

BRETHREN IN CHRIST FOUNDATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014
AND
INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brethren in Christ Foundation, Inc.
Mechanicsburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Brethren in Christ Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for each of the years in the three year period ended December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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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 financial statements referred to above present fairly, in all material respects, the financial position of Brethren in Christ Foundation, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for each of the years in the three year period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 3, 2017

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31, 2016			December 31, 2015				
	Brotherhood Loan Fund	Trust Fund	Eliminations	Total All Funds	Brotherhood Loan Fund	Trust Fund	Eliminations	Total All Funds
ASSETS								
Cash and cash equivalents	\$ 20,542,151	\$ 3,993,261	\$ -	\$ 24,535,412	\$ 16,221,463	\$ 6,803,330	\$ -	\$ 23,024,793
Investments	-	21,549,578	(7,330,793)	14,218,785	-	21,992,099	(7,066,938)	14,925,161
Receivables	32,520,166	941,737	-	33,461,903	31,541,738	883,604	-	32,425,342
Loans, net	-	-	-	-	51,544	-	-	51,544
Rents, net	(94,308)	94,308	-	-	(84,968)	84,968	-	-
Interfund, net	74,857	6,608	-	81,465	62,571	2,545	-	65,116
Accrued interest	789,129	-	-	789,129	824,605	-	-	824,605
Property and equipment, net	-	-	-	-	642,415	-	-	642,415
Real estate held for sale	-	-	-	-	94,708	-	-	94,708
Other assets	74,671	115,879	-	190,550	-	104,294	-	199,002
Total assets	\$ 53,906,666	\$ 26,701,371	\$ (7,330,793)	\$ 73,277,244	\$ 49,354,076	\$ 29,870,840	\$ (7,066,938)	\$ 72,157,978
LIABILITIES AND NET ASSETS								
Accounts payable and other liabilities	\$ 87,806	\$ 28,405	\$ (2,350)	\$ 113,861	\$ 145,868	\$ 106,562	\$ (1,750)	\$ 250,680
Debt securities	14,712,399	-	(324,152)	14,388,247	14,907,267	-	(337,415)	14,569,852
Thrift accumulation plan agreements	24,974,141	-	(1,220,388)	23,753,753	20,484,183	-	(1,115,302)	19,368,881
Stewardship investment certificates	5,783,903	-	(5,783,903)	-	5,612,471	-	(5,612,471)	-
Individual retirement account notes	-	12,043,925	-	12,043,925	-	14,846,094	-	14,846,094
CTF investment accounts	-	7,330,793	-	7,330,793	-	7,066,938	-	7,066,938
Individual retirement and health savings accounts	-	-	-	-	-	-	-	-
Split-interest agreements	-	3,485,490	-	3,485,490	-	3,773,916	-	3,773,916
Split-interest trusts	-	907,732	-	907,732	-	963,407	-	963,407
Annuities payable	-	10,494	-	10,494	-	334,308	-	334,308
Other funds held	-	-	-	-	-	-	-	-
Total liabilities	45,558,249	23,806,839	(7,330,793)	62,034,295	41,149,789	27,091,225	(7,066,938)	61,174,076
Net assets	8,348,417	2,894,532	-	11,242,949	8,204,287	2,779,615	-	10,983,902
Unrestricted	-	881,249	-	881,249	-	768,906	-	768,906
Designated, donor-advised funds	7,908,353	2,013,283	-	9,921,636	7,764,428	2,010,709	-	9,775,137
Other	25,064	-	-	25,064	24,859	-	-	24,859
Temporarily restricted	415,000	-	-	415,000	415,000	-	-	415,000
Permanently restricted	-	-	-	-	-	-	-	-
Total net assets	8,348,417	2,894,532	-	11,242,949	8,204,287	2,779,615	-	10,983,902
Total liabilities and net assets	\$ 53,906,666	\$ 26,701,371	\$ (7,330,793)	\$ 73,277,244	\$ 49,354,076	\$ 29,870,840	\$ (7,066,938)	\$ 72,157,978

The accompanying notes are an integral part of these financial statements.

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014		
	Brotherhood Loan Fund	Trust Fund	Brotherhood Loan Fund	Trust Fund	Brotherhood Loan Fund	Trust Fund	Total All Funds
Unrestricted net assets							
Revenues and gains							
Interest on loans	\$ 1,358,062	\$ 41,152	\$ 1,258,791	\$ 41,526	\$ 1,282,266	\$ 49,623	\$ 1,331,889
Net investment income	217,610	822,037	135,887	331,636	100,334	970,841	1,071,175
Allocation of net investment income to CTF investment accounts and other funds held	-	(809,437)	-	(323,084)	-	(964,457)	(964,457)
Contributions	-	830,764	-	20,818	12,200	4,152,912	4,165,112
Service fees	-	152,017	-	183,128	-	201,531	201,531
Rental income, net	49,267	-	87,657	-	24,746	-	24,746
Other	-	29,448	-	34,320	-	47,438	47,438
Total revenues and gains	1,624,939	1,065,981	1,482,335	288,344	1,419,546	4,457,888	5,877,434
Net assets released from restrictions	35,950	-	41,375	-	41,500	-	41,500
Total revenues, gains, and other support	1,660,889	1,065,981	1,523,710	288,344	1,461,046	4,457,888	5,918,934
Expenses							
Distributions to charities	35,950	792,547	41,935	7,924	41,500	3,856,308	3,897,808
Interest	778,075	-	654,413	-	611,873	-	611,873
Professional services	45,916	27,254	79,163	18,365	71,368	19,425	90,793
Salaries and benefits	476,367	184,229	353,182	212,730	327,599	206,494	534,093
Depreciation	49,034	-	51,285	-	45,275	-	45,275
General and administrative	111,162	59,333	83,371	47,560	111,119	40,892	152,011
Matching grant	14,655	-	5,940	-	35,000	-	35,000
Provisions for loss on loans	5,805	44	8,357	(722)	(559)	188	(371)
Total expenses	1,516,964	1,063,407	1,277,646	285,857	1,243,175	4,123,307	5,366,482
Excess of revenues, gains, and other support over expenses before donor-advised funds activity	143,925	2,574	246,064	2,487	217,871	334,581	552,452

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BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF ACTIVITIES (Cont'd)

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014		
	Brotherhood Loan Fund	Trust Fund	Brotherhood Loan Fund	Trust Fund	Brotherhood Loan Fund	Trust Fund	Total All Funds
Excess of revenues, gains, and other support over expenses before donor- advised funds activity carried forward	143,925	2,574	146,499	2,487	217,871	334,581	552,452
Change in donor-advised funds							
Contributions	-	362,346	-	106,889	-	259,945	259,945
Net investment income (loss)	-	30,311	-	16,174	-	(761,426)	(761,426)
Charitable distributions	-	(271,212)	-	(334,075)	-	(485,833)	(485,833)
Administrative expenses	-	(9,102)	-	(10,395)	-	(10,257)	(10,257)
Increase (decrease) in donor advised funds	-	112,343	-	(221,407)	-	(997,571)	(997,571)
Excess (deficiency) of revenues, gains, and other support over expenses	143,925	114,917	258,842	(218,920)	217,871	(662,990)	(445,119)
Temporarily restricted net assets							
Farming income, net	36,155	-	36,155	-	41,513	-	41,513
Net assets released from restrictions	(35,950)	-	(35,950)	-	(41,500)	-	(41,500)
Change in temporarily restricted net assets	205	-	205	(227)	13	-	13
Change in net assets	144,130	114,917	259,047	(218,920)	217,884	(662,990)	(445,106)
Net assets - beginning	8,204,287	2,779,615	10,983,902	2,998,535	7,740,566	3,661,525	11,402,091
Net assets - ending	\$ 8,348,417	\$ 2,894,532	\$ 11,242,949	\$ 2,779,615	\$ 7,958,450	\$ 2,998,535	\$ 10,956,985

The accompanying notes are an integral part of these financial statements.

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	Brotherhood Loan Fund	Trust Fund	Total All Funds	Brotherhood Loan Fund	Trust Fund	Total All Funds	Brotherhood Loan Fund	Trust Fund	Total All Funds
Cash flows from operating activities	\$ 144,130	\$ 114,917	\$ 259,047	\$ 245,837	\$ (218,920)	\$ 26,917	\$ 217,884	\$ (662,990)	\$ (445,106)
Change in net assets	49,034	-	49,034	51,285	-	51,285	45,275	-	45,275
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities	-	(468,739)	(468,739)	-	25,162	25,162	-	(209,415)	(209,415)
Depreciation	5,805	44	5,849	8,357	(722)	7,635	(559)	188	(371)
Net unrealized and realized (gains) losses on investments	51,544	-	51,544	(26,856)	-	(26,856)	(24,688)	-	(24,688)
Provisions for loss on loans	(12,286)	(4,063)	(16,349)	19,203	(991)	18,212	555	42,393	42,948
(Increase) decrease in Rent receivable	20,037	(11,585)	8,452	(23,056)	19,759	(3,297)	(35,036)	(26,323)	(61,359)
Other assets	(58,062)	(78,157)	(136,219)	23,298	3,059	26,357	8,583	(47,416)	(38,833)
Increase (decrease) in Accounts payable and other liabilities	-	26,354	26,354	-	19,819	19,819	-	6,604	6,604
Annuities payable	200,202	(421,229)	(221,027)	298,068	(152,834)	145,234	212,014	(896,959)	(684,945)
Net cash and cash equivalents provided by (used in) operating activities	(13,558)	(58,177)	(71,735)	(56,323)	148,370	(92,047)	(14,095)	(181,135)	(14,095)
Cash flows from investing activities	(984,233)	-	(984,233)	(1,639,534)	-	(1,639,534)	(670,708)	-	(670,708)
Purchase of property and equipment, net	-	-	-	-	-	-	-	-	-
(Increase) decrease in loans, net	-	(175,683)	(175,683)	-	(26,280)	(26,280)	-	(139,008)	(139,008)
Net unrealized and realized gains on split-interest investments	-	(978,548)	(978,548)	-	(1,069,708)	(1,069,708)	-	(2,722,546)	(2,722,546)
Purchases of investments	-	2,065,491	2,065,491	-	4,681,539	4,681,539	-	5,766,693	5,766,693
Proceeds from sale of investments	642,415	-	642,415	-	-	-	-	190,014	190,014
Proceeds from sale of real estate held for sale	(355,376)	853,083	497,707	(1,695,857)	3,733,921	2,038,064	(684,803)	2,914,018	2,229,215
Net cash and cash equivalents provided by (used in) investing activities	9,340	(9,340)	-	134,759	(134,759)	-	(200,267)	200,267	-
Cash flows from financing activities	689,311	-	689,311	574,368	-	574,368	538,335	-	538,335
Net (increase) decrease in interfund	3,777,211	-	3,777,211	2,541,997	-	2,541,997	93,709	-	93,709
Debt securities	-	-	-	-	-	-	-	-	-
Reinvested interest	-	(2,802,169)	(2,802,169)	-	(1,968,976)	(1,968,976)	-	1,503,817	1,503,817
Other net changes	-	263,855	263,855	-	40,414	40,414	-	(24,178)	(24,178)
Net increase (decrease) in CTF investment accounts	-	(370,455)	(370,455)	-	(333,199)	(333,199)	-	(3,574,327)	(3,574,327)
Individual retirement and health savings accounts	-	(323,814)	(323,814)	-	(20,201)	(20,201)	-	18,552	18,552
Split-interest agreements	-	-	-	-	-	-	-	-	-
Other funds held	4,475,862	(3,241,923)	1,233,939	3,251,124	(2,416,721)	834,403	431,777	(1,875,869)	(1,444,092)
Net cash and cash equivalents provided by (used in) financing activities	4,320,688	(2,810,069)	1,510,619	1,853,335	1,164,366	3,017,701	(41,012)	141,190	100,178
Net increase (decrease) in cash and cash equivalents	16,221,463	6,803,330	23,024,793	14,368,128	5,638,964	20,007,092	14,409,140	5,497,774	19,906,914
Cash and cash equivalents - beginning	20,542,151	3,993,261	24,535,412	16,221,463	6,803,330	23,024,793	14,368,128	5,638,964	20,007,092
Cash and cash equivalents - ending	\$ 36,763,604	\$ 10,886,522	\$ 47,650,126	\$ 30,589,631	\$ 12,432,294	\$ 43,021,885	\$ 28,737,268	\$ 11,276,928	\$ 39,914,006

The accompanying notes are an integral part of these financial statements.

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

General

Brethren in Christ Foundation, Inc. (Foundation) was established for the purpose of receiving, investing, and distributing funds for the benefit of the Brethren in Christ Church (Church). In certain instances, members of the Board of Directors of the Foundation are also members of the General Conference Board of the General Conference of the Church, which is the governing body of the Brethren in Christ religious denomination.

Brotherhood Loan Fund

The Brotherhood Loan Fund was established to provide financing for the purchase, construction, or renovation of churches, parsonages and other church-related projects. Funding for Brotherhood Loan Fund loans is primarily provided by debt securities sold to individual church members.

Trust Fund

The Trust Fund accounts for the administration of common trust fund investment accounts placed with it by church affiliated organizations. Certain loans to church affiliated organizations and individuals are issued from the Trust Fund. Split-interest trusts, for which the Foundation serves as trustee, are also accounted for in the Trust Fund. Additionally, the Trust Fund accounts for individual retirement accounts and health savings accounts of individual church members and church employees where the Foundation serves as custodian.

Eliminations

The Trust Fund invests individual retirement accounts and health savings accounts in certain assets of the Brotherhood Loan Fund. Therefore, the funds from these accounts are included as investments and liabilities in the Trust Fund and liabilities in the Brotherhood Loan Fund. The interfund investment and associated liabilities have been eliminated in the statements of financial position.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation utilizes fund accounting.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Net Asset Classifications

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

Permanently restricted net assets consist of property contributed which contain donor-imposed restrictions that stipulate the resources be maintained permanently but permit the Foundation to use, or expend part or all of the income derived from, the donated assets for specified purposes.

The Foundation administers a gift deposit account program (donor-advised funds). Donors make irrevocable and unconditional contributions accounted for in donor-advised funds that are controlled by the Foundation. Donors may recommend distributions to charitable organizations to the Foundation from the donor advised funds. The Foundation reports these donor-advised funds as designated unrestricted net assets.

Cash and Cash Equivalents

The Foundation considers all certificates of deposits and any highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at their fair values in the statements of financial position.

Loans Receivable

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses. Substantially all loans receivable are collateralized by deeds of trust on real properties (principally church buildings and ministers' homes) located throughout the United States. Loans generally require a loan-to-value ratio of no greater than 80%. Interest on loans receivable is recognized using the simple interest method.

Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Payments received on such loans are applied as a reduction of any accrued interest and the remainder of the payment is used to reduce the loan principal balance.

An allowance for loan losses is maintained at a level considered adequate to absorb loan losses. Management of the Foundation, in determining the allowance for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with general economic and real estate market conditions. In addition, management also considers its ability to work with delinquent borrowers through other units of the Church, Conference guarantees, and such other relevant factors that, in management's judgment, deserve recognition. The Foundation utilizes a two-tier approach: (1) identification of impaired loans and the establishment of specific loss allowances on such loans; and (2) establishment of general loss allowances on the remainder of its loan portfolio.

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BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The Foundation maintains a loan review system that allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. The system takes into consideration, among other things: delinquency status, size of loans, type and estimated fair value of collateral, and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. General loan loss allowances are based on a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, and management's judgment. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated future cash flows. The allowance is increased (decreased) by a provision for loan losses, which is recorded in the statements of activities, and reduced by charge-offs, net of recoveries.

Property and Equipment

Acquisition of buildings, equipment including computer hardware and software, improvements, and expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Real estate, property, and equipment are recorded at cost or estimated fair value if donated. Depreciation is recognized in amounts calculated on a straight-line basis to amortize the cost or donated value of depreciable assets over their estimated useful lives.

Impairment

The Foundation reviews its long-lived assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through future cash flows. If it is determined that an impairment loss has occurred, based on the expected cash flows, then a loss is recognized in the statements of activities.

Real Estate Held for Sale

The Foundation receives real estate in connection with split-interest agreements or donor-advised gift deposit accounts. The Foundation records the real estate at appraised market values until sold. The carrying value of the split-interest agreements or donor-advised gift deposit accounts is subsequently adjusted to the net sales proceeds. At December 31, 2016 and 2015, the Foundation did not hold real estate in connection with split-interest agreements or donor-advised gift deposit accounts.

In 2014, the Foundation received real estate as satisfaction for the remaining balance of a loan receivable. The Foundation recorded the real estate at the value of the unpaid principal balance on the loan receivable at the time of the transaction. Effectively, no cash was exchanged in the initial transaction. At December 31, 2015, real estate held for sale totaled \$642,415. In 2016, the real estate was sold at a net gain of \$78,035.

Common Trust Funds (CTF) Investment Accounts

Brethren in Christ churches, church agencies, and other eligible tax-exempt organizations place funds with the Foundation for investment in CTFs. The Foundation has established CTFs with specific investment objectives and investment policies. CTFs are separate accounting designations within the Foundation for jointly invested assets.

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BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The Foundation records the allocation of CTF total investment returns, net of service fees, to CTF investment accounts in the statements of activities as a decrease in unrestricted net assets. Allocations to individual CTF investment accounts are made monthly based on average daily balances. Deposits can be made at any time. Withdrawals are permitted up to the total account balance at the end of each month after re-pricing to market value.

Individual Retirement and Health Savings Accounts

The Foundation offers Individual Retirement Accounts and Health Savings Accounts to certain investors affiliated with the Church. These accounts are held in the Trust Fund.

Split-Interest Trusts

The Foundation serves as trustee for charitable remainder unitrusts and charitable lead trusts (trusts). Annual and final distributions from the trusts are made to charitable and non-charitable beneficiaries. The grantor generally retains the right to change charitable beneficiaries during the term of the trust. Liabilities for split-interest trusts are recorded in the statements of financial position at the fair value of the trust assets. The Foundation recognizes contributions from split-interest trusts when distributed to the Foundation.

The assets held in split-interest trusts are restricted and are generally invested in the Foundation's CTFs. Changes in split-interest trust restricted assets from the allocation of CTF's total investment returns, net of service fees, and other investment income increase or decrease the split-interest agreement liabilities in the statements of financial position.

Annuities Payable

The Foundation sells charitable gift annuities to individual members of the Church. The annuities provide for lifetime payments to the annuitant based upon standard rates set by the American Council on Gift Annuities. Upon the death of the annuitant, the carrying amount of the annuity is payable to the annuitant's charitable beneficiaries (generally organizations affiliated with the Church).

At the effective date of the annuity agreement, the Foundation records a liability equal to the present value of the estimated future payments to annuitants and charitable beneficiaries. The Foundation's portion of the charitable beneficiary designation is recorded as an unrestricted contribution. The liability is annually re-valued at the statement of financial position date using the original discount rate and current mortality tables.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions.

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BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Income Taxes

The Foundation is a not-for-profit organization exempt from federal and state income taxes pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code.

The Foundation adheres to the provisions of Financial Accounting Standards Board (FASB) Codification 740, *Income Taxes*. ASC 740 prescribes a comprehensive model for financial statement recognition, measurement, classification and disclosure of uncertain tax positions. The Foundation has concluded that it does not have any uncertain tax positions that require recognition or disclosure in the financial statements. Management believes it is no longer subject to income tax examinations for years prior to 2013.

Related Party Transactions

Substantially all transactions are with members of, or organizations affiliated with, the Church.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The pronouncement requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The changes become effective for the Foundation on January 1, 2019. Management has not determined the impact of these changes on the Foundation's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The changes associated with this ASU include the requirement for lessees to recognize the underlying assets and liabilities associated with all operating leases with terms greater than 12 months. The changes become effective for the Foundation on January 1, 2020. Management has determined the impact of these changes on the Foundation's financial statements will not be significant.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*. The amendments in this ASU include two classes of net asset classifications, options for presenting cash flow from operations, and a number of additional requirements. This guidance is effective for fiscal years beginning on January 1, 2018. Management has not determined the impact of these changes on the Foundation's financial statements.

Subsequent Events

Management evaluated subsequent events through March 3, 2017, the date the financial statements were available to be issued.

2. CASH AND CASH EQUIVALENTS

The Foundation utilizes a cash management system to invest excess cash deposits.

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BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and cash equivalents consist of the following as of December 31, 2016 and 2015:

	Brotherhood Loan Fund	
	2016	2015
Interest-bearing checking accounts	\$ 18,092,151	\$ 5,271,463
Certificates of deposit	2,450,000	10,950,000
	\$ 20,542,151	\$ 16,221,463
	Trust Fund	
	2016	2015
Interest-bearing checking accounts	\$ 3,960,432	\$ 5,780,375
Money market funds	32,829	22,955
Certificates of deposit	-	1,000,000
	\$ 3,993,261	\$ 6,803,330

The Foundation maintains cash balances at financial institutions in excess of federally insured limits.

3. INVESTMENTS

The amortized cost and fair values of investments at December 31, 2016 and 2015, are as follows:

December 31, 2016	Trust Fund		
	Amortized Cost	Net Unrealized Gains/(Losses)	Fair Value
Mutual funds			
International	\$ 1,620,369	\$ 137,828	\$ 1,758,197
Intermediate fixed income - government	215,142	(2,688)	212,454
Large cap	4,333,831	1,592,221	5,926,052
Mid cap	693,493	223,989	917,482
Small cap	76,083	35,432	111,515
Money market	705	-	705
Short-term fixed income	1,823,973	61,480	1,885,453
Short-term fixed income - government	608,647	(8,957)	599,690
Ultrashort fixed income	167,745	2,452	170,197
Total mutual funds	9,539,988	2,041,757	11,581,745
Cash value of life insurance	24,848	-	24,848

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016	Trust Fund		
	Amortized Cost	Net Unrealized Gains/(Losses)	Fair Value
Investor-directed mutual funds			
International	525,495	(2,953)	522,542
International fixed income	150,905	3,017	153,922
Intermediate fixed income	665,671	(2,295)	663,376
Intermediate fixed income - government	95,522	(1,113)	94,409
Large cap	1,045,374	93,147	1,138,521
Mid cap	11,290	2,509	13,799
Small cap	3,848	4,076	7,924
Money market	831	-	831
Emerging markets	5,673	158	5,831
High yield	6,317	(61)	6,256
Nontraditional fixed income	4,823	(42)	4,781
Total investor-directed mutual funds	2,515,749	96,443	2,612,192
	<u>\$ 12,080,585</u>	<u>\$ 2,138,200</u>	<u>\$ 14,218,785</u>
December 31, 2015	Trust Fund		
	Amortized Cost	Net Unrealized Gains/(Losses)	Fair Value
Mutual funds			
International	\$ 1,665,628	\$ 154,561	\$ 1,820,189
Intermediate fixed income - government	216,800	(314)	216,486
Large cap	4,533,770	1,456,623	5,990,393
Mid cap	737,922	167,503	905,425
Small cap	92,677	24,259	116,936
Money market	705	-	705
Short-term fixed income	1,902,969	44,152	1,947,121
Short-term fixed income - government	652,713	(9,006)	643,707
Ultrashort fixed income	185,402	2,286	187,688
Total mutual funds	9,988,586	1,840,064	11,828,650
Cash value of life insurance	23,711	-	23,711
Investor-directed mutual funds			
International	563,292	(13,000)	550,292
International fixed income	181,749	(1,630)	180,119
Intermediate fixed income	746,492	(3,040)	743,452

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015	Trust Fund		
	Amortized Cost	Net Unrealized Gains/(Losses)	Fair Value
Intermediate fixed income - government	95,477	(50)	95,427
Large cap	1,271,852	31,796	1,303,648
Mid cap	82,938	15,873	98,811
Small cap	4,359	2,566	6,925
Money market	2,007	-	2,007
Short-term fixed income	2,380	(19)	2,361
Short-term fixed income - government	124	(1)	123
Emerging markets	34,540	5,728	40,268
Emerging market fixed income	39,240	(4,865)	34,375
High yield	6,785	(612)	6,173
Nontraditional fixed income	9,164	(345)	8,819
Total investor-directed mutual funds	3,040,400	32,401	3,072,800
	<u><u>\$ 13,052,697</u></u>	<u><u>\$ 1,872,464</u></u>	<u><u>\$ 14,925,161</u></u>

Net investment income consists of the following for the years ended December 31, 2016, 2015, and 2014:

	2016	2015	2014
Brotherhood Loan Fund			
Interest income	<u>\$ 217,610</u>	<u>\$ 135,887</u>	<u>\$ 100,334</u>
Trust Fund - other			
Interest income	\$ 374,611	\$ 363,222	\$ 397,354
Net realized and unrealized gain (loss) on investments	<u>447,426</u>	<u>(31,586)</u>	<u>573,487</u>
Net investment income – other	<u>\$ 822,037</u>	<u>\$ 331,636</u>	<u>\$ 970,841</u>
Donor-advised			
Interest income	\$ 8,998	\$ 9,750	\$ 9,726
Net realized and unrealized gain (loss) on investments	<u>21,313</u>	<u>6,424</u>	<u>(771,152)</u>
Net investment income (loss) – donor-advised	<u>\$ 30,311</u>	<u>\$ 16,174</u>	<u>\$ (761,426)</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

4. LOANS RECEIVABLE

Loans receivable consist primarily of amounts owed by churches affiliated with the Brethren in Christ denomination on loans made by the Foundation for the purpose of church construction or improvements. The loans mature at various dates through the year 2046 and bear interest rates ranging from 3.25% to 5.50%. Certain loans are also guaranteed by the general and regional Conferences of the Church.

During 2016, 2015, and 2014, the Foundation generally had secured Trust Fund loans bearing annual interest at the rate of 3.25% to 5.50% to Church members and unrelated parties.

In years prior to 1998, it was the policy of the Foundation and General and Regional Conferences (Conferences) that the Foundation would not absorb loan losses that were guaranteed by the Conferences. In 1998, the Foundation agreed to amend the policy to require the Foundation to absorb up to 50% of loan losses incurred on Conference guaranteed loans. Procedures were established in 2001 to classify new loans into categories based on an assessment of credit risks that require conference guarantees on up to 100% of the loan amount. In 2005, the calculation for the allowance for loan losses was re-evaluated and changed to be an amount dependent on the guaranteed amount.

At December 31, 2016 and 2015, Brotherhood Loan Fund loans were partially guaranteed by the Conferences totaling \$11,414,728 and \$12,039,724. At December 31, 2016 and 2015, Trust Loan Fund loans were partially guaranteed by the Conferences totaling \$250,819 and \$201,369.

An analysis of changes in the allowance for loan losses for 2016, 2015, and 2014, is as follows:

	<u>Brotherhood Loan Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Allowance for loan losses, January 1, 2014	\$ 180,222	\$ 3,962	\$ 184,184
Provisions for losses on loans	<u>(559)</u>	<u>188</u>	<u>(371)</u>
Allowance for loan losses, December 31, 2014	179,663	4,150	183,813
Provisions for losses on loans	<u>8,357</u>	<u>(722)</u>	<u>7,635</u>
Allowance for loan losses, December 31, 2015	188,020	3,428	191,448
Provisions for losses on loans	<u>5,805</u>	<u>44</u>	<u>5,849</u>
Allowance for loan losses, December 31, 2016	<u>\$ 193,825</u>	<u>\$ 3,472</u>	<u>\$ 197,297</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

There were no non-accrual loans at December 31, 2016 and 2015. Non-accrual loans are those loans on which income under the accrual method has been discontinued with subsequent interest payments credited to interest income or, if the ultimate collectability of principal is in doubt, applied as principal reductions.

At December 31, 2016 and 2015, there was no recorded investment in impaired loans. There was no allowance for loan losses related to impaired loans at December 31, 2016 and 2015. There was no interest income recognized on impaired loans in 2016 and 2015.

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Office building and improvements	\$ 868,279	\$ 864,899
Farm – permanently restricted	415,000	415,000
Furniture and equipment	298,185	288,007
Accumulated depreciation	<u>(792,335)</u>	<u>(743,301)</u>
	<u>\$ 789,129</u>	<u>\$ 824,605</u>

Depreciation expense for the years ended December 31, 2016, 2015, and 2014, totaled \$49,034, \$51,285, and \$45,275.

6. FUNDING OF WITHDRAWALS

The Foundation holds a minimum of 5%, 10%, and 25% of the proceeds from the sale of Notes, Certificates, and Agreements in cash accounts and certificates of deposits for immediate liquidity to fund withdrawals from the Brotherhood Loan Fund. Such minimum amounts totaled \$6,464,709 and \$6,055,859, at December 31, 2016 and 2015.

7. PERMANENTLY RESTRICTED NET ASSETS

In 1981, property with an appraised value of \$415,000 was transferred to the Foundation from the General Conference. The property is held by the Foundation as Trustee, and court approval must be obtained prior to any sale of the property. Net income derived from farming the property is contributed to Church Missions. At such time as the property is sold, the corpus will be managed by the Foundation and the earnings distributed to Church Missions.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

8. DEBT SECURITIES

The Foundation has received approval from certain states for the sale of Thrift Accumulation Plan Agreements (Agreements), Stewardship Investment Certificates (Certificates), and Individual Retirement Account Notes (Notes) to individuals affiliated with the Church. The principal terms of these instruments as of December 31, 2016, are as follows:

	<u>Agreements</u>	<u>Certificates</u>
Minimum purchase	\$5	\$500
Term	30 days	6 months to 5 years
Interest rate at December 31, 2016	Variable, currently 0% to 0.75%	Variable, currently 0% to 2.47%

Notes have a minimum purchase of \$2,000 or the balance of an individual's IRA, whichever is less, and are generally issued for a minimum of the lesser of five years or holders reaching 59½ years of age. Interest is variable on 5 and 10 year Notes (currently at 2.47% and 2.72%) and is added to the principal on a quarterly basis.

Agreements, Certificates, and Notes outstanding at December 31, 2016, have maturity dates and amounts as follows:

2017	\$ 24,463,169
2018	5,959,899
2019	4,892,217
2020	5,296,851
2021	3,552,645
Thereafter	<u>1,305,662</u>
Total	<u>\$ 45,470,443</u>

The interest rate on these savings instruments may be adjusted monthly by the Board of Directors to reflect current market conditions.

9. SPLIT-INTEREST AGREEMENTS

Split-interest Trusts

Split-interest trust restricted assets consist of the following at December 31, 2016 and 2015:

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 611,855	\$ 545,515
Investments	<u>2,873,635</u>	<u>3,228,401</u>
	<u>\$ 3,485,490</u>	<u>\$ 3,773,916</u>

Liabilities for split-interest trusts totaled \$3,485,490 and \$3,773,916 at December 31, 2016 and 2015.

Annuities Payable

Assets received under charitable gift annuity agreements are held as general assets of the Foundation.

Annuities payable at December 31, 2016 and 2015, totaled \$907,732 and \$963,407 and were determined using discount rates ranging from 2.0% to 9.6%. The change in the Foundation's portion of the liability is recorded as an increase in unrestricted net assets and totaled \$26,354, \$19,819, and \$6,604, for the years ended December 31, 2016, 2015, and 2014.

The Foundation received one contribution from a charitable gift annuity during the year ended December 31, 2016, in the amount of \$317. There were no contributions from charitable gift annuities for the Foundation during the year ended December 31, 2015. The Foundation received one contribution from a charitable gift annuity during the year ended December 31, 2014, in the amount of \$4,194.

10. LINES OF CREDIT

The Foundation had available for its use a line of credit with BB&T Bank in the amount of \$3,000,000 for a revolving line of credit. All amounts borrowed under the revolving line of credit were payable on demand and bore interest at the BB&T prime rate minus one-half percent, but in no event was the corresponding annual percentage rate to be less than 3.5%. Advances under the line of credit could be used to finance timing differences between deposits gathered and loans funded. Interest was to be calculated on the outstanding principal balance for the actual number of days lapsed during each billing cycle at a daily rate based on a year of 360 days. At December 31, 2015, no amounts were outstanding on the line of credit, which was not renewed after November 30, 2016.

The Foundation currently has available for its use a revolving line of credit with Centric Bank in the amount of \$3,000,000. All amounts borrowed under the revolving line of credit are payable on demand and bear interest at the Wall Street Journal Prime Rate. Advances under the line of credit shall be used to finance timing differences between deposits gathered and loans funded. Interest is to be calculated on the outstanding principal balance for the actual number of days lapsed during each billing cycle at a daily rate based on a year of 360 days. At December 31, 2016, no amounts were outstanding on the line of credit.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

11. COST ALLOCATION

The costs of providing programs and other activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among programs and supporting services benefited.

2016	Program Services	Management and General	Fundraising	Total All Funds
Distributions to charities	\$ 828,497	\$ -	\$ -	\$ 828,497
Interest	778,075	-	-	778,075
Professional services	71,024	2,146	-	73,170
Salaries and benefits	412,767	197,780	50,049	660,596
Depreciation	34,324	14,710	-	49,034
General and administrative	134,923	23,113	12,459	170,495
Matching grant	14,655	-	-	14,655
Provisions for loss on loans	5,849	-	-	5,849
Total expenses	\$ 2,280,114	\$ 237,749	\$ 62,508	\$ 2,580,371
2015	Program Services	Management and General	Fundraising	Total All Funds
Distributions to charities	\$ 49,859	\$ -	\$ -	\$ 49,859
Interest	654,413	-	-	654,413
Professional services	93,998	3,530	-	97,528
Salaries and benefits	378,371	112,931	74,610	565,912
Depreciation	35,900	15,385	-	51,285
General and administrative	98,076	15,102	17,753	130,931
Matching grant	5,940	-	-	5,940
Provisions for loss on loans	7,635	-	-	7,635
Total expenses	\$ 1,324,192	\$ 146,948	\$ 92,363	\$ 1,563,503
2014	Program Services	Management and General	Fundraising	Total All Funds
Distributions to charities	\$ 3,897,808	\$ -	\$ -	\$ 3,897,808
Interest	611,873	-	-	611,873
Professional services	88,196	2,597	-	90,793
Salaries and benefits	354,728	105,538	73,827	534,093
Depreciation	31,692	13,583	-	45,275
General and administrative	105,627	29,755	16,629	152,011
Matching grant	35,000	-	-	35,000
Provisions for loss on loans	(371)	-	-	(371)
Total expenses	\$ 5,124,553	\$ 151,473	\$ 90,456	\$ 5,366,482

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

12. RETIREMENT PLAN

The Foundation maintains a defined contribution employee pension plan. The plan is available to all employees who are employed on a full time basis and have completed at least one year of service. The employer contribution rate for eligible employees was 10% of compensation for 2015 and 2014. In 2016, the employer contribution rate was 7.5% of eligible compensation plus a match of employee contributions up to 2.5%. For the years ended December 31, 2016, 2015, and 2014, retirement plan expenses of \$43,916, \$41,004, and \$36,060 were included in employee benefits.

13. CASH FLOW INFORMATION

Amounts paid for interest were as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Brotherhood Loan Fund	<u>\$ 778,075</u>	<u>\$ 654,413</u>	<u>\$ 611,873</u>

Interest re-invested by holders of debt securities in the Brotherhood Loan Fund totaled \$689,311, \$574,368, and \$538,335 during the years ended December 31, 2016, 2015, and 2014.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

The fair values of CTF investment accounts and other funds held are based on net asset values of assets allocated to the CTF.

The fair values of split-interest trusts are based on the net asset values of the trust assets.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2016 and 2015, are as follows:

<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
International	\$ 2,280,739	\$ -	\$ -	\$ 2,280,739
Intermediate fixed income	663,376	-	-	663,376
Intermediate fixed income - government	306,863	-	-	306,863
Large cap	7,064,573	-	-	7,064,573
Mid cap	931,281	-	-	931,281
Small cap	119,439	-	-	119,439
Money market	1,536	-	-	1,536
Short-term fixed income	1,885,453	-	-	1,885,453
Short-term fixed income - government	599,690	-	-	599,690
Ultrashort fixed income	170,197	-	-	170,197
Emerging markets	5,831	-	-	5,831
High yield	6,256	-	-	6,256
Nontraditional fixed income	4,781	-	-	4,781
World fixed income	<u>153,922</u>	<u>-</u>	<u>-</u>	<u>153,922</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2016	Level 1	Level 2	Level 3	Total
Total mutual funds	14,193,937	-	-	14,193,937
Cash value of life insurance	-	-	24,848	24,848
Total investments	\$ 14,193,937	\$ -	\$ 24,848	\$ 14,218,785
CTF investments	\$ -	\$ 12,043,925	\$ -	\$ 12,043,925
Split-interest trusts	-	3,485,490	-	3,485,490
Other funds held	-	10,494	-	10,494
Total liabilities	\$ -	\$ 15,539,909	\$ -	\$ 15,539,909
2015	Level 1	Level 2	Level 3	Total
Mutual funds				
International	\$ 2,370,482	\$ -	\$ -	\$ 2,370,482
International fixed income	743,452	-	-	743,452
Intermediate fixed income	311,913	-	-	311,913
Large cap	7,294,041	-	-	7,294,041
Mid cap	1,004,235	-	-	1,004,235
Small cap	123,861	-	-	123,861
Money market	2,712	-	-	2,712
Short-term fixed income	1,949,482	-	-	1,949,482
Short-term fixed income - government	643,830	-	-	643,830
Ultrashort fixed income	187,688	-	-	187,688
Emerging markets	40,268	-	-	40,268
Emerging market fixed income	34,375	-	-	34,375
High yield	6,173	-	-	6,173
Nontraditional fixed income	8,819	-	-	8,819
World fixed income	180,119	-	-	180,119
Total mutual funds	14,901,450	-	-	14,901,450
Cash value of life insurance	-	-	23,711	23,711
Total investments	\$ 14,901,450	\$ -	\$ 23,711	\$ 14,925,161

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2015	Level 1	Level 2	Level 3	Total
CTF investments	\$ -	\$ 14,846,094	\$ -	\$ 14,846,094
Split-interest trusts	-	3,773,916	-	3,773,916
Other funds held	-	334,308	-	334,308
Total liabilities	<u>\$ -</u>	<u>\$ 18,954,318</u>	<u>\$ -</u>	<u>\$ 18,954,318</u>

The Foundation's assets measured at fair value on a non-recurring basis consist of real estate held for sale. The fair value of real estate held for sale as of December 31, 2015, was based on the appraised market value. Appraised market values takes into consideration recently sold properties that have similarities to the real estate held for sale.

The real estate held for sale as of December 31, 2015, was valued based on the unpaid principal balance on the loan receivable at the time of the transaction, less the sale price of any properties sold.

There were no assets measured at fair value on a non-recurring basis as of December 31, 2016. For assets measured at fair value on a non-recurring basis as of December 31, 2015, the fair value measurements by level within the fair value hierarchy used, are as follows:

2015	Level 1	Level 2	Level 3	Total
Real estate held for sale	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 642,415</u>	<u>\$ 642,415</u>

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the years ended December 31, 2016, 2015, and 2014:

	Life Insurance Policies		
	2016	2015	2014
Balance, beginning of year	\$ 23,711	\$ 21,985	\$ 20,379
Premiums paid	532	532	532
Gains and premium discounts	605	1,194	1,074
Balance, end of year	<u>\$ 24,848</u>	<u>\$ 23,711</u>	<u>\$ 21,985</u>
	Real Estate Held for Sale		
	2016	2015	2014
Balance, beginning of year	\$ 642,415	\$ 642,415	\$ 988,121
Real estate acquired	-	-	877,661
Real estate sold	(642,415)	-	(1,223,367)
Balance, end of year	<u>\$ -</u>	<u>\$ 642,415</u>	<u>\$ 642,415</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The Foundation's financial instruments also include cash and cash equivalents, loans receivable and accrued interest receivable, accounts payable and other liabilities, debt securities, and individual retirement and health savings accounts. The carrying amounts of cash and cash equivalents, accrued interest receivable and accounts payable and other liabilities approximate fair values as of December 31, 2016 and 2015, because of the short maturities of those instruments. The carrying amounts of loans receivable, debt securities and individual retirement and health savings accounts are considered to approximate fair values as of December 31, 2016 and 2015, since they are subject to interest rates, which vary depending on market conditions.

15. OPERATING LEASES

The Company entered into an operating lease agreement in August 2015. The agreement expires at November 2020. Total rent expense incurred for the operating lease was \$3,505 and \$2,751 for the years ended December 31, 2016 and 2015.

Future minimum lease payments required under the operating lease as of December 31, 2016, are as follows:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2017	\$ 2,640
2018	\$ 2,640
2019	\$ 2,640
2020	\$ 2,420

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