

BRETHREN IN CHRIST FOUNDATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
AND
INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY

MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



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, 2019 and 2018, and the related statements of activities and cash flows for each of the years in the three year period ended December 31, 2019, 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, 2019 and 2018, and the changes in its net assets and its cash flows for each of the years in the three year period ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 2, 2020

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31, 2019				December 31, 2018			
	Brotherhood Loan Fund	Trust Fund	Eliminations	Total All Funds	Brotherhood Loan Fund	Trust Fund	Eliminations	Total All Funds
ASSETS								
Cash and cash equivalents	\$ 14,731,097	\$ 5,071,822	\$ -	\$ 19,802,919	\$ 12,636,620	\$ 5,130,206	\$ -	\$ 17,766,826
Investments	-	26,294,587	(7,424,660)	18,869,927	-	24,490,244	(7,394,156)	17,096,088
Receivables	39,608,634	863,947	-	40,472,581	41,160,885	843,110	-	42,003,995
Loans, net	(15,781)	15,781	-	-	58,789	(58,789)	-	-
Interfund, net	27,027	-	-	27,027	74,163	10	-	74,173
Accrued interest	822,223	-	-	822,223	788,860	-	-	788,860
Property and equipment, net	83,699	97,522	-	181,221	90,671	117,288	-	207,959
Other assets	-	-	-	-	-	-	-	-
Total assets	\$ 55,256,899	\$ 32,343,659	\$ (7,424,660)	\$ 80,175,898	\$ 54,809,988	\$ 30,522,069	\$ (7,394,156)	\$ 77,937,901
LIABILITIES AND NET ASSETS								
Accounts payable and other liabilities	\$ 50,868	\$ 11,070	\$ -	\$ 61,938	\$ 65,651	\$ 28,794	\$ (1,503)	\$ 92,942
Debt securities	12,789,586	-	(327,837)	12,461,749	12,426,782	-	(331,389)	12,095,393
Thrift accumulation plan agreements	27,671,293	-	(1,369,170)	26,302,123	27,877,590	-	(1,352,449)	26,525,141
Stewardship investment certificates	5,727,653	-	(5,727,653)	-	5,708,815	-	(5,708,815)	-
Individual retirement account notes	-	17,208,578	-	17,208,578	-	15,125,645	-	15,125,645
CTF investment accounts	-	7,424,660	-	7,424,660	-	7,394,156	-	7,394,156
Individual retirement and health savings accounts	-	-	-	-	-	-	-	-
Split-interest agreements	-	3,131,188	-	3,131,188	-	3,134,263	-	3,134,263
Split-interest trusts	-	902,390	-	902,390	-	942,746	-	942,746
Annuities payable	-	9,164	-	9,164	-	9,114	-	9,114
Other funds held	-	-	-	-	-	-	-	-
Total liabilities	46,239,400	28,687,050	(7,424,660)	67,501,790	46,078,838	26,634,718	(7,394,156)	65,319,400
Net assets								
Without donor restrictions	-	1,736,885	-	1,736,885	-	1,819,786	-	1,819,786
Designated, donor-advised funds	-	344,724	-	344,724	-	-	-	-
Designated, discretionary funds	8,577,442	1,575,000	-	10,152,442	8,291,157	2,067,565	-	10,358,722
Undesignated	440,057	-	-	440,057	439,993	-	-	439,993
With donor restrictions	-	-	-	-	-	-	-	-
Total net assets	9,017,499	3,656,609	-	12,674,108	8,731,150	3,887,351	-	12,618,501
Total liabilities and net assets	\$ 55,256,899	\$ 32,343,659	\$ (7,424,660)	\$ 80,175,898	\$ 54,809,988	\$ 30,522,069	\$ (7,394,156)	\$ 77,937,901

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

BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2019		Year Ended December 31, 2018		Year Ended December 31, 2017	
	Brotherhood Loan Fund	Total All Funds	Brotherhood Loan Fund	Total All Funds	Brotherhood Loan Fund	Total All Funds
Net assets without donor restrictions						
Revenues and gains						
Interest on loans	\$ 1,878,733	\$ 1,925,165	\$ 1,629,521	\$ 1,670,331	\$ 1,413,245	\$ 1,456,107
Net investment income	188,694	205,637	164,645	176,031	115,004	121,758
Contributions	49,764	115,833	2,040	54,803	-	169,256
Service fees, net	(28,388)	176,678	(17,341)	166,138	53,082	225,602
Other	8,261	82,664	-	27,495	2,198	77,714
Total revenues and gains	2,097,064	2,477,589	1,778,865	2,094,798	1,583,529	2,050,437
Net assets released from restrictions	35,000	35,000	35,499	35,499	40,600	40,600
Total revenues, gains, and other support	2,132,064	2,512,589	1,814,364	2,130,297	1,624,129	2,091,037
Expenses	1,845,780	2,374,146	1,494,729	1,781,788	1,560,960	2,002,459
Excess (deficiency) of revenues, gains, and other support over expenses before donor-advised funds activity	286,284	138,443	319,635	348,509	63,169	88,578
Change in donor-advised funds						
Contributions	-	350,558	-	412,253	-	1,379,734
Net investment income	-	141,336	-	10,038	-	60,870
Charitable distributions	-	(558,846)	-	(470,092)	-	(425,619)
Administrative expenses	-	(15,949)	-	(16,845)	-	(11,803)
Increase (decrease) in donor advised funds	-	(82,901)	-	(64,646)	-	1,003,182

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BRETHREN IN CHRIST FOUNDATION, INC.

STATEMENTS OF ACTIVITIES (Cont'd)

	Year Ended December 31, 2019		Year Ended December 31, 2018		Year Ended December 31, 2017	
	Brotherhood Loan Fund	Total All Funds	Brotherhood Loan Fund	Total All Funds	Brotherhood Loan Fund	Total All Funds
Change in net assets without donor restrictions	286,284	(230,742)	319,635	(35,772)	63,169	1,028,591
Net assets with donor restrictions						
Farming income, net	35,065	35,065	35,449	-	40,579	40,579
Net assets released from restrictions	(35,000)	(35,000)	(35,499)	-	(40,600)	(40,600)
Change in net assets with donor restrictions	65	65	(50)	-	(21)	(21)
Change in net assets	286,349	(230,742)	319,585	(35,772)	63,148	1,091,739
Net assets - beginning	8,731,150	3,887,351	8,411,565	3,923,123	8,348,417	11,242,949
Net assets - ending	<u>\$ 9,017,499</u>	<u>\$ 3,656,609</u>	<u>\$ 8,731,150</u>	<u>\$ 3,887,351</u>	<u>\$ 8,411,565</u>	<u>\$ 12,334,688</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, 2019			Year Ended December 31, 2018			Year Ended December 31, 2017		
	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	286,349	(230,742)	55,607	319,585	(35,772)	283,813	63,148	1,028,591	1,091,739
Change in net assets	45,844	-	45,844	36,853	-	36,853	39,466	-	39,466
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities	(2,974)	(2,711,728)	(2,711,728)	17,372	939,401	939,401	-	(1,747,272)	(1,747,272)
Depreciation	47,136	10	47,146	54,377	57	54,434	(53,683)	6,541	(47,142)
Net unrealized and realized (gains) losses on investments	6,972	19,766	26,738	(3,713)	(14,950)	(18,663)	(12,287)	13,541	1,254
Provisions for loss on loans	(14,783)	(17,724)	(32,507)	(25,185)	13,446	(11,739)	3,030	(13,057)	(10,027)
(Increase) decrease in accrued interest receivable	-	(40,356)	(40,356)	-	42,239	42,239	-	(4,714)	(4,714)
Other assets	-	-	-	-	-	-	-	-	-
Increase (decrease) in Accounts payable and other liabilities	368,544	(2,982,131)	(2,613,587)	399,289	944,074	1,343,363	70,275	(716,424)	(646,149)
Annuities payable	(79,207)	(19,480)	(98,687)	(25,286)	-	(25,286)	(50,764)	-	(50,764)
Net cash and cash equivalents provided by (used in) operating activities	1,555,225	(1,703,196)	(147,971)	1,535,745	79,213	(1,456,532)	(5,340,670)	19,815	(5,320,855)
Cash flows from investing activities	-	(558,347)	(558,347)	-	144,026	144,026	-	(481,059)	(481,059)
Purchase of property and equipment	-	(1,703,196)	(1,703,196)	-	(3,476,081)	(3,476,081)	-	(3,645,749)	(3,645,749)
(Increase) decrease in loans on split-interest investments	-	3,168,928	3,168,928	-	2,699,233	2,699,233	-	2,626,835	2,626,835
Purchases of investments	-	-	-	-	-	-	-	-	-
Proceeds from sale of investments	1,476,018	887,905	2,363,923	(3,373,308)	(553,609)	(3,926,917)	(5,391,434)	(1,480,158)	(6,871,592)
Net cash and cash equivalents provided by (used in) investing activities	74,570	(74,570)	-	89,794	(89,794)	-	(242,891)	242,891	-
Cash flows from financing activities	983,151	-	983,151	803,544	-	803,544	712,598	-	712,598
Net (increase) decrease in interfund debt securities	(807,806)	-	(807,806)	256,254	-	256,254	(1,229,652)	-	(1,229,652)
Reinvested interest	-	-	-	-	-	-	-	-	-
Other net changes	-	-	-	-	-	-	-	-	-
Net increase (decrease) in CTF investment accounts	-	2,082,933	2,082,933	-	44,447	44,447	-	3,037,273	3,037,273
Individual retirement and health savings accounts	-	30,504	30,504	-	(12,537)	(12,537)	-	75,900	75,900
Split-interest agreements	-	(3,075)	(3,075)	-	(440,897)	(440,897)	-	87,159	87,159
Other funds held	-	50	50	-	(14)	(14)	-	(1,366)	(1,366)
Net cash and cash equivalents provided by (used in) financing activities	249,915	2,035,842	2,285,757	1,149,592	(498,795)	650,797	(759,945)	3,441,857	2,681,912
Net increase (decrease) in cash and cash equivalents	2,094,477	(58,384)	2,036,093	(1,824,427)	(108,330)	(1,932,757)	(6,081,104)	1,245,275	(4,835,829)
Cash and cash equivalents - beginning	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
Cash and cash equivalents - ending	14,731,097	5,071,822	19,802,919	12,636,620	5,130,206	17,766,826	14,461,047	5,238,536	19,699,583

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.

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.

In 2019, the Foundation has agreed to Board designate any net assets without donor restriction other than those related to the donor advised funds which exceed five years' worth of operating expenses for the Trust Fund for the purpose of contributing on a discretionary basis those funds to the General Conference of the Brethren in Christ Church.

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's net assets with donor restrictions as of December 31, 2019 and 2018, consist of the following:

	2019	2018
Purpose restricted	\$ 25,057	\$ 24,993
Perpetually restricted	415,000	415,000
	<u>\$ 440,057</u>	<u>\$ 439,993</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.

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BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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. 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, 2019, 2018, and 2017.

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BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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 net assets without donor restrictions. 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.

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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 2016.

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.

In 2019, the Foundation made discretionary contributions to the Church from the Brotherhood Loan Fund and Trust Fund that totaled \$49,764 and \$200,000, respectfully. No such contributions were made in 2018 or 2017.

Recently Issued Accounting Pronouncements

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, 2021. Management has determined the impact of these changes on the Foundation's financial statements will not be significant.

Recently Adopted Accounting Standards

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 was effective for the Foundation on January 1, 2019. Management has determined that the impact of these changes on the Foundation's financial statements was minimal and have been incorporated in the current year.

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.

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BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

This guidance was effective for the Foundation on January 1, 2019. Management has determined that the impact of these changes on the Foundation's financial statements was minimal and have been incorporated in the current year.

Subsequent Events

Management evaluated subsequent events through March 2, 2020, the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

The financial assets as of December 31, 2019 and 2018, which are available for general expenditures within one year of the statements of financial position dates comprise the following:

	<u>2019</u>	<u>2018</u>
Total cash and cash equivalents	\$ 19,802,919	\$ 17,766,826
Less:		
Cash held to fund debt securities withdrawals (see Note 8)	(6,250,908)	(6,179,896)
Cash restricted in trust fund	(4,117,811)	(4,003,664)
Cash board designated in trust fund	(344,724)	-
Add:		
Loans receivable to be collected within a year	1,231,534	4,395,833
Accrued interest	27,027	74,173
Other receivables to be collected within a year	25,232	37,296
	<u>\$ 10,373,269</u>	<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, 2019 and 2018:

	<u>Brotherhood Loan Fund</u>	
	<u>2019</u>	<u>2018</u>
Interest-bearing checking accounts	\$ 9,281,097	\$ 7,186,620
Certificates of deposit	5,450,000	5,450,000
	<u>\$ 14,731,097</u>	<u>\$ 12,636,620</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

	Trust Fund	
	2019	2018
Certificate of deposit	\$ 4,486,398	\$ -
Interest-bearing checking accounts	246,636	4,874,523
Money market funds	338,788	255,683
	\$ 5,071,822	\$ 5,130,206

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, 2019 and 2018, are as follows:

December 31, 2019	Cost	Net Unrealized Gains/(Losses)	Fair Value
Mutual funds			
International	\$ 1,627,864	\$ 367,961	\$ 1,995,825
Intermediate bonds - government	230,739	(1,425)	229,314
Large cap	3,914,403	2,321,315	6,235,718
Mid cap	670,301	246,803	917,104
Small cap	71,189	41,142	112,331
Money market	733	-	733
Short-term bonds	2,138,656	84,482	2,223,138
Short-term bonds - government	616,772	(5,374)	611,298
	9,270,657	3,054,904	12,325,561
Total mutual funds			
Cash value of life insurance	30,499	-	30,499
Investor-directed mutual funds			
International	1,558,913	108,500	1,667,413
Intermediate bonds	983,236	32,251	1,105,487
Intermediate bonds - government	93,814	(787)	93,027
Large cap	2,308,015	620,415	2,928,430
Mid cap	93,190	31,700	124,890
Small cap	1,941	2,149	4,090

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019	Cost	Net Unrealized Gains/(Losses)	Fair Value
Money market	1,475	-	1,475
Short-term bonds	203,430	(1,109)	202,321
Short-term bonds - government	55,694	(126)	55,568
Emerging markets	4,972	1,759	6,731
Nontraditional bonds	4,653	(66)	4,587
World bonds	390,943	18,905	409,848
Total investor-directed mutual funds	5,700,276	813,591	6,513,867
	<u>\$ 15,001,432</u>	<u>\$ 3,868,495</u>	<u>\$ 18,869,927</u>
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
Money market	2,913	-	2,913
Managed futures	5,475	(1,064)	4,411

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018	Cost	Net Unrealized Gains/(Losses)	Fair Value
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>

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 2049 and bear interest rates ranging from 3.75% to 6%. Certain loans are also guaranteed by the general and regional Conferences of the Church.

During 2019, the Foundation generally had secured Trust Fund loans bearing annual interest at the rate of 3.75% to 6% 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, 2019 and 2018, Brotherhood Loan Fund loans were partially guaranteed by the Conferences totaling \$8,646,259 and \$10,033,007. At December 31, 2019 and 2018, Trust Loan Fund loans were partially guaranteed by the Conferences totaling \$522,848 and \$232,027.

An analysis of changes in the allowance for loan losses for 2019, 2018, and 2017, is as follows:

	Brotherhood Loan Fund	Trust Fund	Total
Allowance for loan losses, January 1, 2017	\$ 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	241,798	3,071	244,869
Provisions for losses on loans	(2,974)	(1,357)	(4,331)
Allowance for loan losses, December 31, 2019	<u>\$ 238,824</u>	<u>\$ 1,714</u>	<u>\$ 240,538</u>

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

At December 31, 2019 and 2018, there was no recorded investments in impaired loans. There was no allowance for loan losses related to impaired loans at December 31, 2019 and 2018. There was no interest income recognized on impaired loans in 2019, 2018, and 2017.

Scheduled repayments of loans receivable over the next five years and thereafter as of December 31, 2019, is as follows:

	Brotherhood Loan Fund	Trust Fund	Total
2020	\$ 1,095,554	\$ 135,980	\$ 1,231,534
2021	1,200,092	115,919	1,316,011
2022	1,245,110	113,981	1,359,091
2023	1,289,012	100,945	1,389,957
2024	1,342,900	68,987	1,411,887
Thereafter	33,674,790	329,849	34,004,639
	39,847,458	865,661	40,713,119
Allowance for loan losses	(238,824)	(1,714)	(240,538)
Loans, net	\$ 39,608,634	\$ 863,947	\$ 40,472,581

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2019 and 2018, is as follows:

	Useful Lives	2019	2018
Office building and improvements	10-40 years	\$ 886,617	\$ 887,619
Farm – with donor restriction	N/A	415,000	415,000
Furniture and equipment	3-5 years	355,243	354,895
Accumulated depreciation		(834,637)	(868,654)
		\$ 822,223	\$ 788,860

Depreciation expense for the years ended December 31, 2019, 2018, and 2017, totaled \$45,844, \$36,853, and \$39,466.

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.

(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, 2019, are as follows:

	Agreements	Certificates
Minimum purchase	\$5	\$25
Term	30 days	6 months to 5 years
Interest rate at December 31, 2019	Variable, currently 0.00% to 1.00%	Variable, currently 0% to 2.96%

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 2.96% and 3.20%) and is added to the principal on a quarterly basis.

Agreements, Certificates, and Notes outstanding at December 31, 2019, have maturity dates and amounts as follows:

2020	\$ 21,450,078
2021	5,533,629
2022	8,703,476
2023	5,261,083
2024	3,179,292
Thereafter	2,060,974
Total	\$ 46,188,532

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 \$6,250,908 and \$6,179,896, at December 31, 2019 and 2018.

9. SPLIT-INTEREST AGREEMENTS

Split-interest Trusts

Split-interest trust restricted assets consist of the following at December 31, 2019 and 2018:

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

	2019	2018
Cash and cash equivalents	\$ 471,709	\$ 500,846
Investments	2,659,479	2,633,417
	\$ 3,131,188	\$ 3,134,263

Liabilities for split-interest trusts totaled \$3,131,188 and \$3,134,263 at December 31, 2019 and 2018.

Annuities Payable

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

Annuities payable at December 31, 2019 and 2018, totaled \$902,390 and \$942,746 and were determined using discount rates ranging from 2.0% to 8.4%. The change in the Foundation's portion of the liability is recorded as a change in net assets without donor restrictions and totaled \$16,888, \$(32,587), and \$(12,252), for the years ended December 31, 2019, 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, 2019 and 2018, 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:

Expense	Allocation Method
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

2019	BLF	Trust Fund	Management and General	Fundraising	Total All Funds
Contributions to the Church	\$ 49,764	\$ 200,000	\$ -	\$ -	\$ 249,664
Distributions to charities	35,000	35,100	-	-	70,200
Interest	1,098,839	-	-	-	1,098,839
Professional services	52,954	17,710	1,888	-	72,552
Salaries and benefits	284,520	141,664	159,754	79,075	665,013
Depreciation	29,340	-	11,461	5,043	45,844
General and administrative	92,257	39,943	19,437	10,728	162,365
Matching grant	14,000	-	-	-	14,000
Provisions for loss on loans	(2,974)	(1,357)	-	-	(4,331)
Total expenses	\$ 1,653,700	\$ 433,060	\$ 192,540	\$ 94,846	\$ 2,374,146
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	\$ 1,341,814	\$ 197,585	\$ 161,808	\$ 80,581	\$ 1,781,788
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	\$ 1,337,785	\$ 346,429	\$ 236,170	\$ 82,075	\$ 2,002,459

(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 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%. During 2019, the employer rate was 5.0% of eligible compensation plus a match of employee contributions up to 5.0%. For the years ended December 31, 2019, 2018, and 2017, retirement plan expenses of \$37,936, \$32,277, and \$43,589 were included in employee benefits.

13. CASH FLOW INFORMATION

Amounts paid for interest were as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Brotherhood Loan Fund	<u>\$ 1,098,838</u>	<u>\$ 900,259</u>	<u>\$ 803,657</u>

Interest re-invested by holders of debt securities in the Brotherhood Loan Fund totaled \$983,151, \$803,544, and \$712,598 during the years ended December 31, 2019, 2018, and 2017.

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, 2019 and 2018.

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, 2019 and 2018, are as follows:

<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
International	\$ 3,663,238	\$ -	\$ -	\$ 3,663,238
Intermediate fixed income	1,015,487	-	-	1,015,487
Intermediate fixed income - government	322,341	-	-	322,341
Large cap	9,164,148	-	-	9,164,148
Mid cap	1,041,994	-	-	1,041,994
Small cap	116,421	-	-	116,421

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2019	Level 1	Level 2	Level 3	Total
Money market	2,208	-	-	2,208
Short-term fixed income	2,425,459	-	-	2,425,459
Short-term fixed income - government	666,966	-	-	666,966
Emerging markets	6,731	-	-	6,731
Nontraditional fixed income	4,587	-	-	4,587
World fixed income	409,848	-	-	409,848
Total mutual funds	18,839,428	-	-	18,839,428
Cash value of life insurance	-	-	30,499	30,499
Total investments	\$ 18,839,428	\$ -	\$ 30,499	\$ 18,869,927
CTF investments	\$ -	\$ 17,208,578	\$ -	\$ 17,208,578
Split-interest trusts	-	3,131,188	-	3,131,188
Other funds held	-	9,164	-	9,164
Total liabilities	\$ -	\$ 20,348,930	\$ -	\$ 20,348,930
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
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

(continued)

BRETHREN IN CHRIST FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2018	Level 1	Level 2	Level 3	Total
Emerging markets	5,590	-	-	5,590
Nontraditional fixed income	4,373	-	-	4,373
World fixed income	<u>532,997</u>	-	-	<u>532,997</u>
Total mutual funds	17,048,681	-	-	17,048,681
Cash value of life insurance	-	-	28,542	28,542
Common stocks	<u>18,865</u>	-	-	<u>18,865</u>
Total investments	<u>\$ 17,067,546</u>	<u>\$ -</u>	<u>\$ 28,542</u>	<u>\$ 17,096,088</u>
CTF investments	\$ -	\$ 15,125,645	\$ -	\$ 15,125,645
Split-interest trusts	-	3,134,263	-	3,134,263
Other funds held	-	<u>9,114</u>	-	<u>9,114</u>
Total liabilities	<u>\$ -</u>	<u>\$ 18,269,022</u>	<u>\$ -</u>	<u>\$ 18,269,022</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, 2019, 2018, and 2017:

	Life Insurance Policies		
	2019	2018	2017
Balance, beginning of year	\$ 28,542	\$ 27,363	\$ 24,848
Premiums paid	532	532	532
Gains and premium discounts	<u>1,425</u>	<u>647</u>	<u>1,983</u>
Balance, end of year	<u>\$ 30,499</u>	<u>\$ 28,542</u>	<u>\$ 27,363</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, 2019 and 2018, 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, 2019 and 2018, since they are subject to interest rates, which vary depending on market conditions.



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