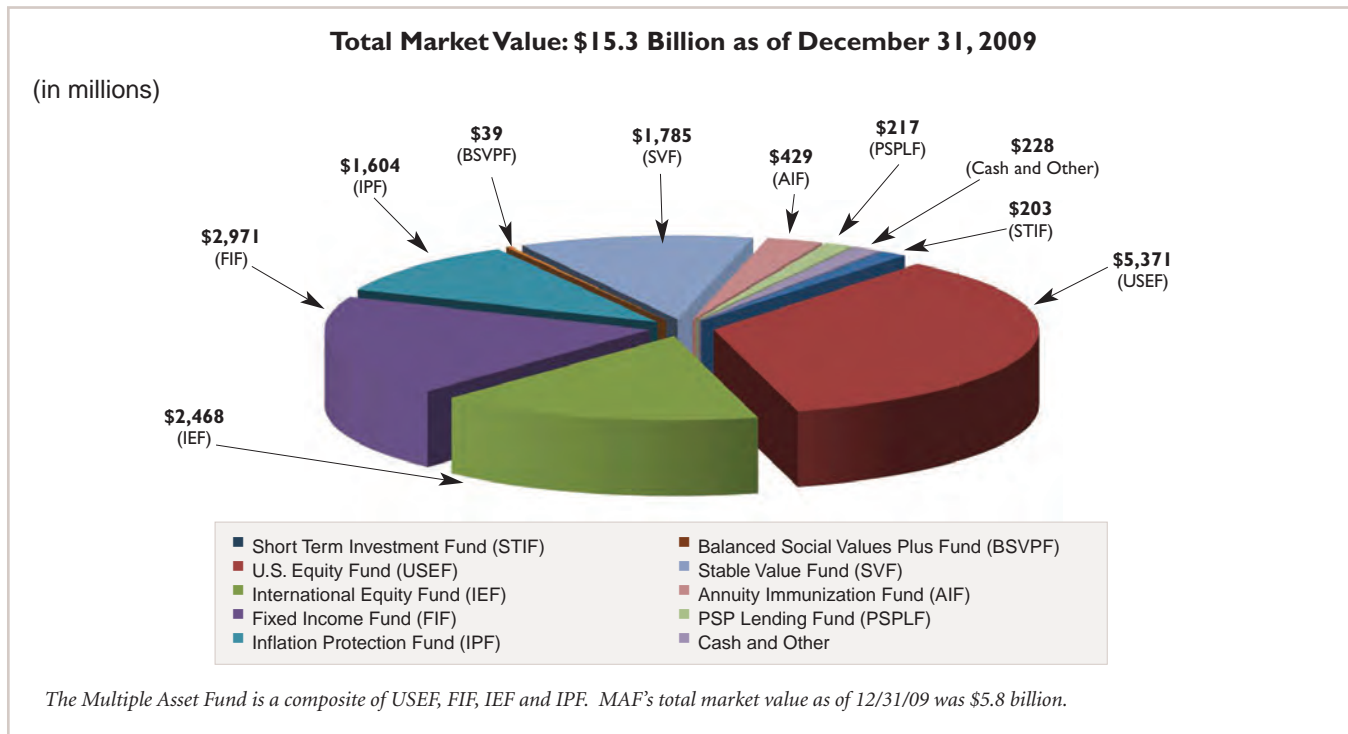
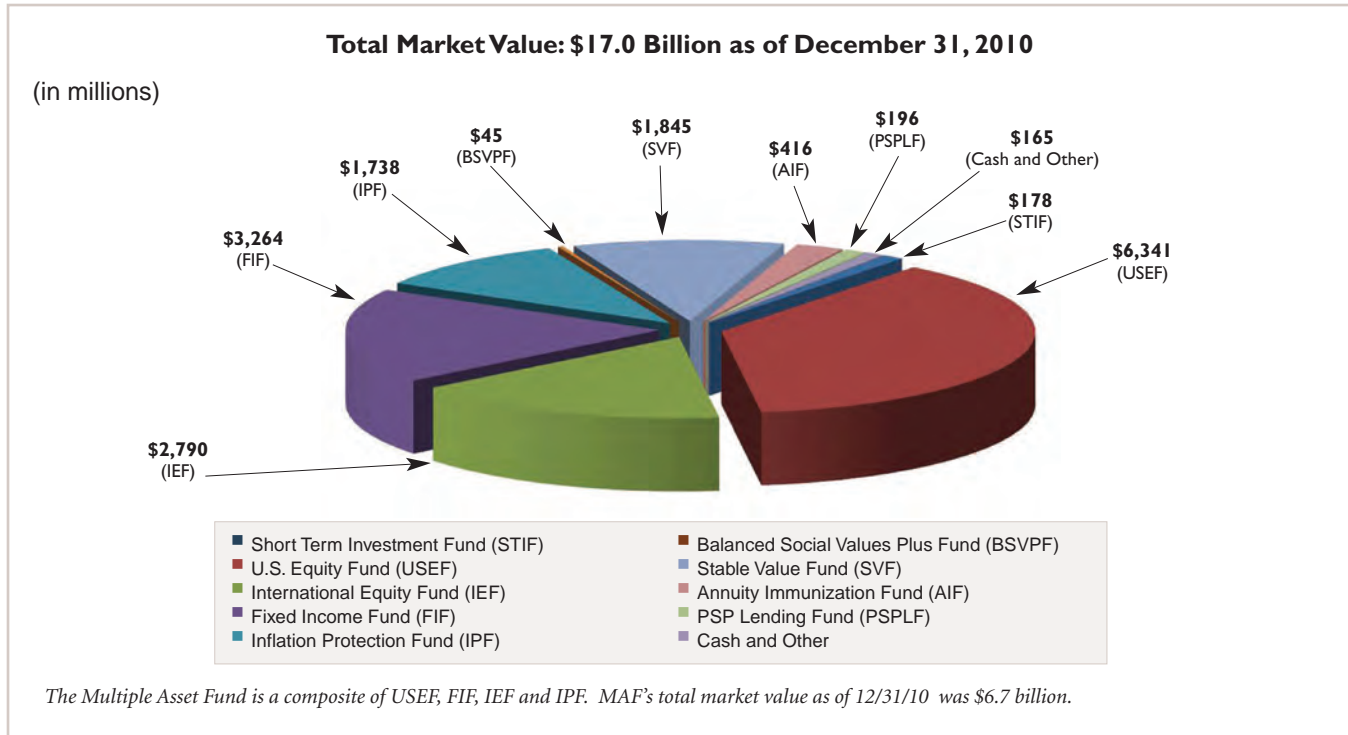
The inception dates are as follows: Multiple Asset Fund, May 1, 2002; Short Term Investment Fund, April 30, 2002; Stable Value Fund, November 30, 2002; Inflation Protection Fund, January 5, 2004; for all others, the inception date is December 31, 1997.

Additional information regarding fund performance, including a detailed analysis of the factors that positively and negatively influenced results for the funds, is available on the General Board's website at the following Web addresses:

- For monthly economic commentary and discussion of investment performance results:
www.gbophb.org/sri_funds/mir.asp
- For a comparison of investment performance results relative to comparable mutual funds in 2010:
www.gbophb.org/sri_funds/mir/201012.asp
- For a comparison of investment performance results relative to comparable mutual funds in 2009:
www.gbophb.org/UserFiles/File/resources/pdf/qir/2009Q4.pdf

FUND ASSETS

The following charts display the value of fund assets for each of the funds managed by the General Board as of December 31, 2010 and December 31, 2009:



Several fund names were changed in 2010. The 2009 data has been updated to reflect the new names. For further details, please see the Investment Funds Description at <https://www.gbophb.org/TheWell/Root/ALL/3052.pdf>

Summary of 2010 Markets and Investment Results *(continued)*

FUND EXPENSES

Costs incurred by the General Board in managing and administering the funds are paid by the funds. Expenses include investment management fees, bank custodial fees and costs incurred by the General Board to administer the plans. The table below provides total expense information for each of the funds that are available to individuals and UMC-affiliated institutions.

ANNUAL COSTS AS A PERCENTAGE OF FUND ASSETS

General Board Funds	2010	2009
Stable Value Fund	0.35%	0.34%
Short Term Investment Fund	0.35%	0.33%
Inflation Protection Fund	0.44%	0.44%
Fixed Income Fund	0.55%	0.51%
Multiple Asset Fund	0.63%	0.64%
Balanced Social Values Plus Fund	0.42%	0.42%
U.S. Equity Fund	0.65%	0.68%
International Equity Fund	0.80%	0.87%

SOCIALLY RESPONSIBLE INVESTING

The General Board continues to be a recognized leader for socially responsible investing—promoting sustainable investment practices focused on environmental, social and governance (ESG) advocacy. We place particular emphasis on sustainable business practices, climate change, the environment (water management and resource conservation), food safety and labeling, labor standards and human rights, diversity, health, corporate governance, and fair lending practices. We are actively engaged in dialogue with corporations and various regulatory agencies, voting proxies for almost 3,000 companies annually.

THE UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

The General Board demonstrates its commitment to socially responsible investing through involvement with the United Nations Principles for Responsible Investment (UNPRI). One of the original signatories of this path-breaking initiative dedicated to promoting the consideration of environmental, social and governance factors in investment decision-making, the General Board was recognized in 2010 as one of the UNPRI's most active signatories. Based on the UNPRI's 2010 assessment of signatories, the General Board scored among the top 25% of all signatories for its efforts in fulfilling each of the six Principles for Responsible Investment.

THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

During 2010, the socially responsible investing movement in the U.S. received a significant endorsement from the Dodd-Frank Wall Street Reform and Consumer Protection Act. This legislation, signed into law by President Obama

on July 21, resulted from the events of 2008 that adversely affected the financial services industry and the U.S. economy. Many of the Act's provisions address issues that have long occupied the attention of socially responsible investors, including:

- executive compensation,
- board composition and structure,
- pay disparity,
- proxy voting, and
- disclosure of corporate governance measures.

The Act calls for greater disclosure from corporations on governance and compensation issues and allows investors to nominate candidates for open positions on company boards of directors.

CORPORATE ADVOCACY

During 2010, the General Board continued to engage companies on priority-focused issues, such as climate change, public sustainability reporting, executive compensation and human rights.

Discussions with Community Health Systems, Overseas Shipping Group and Tenet Healthcare were constructive, with commitments from each to prepare sustainability reports. Investors use these reports to evaluate how well companies are dealing with ESG issues. The sustainability resolution we filed at Tyson Foods—calling for a report describing how the company will reduce the environmental impact from its farms and the contract farms that supply its animals—received a meaningful shareholder vote, with the company subsequently agreeing to meet with shareholders to discuss these and other sustainability issues.

In collaboration with other United Nations PRI signatories, the General Board held discussions with Dell, Hewlett-Packard, Intel, Microsoft, Motorola and Nokia focused on supply chain and conflict minerals issues. The goal of these exchanges was to encourage companies to develop policies and procedures to ensure conflict minerals are not included in their supply chains.

SOCIALLY RESPONSIBLE INVESTING SUMMIT

In 2010, the General Board co-sponsored the first-ever Socially Responsible Investing Summit held for United Methodist investors. The Summit had its genesis in legislation passed by General Conference 2008. At that meeting, the Church created a task force “for the purpose of establishing, implementing and promoting a common standard for determining prohibited investments and positive investment principles that are consistent with The United Methodist Social Principles and that can be utilized by both individual and institutional investors...” The task force includes representatives from the General Board of Church and Society, the General Board of Global Ministries, the United Methodist Church Foundation, the National Association of United Methodist Foundations and the General Board of Pension and Health Benefits.

Management's Report on Financial Statements

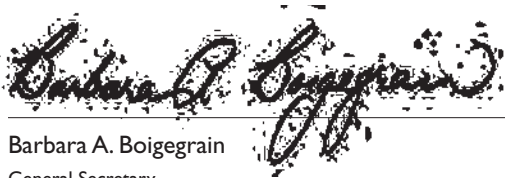
We have prepared the accompanying financial statements of the General Board of Pension and Health Benefits of The United Methodist Church for the years ended December 31, 2010 and 2009. We are responsible for the content and integrity of the financial statements as well as the other financial information included in this annual report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect our best estimates and judgments. The other financial information included in this annual report is consistent with the financial statements. We believe that the financial statements present fairly the General Board's financial position; results of operations and changes in net assets; and changes in plan accumulations, plan sponsor deposits, endowments and net asset accounts.

The General Board's financial statements have been audited by Grant Thornton LLP, independent certified public accountants, whose report appears on page 29. Grant Thornton LLP was given unrestricted access to all financial records and related information, including minutes of meetings of the board of directors and committees. We believe that all representations made to Grant Thornton LLP during its audit were valid, timely and appropriate.

We recognize our responsibility for fostering a strong ethical climate so that the General Board's affairs are conducted according to the highest standards of conduct. This responsibility is characterized and reflected in the General Board's Code of Conduct (Code). The Code addresses, among other things, the necessity of assuring open

communication within the General Board, potential conflicts of interest, compliance with all domestic and foreign laws, and the confidentiality of proprietary information. We maintain a systematic program to assess compliance with the Code, including a requirement that all employees and board members must annually affirm their compliance.

Management of the General Board has established and maintains a system of internal controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. This system of internal controls provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and are updated as necessary. Management monitors the system of internal controls for compliance. The General Board maintains an internal auditing program that independently assesses the effectiveness of the system of internal controls and recommends possible improvements. In planning and performing its audit of the General Board's financial statements, Grant Thornton LLP considered the General Board's internal controls over financial reporting for the purpose of expressing its opinion on the financial statements and not to provide assurance on internal controls. In addition, the General Board has an Audit Committee that oversees the internal and external audit processes. (See the Audit Committee's Report on page 30).



Barbara A. Boigegrain
General Secretary



Timothy C. Koch
Chief Financial Officer

COMBINED STATEMENTS OF ASSETS AND LIABILITIES AND NET ASSETS

Assets (in thousands)	December 31, 2010	December 31, 2009
Investments (Notes 2, 3 and 5)		
Fixed income securities and contracts (Note 6)	\$ 6,796,606	\$ 6,269,996
Equity securities	6,701,531	6,598,951
Cash equivalents	909,215	773,506
Real estate and private equity limited partnerships (Note 2)	678,086	585,565
Emerging market funds	491,170	470,697
Securities loaned under securities lending agreements (Notes 2 and 4)	<u>1,401,725</u>	<u>616,401</u>
Total investments	16,978,333	15,315,116
Invested collateral from securities lending agreements (Note 4)	1,448,320	638,765
Other assets (Note 2)	202,152	154,841
Cash	<u>36,613</u>	<u>61,229</u>
Total assets	<u>\$ 18,665,418</u>	<u>\$ 16,169,951</u>

Liabilities and net assets (in thousands)	December 31, 2010	December 31, 2009
Plan accumulations, plan sponsor deposits and endowments (Note 2)		
Defined contribution plans	\$ 7,774,189	\$ 7,171,814
Defined benefit plans	3,430,360	3,159,398
Annuities	2,911,858	2,615,640
Disability, death and health benefit program deposits (Note 8)	1,315,207	1,189,917
Plan sponsor and other deposits	1,470,580	1,160,301
Endowments	<u>39,021</u>	<u>34,077</u>
Total plan accumulations, plan sponsor deposits and endowments	16,941,215	15,331,147
Payable under securities lending agreements (Note 4)	1,448,320	638,765
Other liabilities (Note 2)	<u>235,806</u>	<u>164,396</u>
Total liabilities	18,625,341	16,134,308
Net assets	<u>40,077</u>	<u>35,643</u>
Total liabilities and net assets	<u>\$ 18,665,418</u>	<u>\$ 16,169,951</u>

See accompanying "Notes to the Combined Financial Statements."

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years Ended December 31 (in thousands)	2010	2009
Interest, dividend, real estate partnership and trust investment income	\$ 485,357	\$ 455,465
Securities lending and other income	<u>4,619</u>	<u>4,721</u>
Investment income	489,976	460,186
Net realized gain (loss) on investments	515,262	(278,865)
Net unrealized gain on investments	<u>1,017,115</u>	<u>2,664,371</u>
Investment income and net gain on investments	2,022,353	2,845,692
Investment management and custodial fees	<u>(53,083)</u>	<u>(46,811)</u>
Net investment gain	1,969,270	2,798,881
Operating expenses (Note 9)	(45,279)	(40,552)
Gain on sale of property (Note 11)	5,535	–
Investment income (net of administrative expenses)		
paid to health benefit program (Note 8)	<u>(4,560)</u>	<u>(5,437)</u>
Net earnings before allocation (Note 2)	1,924,966	2,752,892
Net earnings allocated to unitized fund accounts (Note 7)	<u>(1,920,532)</u>	<u>(2,733,745)</u>
Increase in net assets	4,434	19,147
Net assets:		
Beginning of year	<u>35,643</u>	<u>16,496</u>
End of year	<u>\$ 40,077</u>	<u>\$ 35,643</u>

See accompanying “Notes to the Combined Financial Statements.”

COMBINED STATEMENTS OF CHANGES IN PLAN ACCUMULATIONS, PLAN SPONSOR DEPOSITS, ENDOWMENTS AND NET ASSETS

Year Ended December 31, 2010 (in thousands)	Balances Beginning of Year	Net Earnings Allocated to Unitized Funds	Contributions and Deposits	Distributions and Withdrawals	Net Transfers and Other	Balances End of Year
Defined contribution plans	\$ 7,171,814	\$ 827,283	\$ 204,633	\$ (206,003)	\$ (223,538)	\$ 7,774,189
Defined benefit plans	3,159,398	436,984	158,442	(319,713)	(4,751)	3,430,360
Annuities	2,615,640	315,222	—	(246,119)	227,115	2,911,858
Disability, death and health benefit program deposits	1,189,917	154,419	178,287	(212,817)	5,401	1,315,207
Plan sponsor and other deposits	1,160,301	181,647	446,180	(316,470)	(1,078)	1,470,580
Endowments	34,077	4,977	133	(151)	(15)	39,021
Total plan accumulations, plan sponsor deposits and endowments	\$15,331,147	\$ 1,920,532	\$ 987,675	\$ (1,301,273)	\$ 3,134	\$16,941,215
Net assets	\$ 35,643	\$ 4,434	\$ —	\$ —	\$ —	\$ 40,077

Year Ended December 31, 2009 (in thousands)	Balances Beginning of Year	Net Earnings Allocated to Unitized Funds	Contributions and Deposits	Distributions and Withdrawals	Net Transfers and Other	Balances End of Year
Defined contribution plans	\$ 6,103,553	\$ 1,195,627	\$ 168,727	\$ (149,266)	\$ (146,827)	\$ 7,171,814
Defined benefit plans	2,646,071	661,507	161,127	(307,960)	(1,347)	3,159,398
Annuities	2,268,546	429,796	—	(232,742)	150,040	2,615,640
Disability, death and health benefit program deposits	984,390	218,279	198,828	(230,751)	19,171	1,189,917
Plan sponsor and other deposits	932,301	221,490	294,800	(288,843)	553	1,160,301
Endowments	27,183	7,046	105	(143)	(114)	34,077
Total plan accumulations, plan sponsor deposits and endowments	\$12,962,044	\$ 2,733,745	\$ 823,587	\$ (1,209,705)	\$ 21,476	\$15,331,147
Net assets	\$ 16,496	\$ 6,193	\$ —	\$ —	\$ 12,954	\$ 35,643

See accompanying “Notes to the Combined Financial Statements.”

NOTES TO THE COMBINED FINANCIAL STATEMENTS

NOTE 1:

NATURE OF OPERATIONS

The General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Illinois (the Illinois Corporation) is a not-for-profit, administrative general agency of the religious denomination known as The United Methodist Church. It functions with a related not-for-profit corporation: the UMC Benefit Board, Inc. (the Benefit Board), which acts as the trustee and the fund manager of the assets. (The Illinois Corporation and the Benefit Board are referred to collectively as the General Board). The General Board is responsible for the general supervision and administration of pension, disability, death and health benefit plans, programs and funds as authorized by General Conference, the denomination's highest legislative authority. One of the functions of the Illinois Corporation is to act as plan administrator for the various pension, disability, death and health benefit plans, programs and funds that the General Board administers for its plan sponsors.

Pension and retirement plans administered by the Illinois Corporation: As of December 31, 2010, the three Internal Revenue Code (IRC) section 403(b) pension plans include the Clergy Retirement Security Program (CRSP), providing pension benefits to eligible clergy; the Retirement Plan for General Agencies (RPGA), providing retirement benefits to eligible employees of general agencies; and the United Methodist Personal Investment Plan (UMPIP), providing retirement benefits and savings opportunities for clergy and lay employees of United Methodist churches, church-related organizations and general agencies, and for plan sponsors that so elect, the opportunity to make any of several kinds of employer contributions for their participants. The current IRC section 401(k) plan is the Horizon Plan, a retirement savings plan for employee and employer contributions for employees of eligible United Methodist-related institutions. In addition, the Illinois Corporation administers various former benefit plans, which no longer accrue additional service credit for plan participants or allow for the eligibility of new participants.

CRSP consists of two components: a defined benefit component, based on either Denominational Average Compensation (DAC) or actual compensation, and a defined contribution component, providing for a contribution of 3% of actual compensation.

CRSP is an amendment and restatement of the Ministerial Pension Plan (MPP). The program consists of three parts covering three different time periods: CRSP for service beginning January 1, 2007; MPP for service from January 1, 1982 through December 31, 2006; and Supplement One to CRSP for service prior to 1982 (Pre-82 Plan).

RPGA became effective on January 1, 2010, and is an amendment and restatement of the Retirement Security Program for General Agencies (RSP), which is retained in Supplement Two to RPGA.

Disability, death and health benefit plans and programs administered by the Illinois Corporation: The three current disability, death and health benefit programs include the Comprehensive Protection Plan (CPP), providing various welfare benefits to eligible clergy; UMLifeOptions (which replaced the Basic Protection Plan), providing various welfare benefits to eligible clergy and lay employees of participating local churches, annual conferences and other eligible United Methodist-related institutions; and the Hospitalization and Medical Expense Program (HMEP), doing business as HealthFlex, providing group health coverage to employees of participating local churches, annual conferences, general agencies and other eligible United Methodist-related institutions.

Funding of benefit obligations: Plan sponsors are responsible for the funding and recording of all pension, disability, death and health benefit obligations. All sponsoring entities are responsible for funding both current and past service costs. Pension and other postretirement obligations are the responsibility of the sponsoring entities.

The Benefit Board is the trustee of various trusts in which the assets are held. All of the assets of the trusts are invested in a prudent manner based on the investment policies of the General Board. As of December 31, 2010, the General Board administered 16 investment funds: Multiple Asset Fund (MAF), Stable Value Fund (SVF), Balanced Social Values Plus Fund (BSVVPF), Fixed Income Fund (FIF), Positive Social Purpose Lending Fund (PSPLF), Inflation Protection Fund (IPF), Short Term Investment Fund (STIF), Central Conference Investment Fund (CCIF), Domestic Private Real Estate Fund (DPRF), Domestic Private Equity Fund (DPEF), U.S. Equity Fund (USEF), International Private Real Estate Fund (IPRF), International Private Equity Fund (IPEF),

NOTES TO THE COMBINED FINANCIAL STATEMENTS

International Equity Fund (IEF), Annuity Immunization Fund (AIF) and Special Opportunity Fund (SOF). UMPIP participants may invest before-tax and after-tax contributions, together with resulting earnings, and CRSP and RPGA participants may invest their defined contribution accounts in seven of the 16 available investment funds. Institutional investors may also elect among seven of the 16 available investment funds.

In addition to the seven participant funds, the General Board manages nine other funds that provide exposure to specialized investment strategies. Participants have exposure to some of these strategies through their investments in the International Equity Fund, the Multiple Asset Fund and the U.S. Equity Fund. Other strategies address unique requirements of certain liability pools.

On January 1, 2006, the General Board introduced the LifeStage Investment Management Service (LifeStage), a managed account program that provides asset allocation and risk management services for participants. This service allocates participant balances among five of the General Board funds based on specific participant characteristics that include age, expected date to begin receiving retirement benefits, eligibility for Social Security, risk tolerance and other factors.

NOTE 2:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The combined financial statements consisting of the Combined Statements of Assets and Liabilities and Net Assets (Balance Sheets), Combined Statements of Operations and Changes in Net Assets (Statements of Operations) and Combined Statements of Changes in Plan Accumulations, Plan Sponsor Deposits, Endowments and Net Assets (Statements of Changes) (known collectively as the financial statements) include the accounts of the funds within the Illinois Corporation and the Benefit Board, prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates. All significant inter-company and interfund accounts and transactions have been eliminated in these combined statements.

Investments: All investment transactions are governed by the investment policy and guidelines of the General Board. In general, investments are stated at fair value. Changes in fair value of investments are recorded in the Statements of Operations as “Net unrealized gain on investments.” Investment purchases and sales are recorded as of the trade date. Net gains and losses on the sale of investments, other than cash equivalent investments, are included in “Net realized gain (loss) on investments” in the Statements of Operations. Gains and losses on the sale of cash equivalent investments are included in interest income. Costs of investments sold are determined on an average cost basis. With the exceptions detailed in Note 3, the fair value of the majority of the investments outlined below is measured under level 1 or 2 (See Note 3, “Fair Value Measurements”).

Equity securities: Equity securities consist of common and preferred stocks, stated at fair value determined primarily by closing prices quoted on recognized U.S. and international security exchanges.

Fixed income securities and contracts: Fixed income securities and contracts consist of U.S. Treasury and agency securities, corporate bonds, mortgage-backed securities, asset-backed securities, sovereign securities denominated in U.S. dollars and foreign currencies, stated at fair value determined primarily by matrix pricing, and forward contracts and mortgage contracts or other loans that comprise investments in the General Board’s Positive Social Purpose Lending Program.

The Positive Social Purpose Lending Program was established in 1990 to earn risk-adjusted market rates of return while funding a variety of projects in traditionally underserved communities. This includes, but is not limited to, the development of affordable housing for low- and moderate-income individuals and families, homeless shelters, health centers, senior living centers, microfinance and charter schools. The program invests primarily in privately placed mortgage-backed securities, mortgage loans and direct loans that meet pre-set criteria, such as specified minimum loan-to-value and debt coverage ratios. At December 31, 2010 and 2009, the General Board had outstanding positive social purpose investments of approximately \$779 million and \$804 million, respectively. Mortgage contracts and other loans are stated on the financial statements at fair value based on the net present value of the estimated future cash flows discounted at market equivalent rates.

At December 31, 2010 and 2009, the General Board had outstanding commitments to provide approximately \$18 million and \$69 million, respectively, in additional funding related to the Positive Social Purpose Lending Program. These commitments are not recorded in the financial statements. Funds set aside to cover these commitments are included under the captions “Fixed income securities and contracts” and “Cash equivalents.”

Also included in this category are derivative based wrap contracts used in conjunction with the Stable Value Fund (SVF) portfolio. These contracts are utilized to mitigate market rate risk exposure on the underlying SVF portfolio of investments, stated at fair value as detailed in Note 6.

Cash equivalents: Cash equivalent investments are stated at fair value or at cost, which approximates fair value. Cash equivalents include cash, short-term securities that mature within three months or less at date of purchase and cash collateral related to margin requirements on futures contracts, all of which are stated at cost. Foreign currency contracts are also included in this category at fair value determined by exchange derived bid-ask prices.

Real estate and private equity limited partnerships: Investments in real estate and private equity limited partnerships are carried at the General Board’s share of the partnership’s net asset value (NAV) based primarily on annual audited or unaudited year-end financial statements, which is used to approximate fair value at year end. In some cases, General Board staff may use discretion in determining fair value for a particular partnership based on more current information regarding market conditions or applying a different valuation that better reflects the true underlying value of the investments.

Emerging market funds: Emerging market funds are valued using an estimated daily NAV.

Investments Valued at NAV

(in millions)	Fair Value	Unfunded Commitments	Redemption Notice Period
<i>Open-end funds</i>			
Real estate	\$ 77	\$ –	90 days
Emerging market funds	491	–	90 days
<i>Closed-end funds</i>			
Real estate	330	152	
Private equity	271	51	
Total	\$ 1,169	\$ 203	

Open-end real estate funds invest primarily in U.S. commercial real estate. These have an indefinite life, and investments may be redeemed on 90 day’s notice. However, the fund manager has the discretion not to accept the redemption request.

Emerging market funds are open-ended comingled funds invested in underlying international equities in emerging markets. These have an indefinite life, and investments may be redeemed on 90 day’s notice.

Closed-end real estate funds invest primarily in U.S. commercial real estate. These investments cannot be redeemed. Distributions from each fund occur as the underlying investments of the funds are liquidated. The General Board estimates that the underlying investments of the existing funds will be liquidated over the next 15 years.

Closed-end private equity funds invest primarily in limited partnerships comprised of investments in mostly privately held U.S. companies. These investments cannot be redeemed. Distributions from each fund occur as the underlying investments of the funds are liquidated. The General Board estimates that the underlying investments of the existing funds will be liquidated over the next 15 years.

International securities: International securities consist primarily of stocks and bonds of entities domiciled outside the United States and foreign currency forward contracts. Investments in fixed income securities and contracts are included under the caption “Fixed income securities and contracts.” Investments in international stocks are included under the caption “Equity securities.” Investments in emerging market funds are included under the caption “Emerging market funds.” The total investment in international securities is approximately \$4,459 million and \$3,984 million in 2010 and 2009, respectively.

NOTES TO THE COMBINED FINANCIAL STATEMENTS *(continued)*

Securities loaned under securities lending agreements: A portion of stocks, fixed income securities and international securities has been loaned to qualified borrowers pursuant to the General Board's securities lending program, further described in Note 4. The market value of securities on loan as of December 31 is comprised of the following:

(in thousands)	2010	2009
Stocks	\$ 1,211,296	\$ 273,601
Fixed income securities	166,569	307,666
International securities	23,860	35,134
Total	\$ 1,401,725	\$ 616,401

Other assets: Other assets consist primarily of fixed assets and investment receivables. Fixed assets, which include property, furniture and equipment, are assets with cost in excess of \$5,000 that have a useful life greater than one year. Fixed assets are stated at cost less allowance for depreciation. Depreciation of fixed assets is provided on a straight-line basis over the assets' estimated service life, typically five to seven years for furniture, fixtures and equipment, 15 years for land improvements and 30 to 40 years for buildings. Depreciation expense is included in operating expenses in the Statements of Operations. Receivables due from the purchasers of investments sold of approximately \$69 million and \$44 million at December 31, 2010 and 2009, respectively, are included in other assets.

Property and equipment which is a component of other assets are comprised of the following as of December 31:

(in thousands)	2010	2009
Land	\$ 16,994	\$ 3,766
Land improvements	3,709	–
Buildings	35,534	5,948
Construction-in-progress (including land purchase)	–	31,045
Computer and office equipment	20,662	19,262
	76,899	60,021
Less accumulated depreciation		
Land improvements	62	–
Buildings	4,312	4,014
Computer and office equipment	8,382	9,522
Property and equipment – net	\$ 64,143	\$ 46,485

Defined contribution plans: This liability represents the accumulated market value of contributions to the defined contribution components of the three IRC Section 403(b) and 401(k) pension or retirement plans as remitted by the conference/salary-paying entity to a participant's account.

Defined benefit plans: Plan sponsors fund current and future benefits for service rendered under the defined benefit plans. For financial statement purposes, the General Board shows only amounts that plan sponsors have contributed to date, with accumulated investment earnings. These plans have funded and unfunded liabilities. Plan sponsors of the Pre-82 Plan are required to contribute the unfunded amounts, plus any changes resulting from benefit improvements, no later than the end of the year 2021. Plan sponsors of CRSP and RSP (through March 2010) contributed approximately \$143 million and \$142 million to the plans in 2010 and 2009, respectively.

Annuities: Annuities are monthly benefit payments for retired individuals that have been established under defined contribution plans. Actuarially determined benefits are funded upon retirement from the individual accounts of the retiring participants. Participants make specific elections with regard to survivor benefits, postretirement benefit increases and other terms of the annuity.

Disability, death and health benefit program deposits: These pooled accounts represent deposits made by plan sponsors participating in the disability, death and health benefit programs to provide benefits to individual participants.

Plan sponsor and other deposits: Plan sponsor deposits represent amounts received from plan sponsors to fund pension, disability, death, health benefit and other programs. These funds are invested at the discretion of the plan sponsor.

Endowments: Included in the endowment liabilities, within the Benefit Board, are funds administered on behalf of member conferences and others. The General Board invests these funds as the trustee. Distributions of income are made in accordance with the provisions of the individual funds. Many annual conferences, particularly those in the South Central and Southeastern jurisdictions, have Conference Superannuate Endowment Fund accounts. These funds, the principal of which may not be withdrawn as mandated by General Conference, represent endowment funds for the benefit of retirees of the former Methodist Episcopal Church, South. Also included in endowments, within the Illinois Corporation, are undesignated gifts, bequests and donations.

Other liabilities: Other liabilities consist primarily of payables for investment purchases of approximately \$163 million and \$146 million at December 31, 2010 and 2009, respectively.

Net assets: Combined Net Assets at December 31, 2010 and 2009 represent the Illinois Corporation's unrestricted net assets. Net assets are determined based on increases or decreases in the value of assets not specifically allocated to plans.

Net earnings before allocation: Net earnings before allocation consist of the excess of net investment gain and gain on sale of property over operating expenses and investment income net of administrative expenses paid to the health benefit program.

Reclassification: Certain prior-year amounts have been reclassified to conform to the current-year presentation.

NOTE 3: FAIR VALUE MEASUREMENTS

The General Board complies with GAAP and uses the fair value hierarchy, which is based on the inputs used to measure fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The General Board utilizes the following hierarchy to classify assets and liabilities held at fair value based on the transparency of inputs:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. These types of securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in level 2 are investments measured using NAV per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which is generally considered to be within 90 days.

Level 3: Securities that have little to no observable pricing inputs as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in level 3 are investments measured using a NAV per share, or its equivalent, that cannot be redeemed at the NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

When available, the General Board values securities at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of securities transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the securities are principally traded. For investments in illiquid or privately held securities and private real estate or private equity partnership investments that do not have readily determinable fair values, the determination of fair value requires the General Board to estimate the value of the securities using the best information available.

Among the factors that may be considered by the General Board in determining the fair value of illiquid or privately held securities are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of these investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. In addition, even where the value of a security is derived from an independent source, certain assumptions may be required to determine the security's fair value. The actual value realized upon disposition could be different from the currently estimated fair value. All of the General Board's investments in illiquid, infrequently traded or privately held securities have been valued using level 2 inputs.

Fixed income securities such as domestic government or corporate bonds are stated at fair value determined primarily by matrix pricing. Fair value estimates of guaranteed investment contracts are made according to the methodologies further detailed in Note 6. Mortgage contracts and other loans are stated at fair value based on the net present value of the estimated future cash flows discounted at market equivalent rates.

NOTES TO THE COMBINED FINANCIAL STATEMENTS *(continued)*

For private real estate partnership investments, fair value estimates of the underlying real estate investments are based on a combination of property appraisal reports prepared by third party, independent appraisers and internal models developed by the underlying fund managers using a variety of market-based assumptions. The estimates of fair value are based on three conventional approaches to value, all of which require the exercise of subjective judgment. The three approaches are: 1) current cost of replacing the real estate less deterioration and functional and economic obsolescence; 2) discounting a series of expected income streams and reversion at a specific yield or by directly capitalizing a single-year income estimate by an appropriate factor; and 3) the value indicated by recent sales of comparable real estate in the market. In reconciliation of these three approaches, the independent appraiser uses one, or a combination of them, to determine an approximated fair value. All of the General Board's investments in private real estate partnership investments have been valued using level 3 inputs.

For private equity partnership investments, fair value estimates of the underlying private equity investments made by the respective partnerships require significant judgment and interpretation of the general partner's overall management. Underlying private equity partnership investment values are determined based on available market data, including observations of the trading multiples of public companies considered comparable to the investments being valued. Valuations are also adjusted to give

consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, the long-term nature of such investments, credit markets and the fact that comparable public companies are not identical to the companies being valued. All of the General Board's investments in private equity partnership investments have been valued using level 3 inputs.

Emerging market funds are valued using an estimated daily NAV.

The General Board recognizes transfers between levels on the first day of the month the transfers occur. There were two significant transfers that occurred in 2010. The first was in the real estate and private equity limited partnership asset class. This transfer from level 2 to level 3 occurred due to liquidation of a majority of publicly traded securities held by certain international partnerships. The funds generated by this liquidation were either distributed to the limited partners or were invested in private placement securities. The second significant transfer involved the General Board's ownership of certain emerging market fund investments. This transfer resulted in the movement of these investments from level 3 to level 2 in light of observable input information available. The amounts of both of these transfers are reflected in the table below.

The following table summarizes financial assets at fair value, by levels, as of December 31, 2010:

(in thousands) Asset Class	Level 1	Level 2	Level 3	Total Investments
Domestic common stock ^A	\$5,416,511	\$ –	\$ –	\$ 5,416,511
International common stock ^B	2,476,992	–	–	2,476,992
Emerging market funds ^C	–	491,170	–	491,170
Preferred stock ^D	13,931	576	–	14,507
Domestic government fixed income ^E	1,456,234	–	–	1,456,234
International government fixed income ^F	–	992,691	–	992,691
Domestic government and other agencies ^G	–	360,168	–	360,168
Municipal fixed income ^H	–	16,882	–	16,882
Corporate fixed income ^I	–	1,574,483	89,363	1,663,846
Asset backed securities ^J	–	345,672	–	345,672
Collateralized loan obligations ^K	–	527,018	–	527,018
Private equity/real estate partnerships ^L	–	–	678,086	678,086
Risk management instruments ^M	58,474	56,687	–	115,161
Total investments at fair value	<u>\$9,422,142</u>	<u>\$4,365,347</u>	<u>\$ 767,449</u>	<u>\$14,554,938</u>
Cash equivalents at cost ^N				873,602
Wrap contracts at contract value ^O				1,549,793
Total investments				<u>\$16,978,333</u>

- A. Domestic common stock reflects investments in common stocks of companies primarily domiciled in the United States.
- B. International common stock includes common stock investments of companies domiciled outside of the United States.
- C. Emerging market funds represent equity ownership of mutual funds that invest primarily in international private equity securities.
- D. Preferred stock is comprised of straight and convertible preferred stock issues across various industry sectors.
- E. Domestic government fixed income represents investments in U.S. Treasury bonds, notes, and U.S. Treasury inflation-adjusted securities at various interest rates and maturities.
- F. International government fixed income includes non-U.S. government investments, including inflation adjusted securities, with both fixed and variable yields, and geographical concentrations in Europe, Asia and South America.
- G. Domestic government and other agencies include Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) investments with both variable and fixed rates ranging from 0% to 12%.
- H. Municipal fixed income is comprised of various state and local municipality investments with coupon rates from 0% to 7.625%.
- I. Corporate fixed income represents U.S. and international investment grade and high yield corporate securities across various industry sectors.
- J. Asset backed securities are comprised of investments collateralized by a specific pool of underlying assets such as auto loans, credit card receivables, whole loans, etc. The portfolio consists of both variable and fixed rate issues with interest rates up to 10.4%.
- K. Collateralized loan obligations reflect the Positive Social Purpose private loan portfolio. The purpose of this portfolio is to provide funds for affordable housing development while sustaining a competitive yield.
- L. Private equity represents primary and secondary investments in leveraged buyout and venture capital limited partnerships. Private real estate represents primarily investments in commercial real estate debt and equity limited partnerships.
- M. Risk management instruments include derivatives held primarily as hedges to mitigate risk exposure. Investments include foreign currency and futures contracts, forward commitments, options on futures contracts, and credit default swap contracts.
- N. Cash equivalents include investments in the Short Term Investment Fund, commercial paper, repurchase agreements, time deposits and Treasury bills. These investments are carried at cost, which approximates fair value.
- O. Wrap contracts represent investments that insulate the holder from changes in market value in the underlying portfolio of the Stable Value Fund. These investments are reported at contract value (See Note 6).

NOTES TO THE COMBINED FINANCIAL STATEMENTS *(continued)*

The following table summarizes the change in fair values associated with level 3 financial assets for the year ended December 31, 2010:

(in thousands)	Fixed Income— Corporate	Emerging Market Funds	Asset Backed	Real Estate and Private Equity Limited Partnerships	Total
Balance as of December 31, 2009	\$78,612	\$470,697	\$ 1,851	\$536,400	\$1,087,560
Purchases and (sales) – net	7,467	–	(1,395)	8,460	(14,532)
Transfers in	–	–	–	49,165	49,165
Transfers (out)	–	(470,697)	(471)	–	(471,168)
Income earned	–	–	–	33,799	33,799
Realized gains/(losses) – net	2,329	–	(30)	19,193	21,492
Unrealized gains/(losses) – net	955	–	45	31,069	32,069
Balance as of December 31, 2010	<u>\$89,363</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$678,086</u>	<u>\$767,449</u>

The following table summarizes financial assets at fair value, by levels, as of December 31, 2009:

(in thousands)	Level 1	Level 2	Level 3	Total Investments
Fixed income securities and contracts	\$ 856,459	\$3,682,452	\$ 80,463	\$ 4,619,374
Equity securities	6,593,302	5,649	–	6,598,951
Real estate and private equity limited partnerships	–	49,165	536,400	585,565
Emerging market funds	–	–	470,697	470,697
Securities loaned under securities lending agreements	591,291	25,110	–	616,401
Total investments at fair value	<u>\$8,041,052</u>	<u>\$3,762,376</u>	<u>\$ 1,087,560</u>	<u>\$12,890,988</u>
Cash equivalents at cost				773,506
Wrap contracts at contract value				1,650,622
Total investments				<u>\$15,315,116</u>

The following table summarizes the change in fair values associated with level 3 financial assets for the year ended December 31, 2009:

(in thousands)	Fixed Income and Securities and Contracts	Emerging Market Funds	Real Estate and Private Equity Limited Partnerships	Total
Balance as of December 31, 2008	\$ 73,213	\$ –	\$ 674,853	\$ 748,066
Purchases and (sales) – net	(19,734)	(35,636)	26,605	(28,765)
Transfer in/(out)	(1,284)	275,008	–	273,724
Income earned	–	–	21,467	21,467
Realized gains/(losses) – net	(76)	(1,681)	(6,828)	(8,585)
Unrealized gains/(losses) – net	28,344	233,006	(179,697)	81,653
Balance as of December 31, 2009	<u>\$ 80,463</u>	<u>\$ 470,697</u>	<u>\$ 536,400</u>	<u>\$1,087,560</u>

All realized and changes in unrealized gains (losses) in the tables above are reflected in the accompanying Statements of Operations. Changes in unrealized gains (losses) relate to those investments held by the General Board at December 31, 2010.

NOTE 4:**SECURITIES LENDING AGREEMENTS**

The General Board enters into securities lending transactions in its fixed income and equity portfolios, for which it receives compensation. Loans of securities are collateralized by cash equal to at least 102%, 103% and 105% of the carrying value of the securities on loan for fixed income, equity and international securities, respectively. The General Board typically reinvests the collateral in repurchase agreements. The General Board monitors the market value of the collateral relative to the amounts due under the agreements and, when required, requests through its advisors additional collateral or reduces the loan balance in order to maintain the contractual margin protection. The amount of the collateral related to its reinvestment agreements is carried at amortized cost and is reported on the Balance Sheets as “Invested collateral from securities lending agreements.” Repurchase agreements are collateralized by securities with a market value equal to at least 100% of the General Board’s investment in the agreement.

The market value of the securities loaned totaled approximately \$1,402 million and \$616 million at December 31, 2010 and 2009, respectively. The securities loaned are recorded in the Balance Sheets as “Securities loaned under securities lending agreements.” The market value of the “Invested collateral from securities lending transactions” totaled approximately \$1,448 million and \$639 million at December 31, 2010 and 2009, respectively, and is substantially composed of repurchase agreements. This amount is offset by a liability recorded as “Payable under securities lending agreements.”

NOTE 5:**RISK MANAGEMENT INSTRUMENTS**

The General Board may, from time to time, enter into financial futures contracts, foreign-currency forward contracts, forward contracts to purchase U.S. government agency obligations for trading purposes and commodity futures contracts. Equity futures contracts are used as a means to replicate the performance of the broad stock market and to reduce transaction costs associated with rebalancing a market-based indexed portfolio when there are cash inflows or outflows. Foreign-currency forward contracts are used to manage the risk of foreign currency fluctuations and to ensure that adequate funds, denominated in the local currency, are available to settle purchases of foreign securities. Forward contracts to purchase U.S. government agency obligations are used to take advantage of market yield premiums available for delayed settlement contracts. Fixed income financial futures (both exchange-traded and over-the-counter, including forward contracts and futures contracts) may be used for hedging purposes. Hedging

transactions that use fixed income futures contracts are defined as transactions that are substitutes for fixed income securities that the portfolio could own, and that have the comparable economic impact of managing the risks of the portfolio. In addition, fixed income financial futures are used for obtaining efficient investment exposure to certain financial market sectors that may not be economically accessible outside of the derivatives market. Commodity futures contracts are used to gain exposure to price changes of various commodities, such as energy, agriculture, metals and livestock. The General Board does not use derivative instruments or strategies to leverage its investments.

Financial futures contracts, foreign-currency forward contracts and forward contracts to purchase U.S. government agency obligations are stated at fair value determined by prices quoted on national security exchanges. Financial futures contracts and commodity futures contracts also are reported at fair value, and fluctuations in the value are recognized as realized gains or losses that are settled daily with cash through a margin account. Foreign-currency forward contracts and forward contracts to purchase U.S. government agency obligations also are marked to market, and fluctuations in value prior to maturity are recognized as unrealized gains or losses in the period during which they arise. At maturity, realized gains or losses are recognized. Other liabilities, including the payables related to forward contracts to purchase U.S. government agency obligations, are stated at face value.

As with all of the securities included in the General Board’s investment portfolio, these instruments are exposed to both market and credit risk. The market risk associated with these instruments is that equity prices or foreign exchange rates could change, resulting in a loss in the value of the investment. These risks may be partially offset by holding positions in the underlying securities. The credit risk associated with these instruments relates to the failure of the counterparty to pay based on the contractual terms of the agreement. The General Board anticipates, however, that counterparties will be able to fully satisfy their obligations under the contracts, given their high credit ratings. Each equity futures contract requires that the General Board place on deposit with the executing counterparty an amount equal to the margin requirement for the contract. The margin requirement is recalculated daily based on the change in market value.

Fund transfers to or from the General Board depend on the change in margin requirement. Hence, the General Board’s daily credit exposure is limited to the margin requirement attributable to one day’s price fluctuation.

NOTES TO THE COMBINED FINANCIAL STATEMENTS *(continued)*

The fair value of the net positions of risk management instruments and the location of related unrealized gains/losses in the Balance Sheets as of December 31 are listed in the tables below:

(in thousands)	2010	2009	Location on Balance Sheet
Forward commitments			
Federal National Mortgage Association	\$ 50,940	\$ –	Fixed income securities
Government National Mortgage Association	906	–	Fixed income securities
Contracts to sell foreign currency	610,940	588,286	Cash
Unrealized gain/(loss) – net	261	(124)	Equities
Contracts to buy foreign currency	(349,758)	(307,073)	Cash
Unrealized gain/(loss) – net	(70)	(1)	Equities
Contracts to buy equity futures			
S&P 500 Index	(3,258)	(23,491)	Equities
Russell 2000 Index	(3,912)	(2,496)	Equities
Other index futures	(68,100)	(69,662)	Equities
Contracts to buy other futures			
Fixed income securities	(49,487)	(67,807)	Equities
Cash and equivalents	(298,873)	(235,524)	Equities
Commodities	(186,719)	(161,860)	Equities
Other			
Net credit default swap contracts	4,840	2,250	Fixed income securities
	(6,216)	(3,465)	Other liabilities
Options on future contracts	–	(232)	Fixed income securities

Net gains/(losses) from risk management instruments, included in the Statements of Operations, are listed in the tables below for the years ended December 31:

Derivative investments (in thousands)	2010		2009	
	Net Gains/(Losses) on Investments Realized	Unrealized	Net Gains/(Losses) on Investments Realized	Unrealized
Forward commitments	\$ (2,983)	\$ (624)	\$ 5,196	\$ (2,246)
Foreign exchange contracts	(2,060)	1,654	(18,430)	8,769
Futures contracts	58,241	5,750	95,624	(1,144)
Credit default swap contracts	313	(160)	(1,416)	2,110
Options on future contracts	(7)	122	271	(123)
Total	\$53,504	\$ 6,742	\$ 81,245	\$ 7,366

NOTE 6:
STABLE VALUE FUND

Investments in fixed income securities and contracts include the investments of the Stable Value Fund. GAAP requires that fair value be based upon the standard discounted cash flow methodology for traditional and separate account Guaranteed Investment Contracts (GICs). Fair value is based on market value for fixed maturity and constant duration synthetic GICs.

Stable value funds generally consist of three types of investment contracts, which are described in detail below. All investment contracts are benefit-responsive, unless otherwise noted.

Guaranteed Investment Contracts: Traditional GICs are unsecured, general account obligations of insurance companies. The obligation is backed by the general account assets of the insurance company that writes the investment contract. The crediting rate on this product is typically fixed for the life of the investment.

Fair value of traditional GICs is calculated using the present value of the contract's future cash flow values discounted by comparable duration *Wall Street Journal* GIC Index rates.

Separate account GICs are investments in a segregated account of assets maintained by an insurance company for the benefit of the investors. The total return of the segregated account assets supports the separate account GICs return. The credited rate on this product will reset periodically, and it will have an interest rate of not less than 0%.

Fair value of separate account GICs is calculated using the market value provided by the insurance companies that manage the underlying assets of the product.

Fixed Maturity Synthetic Guaranteed Investment Contracts: General fixed maturity synthetic GICs consist of an asset or collection of assets that are owned by the fund (or plan) and a benefit-responsive, book-value wrap contract purchased for the portfolio. The wrap contract provides book-value accounting for the asset and assures that book-value, benefit-responsive payments will be made for participant-directed withdrawals. The crediting rate of the contract is set at the start of the contract and typically resets every quarter. Generally, fixed maturity synthetic GICs are held to maturity. The initial crediting rate is

established based on the market interest rates at the time the initial asset is purchased, and it will have an interest crediting rate of not less than 0%.

Fair value of general fixed maturity synthetic GICs is calculated using the sum of all assets' market values provided by a third-party vendor engaged to provide fixed income prices on a monthly basis.

Variable Synthetic Guaranteed Investment Contracts: Variable synthetic GICs consist of an asset or collection of assets that are managed by the bank or insurance company and are held in a bankruptcy remote vehicle for the benefit of the fund (or plan). The contract is benefit-responsive and provides next-day liquidity at book value. The crediting rate on this product resets every quarter based on the then-current market index rates and an investment spread. The investment spread is established at the time of issuance and is guaranteed by the issuer for the life of the investment.

Fair value of variable synthetic GICs is calculated using the present value of the contract's future cash flows discounted by comparable swap rates.

Constant Duration Synthetic Guaranteed Investment Contracts: Constant duration synthetic GICs consist of a portfolio of securities owned by the fund (or plan) and a benefit-responsive, book-value wrap contract purchased for the portfolio. The wrap contract amortizes gains and losses of the underlying securities over the portfolio duration and assures that book-value, benefit-responsive payments will be made for participant-directed withdrawals. The crediting rate on a constant duration synthetic GIC resets every quarter based on the book value of the contract, the market yield of the underlying assets, the market value of the underlying assets and the average duration of the underlying assets. The crediting rate aims at converging the book value of the contract and the market value of the underlying portfolio over the duration of the contract and, therefore, will be affected by movements in interest rates and/or changes in the market value of the underlying portfolio. The initial crediting rate is established based on the market interest rates at the time the underlying portfolio is first put together, and will have an interest crediting rate of not less than 0%.

Fair value of constant duration GICs is calculated using market values provided by external investment managers.

NOTES TO THE COMBINED FINANCIAL STATEMENTS *(continued)*

In the absence of an actively traded market, discounted cash flows are used to estimate the contract's economic value. These values are not used for participant statement purposes, nor are they representative of the value that may be received from those contracts in either a participant disbursement or an early termination of the contract.

Certain employer-initiated events (e.g., layoffs, plan terminations, mergers, early retirement incentives, employer communications designed to induce participants to transfer from the fund, competing fund transfers, violation of equity wash or equivalent rules in place, and changes of qualification status of employer or plan) are not eligible for book value disbursements even from fully benefit-responsive contracts. These events may cause liquidation of all or a portion of a contract at a market-value adjustment.

In general, issuers may terminate the contract and settle at other than contract value for the following reasons: changes in the qualification status of employer or plan changes, breach of material obligations under the contract and misrepresentation by the contract holder or failure of the underlying portfolio to conform to the pre-established investment guidelines.

The contract values of the Stable Value Fund as of December 31:

(in thousands)	2010	2009
Investments at fair value	\$1,906,942	\$1,817,396
Wrap contracts at fair value	3,141	3,623
Total assets at fair value	1,910,083	1,821,019
Adjustment from fair value to contract value	(64,746)	(35,500)
Net assets at contract value	1,845,337	1,785,519
Less: cash equivalents	295,544	134,897
Wrap contracts	\$1,549,793	\$1,650,622

Portfolio Characteristics (gross of fees):

Average yield earned by the entire fund	3.32%	3.99%
Return on assets for 12 months	3.78%	4.06%
Current crediting rate	3.49%	4.14%
Duration (years)	2.46	2.61

NOTE 7: NET EARNINGS ALLOCATED TO UNITIZED FUND ACCOUNTS

MAF and other investment options are recorded in units to participants' and plan sponsors' accounts and are credited with actual earned returns, including realized and unrealized gains and losses, net of all operating expenses.

NOTE 8: HEALTHFLEX

HealthFlex is a self-funded church plan, contracting with certain outside firms for administrative services only. In order to manage its risk, the General Board had entered into aggregated per-participant stop-loss agreements. At the beginning of 2011, the General Board discontinued entering into these stop-loss agreements. Some of the benefit programs under HealthFlex are insured by third-party providers. The General Board also has entered a purchasing coalition with other church benefit program administrators, in which a single provider administers prescription drug claims with beneficial economies of scale.

As the HealthFlex plan administrator, the General Board bills plan sponsors a premium for benefits received by the plan participants. The premium is actuarially determined to cover all plan costs, including premiums paid to insurance companies, self-funded claims and all administrative costs.

The General Board invests the assets of HealthFlex in MAF and STIF, and incurs the expense of staff support and other costs to administer HealthFlex. In 2010 and 2009, approximately \$4.6 million and \$5.4 million, respectively, representing the "Investment income (net of administrative expenses)" (\$2.4 million in each year), was paid to the HealthFlex accumulated reserve account. This item is reflected on the "Investment income (net of administrative expenses) paid to health benefit program" line of the Statements of Operations.

(in thousands)	2010	2009
Premiums		
Medical	\$ 164,889	\$ 144,037
Other	4,885	4,689
Total premiums	169,774	148,726
Claims		
Medical (net of rebates)	(138,076)	(135,769)
Other	(4,881)	(4,551)
Total claims	(142,957)	(140,320)
Administration		
Illinois Corporation	(2,396)	(2,351)
Third-party	(14,203)	(13,118)
Total administration	(16,599)	(15,469)
Net experience	10,218	(7,063)
Investment income	6,901	7,502
Increase in net assets	17,119	439
Accumulated reserves		
Beginning of year	81,659	81,220
End of year	<u>\$ 98,778</u>	<u>\$ 81,659</u>

The HealthFlex accumulated reserves are included in the Balance Sheets as “Disability, death and health benefit program deposits.”

NOTE 9: OPERATING EXPENSES

The components of operating expenses for the years ended December 31 are as follows:

(in thousands)	2010	2009
Salaries	\$ 19,197	\$ 18,928
Current and retired employee benefits	9,811	6,325
Professional services	8,218	7,619
Occupancy and other office expenses	2,981	3,266
Computers and other equipment	3,309	2,988
Meetings and travel	1,168	1,033
Other expenses	595	393
Total operating expenses	<u>\$ 45,279</u>	<u>\$ 40,552</u>

All operating expenses are considered to be programmatic and are allocated to the unitized fund accounts.

NOTE 10: TAX STATUS AND POSITIONS

The General Board operates exclusively for religious and charitable purposes and is exempt from federal income taxes under IRC Section 501(c)(3). The Financial Accounting Standards Board issued guidance clarifying the accounting for uncertain income tax positions, and which could require additional disclosure. Management believes there are no material uncertain tax positions that require recognition in the accompanying financial statements. While exempt from income tax under IRC section 501(c)(3), the General Board is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the Code. The tax years ending 2007, 2008, 2009 and 2010 are still open to audit for both federal and state purposes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2010 and 2009.

NOTES TO THE COMBINED FINANCIAL STATEMENTS *(continued)*

NOTE 11:

GAIN ON SALE OF PROPERTY

On December 30, 2010, the General Board sold the 1200 Davis Street, Evanston, Illinois land and building. The total net gain recognized from the sale was \$5.5 million, and is reported as “Gain on sale of property” in the accompanying Statements of Operations.

NOTE 12:

RELATED PARTY TRANSACTION

The General Board borrowed certain funds from the CPP welfare plan, one of the plans managed by the General Board, to fund the cost of construction of the new headquarters at 1901 Chestnut Avenue, Glenview, Illinois. In exchange, CPP received a note receivable, the balance of which is \$31.7 million at December 31, 2010. The loan bears interest at a rate of 4% (the market rate at the time of the transaction), compounded monthly. No payments for the accrued interest have been made; the amounts are added to the loan balance at the end of each month.

NOTE 13:

SUBSEQUENT EVENTS

In preparing these financial statements, the General Board has evaluated events and transactions for potential recognition or disclosure through May 26, 2011, the date the financial statements were available to be issued.

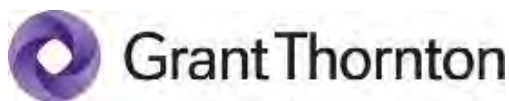
On March 1, 2011 the construction loan payable to CPP was converted to a mortgage note, secured by the Glenview property, in the amount of \$27.9 million bearing an interest rate of 6% (the market rate at the time of the transaction). At the time of conversion, the General Board repaid \$6.5 million in principal for the assets with less than the life of the mortgage included in the construction loan amount. Beginning April 1, 2011, the General Board will make monthly payments of \$167 thousand, which includes interest, through March 2041. The annual principal payments are as follows:

Years ending December 31 (in thousands)

2011	\$ 255
2012	358
2013	381
2014	404
2015	429
Thereafter	<u>26,071</u>
	<u>\$ 27,898</u>

On April 29, 2011, the General Board sold the 1201 Davis Street, Evanston, Illinois land and building. The total net gain on the sale was \$3.1 million and will be reported as “Gain on sale of property” in the Statement of Operations for the year ended December 31, 2011.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit Committee of the Board of Directors
General Board of Pension and Health Benefits of The United Methodist Church
and UMC Benefit Board, Inc.

Audit Tax Advisory

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687

T 312.856.0200
F 312.565.4719
www.GrantThornton.com

We have audited the accompanying combined statements of assets and liabilities and net assets of the General Board of Pension and Health Benefits of The United Methodist Church and the UMC Benefit Board, Inc. (collectively, the “General Board”) as of December 31, 2010 and 2009, and the related combined statements of operations and changes in net assets and combined statements of changes in plan accumulations, plan sponsor deposits, endowments and net assets for the years then ended. These financial statements are the responsibility of General Board’s management. 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 established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the General Board’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of General Board of Pension and Health Benefits of The United Methodist Church and the UMC Benefit Board, Inc. as of December 31, 2010 and 2009, and the combined results of their operations and changes in net assets and changes in plan accumulations, plan sponsor deposits, endowments and net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Chicago, Illinois
May 26, 2011

OTHER INFORMATION

EXECUTIVE COMPENSATION

The General Board regularly reviews and analyzes market compensation data to help ensure that we can attract, retain and motivate superior leadership in a competitive market while maintaining our commitments to stewardship and strong investment returns. The General Board Senior Leadership Team, Personnel Committee and Board of Directors take their roles in setting executive compensation very seriously, striving to balance the values of the Church in which we serve and the business environment in which we compete for talent.

The executive compensation philosophy for our top five positions developed with input from an independent compensation consulting firm is to target the 50th percentile of the comparable market data (excluding long-term incentives) from the composite talent market (+/-10%), reflecting compensation paid to executives holding comparable positions at church benefit boards and diversified financial services organizations (not-for-profit, for profit and public) with comparable assets under management.

A detailed review of total compensation for executives within comparable organizations was completed by an independent compensation consulting firm. The executive compensation program was found to be consistent with the General Board's compensation philosophy and within the range of competitive compensation market practices.

In choosing the comparable organizations, several factors were considered, including the mix and complexity of the products and services offered, the clients being served and asset size. Companies with whom we compete for talent were considered as well as data from a published survey of other church organizations. The General Board with \$17 billion in assets under management is the largest participating organization in the church survey. All other church organizations reporting in this survey have assets under management of less than \$10 billion.

Total Cash Compensation (in thousands)	2010
Chief Executive Officer	
Financial Services*	\$ 1,462.8
Composite**	800.6
General Board	555.2
Chief Operating Officer	
Financial Services	955.7
Composite	455.0
General Board	401.2
Chief Investment Officer	
Financial Services	521.0
Composite	386.6
General Board	307.9
Chief Legal Officer	
Financial Services	489.0
Composite	293.4
General Board	274.4
Chief Financial Officer	
Financial Services	622.9
Composite	344.0
General Board	256.9

* Median (50th percentile) of total cash compensation at comparable financial services organizations.

** Median (50th percentile) of total cash compensation including financial services organizations, general industry and not-for-profit organizations.

AUDIT COMMITTEE REPORT

The General Board's Audit Committee is composed of four members from the board of directors and four at-large members who have specialized accounting experience and expertise. The board of directors of the General Board has adopted a written charter for the Audit Committee. The board of directors of the General Board has determined that more than one member of the Audit Committee has accounting or related financial management expertise.

The Audit Committee selects the General Board's independent certified public accounting firm and reviews the professional services it provides. It reviews the scope of the audit performed by the independent certified public accounting firm, its report on the audit, the General Board's annual financial statements, any material comments contained in the auditor's communication to the Audit Committee, the General Board's internal accounting controls and such other matters relating to accounting, auditing and financial reporting as it deems appropriate. Also, the Audit Committee monitors significant internal audit activities.

INVESTMENT MANAGERS, POSITIVE SOCIAL PURPOSE LENDING PROGRAM INTERMEDIARIES, BANKS, AUDITORS AND CONSULTANTS

INVESTMENT MANAGERS

Adams Street Partners
Chicago, Illinois
DPEF – *private equity*

AMB Capital Partners, LLC
San Francisco, California
DPREF – *real estate*

Baillie Gifford
Edinburgh, Scotland
IEF – *international equity*

BlackRock, Inc.
San Francisco, California and
New York, New York
IPF – *inflation-protected fixed income*
FIF – *fixed income*
USEF – *domestic equity*
IEF – *currencies*

Blackstone Real Estate Debt Strategies
New York, New York
SOF – *private real estate*

BNY Mellon Beta Management
Boston, Massachusetts and
Pittsburgh, Pennsylvania
USEF, IEF – *derivatives*

BNY Mellon Cash Investment
Strategies
San Francisco, California and
Pittsburgh, Pennsylvania
AIF, BSVP, FIF, IPF, SVF – *fixed income*

Brown Capital Management, Inc.
Baltimore, Maryland
USEF – *domestic equity*

Cabot Partners
Boston, Massachusetts
DPREF – *real estate*

Capital Guardian Trust Company
Los Angeles, California
FIF – *emerging-market debt*
USEF – *domestic equity*
IEF – *developed and emerging-markets international equity*
IPF – *emerging-market debt*

CB Richard Ellis Investors
Los Angeles, California
DPREF – *real estate*

Cerberus Institutional Real Estate
Partners
New York, New York
DPREF – *real estate*

ClearLend, a division of Wells Fargo
Short Hills, New Jersey and
Los Angeles, California
USEF, IEF, SVF, IPF, FIF, AIF –
securities lending

Daruma Asset Management, Inc.
New York, New York
USEF – *domestic equity*

Disciplined Growth Investors
Minneapolis, Minnesota
USEF – *domestic equity*

Epoch Investment Partners
New York, New York
USEF – *domestic equity*

Equity International
Chicago, Illinois
IPREF – *real estate*

European Investors, Inc.
New York, New York
IEF – *international REIT securities*

Genesis Investment Management, Ltd.
London, England
IEF – *emerging markets equity*

Gresham Investment Management, LLC
New York, New York
IPF – *commodities*

Hotchkis and Wiley Capital Management
Los Angeles, California
USEF – *domestic equity*

JP Morgan Investment Management
New York, New York
DPEF – *private equity*

LM Capital, Inc.
San Diego, California
FIF – *fixed income*

Macquarie Generation Management
Los Angeles, California
DPEF – *private equity*

Miller Howard
Woodstock, New York
USEF – *domestic equity*

Neuberger Investment Management
Chicago, Illinois
FIF, SVF – *fixed income*
IPF – *inflation-protected fixed income*

Northern Trust Quantitative Advisors
Chicago, Illinois
BSVP, USEF – *domestic equity*

Oaktree Capital Management, LLC
Los Angeles, California
FIF – *fixed income*

Pacific Investment Management
Company (PIMCO)
Newport Beach, California
FIF – *fixed income*

Prism Capital
Chicago, Illinois
DPREF – *private equity*

INVESTMENT MANAGERS, POSITIVE SOCIAL PURPOSE LENDING PROGRAM INTERMEDIARIES, BANKS, AUDITORS AND CONSULTANTS

INVESTMENT MANAGERS (continued)

Prudential Real Estate Investors
Parsippany, New Jersey
DPREF – *real estate*

Putnam Investments
Boston, Massachusetts
IEF – *international equity*

Pyramis Global Advisors,
a Fidelity Investments Company
Smithfield, Rhode Island
USEF – *domestic equity*

RCM Global Investors, LLC
San Francisco, California
USEF – *domestic equity*

RREEF Real Estate Securities
Chicago, Illinois
USEF – *domestic REIT securities*
IEF – *international REIT securities*

Seix Investment Advisors, Inc.
Woodcliff Lake, New Jersey
FIF – *affordable housing*

Sprucegrove Investment Management
Toronto, Ontario, Canada
IEF – *international equity*

Standish Asset Management
Boston, Massachusetts
AIF – *fixed income*

TA Realty Associates
Boston, Massachusetts
DPREF – *real estate*

Transwestern Investment Management
Chicago, Illinois
DPREF – *real estate*

Tricon Capital Group, Inc.
Toronto, Ontario, Canada
DPREF – *real estate*

Urban American
West New York, New Jersey
DPREF – *real estate*

Urdang Associates
Plymouth Meeting, Pennsylvania
DPREF – *real estate*

Wellington Management Company
Boston, Massachusetts
FIF – *fixed income*
USEF – *domestic equity*

Zevenbergen Capital Management
Seattle, Washington
USEF – *domestic equity*

POSITIVE SOCIAL PURPOSE LENDING PROGRAM INTERMEDIARIES
BlueOrchard
Geneva, Switzerland

Community Development Trust, Inc.
New York, New York

Community Investment Corporation
Chicago, Illinois

Community Preservation Corporation
New York, New York

Community Reinvestment Fund
Minneapolis, Minnesota

Delaware Community Investment Corporation
Wilmington, Delaware

Developing World Markets
Darien, Connecticut

Enterprise Mortgage Investments, Inc.
Columbia, Maryland

Enterprise Community Investment, Inc.
Columbia, Maryland

Federal National Mortgage Association
(Fannie Mae)
Washington, D.C.

Great Lakes Capital Fund
Lansing, Michigan

The Low Income Investment Fund
San Francisco, California

Mercy Loan Fun
Denver, Colorado

NCB Capital Impact
Arlington, Virginia

The Reinvestment Fund
Philadelphia, Pennsylvania

Shared Interest
New York, New York

State Street Global Advisors/
The Tuckerman Group
Boston, Massachusetts

Texas Methodist Foundation
Austin, Texas

CUSTODIAL BANK

The Bank of New York Mellon Corporation
Pittsburgh, Pennsylvania

COMMERCIAL BANK

The Northern Trust Company
Chicago, Illinois

INDEPENDENT AUDITORS

Grant Thornton, LLP
Chicago, Illinois

ACTUARIAL CONSULTANTS

Mercer Human Resource Consulting
Chicago, Illinois

Towers Watson
New York, New York

INTERNAL AUDITORS

Ernst & Young LLP
Chicago, Illinois

Jefferson Wells
Chicago, Illinois



GENERAL BOARD OF PENSION AND HEALTH BENEFITS
OF THE UNITED METHODIST CHURCH

Caring For Those Who Serve

1901 Chestnut Avenue
Glenview, Illinois 60025-1604
1-800-851-2201
www.gbophb.org