

**THE MISSION AND CHURCH EXTENSION TRUST FUND OF
THE MICHIGAN AREA OF THE UNITED METHODIST CHURCH**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2017, 2016, and 2015

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Mission and Church Extension Trust Fund
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of The Mission and Church Extension Trust Fund (a nonprofit organization) (the Trust), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, 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 of 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.

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 The Mission and Church Extension Trust Fund as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of The Mission and Church Extension Trust Fund as of December 31, 2015, were audited by other auditors whose report dated March 31, 2016, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Seber Tans, PLC".

Seber Tans, PLC
Kalamazoo, Michigan
March 31, 2018

The Mission and Church Extension Trust Fund
Statements of Financial Position
December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,702,982	\$ 1,592,679	\$ 1,201,056
Investments	4,311,851	3,525,858	954,978
Accounts receivable	1,937	-	923
Promisory notes receivable	18,666	39,033	22,353
Mortgage notes receivable	857,478	898,506	1,567,560
Total Current Assets	<u>7,892,914</u>	<u>6,056,076</u>	<u>3,746,870</u>
Other Assets			
Promisory notes receivable, less current portion	635	21,725	65,850
Mortgage notes receivable, less current portion	7,647,680	8,110,692	9,637,102
Total Other Assets	<u>7,648,315</u>	<u>8,132,417</u>	<u>9,702,952</u>
Total Assets	<u><u>\$ 15,541,229</u></u>	<u><u>\$ 14,188,493</u></u>	<u><u>\$ 13,449,822</u></u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ -	\$ 56,099	\$ -
Investment accounts payable	12,946,848	12,232,663	11,615,481
Total Current Liabilities	<u>12,946,848</u>	<u>12,288,762</u>	<u>11,615,481</u>
Net Assets			
Designated liquidity reserve	1,035,748	978,613	929,238
Undesignated net assets	1,558,633	921,118	905,103
Total Net Assets	<u>2,594,381</u>	<u>1,899,731</u>	<u>1,834,341</u>
Total Liabilities and Net Assets	<u><u>\$ 15,541,229</u></u>	<u><u>\$ 14,188,493</u></u>	<u><u>\$ 13,449,822</u></u>

The Mission and Church Extension Trust Fund
Statements of Activities
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue			
Mortgage note interest income	\$ 395,599	\$ 471,649	\$ 546,303
Promissory note interest income	2,518	4,667	7,630
Interest income	2,286	1,037	150
Other income	700	800	900
Total Revenue	<u>401,103</u>	<u>478,153</u>	<u>554,983</u>
Investment Interest Expense	<u>342,865</u>	<u>350,868</u>	<u>310,586</u>
Net Revenue Before Administrative Expense	58,238	127,285	244,397
General and Administrative expense			
Resident agent expenses	34,600	33,530	33,240
Office support services	20,100	19,470	19,720
Legal fees	21,788	18,656	18,171
Accounting services	26,000	16,765	17,120
Loan officer expenses	14,500	14,000	12,856
Audit fee	6,700	6,538	6,500
Computer support services	5,500	4,725	5,816
Travel expenses	2,599	4,216	3,353
Miscellaneous expense	9,101	3,685	2,000
Computer and software expenses	1,500	3,543	1,386
Insurance expense	2,080	2,080	2,080
Postage	1,539	1,874	2,466
Office expense	2,000	1,470	1,200
Telephone	1,500	1,200	1,500
Total General and Administrative Expense	<u>149,507</u>	<u>131,752</u>	<u>127,408</u>
Net Operating Income (Loss)	(91,269)	(4,467)	116,989
Investment Income			
Investment income	58,472	17,461	5,587
Unrealized gains (losses)	617,624	27,181	(2,713)
Realized gains	109,823	25,215	16,218
Total Investment Income	<u>785,919</u>	<u>69,857</u>	<u>19,092</u>
Change in Net Assets	694,650	65,390	136,081
Net assets at Beginning of Year	<u>1,899,731</u>	<u>1,834,341</u>	<u>1,698,260</u>
Net Assets at End of year	<u><u>\$ 2,594,381</u></u>	<u><u>\$ 1,899,731</u></u>	<u><u>\$ 1,834,341</u></u>

The Mission and Church Extension Trust Fund
Statements of Cash Flows
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets	\$ 694,650	\$ 65,390	\$ 136,081
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in Accounts receivable	<u>(1,937)</u>	<u>923</u>	<u>4,318</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>692,713</u>	<u>66,313</u>	<u>140,399</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of new investments	(1,377,805)	(3,098,886)	(253,616)
Sales of investments	1,379,669	597,862	253,144
Unrealized (gains) losses on investments	(617,624)	(27,181)	2,713
Realized gains on investments	(109,823)	(25,215)	(16,218)
Investment income	(58,472)	(17,461)	(5,587)
Proceeds from mortgage notes receivable	1,207,472	2,522,095	1,032,419
Issuance of mortgage notes receivable	(703,433)	(326,630)	(2,588,042)
Proceeds from promissory notes receivable	41,457	33,445	33,482
Issuance of promissory notes receivable	<u>-</u>	<u>(6,000)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(238,559)</u>	<u>(347,971)</u>	<u>(1,541,705)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from investment accounts payable	1,829,243	2,205,981	2,821,635
Reinvested interest on investment accounts payable	285,265	265,168	262,792
Repayments of investment accounts payable	<u>(1,458,359)</u>	<u>(1,797,868)</u>	<u>(903,012)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>656,149</u>	<u>673,281</u>	<u>2,181,415</u>
Net Increase (Decrease) in Cash	1,110,303	391,623	780,109
Cash at Beginning of Year	<u>1,592,679</u>	<u>1,201,056</u>	<u>420,947</u>
Cash at End of Year	<u>\$ 2,702,982</u>	<u>\$ 1,592,679</u>	<u>\$ 1,201,056</u>
Supplemental cash flow information:			
Cash paid for interest	<u>\$ 342,865</u>	<u>\$ 350,868</u>	<u>\$ 310,586</u>

The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015

NOTE A – Summary of Significant Accounting Policies

Organization Purpose

The Mission and Church Extension Trust Fund (the Trust or the Fund) provides a pooling of financial resources of Michigan United Methodist for the financing of capital needs of Michigan United Methodist churches and church-related organizations. The Trust Fund provides a financial opportunity whereby Michigan United Methodists can realize an investment in the future of the United Methodist Church while at the same time being good stewards of their own financial resources. The primary purpose of the Fund is to provide a source of funds for borrowing by United Methodist churches and church-related organizations in the State of Michigan to be used for church buildings, additions, and improvements. A secondary purpose of the Fund is to provide a prudent and safe investment opportunity for members of the United Methodist Church in the State of Michigan and for churches and church-related organizations.

The Trust does not have any employees. The United Methodist Foundation (Foundation) provides administrative support and services to the Trust. The Trust is charged a monthly fee, based on the agreed upon budget for the Trust set by the Board at the beginning of the year, for administrative services provided by the Foundation.

Basis of Presentation and Income Allocation

The financial statements of the Trust have been prepared on the accrual basis of accounting. Revenues consisting of interest and dividends are generally recognized when earned. Realized gains and losses are recognized when incurred. Unrealized gains and losses are recognized based on changes in the fair value of investments. Expenses are recorded when incurred. The Trust is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets are subject to donor-imposed restrictions that may or will be met, either by the actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are subject to donor-imposed restrictions and maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

For the years ended December 31, 2017, 2016, and 2015, the Organization did not have any temporarily or permanently restricted net assets.

The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015

NOTE A – Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates. These estimates affect the amounts reported in the financial statements and the disclosures provided. Actual results may differ from management's estimates.

Risk

The Trust utilizes various investment instruments, which are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in their values could occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Additionally, some investments held by the Trust are invested in the securities of foreign companies, which involve special risks and considerations not typically associated with investing in securities of U.S. companies. These risks include devaluation of currencies and political and economic developments. Moreover, securities of many foreign companies and their markets may be less liquid and their prices more volatile than securities of comparable U.S. companies.

Financial Instruments

The Organization's financial instruments consist of cash and cash equivalents, investment securities, common stocks, accounts receivable, promissory notes receivable, mortgages receivable, accounts payable, and investment accounts payable. The Organization's estimates of fair value approximate their carrying amounts.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers highly liquid investments with an initial maturity of three months or less, other than amounts held for investment, to be cash equivalents. At December 31, 2017, cash and cash equivalents includes \$1,275,000 of cash held by a title company for a loan to a church that closed on January 5, 2018.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)3 of the Internal Revenue Code and from state income taxes. Contributions to the Organization are deductible as charitable contributions for federal income tax purposes. In addition, the Organization has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015

NOTE A – Summary of Significant Accounting Policies (Continued)

Mortgage and Promissory Notes Receivable

Mortgage and promissory notes are recorded at cost which approximates fair value. Interest is recorded monthly when it is received, the results of which are not materially different than the accrual basis. Management evaluates individual loans for impairment annually and, if necessary, recognizes an allowance for any amounts believed to be uncollectible. If a loan is determined to be impaired, it is classified as non-performing at that time. As of December 31, 2017, 2016, and 2015, management determined that it did not have any non-performing loans and that an allowance for loan losses was not necessary. In certain circumstances, a church may be allowed to make interest only payments for a 12-month period.

Investments and Investment Income

Investments are presented in the financial statements at fair value in accordance with accounting principles generally accepted in the United States of America. Changes in fair value are recorded as unrealized gains (losses). Realized gains (losses) are recorded upon the sale of the investments. Interest income is recognized under the accrual basis and dividend income is recognized on the ex-dividend date.

Investments are exposed to various risks such as interest rate, market and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

NOTE B – Investments

The Trust's investments (including investments purchased, sold, and held during the year) changed in fair value for the year ended December 31, as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net realized gain on investments	\$ 109,823	\$ 25,215	\$ 16,218
Net unrealized gain (loss) on investments	<u>617,624</u>	<u>27,181</u>	<u>(2,713)</u>
Total	<u>\$ 727,447</u>	<u>\$ 52,396</u>	<u>\$ 13,505</u>

The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015

NOTE C – Investment Accounts Payable

The Trust offers investments at 100% of its face value. The purpose of the offering is to raise money to support the Trust's mission. The minimum initial investment is \$100. Investment accounts are unsecured general debt obligations. The investments pay interest at a variable interest rate, which is subject to change from time to time upon 30 days' prior written notice. An election is made at the time of purchase to have the interest either paid to the purchaser or reinvested and added to the principal balance of the investment quarterly. Withdrawals of all or part of the investments are payable within 60 days. For the years ended December 31, 2016 and 2015, the annual interest rate offered on investment accounts payable was 2.75% for investments with balances of less than \$100,000, and 3.00% for investments with balances of \$100,000 or more. For the year ended December 31, 2017, the annual interest rate offered on all investments was 2.75%. Effective January 1, 2018, the annual interest rate offered on all investments will be 2.50%.

Redemption requests could exceed available cash and other liquid assets. At December 31, 2017, the Trust had liquid assets consisting of cash and cash equivalents of approximately \$2,703,000 and investments of approximately \$4,312,000. Outstanding investment accounts payable totaled approximately \$12,947,000.

NOTE D – Mortgage and Promissory Notes Receivable

Principal payments on mortgage and promissory notes are receivable over future years as follows at December 31:

Mortgages notes receivable:	2017	2016	2015
Receivable in less than 1 year	\$ 857,478	\$ 898,506	\$ 1,567,560
Receivable in one to five years	3,415,075	3,470,527	3,787,461
Receivable in six to ten years	3,673,895	3,622,678	4,142,291
Receivable in over ten years	558,710	1,017,487	1,707,350
Total mortgage notes receivable	<u>\$ 8,505,158</u>	<u>\$ 9,009,198</u>	<u>\$ 11,204,662</u>
Promissory notes receivable:	2017	2016	2015
Receivable in less than 1 year	\$ 18,666	\$ 39,033	\$ 22,353
Receivable in one to five years	635	21,725	65,850
Total promissory notes receivable	<u>\$ 19,301</u>	<u>\$ 60,758</u>	<u>\$ 88,203</u>

The Trust has mortgages and promissory loans extended to churches in the State of Michigan. Terms of the notes and interest rates offered are approved by the Board of Trustees and are targeted to be competitive with rates available in commercial markets for similar loans. The safety of the investment is based on economic decisions, loan policies and practices, management of the loan portfolio and low administrative expenses.

As of December 31, 2017, 2016, and 2015, all mortgage notes were current as to scheduled principal and interest payments. The Trust had one promissory loan with a principal balance of approximately \$5,000 that was past due at December 31, 2016. This loan was paid in full during 2017.

The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015

NOTE D – Mortgage and Promissory Notes Receivable (Continued)

Management has evaluated the need for an allowance for loan losses based on the risks inherent in the portfolio and the estimated value of the borrowing organizations. Based on management's evaluation, as of December 31, 2017, there is no allowance for loan losses.

A description of the loans outstanding as of December 31, 2017, is as follows:

Stratification by Outstanding Principal	Number of Mortgage Notes	Principal Amount
\$0-100,000	6	\$ 280,783
\$100,001-250,000	7	903,269
\$250,001-500,000	11	3,755,451
\$500,001+	5	3,565,655
Total mortgage notes receivable	29	\$ 8,505,158

Stratification by Outstanding Principal	Number of Promissory Notes	Principal Amount
\$0-25,000	2	\$ 19,301

A description of the loans outstanding as of December 31, 2016, is as follows:

Stratification by Outstanding Principal	Number of Mortgage Notes	Principal Amount
\$0-100,000	6	\$ 316,681
\$100,001-250,000	8	1,245,053
\$250,001-500,000	11	3,818,507
\$500,001+	5	3,628,957
Total mortgage notes receivable	30	\$ 9,009,198

Stratification by Outstanding Principal	Number of Promissory Notes	Principal Amount
\$0-25,000	5	\$ 60,758

A description of the loans outstanding as of December 31, 2015, is as follows:

Stratification by Outstanding Principal	Number of Mortgage Notes	Principal Amount
\$0-100,000	5	\$ 288,188
\$100,001-250,000	11	1,694,931
\$250,001-500,000	10	3,513,809
\$500,001+	8	5,707,734
Total mortgage notes receivable	34	\$ 11,204,662

The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015

NOTE D – Mortgage and Promissory Notes Receivable (Continued)

Stratification by Outstanding Principal	Number of Promissory Notes	Principal Amount
\$0-25,000	4	\$ 29,443
\$25,001-50,000	2	58,760
Total promissory notes receivable	6	\$ 88,203

All loans outstanding as of December 31, 2017, 2016, and 2015, had a variable interest rate ranging from 4.74% to 7%.

NOTE E – Financial Instruments and Fair Value Measurements

As described in Note A, the Trust's estimates of the fair value of financial assets and liabilities approximate carrying value. Financial accounting standards establish 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 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 Trust has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015

NOTE E – Financial Instruments and Fair Value Measurements (continued)

The following table summarizes the valuation of the Trust's investments by the aforementioned pricing categories at December 31, 2017:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Prices with Unobservable Inputs (Level 3)</u>
Investments:				
Money market funds	\$ 9,704	\$ 9,704	\$ -	\$ -
Common stocks	2,548,599	2,548,599	-	-
Funds managed by collective stock fund	<u>1,753,548</u>	<u>1,753,548</u>	-	-
Total Investments	<u>\$ 4,311,851</u>	<u>\$ 4,311,851</u>	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes the valuation of the Trust's investments by the aforementioned pricing categories at December 31, 2016:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Prices with Unobservable Inputs (Level 3)</u>
Investments:				
Money market funds	\$ 158,746	\$ 158,746	\$ -	\$ -
Common stocks	1,920,561	1,920,561	-	-
Funds managed by collective stock fund	<u>1,446,551</u>	<u>1,446,551</u>	-	-
Total Investments	<u>\$ 3,525,858</u>	<u>\$ 3,525,858</u>	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes the valuation of the Trust's investments by the aforementioned pricing categories at December 31, 2015:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Prices with Unobservable Inputs (Level 3)</u>
Investments:				
Money market funds	\$ 12,132	\$ 12,132	\$ -	\$ -
Common stocks	823,820	823,820	-	-
Funds managed by collective stock fund	<u>119,026</u>	<u>119,026</u>	-	-
Total Investments	<u>\$ 954,978</u>	<u>\$ 954,978</u>	<u>\$ -</u>	<u>\$ -</u>

Funds managed by the collective stock fund are a collection of stocks managed by the United Methodist Foundation; all of these stocks are traded in an active market.

**The Mission and Church Extension Trust Fund
Notes to Financial Statements
For the Years Ended December 31, 2017, 2016, and 2015**

***NOTE F* – Subsequent Events**

Management has evaluated subsequent events through March 31, 2018, the date on which the financial statements were available to be issued.