

BRETHREN IN CHRIST FOUNDATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
AND
INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY

MEMBERS

AMERICAN AND PENNSYLVANIA
INSTITUTES OF CERTIFIED PUBLIC
ACCOUNTANTS

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, 2018 and 2017, and the related statements of activities and cash flows for each of the years in the three year period ended December 31, 2018, 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.

A-1

HARRISBURG • LANCASTER • BLOOMSBURG
1.800.569.5199 • www.macpas.com • Fax: 717.737.2068

MAILING ADDRESS

McKonly & Asbury • 415 Fallowfield Road • Camp Hill, Pennsylvania 17011

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, 2018 and 2017, and the changes in its net assets and its cash flows for each of the years in the three year period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation adopted the new nonprofit reporting standards as required by FASB Accounting Standard Update No. 2016-14. Our opinion is not modified with respect to this matter.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
February 28, 2019

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31, 2018				December 31, 2017			
	Brotherhood Loan Fund	Trust Fund	Eliminations	Total All Funds	Brotherhood Loan Fund	Trust Fund	Eliminations	Total All Funds
ASSETS								
Cash and cash equivalents	\$ 12,636,620	\$ 5,130,206	\$ -	\$ 17,766,826	\$ 14,461,047	\$ 5,238,536	\$ -	\$ 19,699,583
Investments	-	24,490,244	(7,394,156)	17,096,088	-	24,796,823	(7,406,693)	17,390,130
Receivables								
Loans, net	41,160,885	843,110	-	42,003,995	37,830,235	921,976	-	38,752,211
Interfund, net	58,789	(58,789)	-	-	148,583	(148,583)	-	-
Accrued interest	74,163	10	-	74,173	128,540	67	-	128,607
Property and equipment, net	788,860	-	-	788,860	800,427	-	-	800,427
Other assets	90,671	117,288	-	207,959	86,958	102,338	-	189,296
Total assets	<u>\$ 54,809,988</u>	<u>\$ 30,522,069</u>	<u>\$ (7,394,156)</u>	<u>\$ 77,937,901</u>	<u>\$ 53,455,790</u>	<u>\$ 30,911,157</u>	<u>\$ (7,406,693)</u>	<u>\$ 76,960,254</u>
LIABILITIES AND NET ASSETS								
Accounts payable and other liabilities	\$ 65,651	\$ 28,794	\$ (1,503)	\$ 92,942	\$ 90,836	\$ 15,348	\$ (1,861)	\$ 104,323
Debt securities								
Thrift accumulation plan agreements	12,426,782	-	(331,389)	12,095,393	12,990,447	-	(319,770)	12,670,677
Stewardship investment certificates	27,877,590	-	(1,352,449)	26,525,141	26,234,109	-	(1,356,229)	24,877,880
Individual retirement account notes	5,708,815	-	(5,708,815)	-	5,728,833	-	(5,728,833)	-
CTF investment accounts	-	15,125,645	-	15,125,645	-	15,081,198	-	15,081,198
Individual retirement and health savings accounts	-	7,394,156	-	7,394,156	-	7,406,693	-	7,406,693
Split-interest agreements								
Split-interest trusts	-	3,134,263	-	3,134,263	-	3,575,160	-	3,575,160
Annuities payable	-	942,746	-	942,746	-	900,507	-	900,507
Other funds held	-	9,114	-	9,114	-	9,128	-	9,128
Total liabilities	<u>46,078,838</u>	<u>26,634,718</u>	<u>(7,394,156)</u>	<u>65,319,400</u>	<u>45,044,225</u>	<u>26,988,034</u>	<u>(7,406,693)</u>	<u>64,625,566</u>
Net assets								
Without donor restrictions								
Designated, donor-advised funds	-	1,819,786	-	1,819,786	-	1,884,431	-	1,884,431
Other	8,291,157	2,067,565	-	10,358,722	7,971,522	2,038,692	-	10,010,214
With donor restrictions	439,993	-	-	439,993	440,043	-	-	440,043
Total net assets	<u>8,731,150</u>	<u>3,887,351</u>	<u>-</u>	<u>12,618,501</u>	<u>8,411,565</u>	<u>3,923,123</u>	<u>-</u>	<u>12,334,688</u>
Total liabilities and net assets	<u>\$ 54,809,988</u>	<u>\$ 30,522,069</u>	<u>\$ (7,394,156)</u>	<u>\$ 77,937,901</u>	<u>\$ 53,455,790</u>	<u>\$ 30,911,157</u>	<u>\$ (7,406,693)</u>	<u>\$ 76,960,254</u>

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

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended December 31, 2016		
	Brotherhood Loan Fund	Trust Fund	Total All Funds	Brotherhood Loan Fund	Trust Fund	Total All Funds	Brotherhood Loan Fund	Trust Fund	Total All Funds
Net assets without donor restrictions									
Revenues and gains									
Interest on loans	\$ 1,629,521	\$ 40,810	\$ 1,670,331	\$ 1,413,245	\$ 42,862	\$ 1,456,107	\$ 1,358,062	\$ 41,152	\$ 1,399,214
Net investment income	164,645	11,386	176,031	115,004	6,754	121,758	217,610	12,600	230,210
Contributions	2,040	52,763	54,803	-	169,256	169,256	-	830,764	830,764
Service fees, net	(17,341)	183,479	166,138	53,082	172,520	225,602	-	152,017	152,017
Rental income, net	-	-	-	-	-	-	49,267	-	49,267
Other	-	27,495	27,495	2,198	75,516	77,714	-	29,448	29,448
Total revenues and gains	1,778,865	315,933	2,094,798	1,583,529	466,908	2,050,437	1,624,939	1,065,981	2,690,920
Net assets released from restrictions	35,499	-	35,499	40,600	-	40,600	35,950	-	35,950
Total revenues, gains, and other support	1,814,364	315,933	2,130,297	1,624,129	466,908	2,091,037	1,660,889	1,065,981	2,726,870
Expenses	1,494,729	287,059	1,781,788	1,560,960	441,499	2,002,459	1,516,964	1,063,407	2,580,371
Excess of revenues, gains, and other support over expenses before donor- advised funds activity	319,635	28,874	348,509	63,169	25,409	88,578	143,925	2,574	146,499
Change in donor-advised funds									
Contributions	-	412,253	412,253	-	1,379,734	1,379,734	-	362,346	362,346
Net investment income	-	10,038	10,038	-	60,870	60,870	-	30,311	30,311
Charitable distributions	-	(470,092)	(470,092)	-	(425,619)	(425,619)	-	(271,212)	(271,212)
Administrative expenses	-	(16,845)	(16,845)	-	(11,803)	(11,803)	-	(9,102)	(9,102)
Increase (decrease) in donor advised funds	-	(64,646)	(64,646)	-	1,003,182	1,003,182	-	112,343	112,343

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF ACTIVITIES (Cont'd)

	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended December 31, 2016		
	Brotherhood Loan Fund	Trust Fund	Total All Funds	Brotherhood Loan Fund	Trust Fund	Total All Funds	Brotherhood Loan Fund	Trust Fund	Total All Funds
Change in net assets without donor restrictions	319,635	(35,772)	283,863	63,169	1,028,591	1,091,760	143,925	114,917	258,842
Net assets with donor restrictions									
Farming income, net	35,449	-	35,449	40,579	-	40,579	36,155	-	36,155
Net assets released from restrictions	(35,499)	-	(35,499)	(40,600)	-	(40,600)	(35,950)	-	(35,950)
Change in net assets with donor restrictions	(50)	-	(50)	(21)	-	(21)	205	-	205
Change in net assets	319,585	(35,772)	283,813	63,148	1,028,591	1,091,739	144,130	114,917	259,047
Net assets - beginning	8,411,565	3,923,123	12,334,688	8,348,417	2,894,532	11,242,949	8,204,287	2,779,615	10,983,902
Net assets - ending	<u>\$ 8,731,150</u>	<u>\$ 3,887,351</u>	<u>\$ 12,618,501</u>	<u>\$ 8,411,565</u>	<u>\$ 3,923,123</u>	<u>\$ 12,334,688</u>	<u>\$ 8,348,417</u>	<u>\$ 2,894,532</u>	<u>\$ 11,242,949</u>

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

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended December 31, 2016		
	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									
Change in net assets	\$ 319,585	\$ (35,772)	\$ 283,813	\$ 63,148	\$ 1,028,591	\$ 1,091,739	\$ 144,130	\$ 114,917	\$ 259,047
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities									
Depreciation	36,853	-	36,853	39,466	-	39,466	49,034	-	49,034
Net unrealized and realized (gains) losses on investments	-	939,401	939,401	-	(1,747,272)	(1,747,272)	-	(468,739)	(468,739)
Provisions for loss on loans	17,372	(347)	17,025	30,601	(54)	30,547	5,805	44	5,849
(Increase) decrease in									
Rent receivable	-	-	-	-	-	-	51,544	-	51,544
Accrued interest receivable	54,377	57	54,434	(53,683)	6,541	(47,142)	(12,286)	(4,063)	(16,349)
Other assets	(3,713)	(14,950)	(18,663)	(12,287)	13,541	1,254	20,037	(11,585)	8,452
Increase (decrease) in									
Accounts payable and other liabilities	(25,185)	13,446	(11,739)	3,030	(13,057)	(10,027)	(58,062)	(78,157)	(136,219)
Annuities payable	-	42,239	42,239	-	(4,714)	(4,714)	-	26,354	26,354
Net cash and cash equivalents provided by (used in) operating activities	399,289	944,074	1,343,363	70,275	(716,424)	(646,149)	200,202	(421,229)	(221,027)
Cash flows from investing activities									
Purchase of property and equipment	(25,286)	-	(25,286)	(50,764)	-	(50,764)	(13,558)	-	(13,558)
(Increase) decrease in loans	(3,348,022)	79,213	(3,268,809)	(5,340,670)	19,815	(5,320,855)	(984,233)	(58,177)	(1,042,410)
Net unrealized and realized (gains) losses on split-interest investments	-	144,026	144,026	-	(481,059)	(481,059)	-	(175,683)	(175,683)
Purchases of investments	-	(3,476,081)	(3,476,081)	-	(3,645,749)	(3,645,749)	-	(978,548)	(978,548)
Proceeds from sale of investments	-	2,699,233	2,699,233	-	2,626,835	2,626,835	-	2,065,491	2,065,491
Proceeds from sale of real estate held for sale	-	-	-	-	-	-	642,415	-	642,415
Net cash and cash equivalents provided by (used in) investing activities	(3,373,308)	(553,609)	(3,926,917)	(5,391,434)	(1,480,158)	(6,871,592)	(355,376)	853,083	497,707
Cash flows from financing activities									
Net (increase) decrease in interfund	89,794	(89,794)	-	(242,891)	242,891	-	9,340	(9,340)	-
Debt securities									
Reinvested interest	803,544	-	803,544	712,598	-	712,598	689,311	-	689,311
Other net changes	256,254	-	256,254	(1,229,652)	-	(1,229,652)	3,777,211	-	3,777,211
Net increase (decrease) in									
CTF investment accounts	-	44,447	44,447	-	3,037,273	3,037,273	-	(2,802,169)	(2,802,169)
Individual retirement and health savings accounts	-	(12,537)	(12,537)	-	75,900	75,900	-	263,855	263,855
Split-interest agreements	-	(440,897)	(440,897)	-	87,159	87,159	-	(370,455)	(370,455)
Other funds held	-	(14)	(14)	-	(1,366)	(1,366)	-	(323,814)	(323,814)
Net cash and cash equivalents provided by (used in) financing activities	1,149,592	(498,795)	650,797	(759,945)	3,441,857	2,681,912	4,475,862	(3,241,923)	1,233,939
Net increase (decrease) in cash and cash equivalents	(1,824,427)	(108,330)	(1,932,757)	(6,081,104)	1,245,275	(4,835,829)	4,320,688	(2,810,069)	1,510,619
Cash and cash equivalents - beginning	14,461,047	5,238,536	19,699,583	20,542,151	3,993,261	24,535,412	16,221,463	6,803,330	23,024,793
Cash and cash equivalents - ending	\$ 12,636,620	\$ 5,130,206	\$ 17,766,826	\$ 14,461,047	\$ 5,238,536	\$ 19,699,583	\$ 20,542,151	\$ 3,993,261	\$ 24,535,412

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.

The foundation focuses its efforts in two primary service areas that are reported in separate funds.

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 two classes of net assets: with or without donor restrictions. The Foundation utilizes fund accounting.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Net Asset Classifications

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions – Net assets subject to donor imposed restrictions. Donor-imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

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 net assets without donor restrictions.

The Foundation's net assets with donor restrictions as of December 31, 2018 and 2017, consist of the following:

	2018	2017
Purpose restricted	\$ 24,993	\$ 25,043
Perpetually restricted	415,000	415,000
	<u>\$ 439,993</u>	<u>\$ 440,043</u>

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.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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. 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 reported in the statements of activities, and reduced by charge-offs, net of recoveries.

Property and Equipment

Acquisition of buildings, equipment, 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. No impairment loss was incurred during the years ending December 31, 2018, 2017, and 2016.

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.

(continued)

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 a contribution without donor restrictions. 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 with or without donor restrictions depending on the existence and/or nature of any donor restrictions.

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.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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 2015.

Related Party Transactions

Substantially all transactions are with members of, or organizations affiliated with, the Church. The Foundation has a shared services agreement with the Church whereby certain staff, office support, and operational management is shared from time to time. The agreement results in service fees, net on the Foundation's statements of activities.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The pronouncement and related subsequent pronouncements require 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. This guidance is effective for the Foundation on January 1, 2019. Management has not determined the impact of these changes on the Foundation's financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*. The amendment clarifies guidance about whether a transfer of assets is a contribution or an exchange transaction. Under the new standard, organizations are required to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome, and whether there is either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. This guidance is effective for the Foundation on January 1, 2019. Early adoption is permitted. Management has not yet determined the impact of adoption on its 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.

Recently Adopted Accounting Standards

In August 2016, the FASB issued Accounting Standard Update (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 disclosure requirements. This guidance was effective for the Foundation on January 1, 2018, and was applied retrospectively. Total net assets did not change as a result of this new standard, however, the balances and activities within temporarily restricted net assets and permanently restricted net assets in previous years are reported as net assets with donor restrictions as of and for the years ending December 31, 2018, 2017, and 2016.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Reclassification

Certain amounts in the 2017 and 2016 financial statements have been reclassified to conform to the presentation of the 2018 financial statements.

Subsequent Events

Management evaluated subsequent events through February 28, 2019, the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

The financial assets as of December 31, 2018, which are available for general expenditures within one year of the statement of financial position date comprise the following:

Total cash and cash equivalents	\$	17,766,826
Less:		
Cash held to fund debt securities withdrawals (see Note 8)		(6,179,896)
Cash restricted in trust fund		(4,003,664)
Add:		
Loans receivable to be collected within a year		4,395,833
Accrued interest		74,173
Other receivables to be collected within a year		37,296
	\$	<u>12,090,568</u>

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Foundation has a revolving line of credit with Centric bank in the amount of \$3,000,000, which it could draw upon as further disclosed in Note 10.

3. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents consist of the following as of December 31, 2018 and 2017:

	Brotherhood Loan Fund	
	2018	2017
Interest-bearing checking accounts	\$ 7,186,620	\$ 6,003,173
Certificates of deposit	5,450,000	8,457,874
	<u>\$ 12,636,620</u>	<u>\$ 14,461,047</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

	Trust Fund	
	2018	2017
Interest-bearing checking accounts	\$ 4,874,523	\$ 4,990,830
Money market funds	255,683	247,706
	\$ 5,130,206	\$ 5,238,536

The Foundation is exposed to credit risk by maintaining cash balances at financial institutions in excess of federally insured limits.

4. INVESTMENTS

The cost and fair values of investments at December 31, 2018 and 2017, are as follows:

December 31, 2018	Cost	Net Unrealized Gains/(Losses)	Fair Value
Mutual funds			
International	\$ 1,663,144	\$ 21,918	\$ 1,685,062
Intermediate fixed income - government	234,105	(8,528)	225,577
Large cap	4,197,380	1,212,681	5,410,061
Mid cap	709,556	93,704	803,260
Small cap	76,669	19,257	95,926
Money market	719	-	719
Short-term fixed income	2,259,356	22,271	2,281,627
Short-term fixed income - government	634,857	(16,135)	618,722
Total mutual funds	9,775,786	1,345,168	11,120,954
Cash value of life insurance	28,542	-	28,542
Common stocks	2,850	16,015	18,865
Investor-directed mutual funds			
Inflation protected fixed income	83,438	(2,178)	81,260
International	1,408,751	(122,792)	1,285,959
Intermediate fixed income	1,322,146	(19,640)	1,302,506
Intermediate fixed income - government	95,030	(3,532)	91,498
Large cap	2,182,718	103,522	2,286,240
Mid cap	89,110	10,647	99,757
Small cap	1,918	1,465	3,383

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018	Cost	Net Unrealized Gains/(Losses)	Fair Value
Money market	2,913	-	2,913
Managed futures	5,475	(1,064)	4,411
Short-term fixed income	184,354	(6,371)	177,983
Short-term fixed income - government	49,863	(1,006)	48,857
Emerging markets	5,142	448	5,590
Nontraditional fixed income	4,430	(57)	4,373
World fixed income	529,514	3,483	532,997
 Total investor-directed mutual funds	 5,964,802	 (37,075)	 5,927,727
	<u>\$ 15,771,980</u>	<u>\$ 1,324,108</u>	<u>\$ 17,096,088</u>
December 31, 2017	Cost	Net Unrealized Gains/(Losses)	Fair Value
Mutual funds			
International	\$ 1,445,756	\$ 537,078	\$ 1,982,834
Intermediate fixed income - government	233,392	(4,279)	229,113
Large cap	4,245,774	2,057,162	6,302,936
Mid cap	603,023	349,969	952,992
Small cap	77,810	40,271	118,081
Money market	709	-	709
Short-term fixed income	2,244,169	64,959	2,309,128
Short-term fixed income - government	632,968	(12,331)	620,637
 Total mutual funds	 9,483,601	 3,032,829	 12,516,430
Cash value of life insurance	27,363	-	27,363
 Investor-directed mutual funds			
Inflation protected fixed income	48,251	(575)	47,676
International	923,847	150,567	1,074,414
Intermediate fixed income	994,632	4,406	999,038
Intermediate fixed income - government	94,915	(1,777)	93,138
Large cap	1,641,986	315,361	1,957,347
Mid cap	73,713	39,179	112,892
Small cap	1,770	2,410	4,180
Money market	919	-	919
Managed futures	5,662	(650)	5,012

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017	Cost	Net Unrealized Gains/(Losses)	Fair Value
Short-term fixed income	163,217	(3,080)	160,137
Short-term fixed income - government	46,542	(728)	45,814
Emerging markets	4,901	1,846	6,747
High yield	6,530	27	6,557
Nontraditional fixed income	4,811	136	4,947
World fixed income	323,508	4,011	327,519
Total investor-directed mutual funds	4,335,204	511,133	4,846,337
	<u>\$ 13,846,168</u>	<u>\$ 3,543,962</u>	<u>\$ 17,390,130</u>

5. 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 2048 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 2018, the Foundation generally had secured Trust Fund loans bearing annual interest at the rate of 3.50% to 5.50% to Church members and unrelated parties.

The calculation for the allowance for loan losses is dependent on the amount guaranteed by the General and Regional Conferences (Conferences). At December 31, 2018 and 2017, Brotherhood Loan Fund loans were partially guaranteed by the Conferences totaling \$10,033,007 and \$10,222,567. At December 31, 2018 and 2017, Trust Loan Fund loans were partially guaranteed by the Conferences totaling \$232,027 and \$241,874.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

An analysis of changes in the allowance for loan losses for 2018, 2017, and 2016, is as follows:

	Brotherhood Loan Fund	Trust Fund	Total
Allowance for loan losses, January 1, 2016	\$ 188,020	\$ 3,428	\$ 191,448
Provisions for losses on loans	5,805	44	5,849
Allowance for loan losses, December 31, 2016	193,825	3,472	197,297
Provisions for losses on loans	30,601	(54)	30,547
Allowance for loan losses, December 31, 2017	224,426	3,418	227,844
Provisions for losses on loans	17,372	(347)	17,025
Allowance for loan losses, December 31, 2018	<u>\$ 241,798</u>	<u>\$ 3,071</u>	<u>\$ 244,869</u>

At December 31, 2018 and 2017, there was no recorded investments in impaired loans. There was no allowance for loan losses related to impaired loans at December 31, 2018 and 2017. There was no interest income recognized on impaired loans in 2018, 2017, and 2016.

Scheduled repayments of loans receivable over the next five years and thereafter as of December 31, 2018 is as follows:

	Brotherhood Loan Fund	Trust Fund	Total
2019	\$ 4,229,367	\$ 166,466	\$ 4,395,833
2020	1,153,772	100,375	1,254,147
2021	1,193,288	101,583	1,294,871
2022	1,237,581	105,407	1,342,988
2023	1,280,459	86,378	1,366,837
Thereafter	32,308,216	285,972	32,594,188
Allowance for loan losses	41,402,683 (241,798)	846,181 (3,071)	42,248,864 (244,869)
Loans, net	<u>\$ 41,160,885</u>	<u>\$ 843,110</u>	<u>\$ 42,003,995</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2018 and 2017, is as follows:

	Useful Lives	2018	2017
Office building and improvements	10-40 years	\$ 887,619	\$ 873,249
Farm – with donor restriction	N/A	415,000	415,000
Furniture and equipment	3-5 years	354,895	343,979
Accumulated depreciation		(868,654)	(831,801)
		\$ 788,860	\$ 800,427

Depreciation expense for the years ended December 31, 2018, 2017, and 2016, totaled \$36,853, \$39,466, and \$49,034.

7. NET ASSETS WITH DONOR RESTRICTIONS

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.

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, 2018, are as follows:

	Agreements	Certificates
Minimum purchase	\$5	\$25
Term	30 days	6 months to 5 years
Interest rate at December 31, 2018	Variable, currently 0.00% to 0.75%	Variable, currently 0% to 2.72%

Notes have a minimum purchase of \$25 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 2.72% and 2.96%) and is added to the principal on a quarterly basis.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Agreements, Certificates, and Notes outstanding at December 31, 2018, have maturity dates and amounts as follows:

2019	\$ 19,694,330
2020	6,268,890
2021	4,764,222
2022	8,189,119
2023	4,987,489
Thereafter	<u>2,109,137</u>
Total	<u>\$ 46,013,187</u>

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

The Foundation holds a minimum of 5%, 10%, and 25% of the proceeds from the sale of Notes, Certificates, and Agreements, respectively, in cash accounts and certificates of deposits for immediate liquidity to fund withdrawals from the Brotherhood Loan Fund. Such minimum amounts totaled \$6,179,896 and \$6,157,464, at December 31, 2018 and 2017.

9. SPLIT-INTEREST AGREEMENTS

Split-interest Trusts

Split-interest trust restricted assets consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 500,846	\$ 519,918
Investments	<u>2,633,417</u>	<u>3,055,242</u>
	<u>\$ 3,134,263</u>	<u>\$ 3,575,160</u>

Liabilities for split-interest trusts totaled \$3,134,263 and \$3,575,160 at December 31, 2018 and 2017.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Annuities Payable

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

Annuities payable at December 31, 2018 and 2017, totaled \$942,746 and \$900,507 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 a change in unrestricted net assets and totaled \$(32,587), \$(12,252), and \$(26,354), for the years ended December 31, 2018, 2017, and 2016.

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 years ended December 31, 2018 and 2017.

10. LINE OF CREDIT

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, 2018 and 2017, no amounts were outstanding on the line of credit.

11. FUNCTIONAL EXPENSE ALLOCATION

The costs of providing programs and other supporting activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among programs and the supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Allocation Method</u>
Professional services	Benefits received
Salaries and benefits	Time and effort
Depreciation	Time and effort
General and administrative	Benefits received

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2018	BLF	Trust Fund	Management and General	Fundraising	Total All Funds
Distributions to charities	\$ 35,500	\$ 12,477	\$ -	\$ -	\$ 47,977
Interest	900,259	-	-	-	900,259
Professional services	65,482	16,859	2,615	-	84,956
Salaries and benefits	222,305	128,894	131,514	67,255	549,968
Depreciation	23,586	-	9,213	4,054	36,853
General and administrative	60,310	39,702	18,466	9,272	127,750
Matching grant	17,000	-	-	-	17,000
Provisions for loss on loans	17,372	(347)	-	-	17,025
Total expenses	<u>\$ 1,341,814</u>	<u>\$ 197,585</u>	<u>\$ 161,808</u>	<u>\$ 80,581</u>	<u>\$ 1,781,788</u>
2017	BLF	Trust Fund	Management and General	Fundraising	Total All Funds
Distributions to charities	\$ 40,600	\$ 157,545	\$ -	\$ -	\$ 198,145
Interest	803,657	-	-	-	803,657
Professional services	67,764	25,720	2,317	-	95,801
Salaries and benefits	300,641	120,878	203,747	66,258	691,524
Depreciation	24,074	-	12,235	3,157	39,466
General and administrative	56,448	42,340	17,871	12,660	129,319
Matching grant	14,000	-	-	-	14,000
Provisions for loss on loans	30,601	(54)	-	-	30,547
Total expenses	<u>\$ 1,337,785</u>	<u>\$ 346,429</u>	<u>\$ 236,170</u>	<u>\$ 82,075</u>	<u>\$ 2,002,459</u>
2016	BLF	Trust Fund	Management and General	Fundraising	Total All Funds
Distributions to charities	\$ 35,950	\$ 792,547	\$ -	\$ -	\$ 828,497
Interest	778,075	-	-	-	778,075
Professional services	44,376	26,648	2,146	-	73,170
Salaries and benefits	292,590	119,323	199,781	48,902	660,596
Depreciation	29,910	-	15,201	3,923	49,034
General and administrative	71,074	45,446	32,975	21,000	170,495
Matching grant	14,655	-	-	-	14,655
Provisions for loss on loans	5,805	44	-	-	5,849
Total expenses	<u>\$ 1,272,435</u>	<u>\$ 984,008</u>	<u>\$ 250,103</u>	<u>\$ 73,825</u>	<u>\$ 2,580,371</u>

(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. During 2016 and 2017, the employer contribution rate was 7.5% of eligible compensation plus a match of employee contributions up to 2.5%. During 2018, the employer rate was 5.5% of eligible compensation plus a match of employee contributions up to 4.5%. For the years ended December 31, 2018, 2017, and 2016, retirement plan expenses of \$32,277, \$43,589, and \$43,916 were included in employee benefits.

13. CASH FLOW INFORMATION

Amounts paid for interest were as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Brotherhood Loan Fund	<u>\$ 900,259</u>	<u>\$ 803,657</u>	<u>\$ 778,075</u>

Interest re-invested by holders of debt securities in the Brotherhood Loan Fund totaled \$803,544, \$712,598, and \$689,311 during the years ended December 31, 2018, 2017, and 2016.

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.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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, 2018 and 2017.

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 cash value of life insurance policies are valued at the amount the Foundation is entitled to receive upon cancellation of the life insurance policy. That amount is based on the insurance premiums paid, the value of underlying investments, surrender fees, and reduced by outstanding policy loans.

Common stocks are valued at the closing price reported on the active market on which the individual securities are 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, 2018 and 2017, are as follows:

2018	Level 1	Level 2	Level 3	Total
Mutual funds				
International	\$ 2,971,021	\$ -	\$ -	\$ 2,971,021
Inflation protected fixed income	81,260	-	-	81,260
Intermediate fixed income	1,302,506	-	-	1,302,506
Intermediate fixed income - government	317,075	-	-	317,075
Large cap	7,696,301	-	-	7,696,301
Mid cap	903,017	-	-	903,017
Small cap	99,309	-	-	99,309

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2018	Level 1	Level 2	Level 3	Total
Money market	3,632	-	-	3,632
Manage futures	4,411	-	-	4,411
Short-term fixed income	2,459,610	-	-	2,459,610
Short-term fixed income - government	667,579	-	-	667,579
Emerging markets	5,590	-	-	5,590
Nontraditional fixed income	4,373	-	-	4,373
World fixed income	532,997	-	-	532,997
Total mutual funds	17,048,681	-	-	17,048,681
Cash value of life insurance	-	-	28,542	28,542
Common stocks	18,865	-	-	18,865
Total investments	\$ 17,067,546	\$ -	\$ 28,542	\$ 17,096,088
CTF investments	\$ -	\$ 15,125,645	\$ -	\$ 15,125,645
Split-interest trusts	-	3,134,263	-	3,134,263
Other funds held	-	9,114	-	9,114
Total liabilities	\$ -	\$ 18,269,022	\$ -	\$ 18,269,022
2017	Level 1	Level 2	Level 3	Total
Mutual funds				
International	\$ 3,057,248	\$ -	\$ -	\$ 3,057,248
Inflation protected fixed income	47,676	-	-	47,676
Intermediate fixed income	1,228,151	-	-	1,228,151
Intermediate fixed Income - government	93,139	-	-	93,139
Large cap	8,260,283	-	-	8,260,283
Mid cap	1,065,884	-	-	1,065,884
Small cap	122,261	-	-	122,261
Money market	1,628	-	-	1,628
Manage futures	5,012	-	-	5,012
Short-term fixed income	2,469,265	-	-	2,469,265
Short-term fixed income - government	666,450	-	-	666,450

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2017	Level 1	Level 2	Level 3	Total
Emerging markets	6,747	-	-	6,747
High yield	6,557	-	-	6,557
Nontraditional fixed income	4,947	-	-	4,947
World fixed income	<u>327,519</u>	-	-	<u>327,519</u>
Total mutual funds	17,362,767	-	-	17,362,767
Cash value of life insurance	-	-	27,363	27,363
Total investments	<u>\$ 17,362,767</u>	<u>\$ -</u>	<u>\$ 27,363</u>	<u>\$ 17,390,130</u>
CTF investments	\$ -	\$ 15,081,198	\$ -	\$ 15,081,198
Split-interest trusts	-	3,575,160	-	3,575,160
Other funds held	-	9,128	-	9,128
Total liabilities	<u>\$ -</u>	<u>\$ 18,665,486</u>	<u>\$ -</u>	<u>\$ 18,665,486</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, 2018, 2017, and 2016:

	Life Insurance Policies		
	2018	2017	2016
Balance, beginning of year	\$ 27,363	\$ 24,848	\$ 23,711
Premiums paid	532	532	532
Gains and premium discounts	<u>647</u>	<u>1,983</u>	<u>605</u>
Balance, end of year	<u>\$ 28,542</u>	<u>\$ 27,363</u>	<u>\$ 24,848</u>

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, 2018 and 2017, 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, 2018 and 2017, since they are subject to interest rates, which vary depending on market conditions.

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

15. OPERATING LEASES

The Foundation entered into an operating lease agreement in August 2015. The agreement expires at November 2020. Total rent expense incurred for the operating lease was \$2,640, \$2,640, and \$3,505 for the years ended December 31, 2018, 2017, and 2016.

Future minimum lease payments required under the operating lease as of December 31, 2018, are as follows:

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



Independent Member of:



MEMBERS
AMERICAN AND PENNSYLVANIA
INSTITUTES OF CERTIFIED PUBLIC
ACCOUNTANTS

www.macpas.com