

MENNONITE BRETHRN FOUNDATION
AND AFFILIATE

Combined Financial Statements
With Independent Auditors' Report

December 31, 2013 and 2012

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Combined Statements of Financial Position	2
Combined Statements of Activities	3
Combined Statements of Cash Flows	4
Notes to Combined Financial Statements	5
Supplemental Information	
Independent Auditors' Report on Supplemental Information	29
Combining Statement of Financial Position	30
Combining Statement of Activities	31

INDEPENDENT AUDITORS' REPORT

Board of Directors
Mennonite Brethren Foundation and Affiliate
Hillsboro, Kansas

We have audited the accompanying combined financial statements of Mennonite Brethren Foundation and Affiliate, which comprise the combined statements of financial position as of December 31, 2013 and 2012, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Mennonite Brethren Foundation and Affiliate as of December 31, 2013 and 2012, and the changes in its net assets and cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Wheaton, Illinois
April 30, 2014

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Combined Statements of Financial Position

	December 31,	
	2013	2012
ASSETS:		
Cash and cash equivalents	\$ 1,281,273	\$ 1,821,851
Investments	46,662,576	38,899,233
Loans receivable, net	64,117,183	68,183,336
Interest receivable	229,214	333,935
Prepaid expenses and other	377,736	382,843
Real estate held for sale	2,600,000	-
Property and equipment, net	79,972	104,326
Assets held in trust	13,378,933	11,924,034
Estate receivable (for endowment)	3,980,901	-
Investments held for endowment	20,698,052	17,925,671
	\$ 153,405,840	\$ 139,575,229
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,564	\$ 41,537
Earnings payable	427,735	389,555
Investment certificates	66,226,672	66,741,981
Note payable	66,000	73,578
Trust liability	12,373,545	11,037,236
Annuities payable	2,499,596	2,661,775
Endowments held for others	28,368,016	24,460,250
Pension funds held for others	455,922	488,289
	110,439,050	105,894,201
Net assets:		
Unrestricted:		
Board designated for endowment	4,499,720	4,053,530
Board designated for administration	554,355	525,710
Undesignated	14,298,679	12,259,630
Temporarily restricted	7,052,218	5,135,100
Permanently restricted	16,561,818	11,707,058
	42,966,790	33,681,028
	\$ 153,405,840	\$ 139,575,229

See notes to combined financial statements

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Combined Statements of Activities

	Year Ended December 31,							
	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Interest on loans receivable	\$ 3,492,210	\$ -	\$ -	\$ 3,492,210	\$ 4,087,937	\$ -	\$ -	\$ 4,087,937
Contributions	2,228,065	539,606	4,673,185	7,440,856	2,925,198	675,065	232,955	3,833,218
Fees and other	610,736	-	-	610,736	537,194	-	-	537,194
Investment income	1,092,039	1,730,736	-	2,822,775	1,304,333	779,975	-	2,084,308
Change in value of annuities and trusts	113,324	118,416	3,793	235,533	79,608	45,543	6,972	132,123
Change in net present value of deferred gifts - life estates	-	31,411	-	31,411	-	19,933	-	19,933
	<u>7,536,374</u>	<u>2,420,169</u>	<u>4,676,978</u>	<u>14,633,521</u>	<u>8,934,270</u>	<u>1,520,516</u>	<u>239,927</u>	<u>10,694,713</u>
RECLASSIFICATIONS:								
Net assets released from purpose restrictions	518,051	(518,051)	-	-	353,930	(353,930)	-	-
Transfer per donor stipulation (Note 15)	(192,782)	15,000	177,782	-	(779,834)	129,665	650,169	-
	<u>325,269</u>	<u>(503,051)</u>	<u>177,782</u>	<u>-</u>	<u>(425,904)</u>	<u>(224,265)</u>	<u>650,169</u>	<u>-</u>
EXPENSES:								
Program services	4,552,727	-	-	4,552,727	6,207,969	-	-	6,207,969
Supporting activities:								
Management and general	614,539	-	-	614,539	552,275	-	-	552,275
Planned giving	180,493	-	-	180,493	183,862	-	-	183,862
	<u>5,347,759</u>	<u>-</u>	<u>-</u>	<u>5,347,759</u>	<u>6,944,106</u>	<u>-</u>	<u>-</u>	<u>6,944,106</u>
Change in Net Assets	2,513,884	1,917,118	4,854,760	9,285,762	1,564,260	1,296,251	890,096	3,750,607
Net Assets, Beginning of Year:	<u>16,838,870</u>	<u>5,135,100</u>	<u>11,707,058</u>	<u>33,681,028</u>	<u>15,274,610</u>	<u>3,838,849</u>	<u>10,816,962</u>	<u>29,930,421</u>
Net Assets, End of Year	<u>\$19,352,754</u>	<u>\$ 7,052,218</u>	<u>\$16,561,818</u>	<u>\$42,966,790</u>	<u>\$16,838,870</u>	<u>\$ 5,135,100</u>	<u>\$11,707,058</u>	<u>\$33,681,028</u>

See notes to combined financial statements

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Combined Statements of Cash Flows

	Year Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 9,285,762	\$ 3,750,607
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	24,354	22,735
Net realized and unrealized gain on investments	(2,038,532)	(1,484,646)
Gift portion of new charitable gift annuities	(315,229)	(338,922)
Maturities of charitable gift annuities	(285,422)	(101,836)
Payments on charitable gift annuities	421,845	453,104
Charitable gift annuity actuarial change	(166,528)	(174,834)
Change in value of charitable trusts	(118,416)	(45,543)
Donated deferred gift	(484,250)	-
Provision for loan losses	741,041	938,943
Recognition of new estate receivable held for endowment	(3,980,901)	-
Changes in:		
Interest receivable	104,721	(14,987)
Prepaid expenses and other	(65,480)	(349,384)
Accounts payable and accrued expenses	(19,973)	(6,195)
Earnings payable	38,180	45,812
Pension funds held for others	(32,367)	(27,442)
Net Cash Provided by Operating Activities	3,108,805	2,667,412
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	27,863,120	17,667,521
Purchase of investments	(32,151,471)	(24,349,135)
Loan advances	(10,346,546)	(8,572,212)
Loan principal received	11,142,245	7,389,221
Purchase of property and equipment	-	(48,140)
Net Cash Used by Investing Activities	(3,492,652)	(7,912,745)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	-	8,000
Principal payments on note payable	(7,578)	(422)
Proceeds from issuance of investment certificates	16,389,647	20,077,402
Interest reinvested in investment certificates	1,074,427	1,290,090
Redemptions of investment certificates	(17,979,383)	(15,606,572)
Face value of new annuity and trust agreements	605,500	1,013,991
Gift portion of new trust agreements	(174)	(127,203)
Payments on charitable gift annuities and trusts	(561,092)	(556,863)
Investment income on assets held in trust	321,922	172,976
Net Cash Provided (Used) by Financing Activities	(156,731)	6,271,399
Net Change in Cash and Cash Equivalents	(540,578)	1,026,066
Cash and Cash Equivalents, Beginning of Year	1,821,851	795,785
Cash and Cash Equivalents, End of Year	\$ 1,281,273	\$ 1,821,851
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 86,689	\$ 120,754
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Matured investment certificates reinvested	\$ 22,855,615	\$ 25,723,551
Real estate received upon foreclosure of loans receivable	\$ 2,600,000	\$ -

See notes to combined financial statements

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

1. NATURE OF ORGANIZATION:

The combined financial statements include the financial statements of Mennonite Brethren Foundation (Foundation) and its affiliate, Mennonite Brethren Loan Fund (Fund), which are related through a common Board of Directors. All material intercompany transactions have been eliminated. The combined entity is hereinafter referred to as the Organization.

The Foundation is a service agency whose primary mission is to encourage and assist individuals, congregations and ministries in the Mennonite Brethren community with Biblical financial stewardship solutions. Services provided to Mennonite Brethren agencies, institutions, churches and their members include providing planned giving options, providing stewardship education and managing endowment funds. The Foundation is engaged by and has power of attorney for The United States Conference of Mennonite Brethren Churches as agent for the purpose of conducting all their stewardship, financial counseling, financial management and trust programs within the boundaries of the United States of America.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Fund has been classified as an organization that is not a private foundation under IRC Section 509(a)(3).

The Fund was established by the Foundation as an affiliated organization. The Fund is a service agency whose primary mission is to serve the financial needs of Mennonite Brethren conferences, churches, institutions, agencies. Activities include loaning funds to Mennonite Brethren organizations for purchase or construction of facilities or for operations and to qualified workers of Mennonite Brethren churches for the purpose of purchasing their residences; raising capital from Mennonite Brethren organizations and individuals; and expressing generosity by making grants from earnings to the Foundation.

The Fund is exempt from federal income tax under Section 501(c)(3) of the IRC. In addition, the Fund has been classified as an organization that is not a private foundation under IRC Section 509(a)(1).

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

The combined financial statements of the Organization have been prepared using the accrual basis of accounting. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP), requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking accounts and sweep accounts. Other accounts such as money market accounts are considered investments regardless of their original maturity.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value, which is based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Non-publicly traded securities and limited partnership interests are reported at fair value, determined by management using independent appraisals, discounted future cash flows and sales of similar investments. Discounts for lack of liquidity or marketability are taken into consideration when applicable.

Notes receivable are reported at amortized cost. Interest is calculated and recognized using the simple interest method. Donated stocks, bonds, mutual funds and government securities are recorded at quoted value or appraised fair value (as determined by appraisal) at date of donation and thereafter carried in accordance with the above policies.

Investment income and realized and unrealized gains and losses are included in unrestricted investment income unless a donor or law temporarily or permanently restricts their use.

LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable consist of loans to Mennonite Brethren churches, organizations and qualified church workers, primarily secured by real estate mortgages, although the Fund does make some unsecured loans and some loans that are secured by third-party guarantees and other forms of collateral. Most of the loans are originally set up for a term of ten or fifteen years. Loans are reported at their outstanding principal balances net of loan participation interests sold and allowance for loan losses.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb probable loan losses. The amount is based upon an analysis of the loan portfolio by management including, but not limited to, review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for potential loan losses in the period in which they become known.

Due to the nature of the relationship with its borrowers, the Fund is willing to make accommodations with borrowers whose payments are not current, so long as such accommodations do not jeopardize the interests of the Fund's investors. A loan is considered impaired when, based upon current information and events, it is probable that the Fund will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments are 90 days overdue. Delinquent and impaired loans continue to accrue interest. Payments on delinquent and impaired loans are recorded first as interest income and then as a reduction in principal. The accrual of interest income is discontinued when, in management's judgment, the scheduled interest may not be collectible within the stated term of the loan. Interest income is recognized on a cash basis for loans classified as nonaccrual loans, with subsequent payments applied first to interest and fees, if any, and then to principal. Loans classified as nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES, continued

During 2013, the Fund purchased a loan participation originated by the Church Loan Fund, Inc. All of the loan participations were purchased without recourse and are secured by real property. Loan servicing functions on these loans are retained by Church Loan Fund, Inc.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost if purchased or at fair value at date of gift if donated. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. The Organization capitalizes purchases of assets with a cost of \$2,000 or more and a useful life in excess of one year.

Property and equipment consist of the following:

	December 31,	
	2013	2012
Office building and land	\$ 143,258	\$ 143,258
Furniture, fixtures and equipment	275,823	277,152
	<u>419,081</u>	<u>420,410</u>
Less accumulated depreciation	<u>(339,109)</u>	<u>(316,084)</u>
	<u>\$ 79,972</u>	<u>\$ 104,326</u>

ASSETS HELD IN TRUST

Assets held in trust consist of charitable remainder trusts with revocable and irrevocable beneficiary interests. Assets held in trust are valued the same as investments. Gains and losses (including realized and unrealized) from all of these assets are reported as a component of change in value of charitable trusts or as a component of trust liability if the trustor has the ability to change the remainderman until the point the trust matures.

ENDOWMENTS HELD FOR OTHERS

Endowments held for others consist of those assets held on behalf of other organizations. These assets are valued the same as investments and comingled with other Organization assets. All activity related to these assets is recorded directly to assets and a corresponding liability account as they are accounted for as agency funds.

ANNUITIES PAYABLE

Gift annuities are recognized as income at the date of the gift, net of actuarial liability, which is the present value of the annuity payments based on the life expectancy of the donor and a discount rate of 6 percent. Annually, an adjustment is made to income and the actuarial liability to record the actuarial gain or loss due to recomputation of the liability based upon the revised life expectancy. Additional income is recognized upon termination of the annuity contract. Amounts received from annuity contracts are invested with other pooled investments which include money market accounts and loans receivable. Total annuity funds invested are \$6,749,819 and \$6,479,653, at December 31, 2013 and 2012, respectively, including \$1,414,056 and \$1,354,813, respectively, held in trust for California annuitants.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

TRUST LIABILITY

Trust liability includes irrevocable charitable remainder unitrusts and represents the present value of future cash flows to income beneficiaries and the portion of trusts due other remaindermen. The present value of future cash flows to income beneficiaries is computed using published mortality rate tables adopted by the IRS at an assumed rate of return based on the current applicable federal rate to determine the present value of the actuarially determined liability. The resulting actuarial gain or loss is recorded as a component of the change in value for agreements where the Foundation has an irrevocable interest. If the Foundation does not have an irrevocable interest, the resulting actuarial gain or loss is recorded directly to the due other remaindermen liability. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to the Foundation.

CLASSES OF NET ASSETS

Information regarding financial position and activities is reported in three classes of net assets based on the existence of, or absence of, donor-imposed restrictions. Net assets are classified as follows:

Unrestricted net assets are those currently available for Organization purposes under the direction of the Board, those designated by the Board for specific use and those resources invested in property and equipment.

Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes or programs, those with time restrictions, undistributed endowment investment income, or those not currently available for use until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased.

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per endowment agreements.

SUPPORT, REVENUE, EXPENSES AND DISTRIBUTIONS

Contributions to gift agreements, including donor advised funds, are reported as income when made, which may be when cash is received, unconditional promises are made or ownership of donated assets is transferred. Fees and other income includes management fees, rent and other miscellaneous income and is recognized as earned. Noncash gifts are recorded at their estimated fair market value at the date of donation. Investment income is recognized when earned.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE, EXPENSES AND DISTRIBUTIONS, continued

Grants to qualified organizations in accordance with various gift agreements are recognized when the grants are approved by the Foundation or upon maturity of the agreement at the donor's death. Earnings payable represent endowment distributions and trust payments owed but unpaid at year end. Operating expenses are recognized when incurred in accordance with the accrual basis of accounting and include certain costs associated with administration of gift agreements. The costs of providing various program services and supporting activities have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. A portion of planned giving expenses represents fund-raising expenses.

Advertising costs are expensed as incurred and totaled \$47,154 and \$39,675 for the years ended December 31, 2013 and 2012, respectively.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the combined financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon an examination. Interest and penalties, if any, are included in expenses in the combined statements of activities. As of December 31, 2013, the Organization had no uncertain tax positions that qualify for recognition or disclosure in the combined financial statements.

RECENTLY ADOPTED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) recently issued an accounting standards update to the *Statement of Cash Flows—Overall—Other Presentation Matters* topic of the Accounting Standards Codification (ASC). The amendments in this update require classification of cash receipts from the sale of donated financial assets (e.g., debt or equity instruments) by a not-for-profit that, upon receipt of the donated financial assets, are directed for sale without any limitations and are converted nearly immediately into cash as (1) operating cash flows, or (2) if the donor has restricted the use of the securities to a long-term purpose, as financing cash flows. The amendments require classification as investing cash flows of all other cash receipts resulting from the sale of debt and equity securities not meeting the foregoing conditions for classification within operating or financing cash flows. The amendments are effective for fiscal years beginning after June 15, 2013, with early adoption permitted. The Organization has early adopted this update and has restated prior year combined financial statements for comparability. The effect of this restatement was to increase net cash provided used by operating activities and decrease net cash used by investing activities by \$685,374.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2013	2012
At fair value:		
Money market funds	\$ 4,004,652	\$ 7,687,381
Certificates of deposit	9,939,996	5,685,906
U.S. Government securities	3,854,024	4,123,082
Corporate bonds	14,853,358	11,278,986
Equities	29,835,198	25,257,593
Mutual funds	9,174,381	7,064,848
Alternative investments	884,606	710,180
Mortgage pools	2,759,185	2,550,396
CMO and asset backed securities	734,437	787,886
Non-publicly traded securities and limited partnership interests	589,714	194,450
Real estate	2,408,685	1,632,439
Cash value life insurance	1,460,994	1,522,262
	80,499,230	68,495,409
At other than fair value:		
Loans receivable	240,331	253,529
	80,739,561	68,748,938
Less:		
Investments held for endowment	(20,698,052)	(17,925,671)
Assets held in trust	(13,378,933)	(11,924,034)
	\$ 46,662,576	\$ 38,899,233

Investment income consists of the following for the years ended:

	December 31,	
	2013	2012
Interest and dividend income	\$ 934,573	\$ 778,811
Net realized and unrealized gains	2,038,532	1,484,646
Investment management and custodial fees	(150,330)	(179,149)
	\$ 2,822,775	\$ 2,084,308

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements December 31, 2013 and 2012

4. LOANS RECEIVABLE, NET:

A summary of loans receivable classified by interest rates is as follows:

	December 31,	
	2013	2012
5 1/2% or less	\$ 2,528,717	\$ 4,130,663
over 5 1/2 to 6 1/2%	54,798,342	63,708,122
over 6 1/2 to 7 1/2%	9,146,485	759,945
over 7 1/2 to 8 1/2%	691,259	60,477
over 8 1/2%	-	2,347,607
	67,164,803	71,006,814
Allowance for losses	(3,047,620)	(2,823,478)
	\$ 64,117,183	\$ 68,183,336
Allowance for losses:		
Beginning of year	\$ 2,823,478	\$ 1,884,535
Provision for losses	741,041	938,943
Write-downs	(90,587)	-
Reduction of allowance due to foreclosure	(426,312)	-
End of Year	\$ 3,047,620	\$ 2,823,478

The Fund evaluates loans for impairment on an individual basis if the loan is more than 90 days delinquent. These loans are then given a specific allowance based on the estimated net realizable value of property serving as collateral. All other loans are evaluated for allowance on a collective basis. At December 31, 2013, all loans were collectively evaluated and no impairment was noted.

Status for performing and nonperforming real estate loans is based on payment activity for the year. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than 60 days in the previous month. The following table presents credit exposure by performance status:

	December 31,	
	2013	2012
Performing	\$ 67,164,803	\$ 65,632,890
Nonperforming	-	5,373,924
	\$ 67,164,803	\$ 71,006,814

The Fund classifies loans as past due if the loan is more than 30 days past due. There were no loans classified as past due as of December 31, 2013. There were no past due loans as of December 31, 2012, other than the delinquent and impaired loans described below. The Fund assessed all restructurings that occurred during the year and does not believe any items are considered to be troubled debt restructurings.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements December 31, 2013 and 2012

4. LOANS RECEIVABLE, NET, continued:

At December 31, 2013, there were no loans that were classified as delinquent or impaired.

During 2013, property securing two loans was received in foreclosure and was classified as real estate held for sale at year-end. The value of the assets received totaling \$2,600,000, approximated the outstanding loan balances, net of allowance; therefore, no gain or loss was recognized.

At December 31, 2012, there were two loans that were classified as delinquent and impaired in the amount of \$3,026,317. Included in the allowance for loan losses was \$668,423 that was attributed to the impaired loans. Interest income recognized on these loans during 2012 was \$35,903, which was recorded on the cash basis method.

At December 31, 2012, there were two loans that were classified as delinquent but not impaired with an outstanding principal balance of \$2,347,607. Included in the allowance for loan losses was \$168,568 that was attributed to the delinquent loans. Interest income recognized on these loans during 2012 was \$168,947, which was recorded on the accrual method.

Loans receivable at December 31, 2013, will mature as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 502,745
2015	7,869
2016	1,584,937
2017	3,607,851
2018	4,717,212
Thereafter	<u>56,744,189</u>
	<u>\$ 67,164,803</u>

As of December 31, 2013, the Fund had one unsecured loan totaling \$7,869 and 2 loans totaling \$48,577 that were secured by third party guarantees. The loans receivable earn interest at fixed or variable rates which ranged from 2.70 percent to 7.20 percent at December 31, 2013.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

4. LOANS RECEIVABLE, NET, continued:

The Fund had 112 loans at December 31, 2013. Although the Fund has no geographic restrictions within the United States on where loans are made, aggregate loans in excess of five percent of total balances at December 31, 2013, were located in the following states:

State	Number of Loans	Principal Outstanding	Percent of Loan Portfolio
Washington	19	\$ 17,056,925	25%
Oregon	31	13,610,575	20%
California	9	10,269,605	15%
Utah	3	6,427,425	10%
Kansas	18	4,350,162	6%
	80	\$ 51,714,692	76%

At December 31, 2013, the Fund had 93 borrowers with balances as follows:

Loan Balance	Number of Borrowers	Principal Outstanding	Percent of Loan Portfolio
\$0 - \$500,000	54	\$ 7,759,074	12%
\$ 500,001 - \$1,000,000	15	10,632,050	16%
\$1,000,001 - \$1,500,000	8	9,715,185	14%
\$1,500,001 - \$2,000,000	8	13,292,233	20%
\$2,000,001 - \$2,500,000	2	4,178,374	6%
\$2,500,001 - \$3,000,000	2	5,617,777	8%
Over \$3,000,000	4	15,970,110	24%
	93	\$ 67,164,803	100%

Although the Fund has a diverse portfolio of loans to Mennonite Brethren churches, organizations and qualified church workers, concentrations of credit risk exist with respect to individually significant borrowers, which are defined as those exceeding five percent of the total loan portfolio. At December 31, 2013, there were two individually significant borrowers whose balances totaled \$9,850,302.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

5. ASSETS HELD IN TRUST:

The Organization administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Organization's use. The portion of the trust attributable to the future interest of the Organization is recorded in the combined statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Organization's combined statements of financial position. On an annual basis, the Organization revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a stated contract rate and applicable mortality tables.

The assets of the remainder trust funds are invested in the following:

	December 31,	
	2013	2012
Money market funds	\$ 675,920	\$ 389,178
Equities and mutual funds	11,737,042	10,462,521
Corporate bonds	30,586	31,750
Cash value life insurance	823,366	918,423
Loans receivable	112,019	122,162
	\$ 13,378,933	\$ 11,924,034

The above amounts are included as assets of the Foundation.

Liabilities and net assets held in trust consist of:

Irrevocable charitable beneficiary - payment liability	\$ 1,320,864	\$ 1,256,778
Revocable charitable beneficiary (liability equals assets)	11,052,681	9,780,458
	12,373,545	11,037,236
Temporarily restricted net assets for irrevocable charitable remainder trusts	1,005,388	886,798
	\$ 13,378,933	\$ 11,924,034

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

6. CHANGE IN VALUE OF CHARITABLE GIFT ANNUITIES AND TRUSTS

Change in value consists of the following for the years ended:

	December 31,	
<u>Change in Value of Charitable Gift Annuities:</u>	2013	2012
Interest and dividends	\$ 278,145	\$ 344,278
Net realized and unrealized gains	566,072	298,488
Actuarial change	166,528	174,233
Maturities	285,422	101,836
Transfer to endowment upon maturity of annuity	(295,403)	(197,932)
Payments and distributions (including miscellaneous expenses)	(883,647)	(634,323)
	117,117	86,580
<u>Change in Value of Charitable Trusts (Irrevocable Beneficiary):</u>		
Interest and dividends	48,175	46,366
Net realized and unrealized gains	273,747	126,611
Actuarial change	(64,259)	25,273
Payments (including miscellaneous expenses)	(139,247)	(152,707)
	118,416	45,543
Total change in value of annuities and trusts	\$ 235,533	\$ 132,123

7. NOTE PAYABLE:

The Fund has a non-interest bearing note payable to an individual, due on demand. The balance of the note was \$66,000 for both years ending December 31, 2013 and 2012. Imputed interest is not recorded due to immateriality.

The Fund also had a note payable of \$8,000, payable to a car dealership, with monthly principal and interest payments of \$237 at a fixed rate of 4.24%. This note was secured by the vehicle being purchased. The balance of the note was \$7,578 for the year ending December 31, 2012, and was paid in full during 2013.

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

8. INVESTMENT CERTIFICATES:

The Fund issues certificates, which are the Fund's unsecured debt securities, to Mennonite Brethren churches, organizations and members that invest in the Fund. Certificates are redeemable at the end of the terms ranging from one to five years or on demand and earn interest at variable rates (from 0.24% to 2.5% at December 31, 2013). The Fund was indebted on investment certificates as summarized below:

	December 31,	
	2013	2012
Demand:		
Advantage	\$ 17,645,180	\$ 16,192,556
Demand	2,121,171	2,393,616
	19,766,351	18,586,172
Term:		
One year	15,168,802	18,998,268
Two year	5,207,398	5,887,619
Three year	8,576,706	9,132,295
Four year	2,164,396	2,017,560
Five year	15,343,019	12,120,067
	46,460,321	48,155,809
	\$ 66,226,672	\$ 66,741,981

Amounts are presented in the schedule below based on the year in which the investment certificates are scheduled to mature. Notwithstanding the foregoing, demand certificates below are payable upon 30 days written notice; term certificates may not be redeemed without the Fund's consent before they mature and any redemptions prior to maturity are subject to substantial penalties.

Year of Maturity	Amount
Demand	\$ 19,766,351
2014	23,445,324
2015	8,699,139
2016	6,637,743
2017	3,854,185
2018	3,823,930
	\$ 66,226,672

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

8. INVESTMENT CERTIFICATES, continued:

At December 31, 2013, the Fund had a total of 187 investor households with aggregate investment certificate balances of \$100,000 or more as follows:

<u>Certificate Balances</u>	<u>Number of Investor Households</u>	<u>Aggregate Balances</u>	<u>Percent of Certificate Balances Outstanding</u>
\$100,000 - \$200,000	115	\$ 15,650,448	24%
\$200,001 - \$300,000	39	9,281,700	14%
\$300,001 - \$500,000	22	8,584,541	13%
Greater than \$500,000	9	13,278,733	20%
Related parties (Note 13)	2	667,505	1%
	<u>187</u>	<u>\$ 47,462,927</u>	<u>72%</u>

At December 31, 2013, the Fund had 1,534 certificates total, with the primary concentrations by state as

<u>State</u>	<u>Number of Certificates</u>	<u>Aggregate Investment Certificate Balances</u>	<u>Percent of Certificate Balances Outstanding</u>
Kansas	658	\$ 25,540,909	39%
California	449	25,736,747	39%
Oklahoma	183	8,233,390	12%
	<u>1,290</u>	<u>\$ 59,511,046</u>	<u>90%</u>

9. PENSION FUNDS HELD FOR OTHERS:

Pension funds held for others represents funds held by the Foundation for MB Mission (an affiliated entity). The Foundation holds these funds for MB Mission for purposes of making pension disbursements on its behalf. A corresponding amount is included in assets which offsets this liability (accounted for as agency funds).

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

10. NET ASSETS:

Temporarily restricted net assets consist of the following:

	December, 31	
	2013	2012
Unitrusts - restricted beneficiaries	\$ 1,005,388	\$ 886,798
Life estates	940,564	424,903
Term endowments	2,378,676	2,101,604
Unexpended endowment income	1,288,915	542,080
Other	1,438,675	1,179,715
	\$ 7,052,218	\$ 5,135,100

Permanently restricted net assets consist of the following:

Endowment	\$ 16,505,026	\$ 11,654,059
Annuities - restricted for endowment	56,792	52,999
	\$ 16,561,818	\$ 11,707,058

11. CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities and loans receivable.

From time to time, cash deposits are in excess of FDIC insured limits; while management is mindful of the FDIC limits, they realize that cash balances generated in the ordinary course of business will generally exceed FDIC insured limits. At December 31, 2013, approximately \$62.8 million of the Organization's investment portfolio was held by the investment management firm of Charles Schwab & Co., Inc. The Organization has not experienced any losses on these accounts and does not believe it is exposed to any significant risk of loss related to these.

Concentrations of credit risk with respect to loans receivable are limited to a certain extent by the secured position of the Fund in most instruments, the number of organizations comprising the Fund's loans receivable base and their dispersion across geographic areas, and the Fund's policy of limiting the maximum loan amount to any one borrower. As described in Note 2, the Organization's policy is to limit loans to Mennonite Brethren churches, organizations and qualified church workers. At December 31, 2013, 83% of the loans were to qualified organizations, 4% were to qualified church workers, and 13% were to other organizations. Loans made by the Fund are typically secured by first mortgages and are normally limited to 75% of the aggregate cost or value of the property securing the loan. As described in Note 4, the Fund also had \$56,446 in unsecured loans or loans secured by third party guarantees. While the Fund may be exposed to credit losses in the event of nonperformance by the above contracting parties, management has established an allowance for potential loan losses, which it believes is adequate to cover any such losses.

A substantial portion of the investment certificates issued by the Fund are demand instruments or will be maturing within the next two years. The Fund has insufficient liquid assets to satisfy repayment of this amount. Management anticipates, similar to past history, that a substantial portion of these certificates will be reinvested or rolled over into new certificates with the Fund.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

12. RETIREMENT PLAN:

The Organization contributes 6% of annual compensation for all eligible employees to the United States Conference Retirement Plan for Church Workers (a defined contribution plan). The contribution was \$27,843 and \$27,320 for 2013 and 2012, respectively.

13. RELATED PARTY TRANSACTIONS:

Some of the Organization's board members also serve on the boards of the U.S. Conference of Mennonite Brethren Churches (U.S. Conference). From time to time the Fund may have loans or certificates outstanding with the U.S. Conference.

The Fund offers a Home Loan program in which loans are available for the purchase or construction of primary residences in the United States for qualified church, district and conference employees. In addition, it is available to the Fund's staff as a benefit of employment. Board members, who are otherwise eligible, may participate in the Home Loan program. At December 31, 2013, the Fund had two loans with an outstanding combined balance of \$100,263, with a weighted average interest rate of 4.07%, with two officers. As of that same date, the Fund had three loans outstanding to three employees with an outstanding combined balance of \$278,566 with a weighted average interest rate of 3.15%. At December 31, 2013, the Fund had two certificates to the U.S. Conference with a balance of \$153,795 and one Certificate to the Pacific District Conference with a balance of \$513,710 with an interest rate of 0.75%. At December 31, 2013, the Fund also had an unfunded line of credit loan commitment to the U.S. Conference and Pacific District Conference for a total of \$500,000 with an interest rate of 5.20%.

At December 31, 2012, the Fund had two loans with an outstanding combined balance of \$165,655, with a weighted average interest rate of 3.68%, with two officers. As of that same date, the Fund had two loans outstanding to an employee with an outstanding balance of \$148,758 with a weighted average interest rate of 3.17%. At December 31, 2012, the Fund had two certificates to the U.S. Conference with a balance of \$161,244 with an interest rate of 1.0%. At December 31, 2012, the Fund also had an unfunded line of credit loan commitment to the U.S. Conference for \$200,000 with an interest rate of 5.70%.

During 2013 and 2012, the Foundation also made a grant totaling \$66,603 and \$55,274, respectively, to the U.S. Conference.

14. LOAN COMMITMENTS:

In the normal course of business, the Fund makes commitments to extend loans to meet the financing needs of Mennonite Brethren churches, organizations and qualified church workers. At December 31, 2013, the Fund had outstanding commitments of approximately \$8,967,600 to fund construction in progress, undrawn lines of credit and real estate mortgages.

Outstanding commitments are letters that outline the terms and conditions of the mortgage to be granted. The total commitment amount does not necessarily represent future cash requirements since construction costs may not total the amount the Fund agreed to lend, or the commitments may expire without being fully drawn upon. The Fund's exposure to credit loss, in the event of nonperformance by the churches to which it has extended commitments, is limited to the amount of the commitment. The Fund controls the credit risk of its commitments through credit approvals, limits and monitoring procedures.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

15. ENDOWMENT FUNDS:

The Foundation's endowment consists of approximately 90 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

15. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ (50,176)	\$ 3,667,591	\$ 16,561,818	\$ 20,179,233
Board designated funds	4,499,720	-	-	4,499,720
 Total funds	 \$ 4,449,544	 \$ 3,667,591	 \$ 16,561,818	 \$ 24,678,953

Changes in endowment net assets for the year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,574,929	\$ 2,643,684	\$ 11,707,058	\$ 17,925,671
Investment return:				
Investment income	79,902	222,845	-	302,747
Net gains (realized and unrealized)	863,382	1,248,931	-	2,112,313
Total investment return	943,284	1,471,776	-	2,415,060
Contributions	719	55,182	4,673,185	4,729,086
Amounts appropriated for expenditure	(199,945)	(518,051)	-	(717,996)
Other changes:				
Change in value of annuities	-	-	3,793	3,793
Transfer per donor stipulation	76,333	15,000	(91,333)	-
Transfer to endowment from donor advised fund	-	-	27,936	27,936
Transfer to endowment upon maturity of annuity	54,224	-	241,179	295,403
	874,615	1,023,907	4,854,760	6,753,282
Endowment net asset, end of year	\$ 4,449,544	\$ 3,667,591	\$ 16,561,818	\$ 24,678,953

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

15. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ (478,601)	\$ 2,643,684	\$ 11,707,058	\$ 13,872,141
Board designated funds	4,053,530	-	-	4,053,530
 Total funds	 <u>\$ 3,574,929</u>	 <u>\$ 2,643,684</u>	 <u>\$ 11,707,058</u>	 <u>\$ 17,925,671</u>

Changes in endowment net assets for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,406,755	\$ 1,670,359	\$ 10,816,962	\$ 14,894,076
Investment return:				
Investment income	165,926	114,139	-	280,065
Net gains (realized and unrealized)	927,645	446,895	-	1,374,540
Total investment return	1,093,571	561,034	-	1,654,605
Contributions	138,169	498,387	232,955	869,511
Amounts appropriated for expenditure	(449,262)	(215,761)	-	(665,023)
Other changes:				
Change in value of annuities	-	-	6,972	6,972
Transfer to endowment from donor advised fund	385,696	129,665	452,237	967,598
Transfer to endowment upon maturity of annuity	-	-	197,932	197,932
	<u>1,168,174</u>	<u>973,325</u>	<u>890,096</u>	<u>3,031,595</u>
Endowment net assets, end of year	<u>\$ 3,574,929</u>	<u>\$ 2,643,684</u>	<u>\$ 11,707,058</u>	<u>\$ 17,925,671</u>

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

15. ENDOWMENT FUNDS, continued:

	December 31,	
	2013	2012
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by SPMIFA.	\$ 16,561,818	\$ 11,707,058
Temporarily restricted net assets:		
Term endowments	\$ 2,378,676	\$ 2,101,604
The portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	1,288,915	542,080
Total endowment funds classified as temporarily restricted net assets	\$ 3,667,591	\$ 2,643,684
Endowment assets consist of the following:		
Investments	\$ 20,698,052	\$ 17,925,671
Estate receivable	3,980,901	-
	\$ 24,678,953	\$ 17,925,671

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$50,176 and \$478,601 as of December 31, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an inflation adjusted income stream to grow the corpus above the inflation rate. The Foundation expects its endowment funds, over time, to provide an average rate of return between 6.5% and 9%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives:

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

MENNONITE BROTHERS FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

15. ENDOWMENT FUNDS, continued:

Spending Policy and How the Investment Objectives Related to Spending Policy:

Mennonite Brethren Foundation has a policy of appropriating for distribution each year 4% percent of its endowment fund's average fair value over the 3 previous calendar year ends. In establishing this policy, the Foundation considered long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 1.75% to 4.25%. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES:

The Organization uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available. The valuations for each of these levels are determined as follows:

Level 1 - Quoted prices for identical instruments traded in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets or model-based valuations where significant assumptions are observable.

Level 3 - Model-based techniques using significant assumptions that are not observable. These unobservable assumptions reflect estimates of assumptions that market participants would use.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements December 31, 2013 and 2012

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2013:

	Total	Level 1	Level 2	Level 3
Corporate bonds:				
AA	\$ 1,288,666	\$ -	\$ 1,288,666	\$ -
A	6,957,357	-	6,957,357	-
BBB	6,507,524	-	6,507,524	-
BB+ or below	99,811	-	99,811	-
	<u>14,853,358</u>	<u>-</u>	<u>14,853,358</u>	<u>-</u>
Equities:				
Consumer goods	5,849,781	5,849,781	-	-
Industrial goods	3,733,383	3,733,383	-	-
Materials	1,738,882	1,738,882	-	-
Communication services	885,565	885,565	-	-
Energy	2,763,663	2,763,663	-	-
Real estate	257,950	257,950	-	-
Technology	3,714,280	3,714,280	-	-
Health care	3,877,801	3,877,801	-	-
Utilities	2,202,036	2,202,036	-	-
Financial	4,811,857	4,811,857	-	-
	<u>29,835,198</u>	<u>29,835,198</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Foreign large blend	4,031,443	4,031,443	-	-
Small value	81,988	81,988	-	-
Small growth	95,941	95,941	-	-
Medium value	68,083	68,083	-	-
Large blend	63,318	63,318	-	-
Large value	966,440	966,440	-	-
Large growth	275,384	275,384	-	-
Real estate	2,794,491	2,794,491	-	-
Bond funds	797,293	797,293	-	-
	<u>9,174,381</u>	<u>9,174,381</u>	<u>-</u>	<u>-</u>
Money market funds				
Certificates of deposit	4,004,652	4,004,652	-	-
U.S. Government securities	9,939,996	-	9,939,996	-
Alternative investments	3,854,024	-	3,854,024	-
Mortgage pools	884,606	-	884,606	-
CMO and asset backed securities	2,759,185	-	2,759,185	-
Non-publicly traded securities and limited partnership interests	734,437	-	734,437	-
Real estate	589,714	-	589,714	-
Cash value life insurance	2,408,685	-	2,408,685	-
	<u>1,460,994</u>	<u>-</u>	<u>1,460,994</u>	<u>-</u>
	<u>26,636,293</u>	<u>4,004,652</u>	<u>22,631,641</u>	<u>-</u>
	<u>\$ 80,499,230</u>	<u>\$ 43,014,231</u>	<u>\$ 37,484,999</u>	<u>\$ -</u>

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2012:

	Total	Level 1	Level 2	Level 3
Corporate bonds:				
AAA	\$ 155,292	\$ -	\$ 155,292	\$ -
AA	957,636	-	957,636	-
A	5,320,597	-	5,320,597	-
BBB	4,765,894	-	4,765,894	-
BB+ or below	79,567	-	79,567	-
	<u>11,278,986</u>	<u>-</u>	<u>11,278,986</u>	<u>-</u>
Equities:				
Consumer goods	6,118,065	6,118,065	-	-
Industrial goods	2,322,010	2,322,010	-	-
Materials	1,410,397	1,410,397	-	-
Communication services	1,575,893	1,575,893	-	-
Technology	2,099,469	2,099,469	-	-
Health care	1,731,249	1,731,249	-	-
Utilities	2,069,397	2,069,397	-	-
Energy	2,523,790	2,523,790	-	-
Real estate	1,086,070	1,086,070	-	-
Financial	4,321,253	4,321,253	-	-
	<u>25,257,593</u>	<u>25,257,593</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Foreign large blend	3,125,896	3,125,896	-	-
Small value	67,355	67,355	-	-
Small growth	72,626	72,626	-	-
Medium value	63,903	63,903	-	-
Large blend	682,685	682,685	-	-
Large value	225,014	225,014	-	-
Large growth	230,197	230,197	-	-
Real estate	2,488,217	2,488,217	-	-
Bond funds	108,955	108,955	-	-
	<u>7,064,848</u>	<u>7,064,848</u>	<u>-</u>	<u>-</u>
Money market funds	7,687,381	7,687,381	-	-
Certificates of deposits	5,685,906	-	5,685,906	-
U.S. Government securities	4,123,082	-	4,123,082	-
Alternative investments	710,180	-	710,180	-
Mortgage pools	2,550,396	-	2,550,396	-
CMO and asset backed securities	787,886	-	787,886	-
Non-publicly traded securities and limited partnership interests	194,450	-	194,450	-
Real estate	1,632,439	-	1,632,439	-
Cash value life insurance	1,522,262	-	1,522,262	-
	<u>24,893,982</u>	<u>7,687,381</u>	<u>17,206,601</u>	<u>-</u>
	<u>\$ 68,495,409</u>	<u>\$ 40,009,822</u>	<u>\$ 28,485,587</u>	<u>\$ -</u>

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The Organization's alternative investment consists of an investment in Altegris Winton Futures Fund L.P. Altegris consists of speculatively traded commodity futures contracts, options on futures contracts, forward contracts and other commodity interests.

The Organization uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per ASU 2009-12, the Organization's investment in Altegris is valued using NAV per share and consists of futures interest trading accounts which uses a trend following strategy. This fund has no lockup restrictions. The Organization's interest in the fund is redeemable at the end of any month on fifteen days' prior written notice. The Organization's investment in this fund was \$884,606 and \$710,180 at December 31, 2013 and 2012, respectively.

The following disclosure of estimated fair value of financial instruments is made in accordance with the *Financial Instruments* topic of the ACS. The estimated fair value of financial instruments, based on available market information and appropriate valuation methodologies, as of December 31, 2013 and 2012, are presented below.

	December 31,			
	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 1,281,273	\$ 1,281,273	\$ 1,821,851	\$ 1,821,851
Investments	\$ 46,662,576	\$ 46,662,576	\$ 38,899,233	\$ 38,899,233
Loans receivable	\$ 64,117,183	\$ 64,117,183	\$ 68,183,336	\$ 68,183,336
Interest receivable	\$ 229,214	\$ 229,214	\$ 333,935	\$ 333,935
Assets held in trust	\$ 13,378,933	\$ 13,378,933	\$ 11,924,034	\$ 11,924,034
Estate receivable	\$ 3,980,901	\$ 3,980,901	\$ -	\$ -
Investments held for endowment	\$ 20,698,052	\$ 20,698,052	\$ 17,925,671	\$ 17,925,671
Liabilities:				
Investment certificates	\$ 66,226,672	\$ 66,400,892	\$ 66,741,981	\$ 66,534,548
Note payable	\$ 66,000	\$ 66,000	\$ 73,578	\$ 73,578
Trust liability	\$ 12,373,545	\$ 12,373,545	\$ 11,037,236	\$ 11,037,236
Annuities payable	\$ 2,499,596	\$ 2,499,596	\$ 2,661,775	\$ 2,661,775
Endowments held for others	\$ 28,368,016	\$ 28,368,016	\$ 24,460,250	\$ 24,460,250
Pension funds held for others	\$ 455,922	\$ 455,922	\$ 488,289	\$ 488,289

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2013 and 2012

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments at December 31, 2013 and 2012:

Cash and cash equivalents and interest receivable: The carrying amounts approximate fair value due to the short-term maturity of these instruments.

Investments, assets held in trust and investments held for endowment: The basis of the fair values of investments is described in Note 2.

Estate receivable: Fair value approximates carrying value based on the valuation of the underlying assets.

Loans receivable: The Fund generally makes variable rate loans which allow for periodic rate adjustment. The Board of Directors reviews the interest rates on these loans periodically and may raise or lower them based on market conditions and other factors. The rates were adjusted to current lending rates at the first of the year; therefore, the carrying amount approximates fair value.

Investment certificates: The fair values disclosed for certificates payable on demand are, by definition, equal to the amount payable on demand at the reporting date. The fair values for all other certificates are estimated using a discounted cash flow calculation that applies interest rates offered on certificates at December 31, 2013 and 2012, to a schedule of aggregated contractual maturities on such certificates. At December 31, 2013, the interest rates used in this calculation ranged from 1.50% to 2.50%. At December 31, 2012, the interest rates used in this calculation ranged from 2.0% to 3.00%.

Note payable: Fair value approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining maturities.

Trust liability, annuities payable, endowments held for others and pension funds held for others: The fair value is based on the present value of future cash flows to income beneficiaries, annuitants and other remainderman, respectively, using published mortality rate tables adopted by the IRS at an assumed rate of return of 6%.

17. SUBSEQUENT EVENTS:

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

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

Board of Directors
Mennonite Brethren Foundation and Affiliate
Hillsboro, Kansas

We have audited the combined financial statements of Mennonite Brethren Foundation and Affiliate as of and for the years ended December 31, 2013 and 2012, and our report thereon dated April 30, 2014, which expressed an unmodified opinion on those combined financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of financial position and activities are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Capin Crouse LLP

Wheaton, Illinois
April 30, 2014

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Combining Statement of Financial Position December 31, 2013

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
ASSETS:				
Cash and cash equivalents	\$ 520,246	\$ 761,027	\$ -	\$ 1,281,273
Investments	41,413,743	23,384,543	(18,135,710)	46,662,576
Loans receivable, net	-	64,117,183	-	64,117,183
Interest receivable	-	229,214	-	229,214
Prepaid expenses and other	10,759	368,584	(1,607)	377,736
Real estate held for sale	-	2,600,000	-	2,600,000
Property and equipment, net	79,972	-	-	79,972
Assets held in trust	13,378,933	-	-	13,378,933
Estate receivable (for endowment)	3,980,901	-	-	3,980,901
Investments held for endowment	20,698,052	-	-	20,698,052
	\$ 80,082,606	\$ 91,460,551	\$ (18,137,317)	\$ 153,405,840
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued expenses	\$ 6,974	\$ 16,197	\$ (1,607)	\$ 21,564
Earnings payable	427,735	-	-	427,735
Investment certificates	-	84,362,382	(18,135,710)	66,226,672
Note payable	-	66,000	-	66,000
Trust liability	12,373,545	-	-	12,373,545
Annuities payable	2,499,596	-	-	2,499,596
Endowments held for others	28,368,016	-	-	28,368,016
Pension funds held for others	455,922	-	-	455,922
	44,131,788	84,444,579	(18,137,317)	110,439,050
Net assets:				
Unrestricted:				
Board designated for endowment	4,499,720	-	-	4,499,720
Board designated for administration	329,355	225,000	-	554,355
Undesignated	7,507,707	6,790,972	-	14,298,679
Temporarily restricted	7,052,218	-	-	7,052,218
Permanently restricted	16,561,818	-	-	16,561,818
	35,950,818	7,015,972	-	42,966,790
	\$ 80,082,606	\$ 91,460,551	\$ (18,137,317)	\$ 153,405,840

See notes to combined financial statements

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Combining Statement of Activities

Year Ended December 31, 2013

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
CHANGES IN UNRESTRICTED NET ASSETS:				
Revenues:				
Interest on loans receivable	\$ -	\$ 3,492,210	\$ -	\$ 3,492,210
Contributions	2,262,836	-	(350,000)	1,912,836
Investment income	1,093,454	251,858	(253,273)	1,092,039
Annuity contributions received	315,229	-	-	315,229
Change in value of charitable gift annuities	113,324	-	-	113,324
Fees and other	553,375	57,361	-	610,736
Reimbursements from MB Loan Fund	63,504	-	(63,504)	-
	<u>4,401,722</u>	<u>3,801,429</u>	<u>(666,777)</u>	<u>7,536,374</u>
Reclassifications:				
Net assets released from purpose restrictions	518,051	-	-	518,051
Transfer per donor stipulation	(192,782)	-	-	(192,782)
	<u>4,726,991</u>	<u>3,801,429</u>	<u>(666,777)</u>	<u>7,861,643</u>
Expenses:				
Program	1,985,818	3,221,250	(654,341)	4,552,727
Management and general	510,684	114,715	(10,860)	614,539
Planned giving activities	182,069	-	(1,576)	180,493
	<u>2,678,571</u>	<u>3,335,965</u>	<u>(666,777)</u>	<u>5,347,759</u>
Change in Unrestricted Net Assets	<u>2,048,420</u>	<u>465,464</u>	<u>-</u>	<u>2,513,884</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Unitrust contributions received	174	-	-	174
Contributions to term endowment	55,182	-	-	55,182
Contributions to deferred gifts	484,250	-	-	484,250
Investment income	1,730,736	-	-	1,730,736
Change in value of deferred gifts	31,411	-	-	31,411
Change in value of charitable trust agreements	118,416	-	-	118,416
Net assets released from restrictions	(518,051)	-	-	(518,051)
Transfer per donor stipulation	15,000	-	-	15,000
Change in Temporarily Restricted Net Assets	<u>1,917,118</u>	<u>-</u>	<u>-</u>	<u>1,917,118</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	4,673,185	-	-	4,673,185
Change in value of charitable gift annuities	3,793	-	-	3,793
Transfer per donor stipulation	177,782	-	-	177,782
Change in Permanently Restricted Net Assets	<u>4,854,760</u>	<u>-</u>	<u>-</u>	<u>4,854,760</u>
Change in Net Assets	8,820,298	465,464	-	9,285,762
Net Assets, Beginning of Year:	<u>27,130,520</u>	<u>6,550,508</u>	<u>-</u>	<u>33,681,028</u>
Net Assets, End of Year	<u>\$ 35,950,818</u>	<u>\$ 7,015,972</u>	<u>\$ -</u>	<u>\$ 42,966,790</u>

See notes to combined financial statements