

# MENNONITE BROTHERS FOUNDATION AND AFFILIATE

Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2022 and 2021

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Mennonite Brethren Foundation and Affiliate  
Hillsboro, Kansas

### *Opinion*

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, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2022 and 2021, and the changes in its consolidated net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Mennonite Brethren Foundation and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mennonite Brethren Foundation and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Board of Directors  
Mennonite Brethren Foundation and Affiliate  
Hillsboro, Kansas

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mennonite Brethren Foundation and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mennonite Brethren Foundation and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Capin Crouse LLP*

Naperville, Illinois  
May 9, 2023

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Consolidated Statements of Financial Position

	December 31,	
	2022	2021
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 2,209,458	\$ 1,759,255
Investments	108,434,083	148,051,895
Interest receivable	524,543	440,691
Prepaid expenses and other assets	403,201	383,710
Contributions receivable	78,489	58,624
Loans receivable, net	127,325,746	99,872,448
Assets held in trust	22,441,055	23,475,609
Investments held for endowment	43,692,674	51,599,552
Property and equipment, net	2,838,621	2,204,914
	<b>\$ 307,947,870</b>	<b>\$ 327,846,698</b>
<b>Total Assets</b>	<b>\$ 307,947,870</b>	<b>\$ 327,846,698</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 674,879	\$ 705,076
Earnings payable	17,953	35,163
Investment certificates	86,626,211	83,381,655
Note payable	250	-
Trust liability	20,798,113	21,207,683
Annuities payable	3,015,732	3,096,602
Funds held for others	57,596,824	61,238,259
Pension funds held for others	196,843	214,007
	<b>168,926,805</b>	<b>169,878,445</b>
<b>Total liabilities</b>	<b>168,926,805</b>	<b>169,878,445</b>
<b>Net assets:</b>		
Net assets without donor restrictions	96,637,866	106,703,638
	<b>96,637,866</b>	<b>106,703,638</b>
<b>Net assets with donor restrictions:</b>		
Restricted by purpose or time	8,430,074	17,812,257
Restricted in perpetuity	33,953,125	33,452,358
	<b>42,383,199</b>	<b>51,264,615</b>
	<b>42,383,199</b>	<b>51,264,615</b>
<b>Total net assets</b>	<b>139,021,065</b>	<b>157,968,253</b>
	<b>139,021,065</b>	<b>157,968,253</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 307,947,870</b>	<b>\$ 327,846,698</b>

See notes to consolidated financial statements

# Mennonite Brethren Foundation and Affiliate

## Consolidated Statements of Activities

	Year Ended December 31,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>						
Interest on loans receivable	\$ 5,868,518	\$ -	\$ 5,868,518	\$ 4,673,160	\$ -	\$ 4,673,160
Contributions	6,639,390	1,705,051	8,344,441	15,464,387	1,801,534	17,265,921
Gift-in-kind contributions	3,165,125	-	3,165,125	8,689,144	-	8,689,144
Fees and other	1,439,431	24,732	1,464,163	1,565,756	25,022	1,590,778
Investment income	(9,570,527)	(6,948,054)	(16,518,581)	6,647,274	4,683,629	11,330,903
Change in value of annuities and trusts	(1,862,544)	(648,072)	(2,510,616)	390,050	196,997	587,047
Change in value of deferred gifts		(760,018)	(760,018)	-	(281,592)	(281,592)
<b>Total Support and Revenue</b>	<b>5,679,393</b>	<b>(6,626,361)</b>	<b>(946,968)</b>	<b>37,429,771</b>	<b>6,425,590</b>	<b>43,855,361</b>
<b>RECLASSIFICATIONS:</b>						
Net assets released from purpose restrictions	3,313,134	(3,313,134)	-	1,993,643	(1,993,643)	-
Transfer per donor stipulation	(1,058,079)	1,058,079	-	(6,017,996)	6,017,996	-
<b>Total Reclassifications</b>	<b>2,255,055</b>	<b>(2,255,055)</b>	<b>-</b>	<b>(4,024,353)</b>	<b>4,024,353</b>	<b>-</b>
<b>EXPENSES:</b>						
Program services	16,340,287	-	16,340,287	16,513,528	-	16,513,528
Supporting activities:						
Management and general	1,659,933	-	1,659,933	1,555,840	-	1,555,840
<b>Total Expenses</b>	<b>18,000,220</b>	<b>-</b>	<b>18,000,220</b>	<b>18,069,368</b>	<b>-</b>	<b>18,069,368</b>
Change in Net Assets	(10,065,772)	(8,881,416)	(18,947,188)	15,336,050	10,449,943	25,785,993
Net Assets, Beginning of Year:	106,703,638	51,264,615	157,968,253	91,367,588	40,814,672	132,182,260
Net Assets, End of Year	<b>\$ 96,637,866</b>	<b>\$ 42,383,199</b>	<b>\$ 139,021,065</b>	<b>\$ 106,703,638</b>	<b>\$ 51,264,615</b>	<b>\$ 157,968,253</b>

See notes to consolidated financial statements

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (18,947,188)	\$ 25,785,993
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	85,735	84,484
Net realized and unrealized loss (gain) on investments	18,719,495	(9,151,778)
Maturities of charitable gift annuities	(142,029)	(81,196)
Maturities of trusts	(32,573)	-
Charitable gift annuity actuarial change	(93,676)	(93,015)
Change in value of charitable trusts	624,985	(197,423)
Interest reinvested in investment certificates	1,085,365	1,237,652
Donated real estate	(907,250)	(3,078,440)
Endowment Contributions	(530,694)	(90,444)
Changes in:		
Interest receivable	(83,852)	(24,493)
Prepaid expenses and other assets	(19,491)	46,711
Contributions receivable	(19,865)	281,376
Accounts payable and accrued expenses	(389,568)	173,938
Earnings payable	(17,210)	(938)
Pension funds held for others	(17,164)	(14,342)
Net Cash (Used) Provided by Operating Activities	(684,980)	14,878,085
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	113,461,383	131,950,829
Purchase of investments	(86,250,233)	(138,113,095)
Loan advances	(35,924,774)	(19,849,533)
Loan principle received	8,471,476	14,338,740
Sale of investments for charitable gift annuities	441,017	436,594
Purchase of property and equipment	(493,248)	(230,685)
Net Cash Used by Investing Activities CASH	(294,379)	(11,467,150)
<b>FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	250	-
Proceeds from sale of loan participation interest	-	2,000,000
Proceeds from issuance of investment certificates	16,499,815	24,278,196
Redemptions of investment certificates	(14,340,624)	(29,711,990)
Face value of new annuity and trust agreements	400,000	200,002
Gift portion of new charitable gift annuities	(245,165)	(99,495)
Payments on charitable gift annuities and trusts	(881,845)	(652,485)
Investment income on assets held in trust	(533,563)	447,301
Endowment Contributions	530,694	90,444
Net Cash Provided (Used) by Financing Activities	1,429,562	(3,448,027)
Net Change in Cash and Cash Equivalents	450,203	(37,092)
Cash and Cash Equivalents, Beginning of Year	1,759,255	1,796,347
Cash and Cash Equivalents, End of Year	\$ 2,209,458	\$ 1,759,255
<b>SUPPLEMENTAL INFORMATION:</b>		
Matured investment certificates reinvested	\$ 24,651,301	\$ 34,887,495
Cash paid for interest	\$ 133,971	\$ 142,448
Property and equipment acquired with accounts payable	\$ 359,371	\$ -

See notes to consolidated financial statements

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 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 mission is to encourage and assist individuals, congregations and ministries in the Mennonite Brethren community with Biblical financial stewardship solutions. Services provided include planned giving options, 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 the Mennonite Brethren conference, churches, institutions and agencies. Activities include loaning funds primarily to Mennonite Brethren organizations, as well as other organizations that share similar values, for the purpose of facility construction or operational needs; offering to qualified workers of the Mennonite Brethren churches loans for the purpose of purchasing or constructing their residences; raising capital from primarily Mennonite Brethren organizations and individuals; and expressing generosity by making grants from earnings to the Foundation. The Fund's primary means of obtaining funds has been through the issuance of investment certificates.

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 consolidated 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.



# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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, 2022 and 2021, the Organization's cash balances exceeded federally insured limits by \$3,106,630 and \$1,750,675, respectively. The Organization 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.

#### INVESTMENTS

Investments are reported at fair value. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The fair values for equity securities, money market funds and mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of certificates of deposit, government bonds, mortgage pools, corporate bonds, and CMO and asset backed securities are based on yields currently available on comparable securities of issuers with similar credit ratings. Real estate and commodity investments are determined based on independent appraisals. 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) on the 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 primarily to Mennonite Brethren organizations and qualified church workers, as well as other organizations that share similar values, primarily secured by real estate mortgages, although the Fund does make some unsecured loans and some loans that are secured by other forms of collateral. Most of the loans are originally set up for a term of five to fifteen years for organization loans, and thirty years for home loans. 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, 2022 and 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES, 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.

The Fund may sell participation interests in its loans to third parties from time to time. When the Fund does so, it continues to service the loans and remit a portion of each loan payment it receives from the borrowers to the buyers of the participation interest. The participations are non-recourse, which means that the Fund will have no obligation to repurchase the portion of the loan it sold, and the purchaser will assume the risk of loss on that portion of the loan. Accordingly, the portions of the loans it sells are not included in the outstanding loans receivable.

The Fund may also purchase participation interests in individual loans from third party lenders. Under these loan participation agreements, the third-party lenders maintain all records, collect all payments and remit monthly the appropriate pro rata share of both interest and principal collected on the loans. All loan participations are purchased without recourse and are secured by real property.

### 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,	
	2022	2021
Office building and land	\$ 2,182,318	\$ 2,302,395
Furniture, fixtures and equipment	310,705	262,088
	<u>2,493,023</u>	<u>2,564,483</u>
Less accumulated depreciation	(466,234)	(380,499)
Construction in progress	<u>811,832</u>	<u>20,930</u>
	<u>\$ 2,838,621</u>	<u>\$ 2,204,914</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 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.

#### PENSION FUNDS HELD FOR OTHERS

Pension funds held for others represents funds held by the Foundation for Multiply (an affiliated entity). The Organization holds these funds for Multiply 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).

#### 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 \$7,422,547 and \$9,143,883 at December 31, 2022 and 2021, respectively, including \$2,263,210 and \$2,563,349, 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.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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:

*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.

*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 amount. When a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to new 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. Advertising cost are expensed as incurred and totaled \$65,569 and \$66,610 for the years ended December 31, 2022 and 2021, respectively.

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### GIFT-IN-KIND CONTRIBUTIONS

For the years ended December 31, gift-in-kind contributions recognized within the consolidated statements of activities included:

	December 31,	
	2022	2021
Commodities	\$ 1,966,015	\$ 2,810,704
Real estate	907,250	3,078,440
Personal property	291,860	2,800,000
	<u>\$ 3,165,125</u>	<u>\$ 8,689,144</u>

The Organization recognized gift-in-kind contributions within revenue, which included agricultural commodities, real estate, and personal property. These contributions did not have any donor-imposed restrictions.

It is the Organization's policy to sell all contributed commodities and personal property immediately upon receipt, which were valued according to the actual cash proceeds received upon disposition. The values of real estate and significant personal property that cannot be sold immediately upon receipt is determined by an appraisal.

#### RECENTLY ADOPTED ACCOUNTING STANDARDS

As of January 1, 2022, the Organization adopted the provisions of the Financial Accounting Standards Board Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued consolidated financial statements. In addition to breaking out gift-in-kind contributions into a separate line item in the consolidated statements of activities, additional disclosures with regards to gift-in-kind contributions were also added.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2022	2021
At fair value:		
Money market funds	\$ 12,810,587	\$ 19,982,941
Certificates of deposit	1,692,437	2,239,615
U.S. government securities	6,225,779	14,274,990
Corporate bonds	17,025,457	22,630,705
Equities	75,062,715	88,892,178
Mutual funds	29,269,477	37,095,390
Mortgage pools	10,570,962	9,103,277
CMO and asset backed securities	1,792,075	2,476,428
Non-publicly traded securities	508,400	390,600
Real estate	3,916,513	3,765,615
Commodities	311,786	280,344
	159,186,188	201,132,083
At Cost:		
Denominational loan fund certificates	7,568,491	13,670,341
Certificate of deposit	254,375	252,128
	7,822,866	13,922,469
At contract value:		
Cash value life insurance	396,562	407,340
	396,562	407,340
At other than fair value:		
Loans receivable	7,162,196	7,665,164
	7,162,196	7,665,164
Less:		
Investments held for endowment	(43,692,674)	(51,599,552)
Assets held in trust	(22,441,055)	(23,475,609)
	\$108,434,083	\$148,051,895

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

3. INVESTMENTS, continued:

Investment income consists of the following for the years ended:

	December 31,	
	2022	2021
Interest and dividend income	\$ 2,867,162	\$ 2,928,187
Net realized and unrealized (losses) gains	(18,719,495)	9,151,778
Investment management and custodial fees	(666,248)	(749,062)
	\$ (16,518,581)	\$ 11,330,903

4. LOANS RECEIVABLE, NET:

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

	December 31,	
	2022	2021
4.5% or less	\$ 9,670,030	\$ 50,118,158
over 4.5 to 5.5%	51,798,207	50,830,673
over 5.5 to 6.5%	59,706,623	1,641,229
over 6.5 to 7.5%	8,868,498	-
	130,043,358	102,590,060
Allowance for losses	(2,717,612)	(2,717,612)
	\$127,325,746	\$ 99,872,448
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, 2022, one loan receivable totaling \$546,081, with an allowance totaling \$6,826, was evaluated individually for impairment. All other loans were collectively evaluated and no impairment was noted.

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

4. LOANS RECEIVABLE, NET, continued:

Status for performing and nonperforming real estate loans is based on payment activity for the year. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than 60 days in the previous month. The following table presents credit exposure by performance status for the years ended December 31, 2022 and 2021:

	December 31,	
	2022	2021
Performing	\$129,497,277	\$102,590,060
Nonperforming	546,081	-
	\$130,043,358	\$102,590,060

An aging analysis of the principal of past due loans receivable is as follows:

	December 31,	
	2022	2021
Past due:		
Greater than 90 days	\$ 546,081	\$ -
Current	129,497,277	102,590,060
	\$130,043,358	\$102,590,060

The Fund classifies loans as past due if the loan is more than 30 days past due but less than 90 days delinquent. At December 31, 2022, the Fund had one delinquent loan with a principal balance of \$546,081. The amount of interest and principal payments owing on this delinquent loan was \$9,837. Interest income recognized on this delinquent loan during 2022 was \$28,988. The Fund believes that the collateral related to the delinquent loan will be sufficient to repay the loan balance. There were no past due loans classified as delinquent or impaired as of December 31, 2021.

The delinquent loan totaling \$546,081 was 0.42% of the Fund's aggregate principal balance of total loans outstanding at December 31, 2022.



# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

4. LOANS RECEIVABLE, NET, continued:

Loans receivable at December 31, 2022, will mature as follows:

Year	Amount
2023	\$ 7,792,511
2024	9,758,301
2025	2,891,136
2026	23,080,479
2027	28,432,711
Thereafter	58,088,220
	\$130,043,358

As of December 31, 2022, the Fund had one unsecured loan totaling \$20,000, and four loans totaling \$6,084,308 secured by other assets. The loans receivable earn interest at fixed or variable rates which ranged from 2.47 percent to 6.75 percent at December 31, 2022.

The Fund had 167 loans at December 31, 2022. 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, 2022, were located in the following states:

State	Number of Loans	Principal Outstanding	Percent of Loan Portfolio
California	64	\$ 56,175,323	43%
Washington	14	13,937,478	11%
Utah	8	11,320,871	9%
Kansas	22	9,584,383	7%
Oregon	10	7,898,908	6%
	118	\$ 98,916,963	76%

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

4. LOANS RECEIVABLE, NET, continued:

At December 31, 2022, the Fund had 131 borrowers with balances as follows:

Loan Balance	Number of Borrowers	Principal Outstanding	Percent of Loan Portfolio
\$0 - \$500,000	72	\$ 12,983,239	10%
\$ 500,001 - \$1,000,000	21	14,797,529	11%
\$1,000,001 - \$1,500,000	12	15,171,991	12%
\$1,500,001 - \$2,000,000	11	18,887,662	14%
\$2,000,001 - \$2,500,000	7	15,254,458	12%
\$2,500,001 - \$3,000,000	0	-	0%
Over \$3,000,000	8	52,948,479	41%
	131	\$130,043,358	100%

Although the Fund has a diverse portfolio of loans primarily to Mennonite Brethren churches, organizations and qualified individuals, as well as other organizations that share similar values, 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, 2022, there were three individually significant borrowers whose balances totaled \$33,114,704.

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 statement 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 statement 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.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

5. ASSETS HELD IN TRUST, continued:

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

	December 31,	
	2022	2021
Money market funds	\$ 538,557	\$ 651,956
Equities, equity and bond funds	20,934,015	22,681,928
Corporate notes	25,681	33,801
Real estate	865,000	-
Loans receivable	77,802	107,924
	<u>\$ 22,441,055</u>	<u>\$ 23,475,609</u>

The above amounts are included as assets of the Foundation.

Liabilities and net assets held in trust consist of the following:

	December 31,	
	2022	2021
Irrevocable charitable beneficiary - payment liability	\$ 1,010,155	\$ 1,392,134
Revocable charitable beneficiary (liability equals assets)	19,787,958	19,815,549
	<u>20,798,113</u>	<u>21,207,683</u>
Net assets with donor restrictions for irrevocable charitable remainder trusts	<u>1,642,942</u>	<u>2,267,926</u>
	<u>\$ 22,441,055</u>	<u>\$ 23,475,609</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

6. CHANGE IN VALUE OF CHARITABLE GIFT ANNUITIES AND TRUSTS:

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

	December 31,	
	2022	2021
Change in Value of Charitable Gift Annuities:		
Interest and dividends	\$ 144,623	\$ 143,763
Net realized and unrealized losses	(1,366,259)	801,389
Actuarial change	93,676	93,015
Maturities	142,029	81,196
Transfer to endowment upon maturity of annuity	(182,888)	-
Payments and distributions (including miscellaneous expenses)	(716,812)	(729,739)
	(1,885,631)	389,624
Change in Value of Charitable Trusts (Irrevocable Beneficiary):		
Interest and dividends	52,745	56,566
Net realized and unrealized losses	(586,308)	390,735
Maturities	32,573	-
Actuarial change	349,406	(33,987)
Payments and distributions (including miscellaneous expenses)	(473,401)	(215,891)
	(624,985)	197,423
Total change in value of annuities and trusts	\$ (2,510,616)	\$ 587,047

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

7. INVESTMENT CERTIFICATES:

The Fund issues certificates, which are the Fund's unsecured debt securities, to primarily 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 0.75% to 2.35% at December 31, 2022). The Fund was indebted on investment certificates as summarized below:

	December 31,	
	2022	2021
Demand:		
Advantage	\$ 16,136,987	\$ 15,141,664
Demand	5,546,813	4,448,219
	21,683,800	19,589,883
Term:		
One year	13,018,219	13,081,690
Two year	7,010,659	7,549,701
Three year	5,930,149	8,459,726
Four year	2,540,253	2,077,399
Five year	36,443,131	32,623,256
	64,942,411	63,791,772
	\$ 86,626,211	\$ 83,381,655

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	\$ 21,683,800
2023	27,822,816
2024	12,383,899
2025	7,246,274
2026	8,227,967
2027	9,261,455
	\$ 86,626,211

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

7. INVESTMENT CERTIFICATES, continued:

At December 31, 2022, the Fund had a total of 209 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	93	\$ 12,658,144	15%
\$200,001 - \$300,000	45	10,886,321	13%
\$300,001 - \$500,000	40	14,794,198	17%
Greater than \$500,000	28	31,804,518	37%
Related parties (Note 11)	3	1,357,653	2%
	209	\$ 71,500,834	83%

At December 31, 2022, the Fund had 1,663 certificates total, with the primary concentrations by state as follows:

State	Number of Certificates	Aggregate Investment Certificate Balances	Percent of Certificate Balances Outstanding
Kansas	726	\$ 31,668,486	37%
California	433	25,844,946	30%
Oklahoma	202	10,455,444	12%
	1,361	\$ 67,968,876	79%

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

8. NET ASSETS:

Net assets consist of:

	December, 31	
	2022	2021
Net assets without donor restrictions:		
Undesignated	\$ 80,903,350	\$ 90,410,046
Capital adequacy reserve	7,822,175	7,539,872
Board designated endowment	5,343,571	6,657,371
Board designated reserve	2,568,770	2,096,349
Total net assets without donor restrictions	96,637,866	106,703,638
Net assets with donor restrictions:		
Subject to expenditure for specified purposes:		
Scholarships and grants	867,070	1,742,016
Subject to the passage of time:		
Unitrust-restricted beneficiaries	1,642,942	2,267,926
Life estates	1,524,084	2,312,492
	3,167,026	4,580,418
Subject to Foundation's spending policy and appropriations:		
Accumulated gains	1,952,247	8,338,677
Term endowments	2,443,731	3,151,146
Endowment funds restricted in perpetuity	33,914,812	33,404,977
	38,310,790	44,894,800
Subject to restriction in perpetuity:		
Annuity funds-restricted for endowment	38,313	47,381
Total net assets with donor restrictions	42,383,199	51,264,615
Total net assets	\$ 139,021,065	\$ 157,968,253

The Foundation's governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has set aside \$7,912,341 and \$8,753,720 for the following purposes as of December 31, 2022 and 2021, respectively. These net assets can be drawn upon if the board approves such action.

	December 31,	
	2022	2021
For investment as a board-designated endowment	\$ 5,343,571	\$ 6,657,371
Operating reserves	2,402,100	2,024,122
For special projects	166,670	72,227
	\$ 7,912,341	\$ 8,753,720

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 9. 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. 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. At December 31, 2022, approximately \$153.2 million of the Organization's investment portfolio was held by the investment management firm of Charles Schwab & Co., Inc.

Concentrations of credit risk with respect to loans receivable are limited to a certain extent by the secured position of the Fund in most instruments, the number of organizations comprising the Fund's loans receivable base and their dispersion across geographic areas, and the Fund's policy of limiting the maximum loan amount to any one borrower. As described in Note 2, the Fund's policy is to make loans primarily to Mennonite Brethren churches, organizations and qualified individuals, as well as other organizations that share similar values. At December 31, 2022, approximately 37% of the loans were to qualified organizations, 7% were to qualified church workers and 56% 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 \$6,104,308 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. In addition, all demand investment certificates are payable upon 30 days written notice subject to availability of funds. 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.

### 10. 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 \$80,833 and \$77,974 during 2022 and 2021, respectively.



# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 11. RELATED PARTY TRANSACTIONS:

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

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, 2022, the Fund had four loans with an outstanding combined balance of \$618,283, with a weighted average interest rate of 2.71%, with four officers. As of that same date, the Fund had three loans outstanding to three employees with an outstanding combined balance of \$129,199 with an interest rate of 2.95%. At December 31, 2022, the Fund had seven certificates totaling \$840,614, with an average interest rate of 1.58%, to a Mennonite Brethren Conference who has a board member also on the Fund's board. The fund also has 14 certificates totaling \$473,787 with an average interest rate of 1.68%, to churches who have board members on the Fund's board or are officers of the Fund, and four certificates totaling \$113,741, with an average interest rate of 1.43%, to a ministry who has a board member that is also an officer of the Fund. At December 31, 2022, the Fund also had a line of credit loan commitment to a Mennonite Brethren Conference for a total of \$200,000 with an interest rate of 5.75%, of which is \$180,000 is unfunded. At December 31, 2022, the Fund also had a loan with an outstanding balance of \$34,691, and an interest rate of 5.25%, to a church who has a board member that is also an officer of the Fund.

At December 31, 2021, the Fund had four loans with an outstanding combined balance of \$666,995, with a weighted average interest rate of 2.7%, with four officers. As of that same date, the Fund had three loans outstanding to three employees with an outstanding combined balance of \$181,087 with an interest rate of 2.67%. At December 31, 2021, the Fund had six certificates totaling \$855,356, with an average interest rate of 0.82%, to a Mennonite Brethren Conference who has a board member also on the Fund's board. At December 31, 2021, the Fund also had a line of credit loan commitment to a Mennonite Brethren Conference for a total of \$200,000 with an interest rate of 4.5%, which was unfunded. At December 31, 2021, the Fund also had a loan with an outstanding balance of \$741,846 and an interest rate of 5.0%, to an organization who has a board member that is also an officer of the Fund.

During 2022 and 2021, the Foundation also made a grant totaling \$180,000 and \$180,000, respectively, to the U.S. Conference.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 12. LOAN COMMITMENTS:

In the normal course of business, the Fund makes commitments to extend loans to meet the financing needs primarily of Mennonite Brethren churches, organizations and qualified individuals, as well as other organizations that share similar values. At December 31, 2022, the Fund had outstanding commitments of approximately \$31,240,000 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 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.

### 13. ENDOWMENT FUNDS:

The Foundation's endowment consists of 168 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, 2022 and 2021

13. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2022:

	With donor restrictions				Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Donor-restricted funds	\$ -	\$ 33,953,125	\$ 4,395,978	\$ 38,349,103	\$ 38,349,103
Board-designated funds	5,343,571	-	-	-	5,343,571
 Total funds	<u>\$ 5,343,571</u>	<u>\$ 33,953,125</u>	<u>\$ 4,395,978</u>	<u>\$ 38,349,103</u>	<u>\$ 43,692,674</u>

Changes in endowment net assets for year ended December 31, 2022:

	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	Total funds
Endowment net assets, beginning of year	\$ 6,657,371	\$ 33,452,358	\$ 11,489,823	\$ 44,942,181	\$ 51,599,552
Investment return, net	(1,090,617)	(1,466,293)	(5,484,568)	(6,950,861)	(8,041,478)
Contributions	-	530,694	-	530,694	530,694
Change in value of annuities	-	(9,068)	-	(9,068)	(9,068)
Rental Income	-	-	24,732	24,732	24,732
Amount appropriated for expenditures	(184,348)	-	(1,517,403)	(1,517,403)	(1,701,751)
Transfers	(38,835)	1,444,592	(115,764)	1,328,828	1,289,993
Reclassification	-	842	(842)	-	-
	<u>(1,313,800)</u>	<u>500,767</u>	<u>(7,093,845)</u>	<u>(6,593,078)</u>	<u>(7,906,878)</u>
Endowment net assets, end of year	<u>\$ 5,343,571</u>	<u>\$ 33,953,125</u>	<u>\$ 4,395,978</u>	<u>\$ 38,349,103</u>	<u>\$ 43,692,674</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 13. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2021:

	With donor restrictions				Total funds
	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	
Donor-restricted funds	\$ -	\$ 33,452,358	\$ 11,489,823	\$ 44,942,181	\$ 44,942,181
Board-designated funds	6,657,371	-	-	-	6,657,371
 Total funds	 <u>\$ 6,657,371</u>	 <u>\$ 33,452,358</u>	 <u>\$ 11,489,823</u>	 <u>\$ 44,942,181</u>	 <u>\$ 51,599,552</u>

Changes in endowment net assets for year ended December 31, 2021:

	Without donor restrictions	Original gift amount	Accumulated gains (losses) and other	Total with donor restrictions	Total funds
Endowment net assets, beginning of year	\$ 6,078,539	\$ 27,272,611	\$ 8,324,472	\$ 35,597,083	\$ 41,675,622
Investment return, net	786,321	180,232	4,453,760	4,633,992	5,420,313
Contributions	-	90,444	-	90,444	90,444
Change in value of annuities	-	5,893	-	5,893	5,893
Rental Income	-	-	25,022	25,022	25,022
Amount appropriated for expenditures	(172,464)	-	(1,235,445)	(1,235,445)	(1,407,909)
Transfers	(35,025)	5,904,401	(79,209)	5,825,192	5,790,167
Reclassification	-	(1,223)	1,223	-	-
	<u>578,832</u>	<u>6,179,747</u>	<u>3,165,351</u>	<u>9,345,098</u>	<u>9,923,930</u>
Endowment net assets, end of year	<u>\$ 6,657,371</u>	<u>\$ 33,452,358</u>	<u>\$ 11,489,823</u>	<u>\$ 44,942,181</u>	<u>\$ 51,599,552</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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2022, deficiencies of this nature existed in 46 donor-restricted endowment funds, which had an original gift value of \$13,750,841, a current fair value of \$12,128,294, and a deficiency of \$1,622,548. This deficiency resulted from unfavorable market conditions in 2022. December 31, 2021, deficiencies of this nature existed in one donor-restricted endowment funds, which had an original gift value of \$10,000, a current fair value of \$9,997, and a deficiency of \$3. This deficiency resulted from unfavorable market conditions at the establishment of the endowment in 2021.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 13. 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% 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.

### 14. 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, 2022 and 2021

### 14. 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, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate bonds				
AAA	\$ 92,260	\$ -	\$ 92,260	\$ -
AA	1,425,692	-	1,425,692	-
A	5,193,773	-	5,193,773	-
BBB	10,019,203	-	10,019,203	-
BB+ or below/not rated	294,529	-	294,529	-
	<u>17,025,457</u>	<u>-</u>	<u>17,025,457</u>	<u>-</u>
Mutual funds:				
Equity funds	22,638,632	22,638,632	-	-
Fixed income funds	6,630,845	6,630,845	-	-
	<u>29,269,477</u>	<u>29,269,477</u>	<u>-</u>	<u>-</u>
Equities	75,062,715	75,062,715	-	-
Money market funds	12,810,587	12,810,587	-	-
Certificates of deposit	1,692,437	-	1,692,437	-
U.S. government securities	6,225,779	-	6,225,779	-
Mortgage pools	10,570,962	-	10,570,962	-
CMO and asset backed securities	1,792,075	-	1,792,075	-
Non-publicly traded securities	508,400	-	508,400	-
Real estate	3,916,513	-	3,916,513	-
Commodities	311,786	-	311,786	-
	<u>112,891,254</u>	<u>87,873,302</u>	<u>25,017,952</u>	<u>-</u>
	<u>\$159,186,188</u>	<u>\$117,142,779</u>	<u>\$ 42,043,409</u>	<u>\$ -</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 14. 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, 2021:

	Total	Level 1	Level 2	Level 3
Corporate bonds:				
AAA	\$ 157,361	\$ -	\$ 157,361	\$ -
AA	2,427,937	-	2,427,937	-
A	6,030,947	-	6,030,947	-
BBB	13,656,282	-	13,656,282	-
BB+ or below/not rated	358,178	-	358,178	-
	22,630,705	-	22,630,705	-
Mutual funds:				
Equity funds	22,340,069	22,340,069	-	-
Fixed income funds	14,755,321	14,755,321	-	-
	37,095,390	37,095,390	-	-
Equities	88,892,178	88,892,178	-	-
Money market funds	19,982,941	19,982,941	-	-
Certificates of deposit	2,239,615	-	2,239,615	-
U.S. government securities	14,274,990	-	14,274,990	-
Mortgage pools	9,103,277	-	9,103,277	-
CMO and asset backed securities	2,476,428	-	2,476,428	-
Non-publicly traded securities	390,600	-	390,600	-
Real estate	3,765,615	-	3,765,615	-
Commodities	280,344	-	280,344	-
	141,405,988	108,875,119	32,530,869	-
	\$201,132,083	\$145,970,509	\$ 55,161,574	\$ -

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

### 15. FUNCTIONAL ALLOCATION OF EXPENSES:

The consolidated financial statements report certain categories of expenses that are attributable to one or more programs 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, 2022 and 2021:

	For the Year Ended December 31, 2022		
	Program Services	General and Administrative	Total
Interest on investment certificates	\$ 1,876,731	\$ -	\$ 1,876,731
Salaries and benefits	1,016,512	917,909	1,934,421
Distributions to others	13,169,346	-	13,169,346
Professional fees	37,651	205,717	243,368
Depreciation	18,755	66,980	85,735
Travel	25,744	25,144	50,888
Office expenses and other	195,548	444,183	639,731
	<u>\$ 16,340,287</u>	<u>\$ 1,659,933</u>	<u>\$ 18,000,220</u>
	For the Year Ended December 31, 2021		
	Program Services	General and Administrative	Total
Interest on investment certificates	\$ 2,440,131	\$ -	\$ 2,440,131
Salaries and benefits	1,001,454	877,274	1,878,728
Distributions to others	12,866,165	-	12,866,165
Professional fees	38,678	206,878	245,556
Depreciation	14,940	69,544	84,484
Travel	28,095	30,325	58,420
Office expenses and other	124,065	371,819	495,884
	<u>\$ 16,513,528</u>	<u>\$ 1,555,840</u>	<u>\$ 18,069,368</u>

The consolidated 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, 2022 and 2021

### 16. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Organization's financial assets as of December 31, 2022 and 2021, 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,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 2,209,458	\$ 1,759,255
Investments	108,434,083	148,051,895
Interest and other receivables	884,311	790,068
Contributions receivable	78,489	58,624
Loans receivable	130,043,358	102,590,060
Less: allowance for doubtful loans	(2,717,612)	(2,717,612)
Assets held in trust	22,441,055	23,475,609
Investments held for endowment	43,692,674	51,599,552
Financial assets, at year-end	305,065,816	325,607,451
Less those unavailable for general expenditure with one year, due to:		
Loans receivable collectible beyond one year	(122,250,847)	(92,142,560)
Accounts receivable collectible beyond one year	(361,740)	(361,740)
Investments and other financial assets held for others	(57,793,667)	(61,452,266)
Investments held in trusts and state required annuity reserves	(24,704,265)	(26,038,958)
Investments not convertible to cash within next 12 months	(10,128,817)	(10,541,780)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(38,349,103)	(44,942,181)
Unfunded line of credit commitments	(13,230,649)	(12,750,000)
Church extension fund required liquidity reserves*	(5,197,573)	(6,670,532)
Donor-imposed purpose restrictions	(867,070)	(1,742,016)
Investments in board-designated endowments	(5,343,571)	(6,657,371)
Board designated for special projects	(166,670)	(72,227)
Financial assets available to meet cash needs for general expenditures within one year	\$ 26,671,844	\$ 62,235,820

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

16. LIQUIDITY AND FUNDS AVAILABLE, continued:

\* 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. Certificates held by the Foundation are excluded from this calculation.

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Fund also entered into a revolving line of credit agreement with a bank during 2022, allowing for maximum borrowings of \$5,000,000, of which \$250 was outstanding at December 31, 2022. Interest on the line of credit is paid monthly at the prime rate plus 0.125% (prime was 7.5% at December 31, 2022). This line of credit is unsecured and expires in December 2025. At December 31, 2022 and 2021, the Board had \$2,402,100 and \$2,024,122, respectively, of funds designated for operating reserves that could be drawn upon to meet its general expenditures if the board approved of such action.

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through May 9, 2023, which represents the date the consolidated 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, 2022 and 2021, and our report thereon dated May 9, 2023, 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 and is 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 information has been subjected to the auditing procedures applied in the audits 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 9, 2023

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Consolidating Statement of Financial Position

December 31, 2022

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,714,383	\$ 495,075	\$ -	\$ 2,209,458
Investments	137,047,388	25,794,308	(54,407,613)	108,434,083
Interest receivable	-	524,543	-	524,543
Prepaid expenses and other assets	42,587	375,106	(14,492)	403,201
Contributions receivable	78,489	-	-	78,489
Loans receivable, net	-	127,325,746	-	127,325,746
Assets held in trust	22,441,055	-	-	22,441,055
Investments held for endowment	43,692,674	-	-	43,692,674
Property and equipment, net	909,903	1,928,718	-	2,838,621
<b>Total Assets</b>	<b>\$ 205,926,479</b>	<b>\$ 156,443,496</b>	<b>\$ (54,422,105)</b>	<b>\$ 307,947,870</b>
<b>LIABILITIES AND NET ASSETS:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 604,078	\$ 85,293	\$ (14,492)	\$ 674,879
Earnings payable	17,953	-	-	17,953
Investment certificates	-	141,033,824	(54,407,613)	86,626,211
Note payable	-	250	-	250
Trust liability	20,798,113	-	-	20,798,113
Annuities payable	3,015,732	-	-	3,015,732
Funds held for others	57,596,824	-	-	57,596,824
Pension funds held for others	196,843	-	-	196,843
<b>Total liabilities</b>	<b>82,229,543</b>	<b>141,119,367</b>	<b>(54,422,105)</b>	<b>168,926,805</b>
<b>Net assets:</b>				
Net assets without donor restrictions	81,313,737	15,324,129	-	96,637,866
<b>Net assets with donor restrictions:</b>				
Restricted by purpose or time	8,430,074	-	-	8,430,074
Restricted in perpetuity	33,953,125	-	-	33,953,125
	<u>42,383,199</u>	<u>-</u>	<u>-</u>	<u>42,383,199</u>
<b>Total net assets</b>	<b>123,696,936</b>	<b>15,324,129</b>	<b>-</b>	<b>139,021,065</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 205,926,479</b>	<b>\$ 156,443,496</b>	<b>\$ (54,422,105)</b>	<b>\$ 307,947,870</b>

See notes to consolidated financial statements

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Consolidating Statement of Activities

Year Ended December 31, 2022

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>				
Revenues:				
Interest on loans receivable	\$ -	\$ 5,868,518	\$ -	\$ 5,868,518
Contributions	6,744,225	-	(350,000)	6,394,225
Gift-in-kind contributions	3,165,125	-	-	3,165,125
Annuity contributions received	245,165	-	-	245,165
Fees and other	1,299,052	140,379	-	1,439,431
Investment income	(7,765,423)	(1,479,023)	(326,081)	(9,570,527)
Change in value of charitable gift annuities	(1,862,544)	-	-	(1,862,544)
Reimbursements from MB Loan Fund	72,343	-	(72,343)	-
	1,897,943	4,529,874	(748,424)	5,679,393
Reclassifications:				
Net assets released from purpose restrictions	3,313,134	-	-	3,313,134
Transfer per donor stipulation	(1,058,079)	-	-	(1,058,079)
	4,152,998	4,529,874	(748,424)	7,934,448
Expenses:				
Program	13,893,832	3,160,492	(714,037)	16,340,287
Management and general	1,087,740	606,580	(34,387)	1,659,933
	14,981,572	3,767,072	(748,424)	18,000,220
Change in Net Assets Without Donor Restrictions	(10,828,574)	762,802	-	(10,065,772)
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:</b>				
Restricted by purpose or time:				
Contributions	1,174,357	-	-	1,174,357
Fees and other	24,732	-	-	24,732
Investment income	(5,481,761)	-	-	(5,481,761)
Change in value of deferred gifts	(760,018)	-	-	(760,018)
Change in value of charitable trust agreements	(624,985)	-	-	(624,985)
Change in value of charitable gift annuities	(14,019)	-	-	(14,019)
Net assets released from restrictions	(3,313,134)	-	-	(3,313,134)
Transfer per donor stipulation	(387,355)	-	-	(387,355)
Change in Net Assets Restricted by Purpose or Time	(9,382,183)	-	-	(9,382,183)
Restricted in perpetuity:				
Contributions	530,694	-	-	530,694
Investment income	(1,466,293)	-	-	(1,466,293)
Change in value of charitable gift annuities	(9,068)	-	-	(9,068)
Transfer per donor stipulation	1,445,434	-	-	1,445,434
Change in Net Assets Restricted in Perpetuity	500,767	-	-	500,767
Change in Net Assets	(19,709,990)	762,802	-	(18,947,188)
Net Assets, Beginning of Year:	143,406,926	14,561,327	-	157,968,253
Net Assets, End of Year	\$ 123,696,936	\$ 15,324,129	\$ -	\$ 139,021,065

See notes to consolidated financial statements