

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Combined Financial Statements  
With Independent Auditors' Report

December 31, 2015 and 2014

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

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## **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, 2015 and 2014, 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 Combined 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 combined financial position of Mennonite Brethren Foundation and Affiliate as of December 31, 2015 and 2014, and the changes in its combined net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Wheaton, Illinois  
April 25, 2016

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Combined Statements of Financial Position

	December 31,	
	2015	2014
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,666,812	\$ 1,967,733
Investments	58,996,296	51,275,472
Loans receivable, net	69,143,668	67,308,386
Interest receivable	236,618	245,060
Prepaid expenses and other	390,713	379,484
Property and equipment, net	90,415	64,389
Assets held in trust	16,371,972	16,118,124
Investments held for endowment	26,920,034	27,029,508
	<u>\$ 173,816,528</u>	<u>\$ 164,388,156</u>
<b>Total Assets</b>	<u>\$ 173,816,528</u>	<u>\$ 164,388,156</u>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 24,669	\$ 34,716
Earnings payable	52,690	79,132
Investment certificates	65,446,137	61,621,849
Note payable	-	66,000
Trust liability	14,959,207	14,659,430
Annuities payable	2,678,242	2,693,609
Funds held for others	38,337,749	35,117,434
Pension funds held for others	403,587	428,403
	<u>121,902,281</u>	<u>114,700,573</u>
<b>Net assets:</b>		
<b>Unrestricted:</b>		
Board designated for endowment	4,463,087	4,638,421
Board designated for administration	622,234	594,680
Undesignated	19,538,565	17,963,451
Temporarily restricted	8,221,978	8,495,564
Permanently restricted	19,068,383	17,995,467
	<u>51,914,247</u>	<u>49,687,583</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 173,816,528</u>	<u>\$ 164,388,156</u>

See notes to combined financial statements

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Combined Statements of Activities

	Year Ended December 31,							
	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>								
Interest on loans receivable	\$ 3,615,696	\$ -	\$ -	\$ 3,615,696	\$ 3,470,336	\$ -	\$ -	\$ 3,470,336
Contributions	4,284,806	637,153	276,172	5,198,131	3,654,179	691,758	1,295,007	5,640,944
Fees and other	907,256	-	-	907,256	827,857	-	-	827,857
Investment income	356,553	(130,834)	-	225,719	1,429,267	1,130,629	-	2,559,896
Change in value of annuities and trusts	(567,387)	(48,012)	(5,033)	(620,432)	16,297	68,118	7,833	92,248
Change in value of deferred gifts	-	1,411	-	1,411	-	21,983	-	21,983
	<u>8,596,924</u>	<u>459,718</u>	<u>271,139</u>	<u>9,327,781</u>	<u>9,397,936</u>	<u>1,912,488</u>	<u>1,302,840</u>	<u>12,613,264</u>
<b>RECLASSIFICATIONS:</b>								
Net assets released from purpose restrictions	512,733	(512,733)	-	-	588,717	(588,717)	-	-
Transfer per donor stipulation (Note 15)	(581,206)	(220,571)	801,777	-	(250,384)	119,575	130,809	-
	<u>(68,473)</u>	<u>(733,304)</u>	<u>801,777</u>	<u>-</u>	<u>338,333</u>	<u>(469,142)</u>	<u>130,809</u>	<u>-</u>
<b>EXPENSES:</b>								
Program services	6,109,249	-	-	6,109,249	4,985,157	-	-	4,985,157
Supporting activities:								
Management and general	772,954	-	-	772,954	722,299	-	-	722,299
Planned giving	218,914	-	-	218,914	185,015	-	-	185,015
	<u>7,101,117</u>	<u>-</u>	<u>-</u>	<u>7,101,117</u>	<u>5,892,471</u>	<u>-</u>	<u>-</u>	<u>5,892,471</u>
Change in Net Assets	1,427,334	(273,586)	1,072,916	2,226,664	3,843,798	1,443,346	1,433,649	6,720,793
Net Assets, Beginning of Year	<u>23,196,552</u>	<u>8,495,564</u>	<u>17,995,467</u>	<u>49,687,583</u>	<u>19,352,754</u>	<u>7,052,218</u>	<u>16,561,818</u>	<u>42,966,790</u>
Net Assets, End of Year	<u>\$ 24,623,886</u>	<u>\$ 8,221,978</u>	<u>\$ 19,068,383</u>	<u>\$ 51,914,247</u>	<u>\$ 23,196,552</u>	<u>\$ 8,495,564</u>	<u>\$ 17,995,467</u>	<u>\$ 49,687,583</u>

See notes to combined financial statements

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Combined Statements of Cash Flows

	Year Ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 2,226,664	\$ 6,720,793
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,793	21,048
Net realized and unrealized (gain) loss on investments	896,970	(1,412,484)
Gift portion of new charitable gift annuities	(423,729)	(524,706)
Maturities of charitable gift annuities	(242,486)	(114,739)
Payments on charitable gift annuities	480,958	450,195
Charitable gift annuity actuarial change	(236,437)	(245,149)
Change in value of charitable trusts	45,929	(70,639)
Interest reinvested in investment certificates	834,620	957,965
Donated deferred gifts	(587,143)	(257,091)
Donated real estate	(1,250,333)	(2,742,282)
Proceeds from estate receivable held for endowment	-	3,980,901
Changes in:		
Interest receivable	8,442	(15,846)
Prepaid expenses and other	(11,229)	(1,748)
Accounts payable and accrued expenses	(10,047)	13,152
Earnings payable	(26,442)	(348,603)
Pension funds held for others	(24,816)	(27,519)
Net Cash Provided by Operating Activities	1,696,714	6,383,248
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	30,169,504	39,618,482
Purchase of investments	(33,417,067)	(37,572,237)
Loan advances	(8,216,565)	(12,169,360)
Loan principal received	6,381,283	8,978,157
Purchase of property and equipment	(41,819)	(5,465)
Net Cash Used by Investing Activities	(5,124,664)	(1,150,423)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments made on note payable	(66,000)	-
Proceeds from issuance of investment certificates	17,607,085	16,969,867
Redemptions of investment certificates	(14,617,417)	(22,532,655)
Face value of new annuity and trust agreements	887,285	1,854,765
Gift portion of new trust agreements	-	(382,667)
Payments on charitable gift annuities and trusts	(676,115)	(615,277)
Investment income on assets held in trust	(7,809)	159,602
Net Cash Provided (Used) by Financing Activities	3,127,029	(4,546,365)
Net Change in Cash and Cash Equivalents	(300,921)	686,460
Cash and Cash Equivalents, Beginning of Year	1,967,733	1,281,273
Cash and Cash Equivalents, End of Year	\$ 1,666,812	\$ 1,967,733
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest	\$ 91,807	\$ 78,306
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Matured investment certificates reinvested	\$ 22,855,615	\$ 21,733,753

See notes to combined financial statements

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

## 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. 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 Internal Revenue Code. 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, 2015 and 2014

## 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. Investment in some interest bearing deposits are recorded at cost plus accrued interest.

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 primarily 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 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 judgement, 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, 2015 and 2014

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### 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,	
	2015	2014
Office building and land	\$ 176,660	\$ 143,258
Furniture, fixtures and equipment	254,540	246,123
	431,200	389,381
Less accumulated depreciation	(340,785)	(324,992)
	<u>\$ 90,415</u>	<u>\$ 64,389</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.

### FUNDS HELD FOR OTHERS

Funds 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 \$5,984,080 and \$6,130,767 at December 31, 2015 and 2014, respectively, including \$2,141,033 and \$1,696,474, respectively, held in trust for California annuitants.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

## 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, 2015 and 2014

## 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 \$57,198 and \$56,180 for the years ended December 31, 2015 and 2014, 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, 2015, the Organization had no uncertain tax positions that qualify for recognition or disclosure in the combined financial statements.

### RECLASSIFICATIONS

Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

### 3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2015	2014
At fair value:		
Money market funds	\$ 3,344,272	\$ 5,441,873
Certificates of deposit	2,177,481	1,748,040
U.S. Government securities	4,233,495	5,943,474
Corporate bonds	15,429,020	13,453,968
Equities	29,443,719	29,584,524
Mutual funds	17,423,725	13,978,478
Alternative investments	1,612,828	1,662,583
Mortgage pools	4,045,885	3,612,206
CMO and asset backed securities	1,180,044	920,038
Non-publicly traded securities and limited partnership interests	652,730	739,669
Real estate	6,273,860	4,978,009
Cash value life insurance	1,690,682	1,586,873
	87,507,741	83,649,735
At cost:		
Denominational loan fund certificates	14,289,458	9,251,155
Certificates of deposit	267,962	1,290,271
	14,557,420	10,541,426
At other than fair value:		
Loans receivable	223,141	231,943
	102,288,302	94,423,104
Less:		
Investments held for endowment	(26,920,034)	(27,029,508)
Assets held in trust	(16,371,972)	(16,118,124)
	\$ 58,996,296	\$ 51,275,472

Investment income consists of the following for the years ended:

	December 31,	
	2015	2014
Interest and dividend income	\$ 1,468,095	\$ 1,303,351
Net realized and unrealized gains (losses)	(896,970)	1,451,684
Investment management and custodial fees	(345,406)	(195,139)
	\$ 225,719	\$ 2,559,896

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Combined Financial Statements December 31, 2015 and 2014

### 4. LOANS RECEIVABLE, NET:

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

	December 31,	
	2015	2014
4 1/2% or less	\$ 2,948,994	\$ 2,281,686
over 4 1/2 to 5 1/2%	57,016,039	59,524,789
over 5 1/2 to 6 1/2%	11,896,247	5,035,268
over 6 1/2%	-	3,184,255
	71,861,280	70,025,998
Allowance for losses	(2,717,612)	(2,717,612)
	\$ 69,143,668	\$ 67,308,386
Allowance for losses:		
Beginning of year	\$ 2,717,612	\$ 3,047,620
Write-downs	-	(7,279)
Reduction of allowance due to foreclosure	-	(322,729)
	-	(322,729)
End of year	\$ 2,717,612	\$ 2,717,612

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, 2015, 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 statue:

	December 31,	
	2015	2014
Performing	\$ 71,861,280	\$ 70,025,998
Nonperforming	-	-
	\$ 71,861,280	\$ 70,025,998

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, 2015 and 2014.

At December 31, 2015, there were no loans that were classified as delinquent or impaired.

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Notes to Combined Financial Statements December 31, 2015 and 2014

4. LOANS RECEIVABLE, NET, continued:

At December 31, 2014, there were no loans that were classified as delinquent or impaired. The property that was classified as delinquent and impaired on December 31, 2012, was foreclosed on in January 2013, and was sold in June 2014.

Loans receivable at December 31, 2015, will mature as follows:

Year	Amount
2016	\$ 63,692
2017	4,429,142
2018	6,109,174
2019	3,844,331
2020	4,336,476
Thereafter	53,078,465
	\$ 71,861,280

As of December 31, 2015, the Fund had one unsecured loan totaling \$20,310 and five loans totaling \$181,093 that were secured by third party guarantees. The loans receivable earn interest at fixed or variable rates which ranged from 2.67 percent to 6.50 percent at December 31, 2015.

The Fund had 126 loans at December 31, 2015. 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, 2015, were located in the following states:

State	Number of Loans	Principal Outstanding	Percent of Loan Portfolio
Washington	21	\$ 15,709,560	22%
California	38	15,193,182	21%
Oregon	9	12,304,144	17%
Utah	4	7,490,307	10%
	72	\$ 50,697,193	70%

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Combined Financial Statements December 31, 2015 and 2014

4. LOANS RECEIVABLE, NET, continued:

At December 31, 2015, the Fund had 99 borrowers with balances as follows:

Loan Balance	Number of Borrowers	Principal Outstanding	Percent of Loan Portfolio
\$0 - \$500,000	58	\$ 8,085,710	11%
\$ 500,001 - \$1,000,000	17	12,168,695	17%
\$1,000,001 - \$1,500,000	8	9,725,410	14%
\$1,500,001 - \$2,000,000	6	10,077,210	14%
\$2,000,001 - \$2,500,000	3	6,628,627	9%
\$2,500,001 - \$3,000,000	4	11,000,767	15%
Over \$3,000,000	3	14,174,861	20%
	99	\$ 71,861,280	100%

Although the Fund has a diverse portfolio of loans primarily 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, 2015, there were two individually significant borrowers whose balances totaled \$10,632,461.

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,	
	2015	2014
Money market funds	\$ 291,342	\$ 419,880
Equities, equity and bond funds	12,574,152	12,464,081
Corporate bonds	30,698	33,935
Real estate	2,444,867	2,219,400
Cash value life insurance	929,546	874,001
Loans receivable	101,367	106,827
	\$ 16,371,972	\$ 16,118,124

The above amounts are included as assets of the Foundation.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

5. ASSETS HELD IN TRUST, continued:

Liabilities and net assets held in trust consist of:

Irrevocable charitable beneficiary - payment liability	\$ 1,481,425	\$ 1,638,462
Revocable charitable beneficiary (liability equals assets)	13,477,782	13,020,968
	14,959,207	14,659,430
Temporarily restricted net assets for irrevocable charitable remainder trusts	1,412,765	1,458,694
	\$ 16,371,972	\$ 16,118,124

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>	2015	2014
Interest and dividends	\$ 134,895	\$ 113,447
Net realized and unrealized gains (losses)	(140,319)	208,870
Actuarial change	236,437	245,149
Maturities	242,486	114,739
Transfer to endowment upon maturity of annuity	(437,471)	(39,200)
Payments and distributions (including miscellaneous expenses)	(610,531)	(621,396)
	(574,503)	21,609
 <u>Change in Value of Charitable Trusts (Irrevocable Beneficiary):</u>		
Interest and dividends	64,532	52,835
Net realized and unrealized gains (losses)	(72,341)	106,767
Actuarial change	157,037	75,892
Payments (including miscellaneous expenses)	(195,157)	(164,855)
	(45,929)	70,639
 Total change in value of annuities and trusts	\$ (620,432)	\$ 92,248

7. NOTE PAYABLE:

The Fund had a non-interest bearing note payable to an individual, due on demand which was paid off in 2015. The balance of the note was \$66,000 for the year ending December 31, 2014. Imputed interest had not been recorded due to immateriality.



# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

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 0.25% to 2.25% at December 31, 2015). The Fund was indebted on investment certificates as summarized below:

	December 31,	
	2015	2014
Demand:		
Advantage	\$ 13,455,969	\$ 13,919,808
Demand	2,912,178	2,200,471
	16,368,147	16,120,279
Term:		
One year	14,985,571	14,528,678
Two year	5,824,313	4,422,150
Three year	6,013,990	7,290,918
Four year	1,837,707	2,360,438
Five year	20,416,409	16,899,386
	49,077,990	45,501,570
	\$ 65,446,137	\$ 61,621,849

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	\$ 16,368,147
2016	25,403,425
2017	8,598,263
2018	7,075,883
2019	3,779,650
2020	4,220,769
	\$ 65,446,137

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

8. INVESTMENT CERTIFICATES, continued:

At December 31, 2015, the Fund had a total of 190 investor households with aggregate investment certificate balances of \$100,000 or more as follows:

Certificate Balances	Number of Investor Households	Aggregate Balances	Percent of Certificate Balances Outstanding
\$100,000 - \$200,000	105	\$ 13,820,584	21%
\$200,001 - \$300,000	44	10,709,318	16%
\$300,001 - \$500,000	27	10,367,118	16%
Greater than \$500,000	12	13,683,448	21%
Related parties (Note 13)	2	430,509	1%
	190	\$ 49,010,977	75%

At December 31, 2015, the Fund had 1,458 certificates total, with the primary concentrations by state as follows:

State	Number of Certificates	Aggregate Investment Certificate Balances	Percent of Certificate Balances Outstanding
California	407	\$ 25,431,052	39%
Kansas	631	23,174,921	35%
Oklahoma	179	9,497,885	15%
	1,217	\$ 58,103,858	89%

9. PENSION FUNDS HELD FOR OTHERS:

Pension funds held for others represents funds held by the Foundation for MB Mission (an affiliated entity). The Organization 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, 2015 and 2014

10. NET ASSETS:

Temporarily restricted net assets consist of the following:

	December, 31	
	2015	2014
Unitrusts - restricted beneficiaries	\$ 1,412,765	\$ 1,458,694
Life estates	1,808,192	1,219,638
Term endowments	2,381,636	2,460,970
Unexpended endowment income	1,204,344	1,946,268
Other	1,415,041	1,409,994
	\$ 8,221,978	\$ 8,495,564

Permanently restricted net assets consist of the following:

Endowment	\$ 19,008,791	\$ 17,930,842
Annuities - restricted for endowment	59,592	64,625
	\$ 19,068,383	\$ 17,995,467

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, 2015, approximately \$75.2 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 4, the Fund's policy is to limit loans primarily to Mennonite Brethren churches, organizations and qualified church workers. At December 31, 2015, approximately 77% of the loans were to qualified organizations, 4% were to qualified church workers and 19% 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 \$201,403 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, 2015 and 2014

### 12. RETIREMENT PLAN:

The Organization contributes 6% of annual compensation for all eligible employees to the United States Conference Retirement Plan for Church Workers. The contribution was \$37,102 and \$29,549 for 2015 and 2014, 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) and boards of the district conferences. From time to time the Fund may have loans or certificates outstanding with the U.S. Conference and the district conferences.

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, 2015, the Fund had three loans with an outstanding combined balance of \$197,769, with a weighted average interest rate of 3.18%, with three officers. As of that same date, the Fund had two loans outstanding to two employees with an outstanding combined balance of \$158,267 with a weighted average interest rate of 3.16%. At December 31, 2015, the Fund had two certificates to the U.S. Conference with a balance of \$302,452 and one Certificate to the Pacific District Conference with a balance of \$128,057 with an interest rate of 0.5%. At December 31, 2015, the Fund also had a 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 4.95%. The U.S. Conference line of credit balance was \$20,310 and Pacific District Conference was unfunded. At December 31, 2015, the Fund had two loans with an outstanding combined balance of \$688,176, with an interest rate of 4.95%, to a church whose pastor is also on the Fund's board.

At December 31, 2014, the Fund had two loans with an outstanding combined balance of \$86,487, with a weighted average interest rate of 4.11%, with two officers. As of that same date, the Fund had three loans outstanding to three employees with an outstanding combined balance of \$270,373 with a weighted average interest rate of 3.15%. At December 31, 2014, the Fund had two certificates to the U.S. Conference with a balance of \$223,842 and one Certificate to the Pacific District Conference with a balance of \$127,418 with an interest rate of 0.5%. At December 31, 2014, 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 4.95%. At December 31, 2014, the Fund had two loans with an outstanding combined balance of \$707,326, with an interest rate of 4.95%, to a church whose pastor is also on the Fund's board.

During 2015 and 2014, the Foundation also made a grant totaling \$182,022 and \$77,060, respectively, to the U.S. Conference. Also during 2014, the Foundation made a grant totaling \$17,000 to the Pacific District Conference.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

## 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, 2015, the Fund had outstanding commitments of approximately \$4,606,500 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.

## 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, 2015 and 2014

15. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ (197,416)	\$ 3,585,980	\$ 19,068,383	\$ 22,456,947
Board designated funds	4,463,087	-	-	4,463,087
 Total funds	 <u>\$ 4,265,671</u>	 <u>\$ 3,585,980</u>	 <u>\$ 19,068,383</u>	 <u>\$ 26,920,034</u>

Changes in endowment net assets for year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,626,803	\$ 4,407,238	\$ 17,995,467	\$ 27,029,508
Investment return:				
Investment income	29,604	171,704	-	201,308
Net losses (realized and unrealized)	(298,221)	(259,658)	-	(557,879)
Total investment return	(268,617)	(87,954)	-	(356,571)
Contributions	-	50,010	276,172	326,182
Amounts appropriated for expenditure	(380,509)	(512,733)	-	(893,242)
Other changes:				
Change in value of annuities	-	-	(5,033)	(5,033)
Transfer per donor stipulation	287,994	(270,581)	(1,300)	16,113
Transfer to endowment from donor advised fund	-	-	365,606	365,606
Transfer to endowment upon maturity of annuity	-	-	437,471	437,471
	<u>(361,132)</u>	<u>(821,258)</u>	<u>1,072,916</u>	<u>(109,474)</u>
Endowment net assets, end of year	<u>\$ 4,265,671</u>	<u>\$ 3,585,980</u>	<u>\$ 19,068,383</u>	<u>\$ 26,920,034</u>

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Notes to Combined Financial Statements December 31, 2015 and 2014

15. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ (11,618)	\$ 4,407,238	\$ 17,995,467	\$ 22,391,087
Board designated funds	4,638,421	-	-	4,638,421
 Total funds	 <u>\$ 4,626,803</u>	 <u>\$ 4,407,238</u>	 <u>\$ 17,995,467</u>	 <u>\$ 27,029,508</u>

Changes in endowment net assets for year ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,449,544	\$ 3,667,591	\$ 16,561,818	\$ 24,678,953
Investment return:				
Investment income	90,286	323,891	-	414,177
Net gains (realized and unrealized)	232,929	832,898	-	1,065,827
Total investment return	323,215	1,156,789	-	1,480,004
Contributions	-	52,000	1,295,007	1,347,007
Amounts appropriated for expenditure	(203,724)	(588,717)	-	(792,441)
Other changes:				
Change in value of annuities	-	-	7,833	7,833
Transfer per donor stipulation	57,768	119,575	(1,343)	176,000
Transfer to endowment from donor advised fund	-	-	92,952	92,952
Transfer to endowment upon maturity of annuity	-	-	39,200	39,200
	<u>177,259</u>	<u>739,647</u>	<u>1,433,649</u>	<u>2,350,555</u>
Endowment net assets, end of year	<u>\$ 4,626,803</u>	<u>\$ 4,407,238</u>	<u>\$ 17,995,467</u>	<u>\$ 27,029,508</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

15. ENDOWMENT FUNDS, continued:

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only):

	December 31,	
	2015	2014
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.	<u>\$ 19,068,383</u>	<u>\$ 17,995,467</u>
Temporarily restricted net assets:		
Term endowments	\$ 2,381,636	\$ 2,460,970
The portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	1,204,344	1,946,268
Total endowment funds classified as temporarily restricted net assets	<u>\$ 3,585,980</u>	<u>\$ 4,407,238</u>

*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 \$197,416 and \$11,618 as of December 31, 2015 and 2014, 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 of between 6.5% and 9% annually. 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 BRETHREN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

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 4.75% annually. 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, 2015 and 2014

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The table below presents the level within the fair value hierarchy at which investments carried at fair value are measured at December 31, 2015:

	Total	Level 1	Level 2	Level 3
Corporate bonds:				
AAA	\$ 47,128	\$ -	\$ 47,128	\$ -
AA	1,491,515	-	1,491,515	-
A	4,908,003	-	4,908,003	-
BBB	8,982,374	-	8,982,374	-
	<u>15,429,020</u>	<u>-</u>	<u>15,429,020</u>	<u>-</u>
Equities:				
Consumer goods	8,121,878	8,121,878	-	-
Industrials goods	2,507,311	2,507,311	-	-
Materials	1,197,954	1,197,954	-	-
Communication Services	1,058,460	1,058,460	-	-
Energy	1,968,303	1,968,303	-	-
Technology	5,265,744	5,265,744	-	-
Healthcare	3,184,112	3,184,112	-	-
Utilities	2,873,722	2,873,722	-	-
Financial	3,266,235	3,266,235	-	-
	<u>29,443,719</u>	<u>29,443,719</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Foreign large blend	4,595,452	4,595,452	-	-
Foreign large value	12,026	12,026	-	-
Small value	74,104	74,104	-	-
Small growth	2,987,038	2,987,038	-	-
Medium value	20,065	20,065	-	-
Large blend	672,771	672,771	-	-
Large value	228,712	228,712	-	-
Large growth	252,960	252,960	-	-
Real estate	4,263,156	4,263,156	-	-
Bond funds	4,317,441	4,317,441	-	-
	<u>17,423,725</u>	<u>17,423,725</u>	<u>-</u>	<u>-</u>
Money market funds				
Certificates of deposit	3,344,272	3,344,272	-	-
U.S. Government securities	2,177,481	-	2,177,481	-
Alternative investments	4,233,495	-	4,233,495	-
Mortgage pools	1,612,828	-	-	1,612,828
CMO & asset backed securities	4,045,885	-	4,045,885	-
Non-publicly traded securities and limited partnership interests	1,180,044	-	1,180,044	-
Real estate	652,730	-	652,730	-
Cash value life insurance	6,273,860	-	6,273,860	-
	<u>1,690,682</u>	<u>-</u>	<u>1,690,682</u>	<u>-</u>
	<u>25,211,277</u>	<u>3,344,272</u>	<u>20,254,177</u>	<u>1,612,828</u>
	<u>\$ 87,507,741</u>	<u>\$ 50,211,716</u>	<u>\$ 35,683,197</u>	<u>\$ 1,612,828</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The table below presents the level within the fair value hierarchy at which investments carried at fair value are measured at December 31, 2014:

	Total	Level 1	Level 2	Level 3
Corporate bonds:				
AA	\$ 1,060,738	\$ -	\$ 1,060,738	\$ -
A	5,785,650	-	5,785,650	-
BBB	6,582,515	-	6,582,515	-
BB+ or below	25,065	-	25,065	-
	<u>13,453,968</u>	<u>-</u>	<u>13,453,968</u>	<u>-</u>
Equities:				
Consumer goods	6,231,522	6,231,522	-	-
Industrial goods	3,124,600	3,124,600	-	-
Materials	1,841,214	1,841,214	-	-
Communication services	516,535	516,535	-	-
Energy	2,333,143	2,333,143	-	-
Technology	4,321,387	4,321,387	-	-
Health care	3,989,714	3,989,714	-	-
Utilities	4,120,056	4,120,056	-	-
Financial	3,106,353	3,106,353	-	-
	<u>29,584,524</u>	<u>29,584,524</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Foreign large blend	4,188,399	4,188,399	-	-
Small value	71,786	71,786	-	-
Small growth	3,251,939	3,251,939	-	-
Medium value	66,139	66,139	-	-
Large blend	63,646	63,646	-	-
Large value	678,389	678,389	-	-
Large growth	223,675	223,675	-	-
Real estate	4,107,457	4,107,457	-	-
Bond funds	1,327,048	1,327,048	-	-
	<u>13,978,478</u>	<u>13,978,478</u>	<u>-</u>	<u>-</u>
Money market funds				
Certificates of deposit	5,441,873	5,441,873	-	-
U.S. Government securities	1,748,040	-	1,748,040	-
Alternative investments	5,943,474	-	5,943,474	-
Mortgage pools	1,662,583	-	-	1,662,583
CMO & asset backed securities	3,612,206	-	3,612,206	-
Non-publicly traded securities and limited partnership interests	920,038	-	920,038	-
Real estate	739,669	-	739,669	-
Cash value life insurance	4,978,009	-	4,978,009	-
	1,586,873	-	1,586,873	-
	<u>26,632,765</u>	<u>5,441,873</u>	<u>19,528,309</u>	<u>1,662,583</u>
	<u>\$ 83,649,735</u>	<u>\$ 49,004,875</u>	<u>\$ 32,982,277</u>	<u>\$ 1,662,583</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

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 interest.

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 \$1,612,828 and \$1,662,583 at December 31, 2015 and 2014, respectively.

The following table provides further details of the Level 3 fair value measurements:

Balance, January 1, 2014:	\$ 884,606
Purchases	646,011
Investment income	131,966
Balance, December 31, 2014:	1,662,583
Investment income	(49,755)
Balance, December 31, 2015	<u>\$ 1,612,828</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Combined Financial Statements December 31, 2015 and 2014

### 16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

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, 2015 and 2014, are presented below.

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,666,812	\$ 1,666,812	\$ 1,967,733	\$ 1,967,733
Investments	\$ 58,996,296	\$ 58,996,296	\$ 51,275,472	\$ 51,275,472
Loans receivable	\$ 69,143,668	\$ 69,143,668	\$ 67,308,386	\$ 67,308,386
Interest receivable	\$ 236,618	\$ 236,618	\$ 245,060	\$ 245,060
Assets held in trust	\$ 16,371,972	\$ 16,371,972	\$ 16,118,124	\$ 16,118,124
Investments held for endowment	\$ 26,920,034	\$ 26,920,034	\$ 27,029,508	\$ 27,029,508
<b>Liabilities:</b>				
Investment certificates	\$ 65,446,137	\$ 65,646,051	\$ 61,621,849	\$ 61,826,223
Note payable	\$ -	\$ -	\$ 66,000	\$ 66,000
Trust liability	\$ 14,959,207	\$ 14,959,207	\$ 14,659,430	\$ 14,659,430
Annuities payable	\$ 2,678,242	\$ 2,678,242	\$ 2,693,609	\$ 2,693,609
Funds held for others	\$ 38,337,749	\$ 38,337,749	\$ 35,117,434	\$ 35,117,434
Pension funds held for others	\$ 403,587	\$ 403,587	\$ 428,403	\$ 428,403

The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments at December 31, 2015 and 2014:

*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.

*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 on variable loans approximate current lending rates, therefore the carrying amount approximates fair value.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Combined Financial Statements  
December 31, 2015 and 2014

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

*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, 2015 and 2014, to a schedule of aggregated contractual maturities on such certificates. At December 31, 2015 and 2014, the interest rates used in this calculation ranged from 1.25% to 2.25%.

*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, funds 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, 2015 and 2014, and our report thereon dated April 25, 2016, 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 they are 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 25, 2016



# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Combining Statement of Financial Position December 31, 2015

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 710,251	\$ 956,561	\$ -	\$ 1,666,812
Investments	55,679,843	27,994,110	(24,677,657)	58,996,296
Loans receivable, net	-	69,143,668	-	69,143,668
Interest receivable	-	236,618	-	236,618
Prepaid expenses and other	19,014	373,638	(1,939)	390,713
Property and equipment, net	57,013	33,402	-	90,415
Assets held in trust	16,371,972	-	-	16,371,972
Investments held for endowment	26,920,034	-	-	26,920,034
<b>Total Assets</b>	<b>\$ 99,758,127</b>	<b>\$ 98,737,997</b>	<b>\$ (24,679,596)</b>	<b>\$ 173,816,528</b>
<b>LIABILITIES AND NET ASSETS:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 15,843	\$ 10,765	\$ (1,939)	\$ 24,669
Earnings payable	52,690	-	-	52,690
Investment certificates	-	90,123,794	(24,677,657)	65,446,137
Trust liability	14,959,207	-	-	14,959,207
Annuities payable	2,678,242	-	-	2,678,242
Funds held for others	38,337,749	-	-	38,337,749
Pension funds held for others	403,587	-	-	403,587
	<u>56,447,318</u>	<u>90,134,559</u>	<u>(24,679,596)</u>	<u>121,902,281</u>
<b>Net assets:</b>				
<b>Unrestricted:</b>				
Board designated for endowment	4,463,087	-	-	4,463,087
Board designated for administration	397,234	225,000	-	622,234
Undesignated	11,160,127	8,378,438	-	19,538,565
Temporarily restricted	8,221,978	-	-	8,221,978
Permanently restricted	19,068,383	-	-	19,068,383
	<u>43,310,809</u>	<u>8,603,438</u>	<u>-</u>	<u>51,914,247</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 99,758,127</b>	<b>\$ 98,737,997</b>	<b>\$ (24,679,596)</b>	<b>\$ 173,816,528</b>

See notes to combined financial statements

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Combining Statement of Activities  
Year Ended December 31, 2015

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>				
Revenues:				
Interest on loans receivable	\$ -	\$ 3,615,696	\$ -	\$ 3,615,696
Contributions	4,461,077	-	(600,000)	3,861,077
Annuity contributions received	423,729	-	-	423,729
Fees and other	886,382	20,874	-	907,256
Investment income	84,467	455,204	(183,118)	356,553
Change in value of charitable gift annuities	(567,387)	-	-	(567,387)
Reimbursements from MB Loan Fund	80,276	-	(80,276)	-
	5,368,544	4,091,774	(863,394)	8,596,924
Reclassifications:				
Net assets released from purpose restrictions	512,733	-	-	512,733
Transfer per donor stipulation	(581,206)	-	-	(581,206)
	5,300,071	4,091,774	(863,394)	8,528,451
Expenses:				
Program	3,746,146	3,217,362	(854,259)	6,109,249
Management and general	671,854	108,540	(7,440)	772,954
Planned giving activities	220,609	-	(1,695)	218,914
	4,638,609	3,325,902	(863,394)	7,101,117
Change in Unrestricted Net Assets	661,462	765,872	-	1,427,334
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>				
Contributions to term endowment	50,010	-	-	50,010
Contributions to deferred gifts	587,143	-	-	587,143
Investment income	(130,834)	-	-	(130,834)
Change in value of charitable gift annuities	(2,083)	-	-	(2,083)
Change in value of charitable trust agreements	(45,929)	-	-	(45,929)
Change in value of deferred gifts	1,411	-	-	1,411
Net assets released from restrictions	(512,733)	-	-	(512,733)
Transfer per donor stipulation	(220,571)	-	-	(220,571)
Change in Temporarily Restricted Net Assets	(273,586)	-	-	(273,586)
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:</b>				
Contributions	276,172	-	-	276,172
Change in value of charitable gift annuities	(5,033)	-	-	(5,033)
Transfer per donor stipulation	801,777	-	-	801,777
Change in Permanently Restricted Net Assets	1,072,916	-	-	1,072,916
Change in Net Assets	1,460,792	765,872	-	2,226,664
Net Assets, Beginning of Year	41,850,017	7,837,566	-	49,687,583
Net Assets, End of Year	\$ 43,310,809	\$ 8,603,438	\$ -	\$ 51,914,247

See notes to combined financial statements