

MENNONITE BROTHERS FOUNDATION AND AFFILIATE

Combined Financial Statements
With Independent Auditors' Report

December 31, 2018 and 2017

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 consolidated financial statements of Mennonite Brethren Foundation and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mennonite Brethren Foundation and Affiliate as of December 31, 2018 and 2017, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Mennonite Brethren Foundation and Affiliate
Hillsboro, Kansas

Emphasis of Matter

Mennonite Brethren Foundation has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Naperville, Illinois
May 6, 2019

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Consolidated Statements of Financial Position

	December 31,	
	2018	2017
ASSETS:		
Cash and cash equivalents	\$ 1,676,269	\$ 1,248,119
Investments	60,042,919	54,691,007
Interest receivable	277,957	264,217
Prepaid expenses and other	583,528	393,984
Loans receivable, net	87,179,641	73,399,471
Assets held in trust	19,346,054	15,425,699
Investments held for endowment	33,770,630	35,006,530
Property and equipment, net	2,148,436	2,207,488
	<u>\$ 205,025,434</u>	<u>\$ 182,636,515</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 23,507	\$ 32,140
Earnings payable	41,680	63,911
Investment certificates	64,684,400	63,590,416
Trust liability	17,636,498	13,633,204
Annuities payable	3,309,606	2,885,242
Funds held for others	36,589,231	38,033,361
Pension funds held for others	252,409	266,931
	<u>122,537,331</u>	<u>118,505,205</u>
Net assets:		
Net Assets Without Donor Restrictions	<u>50,254,487</u>	<u>31,040,733</u>
Net Assets With Donor Restrictions:		
Restricted by purpose or time	7,106,243	9,576,363
Restricted in perpetuity	25,127,373	23,514,214
	<u>32,233,616</u>	<u>33,090,577</u>
	<u>82,488,103</u>	<u>64,131,310</u>
Total Liabilities and Net Assets	<u>\$ 205,025,434</u>	<u>\$ 182,636,515</u>

See notes to consolidated financial statements

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Consolidated Statements of Activities

	Year Ended December 31,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Interest on loans receivable	\$ 3,990,403	\$ -	\$ 3,990,403	\$ 3,566,678	\$ -	\$ 3,566,678
Contributions	24,550,977	617,438	25,168,415	4,721,997	751,811	5,473,808
Fees and other	875,273	33,685	908,958	681,216	42,000	723,216
Investment income	(464,382)	(1,427,702)	(1,892,084)	2,000,500	3,175,781	5,176,281
Gain on sale of property and equipment	-	-	-	97,644	-	97,644
Change in value of annuities and trusts	(847,995)	(162,507)	(1,010,502)	101,159	275,998	377,157
Change in value of deferred gifts	-	(280,489)	(280,489)	-	(205,526)	(205,526)
	<u>28,104,276</u>	<u>(1,219,575)</u>	<u>26,884,701</u>	<u>11,169,194</u>	<u>4,040,064</u>	<u>15,209,258</u>
RECLASSIFICATIONS:						
Net assets released from purpose restrictions	1,327,905	(1,327,905)	-	1,298,683	(1,298,683)	-
Transfer per donor stipulation (Note 14)	(1,690,519)	1,690,519	-	(667,091)	667,091	-
	<u>(362,614)</u>	<u>362,614</u>	<u>-</u>	<u>631,592</u>	<u>(631,592)</u>	<u>-</u>
EXPENSES:						
Program services	7,305,840	-	7,305,840	8,215,463	-	8,215,463
Supporting activities:						
Management and general	1,222,068	-	1,222,068	1,066,537	-	1,066,537
	<u>8,527,908</u>	<u>-</u>	<u>8,527,908</u>	<u>9,282,000</u>	<u>-</u>	<u>9,282,000</u>
Change in Net Assets	<u>19,213,754</u>	<u>(856,961)</u>	<u>18,356,793</u>	<u>2,518,786</u>	<u>3,408,472</u>	<u>5,927,258</u>
Net assets, Beginning of Year	31,040,733	33,090,577	64,131,310	28,521,947	29,682,105	58,204,052
Net assets, End of Year	<u>\$ 50,254,487</u>	<u>\$ 32,233,616</u>	<u>\$ 82,488,103</u>	<u>\$ 31,040,733</u>	<u>\$ 33,090,577</u>	<u>\$ 64,131,310</u>

See notes to consolidated financial statements

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 18,356,793	\$ 5,927,258
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	70,097	45,165
Net realized and unrealized loss (gain) on investments	3,269,731	(3,787,692)
Maturities of charitable gift annuities	(48,411)	(189,916)
Charitable gift annuity actuarial change	(99,680)	(221,980)
Change in value of charitable trusts	151,550	(308,282)
Interest reinvested in investment certificates	1,082,254	993,873
Donated real estate	(4,835,000)	(1,475,000)
Loss on disposal of property and equipment	-	(97,644)
Changes in:		
Interest receivable	(13,740)	(18,491)
Prepaid expenses and other	(189,544)	(9,015)
Accounts payable and accrued expenses	(8,633)	(410,923)
Earnings payable	(22,231)	15,739
Pension funds held for others	(14,522)	(114,601)
Net Cash Provided by Operating Activities	17,698,664	348,491
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	56,440,548	47,053,357
Purchase of investments	(60,222,527)	(45,714,720)
Loan advances	(23,332,576)	(6,947,581)
Loan principle received	9,552,406	6,385,880
Gift portion of new trust agreements	(68,610)	-
Gift portion of new charitable gift annuities	(512,545)	(348,092)
Sale of investments for charitable gift annuity payments	461,909	459,075
Proceeds from sale of property and equipment	-	119,717
Purchase of property and equipment	(11,045)	(1,178,092)
Net Cash Used by Investing Activities	(17,692,440)	(170,456)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of investment certificates	13,143,152	22,102,310
Redemptions of investment certificates	(13,131,422)	(22,718,201)
Face value of new annuity and trust agreements	1,205,000	735,000
Payments on charitable gift annuities and trusts	(666,697)	(646,255)
Investment income on assets held in trust	(128,107)	395,760
Net Cash Provided (Used) by Financing Activities	421,926	(131,386)
Net Change in Cash and Cash Equivalents	428,150	46,649
Cash and Cash Equivalents, Beginning of Year	1,248,119	1,201,470
Cash and Cash Equivalents, End of Year	\$ 1,676,269	\$ 1,248,119
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 136,464	\$ 145,819
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Matured investment certificates reinvested	\$ 19,477,641	\$ 19,812,090

See notes to consolidated financial statements

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

1. NATURE OF ORGANIZATION:

The consolidated 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 consolidated 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 lending funds primarily 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 consolidated 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. At December 31, 2018 and 2017, the Foundation's cash balances exceeded federally insured limits by \$1,426,219 and \$998,069, respectively. The Foundation has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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 investment income without donor restrictions 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.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES, continued

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 collectable 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.

During 2018, the Fund purchased loan participations originated by Church of God by Faith Financial Solutions, The Baptist Foundation of California, and Christian Financial Resources. During 2017, the Fund purchased a loan participation originated by Converge Cornerstone Fund. All of the loan participations were purchased without recourse and are secured by real property. Loan servicing functions on these loans are retained by the originator.

During 2017, the Fund sold a non-recourse participation interest in a loan to Church Loan Fund. The Fund collected all payments on the loan and remits proportionate amounts to the participant. Loans receivable at December 31, 2018 and 2017, are reported net of participation interests sold.

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,	
	2018	2017
Office building and land	\$ 2,154,218	\$ 2,145,518
Furniture, fixtures and equipment	149,307	146,963
	2,303,525	2,292,481
Less accumulated depreciation	(155,089)	(84,993)
	<u>\$ 2,148,436</u>	<u>\$ 2,207,488</u>

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 \$7,160,043 and \$7,082,085 at December 31, 2018 and 2017, respectively, including \$2,242,758 and \$2,296,620, respectively, held in trust for California annuitants.

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

Net assets are classified in the consolidated financial statements as follows:

Net assets without donor restrictions 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.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS, continued

Net assets with donor restrictions 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. These also include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for use with or without donor restrictions.

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 support with donor restriction 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

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 consolidated statement 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 \$78,562 and \$77,722 for the year ended December 31, 2018 and 2017, respectively.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted the provisions of this new standard during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 17), and disclosures related to functional allocation of expenses were expanded (Note 16).

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2018	2017
At fair value:		
Money market funds	\$ 9,240,405	\$ 2,312,074
Certificates of deposit	792,199	1,638,225
U.S. government securities	4,731,695	4,781,026
Corporate bonds	13,198,755	12,667,822
Equities	32,763,308	36,319,719
Mutual funds	26,416,870	21,779,384
Mortgage pools	6,167,629	4,317,295
CMO and asset backed securities	770,533	467,188
Non-publicly traded securities and limited partnership interests	452,222	553,134
Real estate	8,073,244	5,038,280
Commodities	339,582	111,842
Limited partnership	2,249,882	2,078,055
	105,196,324	92,064,044
At cost:		
Denominational loan fund certificates	6,234,790	11,910,678
Certificate of deposit	-	273,608
	6,234,790	12,184,286
At contract value		
Cash value life insurance	684,210	670,461
	684,210	670,461
At other than fair value:		
Loans receivable	1,044,279	204,445
	113,159,603	105,123,236
Less:		
Investments held for endowment	(33,770,630)	(35,006,530)
Assets held in trust	(19,346,054)	(15,425,699)
	\$ 60,042,919	\$ 54,691,007

Investment income consists of the following for the years ended:

	December 31,	
	2018	2017
Interest and dividend income	\$ 1,725,487	\$ 1,730,108
Net realized and unrealized (losses) gains	(3,269,731)	3,787,692
Investment management and custodial fees	(347,840)	(341,519)
	\$ (1,892,084)	\$ 5,176,281

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

4. LOANS RECEIVABLE, NET:

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

	December 31,	
	2018	2017
4 1/2% or less	\$ 12,490,782	\$ 8,267,774
over 4 1/2 to 5 1/2%	74,728,003	63,544,882
over 5 1/2 to 6 1/2%	2,678,468	4,304,427
	89,897,253	76,117,083
Allowance for losses	(2,717,612)	(2,717,612)
	\$ 87,179,641	\$ 73,399,471
Allowance for losses:		
Beginning of year	\$ 2,717,612	\$ 2,717,612
Write-downs	-	-
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, 2018, 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,	
	2018	2017
Performing	\$ 89,897,253	\$ 76,117,083
Nonperforming	-	-
	\$ 89,897,253	\$ 76,117,083

The Fund classifies loans as past due if the loan is more than 30 days past due but less than 90 days delinquent. There were no past due loans or loans classified as delinquent or impaired as of December 31, 2018 and 2017.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

4. LOANS RECEIVABLE, NET, continued:

Loans receivable at December 31, 2018, will mature as follows:

Year	Amount
2019	\$ 3,325,145
2020	2,261,158
2021	2,522,445
2022	7,469,775
2023	6,526,779
Thereafter	67,791,951
	\$ 89,897,253

As of December 31, 2018, the Fund had no unsecured loans, four loans totaling \$182,788 that were secured by third party guarantees, and four loans totaling \$1,518,111 secured by other. The loans receivable earn interest at fixed or variable rates which ranged from 2.60 percent to 6.20 percent at December 31, 2018.

The Fund had 160 loans at December 31, 2018. 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, 2018, were located in the following states:

State	Number of Loans	Principal Outstanding	Percent of Loan Portfolio
California	55	\$ 20,963,538	23%
Washington	18	13,683,140	15%
Utah	6	11,411,294	11%
Oregon	8	8,279,417	9%
North Carolina	6	5,914,176	7%
Colorado	8	5,483,355	6%
Arizona	7	5,314,749	6%
	108	\$ 71,049,669	77%

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

4. LOANS RECEIVABLE, NET, continued:

At December 31, 2018, the Fund had 125 borrowers with balances as follows:

Loan Balance	Number of Borrowers	Principal Outstanding	Percent of Loan Portfolio
\$0 - \$500,000	81	\$ 13,997,333	15%
\$ 500,001 - \$1,000,000	18	13,041,211	15%
\$1,000,001 - \$1,500,000	8	9,600,714	11%
\$1,500,001 - \$2,000,000	6	9,991,703	11%
\$2,000,001 - \$2,500,000	4	9,817,870	11%
\$2,500,001 - \$3,000,000	2	5,398,819	6%
Over \$3,000,000	6	28,049,603	31%
	125	\$ 89,897,253	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, 2018, there were two individually significant borrowers whose balances totaled \$13,726,270.

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 consolidated statements of activities as contributions with donor restrictions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Organization's consolidated 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,	
	2018	2017
Money market funds	\$ 345,812	\$ 397,331
Equities, equity and bond funds	13,749,471	13,987,120
Corporate notes	25,747	32,432
Real estate	4,856,833	639,011
Cash Value life insurance	284,566	280,012
Loans receivable	83,625	89,793
	\$ 19,346,054	\$ 15,425,699

The above amounts are included as assets of the Foundation.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
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5. ASSETS HELD IN TRUST, continued:

Liabilities and net assets held in trust consist of:

	December 31,	
	2018	2017
Irrevocable charitable beneficiary - payment liability	\$ 1,242,361	\$ 1,372,316
Revocable charitable beneficiary (liability equals assets)	16,394,138	12,260,888
	17,636,499	13,633,204
Net assets with donor restrictions for irrevocable charitable remainder trusts	1,709,555	1,792,495
	\$ 19,346,054	\$ 15,425,699

6. CHANGE IN VALUE OF CHARITABLE GIFT ANNUITIES AND TRUSTS

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

	December 31,	
	2018	2017
<u>Change in Value of Charitable Gift Annuities:</u>		
Interest and dividends	\$ 164,998	\$ 152,040
Net realized and unrealized losses	(391,579)	604,870
Actuarial change	99,680	221,980
Maturities	48,411	189,916
Transfer to endowment upon maturity of annuity	(120,261)	(62,392)
Payments and distributions (including miscellaneous expenses)	(660,201)	(1,037,539)
	(858,952)	68,875
<u>Change in Value of Charitable Trusts (Irrevocable Beneficiary):</u>		
Interest and dividends	72,882	77,776
Net realized and unrealized losses	(200,989)	317,984
Actuarial change	181,345	99,702
Payments (including miscellaneous expenses)	(204,788)	(187,180)
	(151,550)	308,282
Total change in value of annuities and trusts	\$ (1,010,502)	\$ 377,157

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

7. INVESTMENT CERTIFICATES:

The Fund issues certificates, which are the Fund's unsecured debt securities, to Mennonite Brethren churches, organizations and individuals that invest in the Fund. Certificates are redeemable at end of terms ranging from one to five years or on demand and earn interest at variable rates (from 0.4% to 2.9% at December 31, 2018). The Fund was indebted on investment certificates as summarized below:

	December 31,	
	2018	2017
Demand:		
Advantage	\$ 8,509,853	\$ 10,682,712
Demand	5,789,207	3,247,771
	14,299,060	13,930,483
Term:		
One year	9,639,175	10,110,677
Two year	10,209,382	9,332,976
Three year	5,321,605	5,980,796
Four year	866,887	750,658
Five year	24,348,291	23,484,826
	50,385,340	49,659,933
	\$ 64,684,400	\$ 63,590,416

Amounts are presented in the schedule below based on the year in which the investment certificates are scheduled to mature. Notwithstanding the foregoing, the Fund will pay any redemption of an investor's demand certificate within 30 days after receiving the request, although the Fund generally can honor requests much more quickly; 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	\$ 14,299,060
2019	18,586,376
2020	13,003,937
2021	9,733,458
2022	5,141,340
2023	3,920,229
	\$ 64,684,400

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

7. INVESTMENT CERTIFICATES, continued:

At December 31, 2018, the Fund had a total of 181 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	97	\$ 13,497,968	21%
\$200,001 - \$300,000	37	9,027,500	14%
\$300,001 - \$500,000	29	11,294,334	17%
Greater than \$500,000	16	15,623,583	24%
Related parties (Note 15)	2	579,774	1%
	<u>181</u>	<u>\$ 50,023,159</u>	<u>77%</u>

At December 31, 2018, the Fund had 1,486 certificates total, with the primary concentrations by state as follows:

<u>State</u>	<u>Number of Certificates</u>	<u>Aggregate Investment Certificate Balances</u>	<u>Percent of Certificate Balances Outstanding</u>
California	432	\$ 26,229,341	41%
Kansas	631	23,662,808	37%
Oklahoma	194	7,785,475	12%
	<u>1,257</u>	<u>\$ 57,677,624</u>	<u>90%</u>

8. 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 BRETHREN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

9. NET ASSETS:

Net assets consist of:

	December, 31	
	2018	2017
Net assets without donor restrictions:		
Undesignated	\$ 36,404,882	\$ 17,541,148
Capital adequacy reserve	3,881,064	5,087,233
Board designated endowment	5,088,030	5,542,878
Board designated reserve	2,732,075	661,986
Net investment in property and equipment	2,148,436	2,207,488
 Total net assets without donor restrictions	 50,254,487	 31,040,733
 Net assets with donor restrictions		
Subject to expenditure for specified purpose:		
Scholarships and grant	\$ 103,205	\$ 50,060
 Subject to the passage of time:		
Unitrusts - restricted beneficiaries	1,709,555	1,792,495
Life estates	1,738,256	1,784,370
	3,447,811	3,576,865
 Subject to the Foundation's spending policy and appropriations:		
Accumulated endowment earnings	1,146,788	3,341,621
Term endowments	2,408,439	2,607,817
Endowment funds restricted in perpetuity	25,094,074	23,475,582
	28,649,301	29,425,020
 Subject to restriction in perpetuity:		
Annuity Funds - restricted for endowment	33,299	38,632
 Total net assets with donor restrictions	 32,233,616	 33,090,577
 Total net assets	 \$ 82,488,103	 \$ 64,131,310

The Foundation's governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has set aside \$7,820,105 and \$6,204,804 for the following purposes as of December 31, 2018 and 2017, respectively. These net assets can be drawn upon if the board approves such action.

	December 31,	
	2018	2017
For investment as a board-designated endowment	\$ 5,088,030	\$ 5,542,878
Operating reserves	2,692,825	661,986
For special projects	39,250	-
	\$ 7,820,105	\$ 6,204,864

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

10. 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 ordinary course of business will generally exceed FDIC insured limits. At December 31, 2018, approximately \$92.8 million of the Organization's investment portfolio was held by the full service brokerage firm, 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, 2018, approximately 62% of the loans were to qualified organizations, 11% were to qualified church workers and 27% 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 \$1,700,899 in unsecured loans, loans secured by third party guarantees or other sources. 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.

11. RETIREMENT PLAN:

The Organization contributes 6% of annual compensation for all eligible employees working 20 hours or more a week to a 403(b) plan sponsored by the Foundation. Employer contributions totaled \$45,650 and \$43,410 during 2018 and 2017, respectively.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

12. RELATED PARTY TRANSACTIONS:

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, 2018, the Fund had three loans with an outstanding combined balance of \$373,221, with a weighted average interest rate of 3.44%, with three officers. As of that same date, the Fund had two loans outstanding to two employees with an outstanding combined balance of \$152,170 with an interest rate of 3.40%. At December 31, 2018, the Fund had three certificates totaling \$320,919, with an interest rate of 0.85%, to two Mennonite Brethren Conferences who have board members also on the Fund's board. The fund also has four certificates totaling \$284,168 with an interest rate of 0.85%, to an educational institution who has a board member also on the Fund's board. At December 31, 2018, the Fund also had two line of credit loan commitments to Mennonite Brethren Conferences for a total of \$500,000 with an interest rate of 4.95%, of which both are unfunded.

At December 31, 2017, the Fund had two loans with an outstanding combined balance of \$159,015, with a weighted average interest rate of 2.96%, with two officers. As of that same date, the Fund had one loan outstanding to one employees with an outstanding balance of \$30,305 with an interest rate of 2.95%. At December 31, 2017, the Fund had three certificates totaling \$481,865, with an interest rate of 0.75%, to two Mennonite Brethren Conferences who have board members also on the Fund's board. The fund also has four certificates totaling \$257,952, with an interest rate of 0.75%, to an educational institution who has a board member also on the Fund's board. At December 31, 2018, the Fund also had two line of credit loan commitments to Mennonite Brethren Conferences for a total of \$500,000 with an interest rate of 4.70%, of which \$2,982 was funded. At December 31, 2017, the Fund had two loans with an outstanding balance of \$645,245, with an interest rate of 4.70%, to a church whose pastor was also on the Fund's board.

During 2018 and 2017, the Foundation also made a grant totaling \$186,369 and \$220,801, respectively, to the U.S. Conference.

13. 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, 2018, the Fund had outstanding commitments of approximately \$12,630,000 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 loan to be financed. 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 borrower 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 Consolidated Financial Statements
December 31, 2018 and 2017

14. ENDOWMENT FUNDS:

The Foundation's endowment consists of 147 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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 net assets restricted in perpetuity (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 net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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 BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

14. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2018:

	Without donor restrictions	With donor restrictions			Total funds
		Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Donor-restricted funds	\$ -	\$ 25,127,373	\$ 3,555,227	\$ 28,682,600	\$ 28,682,600
Board-designated funds	5,088,030	-	-	-	5,088,030
Total funds	\$ 5,088,030	\$ 25,127,373	\$ 3,555,227	\$ 28,682,600	\$ 33,770,630

Changes in endowment net assets for year ended December 31, 2018:

	Without donor restrictions	With donor restrictions			Total funds
		Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Endowment net assets, beginning of year	\$ 5,542,878	\$ 23,514,214	\$ 5,949,438	\$ 29,463,652	\$ 35,006,530
Investment return, net	(262,612)	(55,200)	(1,394,485)	(1,449,685)	(1,712,297)
Contributions	-	58,393	-	58,393	58,393
Change in value of annuities	-	(5,333)	-	(5,333)	(5,333)
Rental Income	-	-	33,685	33,685	33,685
Amount appropriated for expenditures	(160,599)	-	(1,108,631)	(1,108,631)	(1,269,230)
Transfers	(31,637)	1,673,571	16,948	1,690,519	1,658,882
Reclassification	-	(58,272)	58,272	-	-
	<u>(454,848)</u>	<u>1,613,159</u>	<u>(2,394,211)</u>	<u>(781,052)</u>	<u>(1,235,900)</u>
Endowment net assets, end of year	\$ 5,088,030	\$ 25,127,373	\$ 3,555,227	\$ 28,682,600	\$ 33,770,630

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

14. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2017:

	Without donor restrictions	With donor restrictions			Total funds
		Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Donor-restricted funds	\$ -	\$ 23,514,214	\$ 5,949,438	\$ 29,463,652	\$ 29,463,652
Board-designated funds	5,542,878	-	-	-	5,542,878
Total funds	\$ 5,542,878	\$ 23,514,214	\$ 5,949,438	\$ 29,463,652	\$ 35,006,530

Changes in endowment net assets for year ended December 31, 2017:

	Without donor restrictions	With donor restrictions			Total funds
		Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Endowment net assets, beginning of year	\$ 5,045,059	\$ 22,292,646	\$ 3,920,427	\$ 26,213,073	\$ 31,258,132
Investment return, net	615,218	(63,720)	3,008,800	2,945,080	3,560,298
Contributions	-	483,278	735	484,013	484,013
Change in value of annuities	-	(26,932)	-	(26,932)	(26,932)
Rental Income	-	-	42,000	42,000	42,000
Amounts appropriated for expenditure	(201,119)	-	(943,477)	(943,477)	(1,144,596)
Transfers	83,720	828,942	(79,047)	749,895	833,615
	<u>497,819</u>	<u>1,221,568</u>	<u>2,029,011</u>	<u>3,250,579</u>	<u>3,748,398</u>
Endowment net assets, end of year	\$ 5,542,878	\$ 23,514,214	\$ 5,949,438	\$ 29,463,652	\$ 35,006,530

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature existed in 39 donor-restricted endowment funds, which together have an original gift value of \$4,625,175, a current fair value of \$4,435,716, and a deficiency of \$189,460 as of December 31, 2018. These deficiencies resulted from unfavorable market conditions. There were no deficiencies of this nature as of December 31, 2017. Endowments that are underwater continue to follow the Foundation's normal spending policy.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

14. ENDOWMENT FUNDS, continued:

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.

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

The 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% 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.

15. 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 Consolidated Financial Statements December 31, 2018 and 2017

15. 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, 2018:

	Total	Level 1	Level 2	Level 3
Corporate Bonds				
AAA	\$ 83,863	\$ -	\$ 83,863	\$ -
AA	609,892	-	609,892	-
A	3,992,917	-	3,992,917	-
BBB	8,249,179	-	8,249,179	-
BB+ or below/not rated	262,904	-	262,904	-
	<u>13,198,755</u>	<u>-</u>	<u>13,198,755</u>	<u>-</u>
Equities				
Communication services	2,405,066	2,405,066	-	-
Consumer goods	5,464,267	5,464,267	-	-
Energy	2,507,034	2,507,034	-	-
Financial	5,675,244	5,675,244	-	-
Healthcare	2,851,168	2,851,168	-	-
Industrial goods	4,200,333	4,200,333	-	-
Technology	5,443,651	5,443,651	-	-
Materials	1,457,778	1,457,778	-	-
Utilities	2,758,767	2,758,767	-	-
	<u>32,763,308</u>	<u>32,763,308</u>	<u>-</u>	<u>-</u>
Mutual Funds				
Foreign large blend	4,648,617	4,648,617	-	-
Foreign large value	23,561	23,561	-	-
Foreign small blend	3,279,080	3,279,080	-	-
Diversified Emerging	3,451,200	3,451,200	-	-
Small value	76,078	76,078	-	-
Small growth	3,629,321	3,629,321	-	-
Medium value	11,789	11,789	-	-
Large blend	474,848	474,848	-	-
Large value	233,317	233,317	-	-
Large growth	235,480	235,480	-	-
Real estate	7,344,999	7,344,999	-	-
Bond funds	3,008,580	3,008,580	-	-
	<u>26,416,870</u>	<u>26,416,870</u>	<u>-</u>	<u>-</u>
Money market funds				
Certificates of deposit	792,199	-	792,199	-
U.S. government securities	4,731,695	-	4,731,695	-
Mortgage pool	6,167,629	-	6,167,629	-
CMO & asset backed securities	770,533	-	770,533	-
Non-publicly traded securities and limited partnership interests	452,222	-	452,222	-
Real estate	8,073,244	-	8,073,244	-
Commodities	339,582	-	339,582	-
Limited partnership	2,249,882	-	-	2,249,882
	<u>32,817,391</u>	<u>9,240,405</u>	<u>21,327,104</u>	<u>2,249,882</u>
	<u>\$ 105,196,324</u>	<u>\$ 68,420,583</u>	<u>\$ 34,525,859</u>	<u>\$ 2,249,882</u>

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements December 31, 2018 and 2017

15. 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, 2017:

	Total	Level 1	Level 2	Level 3
Corporate Bonds				
AAA	\$ 73,717	\$ -	\$ 73,717	\$ -
AA	808,674	-	808,674	-
A	3,833,639	-	3,833,639	-
BBB	7,771,475	-	7,771,475	-
BB+ or below	180,317	-	180,317	-
	<u>12,667,822</u>	<u>-</u>	<u>12,667,822</u>	<u>-</u>
Equities				
Consumer goods	6,811,849	6,811,849	-	-
Industrials goods	4,295,719	4,295,719	-	-
Materials	2,081,343	2,081,343	-	-
Communication Services	1,397,995	1,397,995	-	-
Energy	3,188,089	3,188,089	-	-
Real Estate	242,349	242,349	-	-
Technology	6,192,307	6,192,307	-	-
Healthcare	3,298,728	3,298,728	-	-
Utilities	2,805,381	2,805,381	-	-
Financial	6,005,959	6,005,959	-	-
	<u>36,319,719</u>	<u>36,319,719</u>	<u>-</u>	<u>-</u>
Mutual Funds				
Foreign large blend	5,833,813	5,833,813	-	-
Foreign large value	29,976	29,976	-	-
Foreign small blend	69,209	69,209	-	-
Diversified Emerging	69,532	69,532	-	-
Small value	84,881	84,881	-	-
Small growth	3,896,017	3,896,017	-	-
Medium value	13,010	13,010	-	-
Large blend	573,749	573,749	-	-
Large value	257,396	257,396	-	-
Large growth	255,217	255,217	-	-
Real estate	5,293,889	5,293,889	-	-
Bond funds	5,402,695	5,402,695	-	-
	<u>21,779,384</u>	<u>21,779,384</u>	<u>-</u>	<u>-</u>
Money market funds	2,312,074	2,312,074	-	-
Certificates of deposit	1,638,225	-	1,638,225	-
U.S. government securities	4,781,026	-	4,781,026	-
Mortgage pool	4,317,295	-	4,317,295	-
CMO & asset backed securities	467,188	-	467,188	-
Non-publicly traded securities and limited partnership interests	553,134	-	553,134	-
Real estate	5,038,280	-	5,038,280	-
Commodities	111,842	-	111,842	-
Limited partnership	2,078,055	-	-	2,078,055
	<u>21,297,119</u>	<u>2,312,074</u>	<u>16,906,990</u>	<u>2,078,055</u>
	<u>\$ 92,064,044</u>	<u>\$ 60,411,177</u>	<u>\$ 29,574,812</u>	<u>\$ 2,078,055</u>

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements December 31, 2018 and 2017

15. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The following table provides further details for the Level 3 fair value measurements for the years ended December 31, 2018 and 2017:

	2018	2017
Balance - January 1	\$ 2,078,055	\$ 1,683,054
Purchases	110,381	497,905
Realized and unrealized gains (losses)	61,446	(102,904)
Balance - December 31	\$ 2,249,882	\$ 2,078,055

Fair value for the limited partnership is determined by the Fund's general partner. The general partner's evaluation of fair value is based on the most recent available fair value information provided to the partnership by the portfolio funds. Although fair values are based on inputs believed to represent assumptions that market participants would use in determining the fair value, the resulting fair values include significant unobservable inputs. Because of the inherent uncertainty of valuation of such nonmarketable investments, those estimated fair values may differ significantly from the fair values that would have been used, had a ready market for the investments existed. There are no lockup restrictions, and the Organization's interest in the fund is redeemable at the end of any month on 15 days notice. There were no unfunded commitments as of December 31, 2018 and 2017.

16. FUNCTIONAL ALLOCATION OF EXPENSES:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization, which are primarily allocated on estimates of time and effort. The following table presents the functional allocation of expenses for the year ended December 31, 2018, with comparative totals for 2017.

	For the Year Ended December 31, 2018			2017
	Program Services	General and Administrative	Total	
Interest on investment certificates	\$ 2,010,414	\$ -	\$ 2,010,414	\$ 1,950,898
Salaries and benefits	474,966	695,081	1,170,047	1,087,767
Distributions to others	4,659,998	-	4,659,998	5,590,625
Professional fees	37,985	179,285	217,270	143,353
Depreciation	20,377	49,719	70,096	45,164
Travel	24,826	26,176	51,002	38,804
Office expenses and other	77,274	271,807	349,081	425,389
Total	\$ 7,305,840	\$ 1,222,068	\$ 8,527,908	\$ 9,282,000

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, which are allocated on a square footage basis, as well as salaries and benefits, travel, and certain office expenses, which are allocated on the basis of estimates of time and effort.

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

17. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, assets held in trusts and state required annuity reserves, perpetual and term endowments and accumulated earnings subject to appropriation beyond one year, unfunded portions of line of credit commitments, liquidity reserve limits required for church extension funds, or because the board has set aside funds for specific projects or a long-term investment as board designated endowments. These board designations could be drawn upon if the board approves that action.

	December 31,	
	2018	2017
Financial assets:		
Cash and cash equivalents	\$ 1,676,269	\$ 1,248,119
Investments	60,042,919	54,691,007
Interest and other receivables	831,853	629,868
Loans receivable	87,179,641	73,399,471
Assets held in trust	19,346,054	15,425,699
Investments held for endowment	33,770,630	35,006,530
Financial assets, at year-end	202,847,366	180,400,694
Less those unavailable for general expenditure within one year, due to:		
Loans receivable collectible beyond one year	(86,572,108)	(72,111,544)
Accounts receivable collectible beyond one year	(362,174)	(362,174)
Investments and other financial assets held for others	(36,841,640)	(38,300,292)
Investments held in trusts and state required annuity reserves	(21,588,812)	(17,722,319)
Investments not convertible to cash within next 12 months	(3,726,724)	(2,636,885)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(28,682,600)	(29,463,652)
Unfunded line of credit commitments	(3,206,562)	(2,978,236)
Church extension fund required liquidity reserves *	(3,881,064)	(5,087,233)
Donor-imposed purpose restrictions	(103,205)	(50,060)
Investments in board designated endowments	(5,088,030)	(5,542,878)
Board designated for special projects	(39,250)	-
Financial assets available to meet cash needs for general expenditures within one year	\$ 12,755,197	\$ 6,145,421

* The North American Securities Administrators Association's statement of policy regarding church extension fund securities states that at the end of its most recent fiscal year as reported in its audited financial statements, the church extension fund's cash, cash equivalents, readily marketable securities and available lines of credit shall have a value of at least 8% of the principal balance of its total outstanding certificates, except that the value of available lines of credit for meeting this standard shall not exceed 2% of the principal balance of its total outstanding certificates.

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

17. LIQUIDITY AND FUNDS AVAILABLE, continued:

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation also entered into a revolving line of credit agreement with a bank during 2018, allowing for maximum borrowings of \$5,000,000, of which \$0 was outstanding at December 31, 2018. Interest on the line of credit is paid monthly at the prime rate plus 0.125% (prime was 5.5% at December 31, 2018). This line of credit is unsecured and expires in June 2019. No funds were borrowed under this agreement during the year ended December 31, 2018. At December 31, 2018 and 2017, the Board had \$2,692,825 and \$661,986, respectively, of funds designated for operating reserves that could be drawn upon to meet its general expenditures if the board approved of such action.

18. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 6, 2019, which represents the date the 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 consolidated financial statements of Mennonite Brethren Foundation and Affiliate as of and for the years ended December 31, 2018 and 2017, and our report thereon dated May 6, 2019, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated 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 consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Capin Crouse LLP

Naperville, Illinois
May 6, 2019

MENNONITE BRETHREN FOUNDATION AND AFFILIATE

Consolidating Statement of Financial Position December 31, 2018

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
ASSETS:				
Cash and cash equivalents	\$ 936,956	\$ 739,313	\$ -	\$ 1,676,269
Investments	74,632,800	20,212,996	(34,802,877)	60,042,919
Interest receivable	-	277,957	-	277,957
Prepaid expenses and other	213,421	372,225	(2,118)	583,528
Loans receivable, net	-	87,179,641	-	87,179,641
Assets held in trust	19,346,054	-	-	19,346,054
Investments held for endowment	33,770,630	-	-	33,770,630
Property and equipment, net	69,735	2,078,701	-	2,148,436
	<u>\$ 128,969,596</u>	<u>\$ 110,860,833</u>	<u>\$ (34,804,995)</u>	<u>\$ 205,025,434</u>
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued expenses	\$ 18,385	\$ 7,240	\$ (2,118)	\$ 23,507
Earnings payable	41,680	-	-	41,680
Investment certificates	-	99,487,277	(34,802,877)	64,684,400
Trust liability	17,636,498	-	-	17,636,498
Annuities payable	3,309,606	-	-	3,309,606
Funds held for others	36,589,231	-	-	36,589,231
Pension funds held for others	252,409	-	-	252,409
	<u>57,847,809</u>	<u>99,494,517</u>	<u>(34,804,995)</u>	<u>122,537,331</u>
Net assets:				
Net Assets Without Donor Restrictions	<u>38,888,171</u>	<u>11,366,316</u>	<u>-</u>	<u>50,254,487</u>
Net Assets With Donor Restrictions:				
Restricted by purpose or time	7,106,243	-	-	7,106,243
Restricted in perpetuity	25,127,373	-	-	25,127,373
	<u>32,233,616</u>	<u>-</u>	<u>-</u>	<u>32,233,616</u>
	<u>71,121,787</u>	<u>11,366,316</u>	<u>-</u>	<u>82,488,103</u>
Total Liabilities and Net Assets	<u>\$ 128,969,596</u>	<u>\$ 110,860,833</u>	<u>\$ (34,804,995)</u>	<u>\$ 205,025,434</u>

See notes to consolidated financial statements

MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Consolidating Statement of Activities
Year Ended December 31, 2018

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Revenues:				
Interest on loans receivable	\$ -	\$ 3,990,403	\$ -	\$ 3,990,403
Contributions	24,338,432	-	(300,000)	24,038,432
Annuity contributions received	512,545	-	-	512,545
Fees and other	829,510	45,763	-	875,273
Investment income	(557,251)	342,280	(249,411)	(464,382)
Change in value of charitable gift annuities	(847,995)	-	-	(847,995)
Reimbursements from MB Loan Fund	49,632	-	(49,632)	-
	<u>24,324,873</u>	<u>4,378,446</u>	<u>(599,043)</u>	<u>28,104,276</u>
Reclassifications:				
Net assets released from purpose restrictions	1,327,905	-	-	1,327,905
Transfer per donor stipulation	(1,690,519)	-	-	(1,690,519)
	<u>23,962,259</u>	<u>4,378,446</u>	<u>(599,043)</u>	<u>27,741,662</u>
Expenses:				
Program	4,866,849	3,038,034	(599,043)	7,305,840
Management and general	929,983	292,085	-	1,222,068
	<u>5,796,832</u>	<u>3,330,119</u>	<u>(599,043)</u>	<u>8,527,908</u>
Change in Unrestricted Net Assets	<u>18,165,427</u>	<u>1,048,327</u>	<u>-</u>	<u>19,213,754</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:				
Restricted by purpose or time:				
Unitrust contributions received	68,610	-	-	68,610
Contributions	490,435	-	-	490,435
Fees and other	33,685	-	-	33,685
Investment income	(1,372,502)	-	-	(1,372,502)
Change in value of deferred gifts	(280,489)	-	-	(280,489)
Change in value of charitable trust agreements	(151,550)	-	-	(151,550)
Change in value of charitable gift annuities	(5,624)	-	-	(5,624)
Net assets released from restrictions	(1,327,905)	-	-	(1,327,905)
Transfer per donor stipulation	75,220	-	-	75,220
Change in Temporarily Restricted Net Assets	<u>(2,470,120)</u>	<u>-</u>	<u>-</u>	<u>(2,470,120)</u>
Restricted in perpetuity:				
Contributions	58,393	-	-	58,393
Investment income	(55,200)	-	-	(55,200)
Change in value of charitable gift annuities	(5,333)	-	-	(5,333)
Transfer per donor stipulation	1,615,299	-	-	1,615,299
Change in Permanently Restricted Net Assets	<u>1,613,159</u>	<u>-</u>	<u>-</u>	<u>1,613,159</u>
Change in Net Assets	17,308,466	1,048,327	-	18,356,793
Net Assets, Beginning of Year	<u>53,813,321</u>	<u>10,317,989</u>	<u>-</u>	<u>64,131,310</u>
Net Assets, End of Year	<u>\$ 71,121,787</u>	<u>\$ 11,366,316</u>	<u>\$ -</u>	<u>\$ 82,488,103</u>

See notes to consolidated financial statements