Board of Church Extension of Disciples of Christ, Inc.

Financial Statements as of December 31, 2017 and 2016, and for the Three Years Ended December 31, 2017, 2016, and 2015, and Independent Auditors' Report

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Board of Church Extension of Disciples of Christ, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Board of Church Extension of Disciples of Christ, Inc. (DCEF), which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and cash flows for the years ended December 31, 2017, 2016, and 2015, 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.

Auditors' 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 audit 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 DCEF'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 DCEF'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 Board of Church Extension of Disciples of Christ, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years ended December 31, 2017, 2016, and 2015, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 15, 2018

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CASH AND CASH EQUIVALENTS	$ 10,630,482	$ 8,148,486
INVESTMENTS	25,073,524	22,347,226
RESTRICTED INVESTMENTS		430,000
Total cash and investments	35,704,006	30,925,712
ACCRUED INTEREST RECEIVABLE	713,788	594,600
LOANS TO CHURCHES AND RELATED ORGANIZATIONS—Net	136,410,398	132,893,940
SUNDRY RECEIVABLES AND OTHER ASSETS	1,578,259	2,007,889
ASSETS HELD FOR SALE	745,200	1,480,740
PROPERTY AND EQUIPMENT—Net	413,347	414,761
TOTAL	$175,564,998	$168,317,642
LIABILITIES AND NET ASSETS		
INVESTMENT NOTES AND OTHER OBLIGATIONS	$145,754,805	$139,025,503
OTHER LIABILITIES	1,520,596	1,626,837
Total liabilities	147,275,401	140,652,340
NET ASSETS:		
Unrestricted net assets:		
Interest-free loan funds	3,802,585	3,801,341
Accessibility low-interest loan funds	808,814	806,496
Memorial, named, and other board-designated funds	11,983,306	11,492,976
General	6,864,485	5,973,944
Total unrestricted net assets	23,459,190	22,074,757
Temporarily restricted net assets	3,685,704	4,482,064
Permanently restricted net assets	1,144,703	1,108,481
Total net assets	28,289,597	27,665,302
TOTAL	$175,564,998	$168,317,642

See notes to financial statements.

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF ACTIVITIES
FOR THE THREE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

	2017	2016	2015
INCOME:			
Interest on loans	$ 6,341,783	$ 6,420,057	$ 6,701,833
Interest and dividends on investments	666,755	606,239	594,189
Fees, services, and other operating income	241,755	210,695	169,726
Net assets released from restrictions	936,734	246,399	316,904
Total income	8,187,027	7,483,390	7,782,652
EXPENSES:			
Interest on investment notes and other obligations	2,551,172	2,669,661	2,854,098
Salaries and employee benefits	2,630,463	2,468,774	2,064,021
Travel	113,882	135,087	134,609
Headquarters expense	2,283,363	2,090,607	2,063,958
Provision for loan losses	(457,429)	186,320	(277,653)
Total expenses	7,121,451	7,550,449	6,839,033
INCOME (LOSS) FROM OPERATIONS	1,065,576	(67,059)	943,619
OTHER CHANGES IN UNRESTRICTED NET ASSETS:			
Bequests, annuities, and other gifts	431,285	85,060	600,013
Gains (losses) on investments	751,935	472,794	(914,066)
Contributions made to related entity	(864,363)	(200,000)	(542,750)
Total change in unrestricted net assets	1,384,433	290,795	86,816
TEMPORARILY RESTRICTED NET ASSETS:			
Temporarily restricted gift and investment income	140,374	50,060	149,260
Net assets released from restrictions	(936,734)	(246,399)	(316,904)
Total change in temporarily restricted net assets	(796,360)	(196,339)	(167,644)
PERMANENTLY RESTRICTED NET ASSETS—			
Permanently restricted gift and investment income	36,222	890	204,621
Total change in permanently restricted net assets	36,222	890	204,621
Total change in net assets	624,295	95,346	123,793
BEGINNING NET ASSETS	27,665,302	27,569,956	27,446,163
ENDING NET ASSETS	$ 28,289,597	$ 27,665,302	$ 27,569,956

See notes to financial statements.

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF CASH FLOWS
FOR THE THREE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

	2017	2016	2015
OPERATING ACTIVITIES:			
Change in total net assets	$ 624,295	$ 95,346	$ 123,793
Adjustments to reconcile change in total net assets to net cash provided by operating activities:			
Provision for loan losses	(457,429)	186,320	(277,653)
Depreciation and amortization	48,273	56,845	67,322
Loss on sale of assets held for sale	99,669		
Change in assets held for sale	(41,059)	347,267	59,128
Amortization of premium—less accretion of discount on investments	95,552	112,621	121,339
Net gains (losses) on investments	(751,935)	(472,794)	914,066
Changes in operating assets and liabilities:			
Accrued interest receivable	(119,188)	84,093	(57,881)
Sundry receivable and other assets	429,629	(188,664)	57,647
Other liabilities	(106,241)	(34,680)	(20,948)
Net cash provided by operating activities	(178,434)	186,354	986,813
INVESTING ACTIVITIES:			
Proceeds from sale of investments	14,168,894	8,413,408	10,577,812
Proceeds from sale of property	676,930		
Purchases of investments	(15,808,810)	(9,398,567)	(14,711,232)
Principal collected on loans	20,167,727	18,950,186	17,427,174
Loan funds advanced	(23,226,756)	(15,264,584)	(10,410,974)
Purchase of property and equipment	(46,858)	(1,073)	(31,188)
Net cash (used in) provided by investing activities	(4,068,873)	2,699,370	2,851,592
FINANCING ACTIVITIES:			
Borrowings on line of credit		4,000,000	
Repayments of line of credit		(4,000,000)	(1,500,000)
Sales of investment notes	88,054,660	52,115,658	84,567,333
Redemptions of investment notes	(81,325,357)	(62,283,783)	(79,177,482)
Net cash provided by (used in) financing activities	6,729,303	(10,168,125)	3,889,851
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,481,996	(7,282,401)	7,728,256
CASH AND CASH EQUIVALENTS—Beginning of year	8,148,486	15,430,887	7,702,631
CASH AND CASH EQUIVALENTS—End of year	$ 10,630,482	$ 8,148,486	$ 15,430,887
INTEREST PAID	$ 697,849	$ 846,089	$ 939,525
NON-CASH INVESTING AND FINANCING ACTIVITIES—			
Loans transferred to assets held for sale (including gain)	$ -	$ -	$ 776,599
Losses charged off	$ (105,908)	$ 812,689	$ 366,285

See notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Business—Board of Church Extension of Disciples of Christ, Inc. is a not-for-profit corporation affiliated through its common religious purposes with the Christian Church (Disciples of Christ). Effective January 1, 2012, Board of Church Extension of Disciples of Christ, Inc. changed its “doing business as” name from Church Extension to Disciples Church Extension Fund (DCEF).

In addition, effective January 1, 2012, DCEF began operating under a new organizational structure which included the creation of two new entities: Hope Partnership for Missional Transformation (HPMT) and Church Extension Financial & Missional Resources (CEFMR). Under this structure, DCEF serves as the financial resource to congregations offering loan, investment, and building and capital planning services while HPMT serves as the missional resource to congregations offering ministry planning and leadership development services. CEFMR serves as the umbrella organization providing support resources to DCEF, HPMT and congregations.

DCEF’s primary means of obtaining the funds necessary to conduct its operations is through the receipt of proceeds from the sale of its investment obligations, primarily in the form of term and demand notes. DCEF believes that nearly all funds raised by issuance of its investment obligations are from individuals related to and units of the Christian Church (Disciples of Christ).

Cash Equivalents—DCEF considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments—Investments, including permanently restricted investments, are carried at fair value. Investments for which quoted market prices are not available are valued by the investment manager of the fund based on fair value of the underlying assets. Realized and unrealized gains and losses on investments are calculated based on the cost or the amortized cost of the specific investment.

Restricted investments represent a deposit to support certain third-party financing arrangements and are discussed in Note 12.

The Board of Directors is responsible for setting and altering DCEF’s investment policies. The Chief Financial Officer, the Treasurer or Acting Treasurer, and a Vice President of DCEF are responsible for directing the investments in accordance with those policies.

Loans—Interest income on interest-bearing loans is computed daily based upon the principal amount of the loans outstanding prior to payments received. The accrual of interest income for DCEF’s loans is discontinued when there is a clear indication that the borrower’s cash flow may not be sufficient to meet payments as they become due. Such loans are placed on nonaccrual status when the principal or interest is past due 150 days or more, unless the borrower is making at least interest only payments or the loan is fully collateralized and is in the process of collection. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is charged against interest income and the loan is accounted for on the cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan is returned to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement or when the loan is both well secured and in the process of collection.

DCEF maintains an allowance to absorb probable loan losses inherent in the portfolio. The allowance for loan losses is maintained at a level considered adequate by management to provide for potential losses in the loan portfolio. Management considers numerous factors in estimating loan losses including current economic conditions, prior loan loss and delinquency experience, and the composition of the loan portfolio. Additional amounts are added to the loan loss allowance to maintain an appropriate allowance as a percentage of the outstanding loan balance as deemed necessary.

Loans that exhibit probable or observed credit weaknesses are subject to individual review. A loan is impaired when it is probable DCEF will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the fair value of the underlying collateral, or readily observable secondary market values. DCEF evaluates the collectability of both principal and interest when assessing the need for a loss accrual.

Based on the nature of DCEF's relationship with its borrowers and its desire to work with a borrower to meet its obligation without foreclosure, historical loan losses have been minimal. Any future recoveries are added back to the allowance.

Assets Held for Sale—DCEF obtains properties that are pledged as collateral under a loan by deed in lieu of foreclosure. These properties are classified as held for sale at the lower of the carrying value of the loan, or fair value less cost to sell, which is considered to be a Level 3 input in the fair value hierarchy (see Note 3).

Property and Equipment—Property and equipment are recorded on the basis of cost. Depreciation and amortization are computed by the straight-line method over the respective useful lives ranging from three to ten years. DCEF identifies and records impairment losses on long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows attributable to such assets to their carrying value. If the carrying value of the assets exceeds the forecasted undiscounted cash flows, then the assets are written down to their fair value. Fair value is determined based on discounted cash flows or appraised values depending upon the nature of the assets.

Gift Income—Gifts qualifying as unconditional promises to give are recognized as assets and gift income when granted. DCEF reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

DCEF has been designated as the beneficiary of certain charitable gift annuities and remainder trusts. At the time the gift is made, DCEF recognizes the net present value of the portion of the gift due to DCEF at the time of the donor's death. Such calculations utilize actuarial assumptions as to the expected life of the donor as well as the current interest rate. The net present value of the gift is included in sundry receivables and other assets in the statements of financial position and as temporarily restricted gift income within the statements of activities when received. Changes in the fair values of the underlying annuity investments are recognized as temporarily restricted gift and investment income within the statements of activities as they occur.

Net Assets—Net assets are allocated to and accounted for in individual categories based upon the purposes for which they are intended. Unrestricted net assets have no donor-imposed restrictions placed upon them. However, DCEF has designated certain unrestricted net assets for specific purposes. Temporarily restricted net assets include net assets whose use by DCEF is limited by donor-imposed stipulations that either expire by passage of time or can be met and removed by actions of DCEF pursuant to those stipulations. Permanently restricted net assets include net assets whose use is limited by donor-imposed restrictions which stipulate that resources be maintained permanently but permits DCEF to expend part or all of the income, or other economic benefits, derived from the donated assets.

Income Taxes—DCEF is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, except for income taxes on unrelated business income. As a religious organization, DCEF is not required to file annual Federal or State information returns. Because of this, all tax years remain open and subject to examination.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements—In August 2016, the FASB issued Accounting Standards Update No. 2016-14 ("ASU 2016-14") which make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. Specifically, the amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. This update is effective for fiscal years beginning after December 15, 2017. DCEF is currently evaluating the impact of this guidance.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326). ASU 2016-13 requires organizations to estimate expected lifetime credit losses on certain types of financial instruments, including loans, loan commitments, and financial guarantees. The amendment requires the measurement of all expected credit losses for financial assets as of the reporting date (including historical experience, current conditions and reasonable and supportable forecasts). The guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within the year of adoption. We are currently evaluating the impact that the adoption of the ASU will have on our financial results and disclosures.

2. INVESTMENTS

Investments at December 31, 2017 and 2016, are summarized as follows:

	2017	
	Cost or Amortized Cost	Fair Value
Equities—common stocks	$ 100,989	$ 88,300
Fixed income:		
Corporate bonds	3,778,168	3,756,758
Government obligations	5,452,737	5,415,407
Other fixed income	3,777,677	3,877,677
Total fixed income	13,008,582	13,049,842
Certificates of deposit and commercial paper	2,950,750	2,947,029
Pooled investment funds with related party—debt/equity securities (Note 10)	7,649,986	8,988,353
Total investment securities	$ 23,710,307	$ 25,073,524

	2016	
	Cost or Amortized Cost	Fair Value
Equities—common stocks	$ 100,989	$ 78,220
Fixed income:		
Corporate bonds	3,284,791	3,280,703
Government obligations	3,986,672	3,968,811
Other fixed income	2,630,051	2,730,051
Total fixed income	9,901,514	9,979,565
Certificates of deposit and commercial paper	3,274,725	3,277,311
Pooled investment funds with related party—debt/equity securities (Note 10)	8,335,855	9,012,130
Total investment securities	$ 21,613,083	$ 22,347,226
Restricted investments (Note 12)	$ 430,000	$ 430,000

The fair value of investments restricted and/or subject to gift agreement/agency transaction terms (included in pooled investment funds) totaled $375,989 and $302,893 at December 31, 2017 and 2016, respectively. Liabilities of $1,354,037 and $1,317,901 were also recorded related to this gift agreement/agency transaction at December 31, 2017 and 2016, respectively. The remaining assets associated with this gift agreement/agency transaction were $106,549 and $93,853 at December 31, 2017 and 2016, respectively, which were included in investments and receivables.

Net gain (loss) on investments for the years ended December 31, 2017, 2016, and 2015, consist of the following:

	2017	**2016**	**2015**
Realized gains on investments	$ 157,605	$ 3,615	$ 92,560
Net change in unrealized gains (losses) on investments:			
Unrealized gains	594,330	469,179	
Unrealized losses			(1,006,626)
Gain (loss) on investments	751,935	472,794	(914,066)
Interest and dividends on investments	666,755	606,239	594,189
Total investment return	$ 1,418,690	$ 1,079,033	$ (319,877)

Gain (loss) on investments is exclusive of $34,836 and $10,213, and $14,969 of unrealized gains in 2017, 2016, and 2015, respectively, related to investments restricted subject to gift agreement/agency transaction discussed above.

DCEF’s policy is to include interest and dividends earned on investments in its income from operations.

The following table as of December 31 sets forth a summary of the DCEF's investments with a reported Net Asset Value.

	2017				
	Fair Value Estimated Using Net Asset Value per Share				
Investment	**Fair Value***	**Unfunded Commitment**	**Redemption Frequency [(a)]**	**Other Redemption Restrictions**	**Redemption Notice Period**
Pooled investment funds—Christian Church Foundation	$ 8,988,353	None	Immediate	None	None

	2016				
	Fair Value Estimated Using Net Asset Value per Share				
Investment	**Fair Value***	**Unfunded Commitment**	**Redemption Frequency [(a)]**	**Other Redemption Restrictions**	**Redemption Notice Period**
Pooled investment funds—Christian Church Foundation	$ 9,012,130	None	Immediate	None	None

* The fair values of the investments have been estimated using the net asset value of the investment.

(a) The pooled investment funds invest in short-term investments, stocks, and stock and bond funds. Church Extension can withdraw its investment in full at any time.

Maturities of debt securities at December 31, 2017 and 2016, are as follows:

	2017	**2016**
Within 1 year	$ 5,176,854	$ 4,674,028
After 1 year through 5 years	5,443,972	4,619,482
After 5 years through 10 years	2,310,551	551,801
Total debt securities	$ 12,931,377	$ 9,845,311

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ("ASC Topic 820") defines fair value, establishes a consistent framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. ASC Topic 820 requires, among other things, DCEF's valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs.

ASC Topic 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect DCEF's market assumptions.

In accordance with ASC Topic 820, these two types of inputs have created the following fair value hierarchy:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3—Model-derived valuations in which one or more significant inputs or significant drivers are unobservable. This hierarchy requires the use of observable market data when available.

The hierarchy level for each of DCEF's assets that are measured at fair value on a recurring basis as of December 31, 2017, is as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
Common stocks	$88,300	$ -	$ -	$ 88,300
Fixed income:				
Corporate bonds		3,756,758		3,756,758
Government obligations		5,415,407		5,415,407
Other		3,877,677		3,877,677
Certificates of deposit		2,947,029		2,947,029
Pooled investments with related party		8,988,353		8,988,353
Total assets	$88,300	$24,985,224	$ -	$25,073,524

The hierarchy level for each of DCEF's assets that are measured at fair value on a recurring basis as of December 31, 2016, is as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
Common stocks	$78,220	$ -	$ -	$ 78,220
Fixed income:				
Corporate bonds		3,630,703		3,630,703
Government obligations		4,048,811		4,048,811
Other		2,730,051		2,730,051
Certificates of deposit		3,277,311		3,277,311
Pooled investments with related party		9,012,130		9,012,130
Total assets	$78,220	$22,699,006	$ -	$22,777,226

4. PROPERTY AND EQUIPMENT—NET

Property and equipment at December 31, 2017 and 2016, consist of the following:

	2017	2016
Leasehold improvements	$ 256,506	$ 256,506
Furniture and equipment	417,907	424,557
Computer software	665,305	606,648
	1,339,718	1,287,711
Less accumulated depreciation and amortization	(926,371)	(872,950)
	$ 413,347	$ 414,761

5. LOANS TO CHURCHES AND RELATED ORGANIZATIONS

Loans receivable at December 31, 2017 and 2016, consist of the following:

	2017	2016
Mortgage loans:		
Interest bearing	$123,757,885	$124,328,495
Noninterest bearing	2,617,534	3,178,522
Participation loans	2,903,206	1,980,328
	129,278,625	129,487,345
Unsecured loans	9,135,218	5,761,561
	138,413,843	135,248,906
Less allowance for loan losses	(2,003,445)	(2,354,966)
	$136,410,398	$132,893,940

Loan participations represent higher credit risk than wholly-owned loans because DCEF does not maintain full control over the disposition and direction of actions regarding the management and collection of the loans. The lead lender directs most servicing and collection activities and major actions must be coordinated and negotiated with the other participants, whose best interests regarding the loan may not align with those of DCEF. For the years ended December 31, 2017 and 2016, respectively, $2,903,206 and $1,980,328 was held under a loan participation agreement.

A summary of the changes in the allowance for loan losses as of and for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Balance—January 1	$ 2,354,966	$ 2,981,335
Losses charged off	105,908	(812,689)
Provision for loan losses	(457,429)	186,320
Balance—December 31	$ 2,003,445	$ 2,354,966

Allowance for Loan Losses—The following table provides a summary of the allowance for loan losses and related loans as of December 31, 2017 and 2016:

	2017	2016
Allowance for loan losses:		
Individually evaluated for impairment	$ 1,727,974	$ 2,045,467
Collectively evaluated for impairment	275,471	309,499
Total allowance for loan losses	$ 2,003,445	$ 2,354,966
Loans receivable:		
Individually evaluated for impairment	$ 8,304,834	$ 6,570,583
Collectively evaluated for impairment	130,109,009	128,678,323
Total loans receivable	$ 138,413,843	$ 135,248,906

Credit Risk Profile—DCEF considers repayment performance as the best indicator of credit quality for its loans. This analysis reviews DCEF's portfolio of loans at the borrower level, rather than the individual loan level. Loans that have principal and interest payments that are past due 150 days or more, are classified as nonperforming unless the borrower is making at least interest only payments or the loan is fully collateralized and is in the process of collection. Loans that have been modified in a troubled debt restructuring are classified as nonperforming unless such loans have a sustained repayment performance of six months or greater and are reasonably assured of repayment in accordance with the restructured terms.

The following table summarizes the credit risk profile of DCEF's loans as of December 31, 2017 and 2016:

	2017	2016
Performing	$ 136,663,517	$ 132,208,076
Nonperforming (nonaccrual)	1,750,326	3,040,830
Total loans	$ 138,413,843	$ 135,248,906

Age Analysis of Past Due Loans—The following table summarizes DCEF's loans by age as of December 31, 2017 and 2016:

	2017		2016	
	Balance	**Allowance**	**Balance**	**Allowance**
Current	$127,898,007	$ (325,529)	$120,498,037	$ (241,820)
1–30 days past due	886,645	(4,440)	3,537,907	(17,751)
31–60 days past due	1,143,284	(11,441)	3,994,877	(40,200)
61–90 days past due	181,073	(2,732)	647,502	(9,728)
91–120 days past due	3,142,416		77,013	
121–150 days past due			256,527	
151+ past due	5,162,418	(1,659,303)	6,237,043	(2,045,467)
Total loan receivables	$138,413,843	$(2,003,445)	$135,248,906	$(2,354,966)

Cash basis interest income recognized on impaired loans during each of the years presented was immaterial to the statements of activities.

Loans to churches and related organizations are measured at fair value on a nonrecurring basis, such as when there is an impairment. Loans to churches and related organizations measured at fair value on a nonrecurring basis for the years ended December 31, 2017 and 2016, are as follows:

2017	**Level 1**	**Level 2**	**Level 3**
Loans to churches and related organizations	$ -	$ -	$ 1,496,500

2016	**Level 1**	**Level 2**	**Level 3**
Loans to churches and related organizations	$ -	$ -	$ 2,568,600

DCEF records nonrecurring adjustments to certain collateral-dependent loans to churches and related organizations in accordance with ASC Topic 310-10. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In cases where the carrying value exceeds the fair value of the collateral, an impairment loss is recognized.

Contractual loan maturities as of December 31, 2017, are as follows:

Years Ending December 31	
2018	$ 13,068,576
2019	11,357,472
2020	5,012,980
2021	1,688,863
2022	3,788,279
Thereafter	103,497,673
	$ 138,413,843

At December 31, 2017, DCEF had loan and line commitments outstanding of $24,333,313.

The portfolio of outstanding loans is a variable rate portfolio, and interest rate adjustments for loans are performed every one to three years to reflect the current market interest rate. The carrying value of loans, including the allowance for loan losses, approximate their fair value due to the frequency of the interest rate resets.

6. INVESTMENT NOTES AND OTHER OBLIGATIONS

Investment notes and other obligations as of December 31, 2017 and 2016, consist of the following:

	2017	**2016**
Demand and term notes (interest at 0.01%–8.0%)	$131,907,260	$123,271,852
Investment notes relating to loans (one to five year maturity, interest at .01%–6.5% at 2017 and 2016)	13,847,545	15,753,651
	$145,754,805	$139,025,503

Maturities of investment notes and other obligations as of December 31, 2017, are as follows:

Years Ending December 31	
2018	$ 61,175,286
2019	38,946,088
2020	31,244,439
2021	8,721,735
2022	5,587,625
Thereafter	79,632
	$ 145,754,805

Over the past five years, reinvestment of DCEF's investment notes has averaged 75.95% per year. Of the $61,175,286 due in 2018, $40,526,290 are term notes and $20,648,996 are demand notes.

Interest compounded on investment notes was approximately $1,808,030, $1,784,070, and $1,874,000, during 2017, 2016, and 2015, respectively. DCEF's effective interest rate at December 31 was 1.69%, 1.76%, and 1.77% for 2017, 2016, and 2015, respectively.

Due to the short duration of the investment notes, the fair value of investment notes and other obligations approximates carrying value.

DCEF is dedicated to following guidelines established by the North American Securities Administrators Association (NASAA) in the statement of policy regarding DCEF fund securities related to the general offering of the notes to investors. The statement of policy provides financial guidelines to states related to the selling of these notes. The guidelines suggest the maintaining of a liquidity ratio (cash, cash equivalents, investments, and unused portions of lines of credit to outstanding investment notes) of at least 8% (with lines of credit not exceeding 2%), a capital adequacy ratio (unrestricted net assets to total assets) of at least 5%, and a limit of senior secured debt to a maximum of 10% of total assets. As of December 31, 2017, DCEF believes it is in compliance with these three guidelines.

7. LINE OF CREDIT

DCEF has available an unsecured line of credit with Regions Bank in the amount of $4,000,000 whereby interest only is paid each month. At both December 31, 2017 and 2016, there were no borrowings on this line of credit. Borrowings bear interest at a floating rate equal to the Monthly London InterBank Offered Rate (LIBOR) plus 250 basis points, which was 4.05% at December 31, 2017 and 3.256% at December 31, 2016. The line expires on June 30, 2018. As of the date the financial statements were available to be issued, there were no borrowings on the line of credit.

DCEF agreed to a financial covenant to maintain, at all times, unencumbered and unrestricted liquid assets of not less than $10,000,000, and DCEF believes it was in compliance with this covenant as of December 31, 2017. The line of credit is guaranteed by CEFMR.

8. NET ASSETS

Temporarily restricted net assets as of December 31, 2017 and 2016, are available for the following purposes:

	2017	2016
Annuity/life income trust agreements	$ 3,685,704	$ 4,482,064

Permanently restricted net assets as of December 31, 2017 and 2016, are available for the following purposes:

	2017	2016
Annuity/life income trust agreements	$ 1,144,703	$ 1,108,481

The temporarily restricted net assets are primarily comprised of gifts received by DCEF to be released, or distributed, in the future based on donor-imposed restrictions. Future net assets released amounts, or distributions, will be made pursuant gift agreements and may vary in amount from year to year.

9. ENDOWMENT

DCEF's endowment consists of approximately 25 individual funds established for a variety of purposes. DCEF's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the adopted State of Indiana's "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, DCEF classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by DCEF in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board considers the following factors in making a determination to appropriate or accumulate endowment funds:

a. The duration and preservation of the fund
b. The purposes of DCEF and the donor restricted endowment fund
c. General economic conditions
d. The possible effect of inflation and deflation
e. The expected total return from income and appreciation of investments
f. Other resources of DCEF
g. The investment policies of DCEF

Where the Board designates unrestricted funds to function as endowments they are classified as unrestricted net assets. Where the Board designates donor restricted non-endowment funds to function as endowments they are classified as temporarily restricted net assets.

Endowment net asset composition by type of fund as of December 31, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$3,118,144	$1,120,252	$4,238,396
Board-designated endowment funds	944,346			944,346
	944,346	3,118,144	1,120,252	5,182,742

Endowment net asset composition by type of fund as of December 31, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$4,014,519	$1,085,577	$5,100,096
Board-designated endowment funds	815,830			815,830
	815,830	4,014,519	1,085,577	5,915,926

Changes in endowment net assets for the year ended December 31, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets— December 31, 2016	$815,830	$4,014,519	$1,085,577	$5,915,926
Investment return:				
Investment income	37,147	85,182	26,953	149,282
Net appreciation (realized and unrealized)	91,369			91,369
Total investment return	128,516	85,182	26,953	240,651
Contributions		4,026	48,123	52,149
Appropriation of endowment assets for expenditure		(985,583)	(40,401)	(1,025,984)
Endowment net assets— December 31, 2017	$944,346	$3,118,144	$1,120,252	$5,182,742

Changes in endowment net assets for the year ended December 31, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—December 31, 2015	$509,170	$4,211,857	$1,082,249	$5,803,276
Investment return:				
Investment income	35,798	103,947	28,319	168,064
Net appreciation (realized and unrealized)	45,966			45,966
Total investment return	81,764	103,947	28,319	214,030
Contributions	250,000	160,035	100	410,135
Appropriation of endowment assets for expenditure	(25,104)	(461,320)	(25,091)	(511,515)
Endowment net assets—December 31, 2016	$815,830	$4,014,519	$1,085,577	$5,915,926

Return Objectives and Risk Parameters—DCEF has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, unless otherwise instructed by the donor, endowment assets are invested in the Beasley Fund at the Christian Church Foundation, to utilize the Foundation's expertise in investment management. The Foundation invests in a manner that is intended to yield a long-term rate of return, while assuming a moderate level of investment risk. Actual returns in any given year may vary.

Strategies Employed for Achieving Investment Objectives—To achieve its long-term rate of return objectives, DCEF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). By investing in the Beasley Fund of the Christian Church Foundation, DCEF is able to take advantage of a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Relationship of Spending Policy to Investment Objectives—DCEF's Investment Committee ("the Committee") determines the method to be used to appropriate endowment funds for expenditure, unless otherwise instructed by the donor. The appropriation amount is determined as of the end of the year, for the next year's expenditure and is equal to the percentage established by the Christian Church Foundation for income allocation. For 2017 and 2016, this amount is 4.5% of the fair value, determined on a monthly basis. In establishing this method, the Committee considered the expected long-term rate of return on the investment of the DCEF's endowment funds. Accordingly, over the long-term, DCEF expects the current spending policy to allow its endowment to grow, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts. Depending upon market conditions and the needs and available resources of DCEF, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

10. RELATED PARTIES

DCEF provides services, makes loans, and sells investment obligations to certain units of the Christian Church (Disciples of Christ) with which its officers and Board of Directors are affiliated. These transactions are in the normal course of business and on the same terms, including interest rates and collateral, as those available to others.

Electronic data processing services for various units of the Christian Church are provided by Discipledata, Inc. (DDI), a non-profit cooperative. An officer of DCEF is currently a member of the Board of Directors of DDI. DCEF purchases data processing services from DDI at rates and terms comparable with those available to other customers of DDI. Data processing expenses were $219,316, $332,769, and $325,065 for the years ended December 31, 2017, 2016, and 2015, respectively.

As of December 31, 2017 and 2016, DCEF maintained $20,613,510 and $17,786,988, respectively, of investment notes held by Christian Church Foundation. As of December 31, 2017 and 2016, DCEF has invested $7,649,986 and $8,335,855, respectively, in pooled investment funds of Christian Church Foundation, which have a fair value of $8,988,353 and $9,012,130, respectively.

During the years ended December 31, 2017, 2016 and 2015, DCEF provided operating support in the form of a contribution to HPMT of $864,364, $200,000, and $542,750, respectively.

During 2014, DCEF obtained a new agreement with Christian Church Services for its primary office space. This agreement began on September 1, 2014 and is for a period of 15 years. Office space occupancy costs were $184,315, $159,228, and $159,228 for the years ended December 31, 2017, 2016, and 2015, respectively. Minimum payments under this agreement as of December 31, 2017, are as follows:

Years Ending December 31	
2018	$ 141,127
2019	141,127
2020	141,127
2021	141,127
2022	141,127
Thereafter	1,032,332
	$ 1,737,967

11. RETIREMENT BENEFITS

DCEF participates in a noncontributory, trusteed retirement plan provided by the Pension Fund of the Christian Church (Disciples of Christ), Inc. which covers substantially all employees of DCEF. Payments to the plan are based upon a fixed percentage of participants' salaries and are actuarially determined to provide adequate funding for benefits defined in the plan. No liability exists under the plan for past service costs. The amounts charged to expense (which were equal to the payments made to the plan) were $253,069, $236,330, and $204,761 for the years ended December 31, 2017, 2016, and 2015, respectively.

DCEF also sponsored a defined-benefit health care plan that provides postretirement medical benefits to certain retirees who, at the time of their retirement, met the then-existing eligibility requirements. No other retirees or current employees are (or will be) eligible for benefits under the plan. The plan limits the amount of annual benefits payable to the eligible retirees.

12. THIRD-PARTY FINANCING ARRANGEMENTS

DCEF had established a financing arrangement, which ended in 2017, with a commercial bank to facilitate the extension of loans which exceeded DCEF's policy limits. Under the arrangement, DCEF acted as an agent whereby adjustable rate taxable and tax-exempt securities were issued, the proceeds of which were used to fund loans. As an agent, DCEF had no obligation under the adjustable rate taxable and tax-exempt securities nor did DCEF have any rights under the loans. DCEF also serviced the loans through the collection of principal and interest which was remitted to the commercial bank.

DCEF has no guarantee outstanding with respect to this agreement. This guarantee was supported by collateral on deposit with the commercial bank. Such funds were classified as restricted investments on the statements of financial position, and consisted of corporate bonds and government obligations.

Under a second third-party financing agreement DCEF had a guarantee equal to the outstanding loan balance, which was $0 and $3,475,437 as of December 31, 2017 and 2016, respectively. This guarantee does not require any collateral on deposit with the commercial bank.

In accordance with ASC Topic 460, *Guarantees*, DCEF records the fair value of its guarantees as a liability. The fair value of this liability is zero at December 31, 2017 and 2016, respectively. In the event a member church defaults on loan repayments, the collateral provided by DCEF is subject to loss.

13. SUBSEQUENT EVENTS

Events occurring subsequent to the date of the statement of financial condition have been evaluated for potential recognition or disclosure in the financial statements through March 15, 2018, the date the financial statements were available to be issued.

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