Board of Church Extension of Disciples of Christ, Inc.

Financial Statements as of December 31, 2018 and 2017, and for the Three Years Ended December 31, 2018, 2017, and 2016, and Independent Auditors' Report

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

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BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CASH AND CASH EQUIVALENTS	$ 8,786,618	$ 10,630,482
INVESTMENTS	20,035,140	25,073,524
Total cash and investments	28,821,758	35,704,006
ACCRUED INTEREST RECEIVABLE	579,935	713,788
LOANS TO CHURCHES AND RELATED ORGANIZATIONS—Net	134,120,192	136,410,398
SUNDRY RECEIVABLES AND OTHER ASSETS	1,523,336	1,578,259
ASSETS HELD FOR SALE	786,600	745,200
PROPERTY AND EQUIPMENT—Net	503,712	413,347
TOTAL	$ 166,335,533	$ 175,564,998
LIABILITIES AND NET ASSETS		
INVESTMENT NOTES AND OTHER OBLIGATIONS	$ 136,605,344	$ 145,754,805
OTHER LIABILITIES	1,387,666	1,520,596
Total liabilities	137,993,010	147,275,401
NET ASSETS:		
Without donor restrictions	23,356,477	23,459,190
With donor restrictions	4,986,046	4,830,407
Total net assets	28,342,523	28,289,597
TOTAL	$ 166,335,533	$ 175,564,998

See notes to financial statements.

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF ACTIVITIES
FOR THE THREE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	2018	2017	2016
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:			
OPERATING:			
INCOME:			
Interest on loans	$ 6,261,636	$ 6,341,783	$ 6,420,057
Interest and dividends on investments	744,528	666,755	606,239
Fees, services, and other operating income	312,559	241,755	210,695
Net assets released from restrictions	281,569	936,734	246,399
Total income	7,600,292	8,187,027	7,483,390
EXPENSES:			
Interest on investment notes and other obligations	2,548,954	2,551,172	2,669,661
Salaries and employee benefits	2,892,340	2,630,463	2,468,774
Travel	182,082	113,882	135,087
Headquarters expense	1,821,358	2,283,363	2,090,607
Provision for loan losses	(240,421)	(457,429)	186,320
Total expenses	7,204,313	7,121,451	7,550,449
INCOME (LOSS) FROM OPERATIONS	395,979	1,065,576	(67,059)
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:			
Bequests, annuities, and other gifts	479,816	431,285	85,060
Gains (losses) on investments	(952,508)	751,935	472,794
Contributions made to related entity	(26,000)	(864,363)	(200,000)
Total change in net assets without donor restrictions	(102,713)	1,384,433	290,795
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS:			
Gift and investment income	437,208	176,596	50,950
Net assets released from restrictions	(281,569)	(936,734)	(246,399)
Total change in net assets with donor restrictions	155,639	(760,138)	(195,449)
Total change in net assets	52,926	624,295	95,346
BEGINNING NET ASSETS	28,289,597	27,665,302	27,569,956
ENDING NET ASSETS	$ 28,342,523	$ 28,289,597	$ 27,665,302

See notes to financial statements.

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Lending Services	General Administration	Fundraising and Development	Program Services	Total
EXPENSES:					
Interest on investment notes and other obligations	$ 2,548,954	$ -	$ -	$ -	$ 2,548,954
Salaries and employee benefits	1,429,588	994,458	268,662	199,632	2,892,340
Travel	111,031	42,754	14,059	14,238	182,082
Headquarters expense	1,332,960	259,889	121,606	106,903	1,821,358
Provision for loan losses	(240,421)				(240,421)
TOTAL EXPENSES	$ 5,182,112	$ 1,297,101	$ 404,327	$ 320,773	$ 7,204,313

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, 2018, 2017, AND 2016

	2018	2017	2016
OPERATING ACTIVITIES:			
Change in total net assets	$ 52,926	$ 624,295	$ 95,346
Adjustments to reconcile change in total net assets to net cash provided by operating activities:			
Provision for loan losses	(240,421)	(457,429)	186,320
Depreciation and amortization	46,237	48,273	56,845
Loss on sale of assets held for sale	141,014	99,669	
Change in assets held for sale	(249,526)	(41,059)	347,267
Amortization of premium—less accretion of discount on investments	42,703	95,552	112,621
Net (gains) losses on investments	952,508	(751,935)	(472,794)
Changes in operating assets and liabilities:			
Accrued interest receivable	133,853	(119,188)	84,093
Sundry receivable and other assets	54,923	429,629	(188,664)
Other liabilities	(132,930)	(106,241)	(34,680)
Net cash provided (used in) by operating activities	801,287	(178,434)	186,354
INVESTING ACTIVITIES:			
Proceeds from sale of investments	15,548,022	14,168,894	8,413,408
Proceeds from sale of property	67,111	676,930	
Purchases of investments	(11,504,850)	(15,808,810)	(9,398,567)
Principal collected on loans	25,123,020	20,167,727	18,950,186
Loan funds advanced	(22,592,392)	(23,226,756)	(15,264,584)
Purchase of property and equipment	(136,601)	(46,858)	(1,073)
Net cash (used in) provided by investing activities	6,504,310	(4,068,873)	2,699,370
FINANCING ACTIVITIES:			
Borrowings on line of credit			4,000,000
Repayments of line of credit			(4,000,000)
Sales of investment notes	55,959,917	88,054,660	52,115,658
Redemptions of investment notes	(65,109,378)	(81,325,357)	(62,283,783)
Net cash provided by (used in) financing activities	(9,149,461)	6,729,303	(10,168,125)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,843,864)	2,481,996	(7,282,401)
CASH AND CASH EQUIVALENTS—Beginning of year	10,630,482	8,148,486	15,430,887
CASH AND CASH EQUIVALENTS—End of year	$ 8,786,618	$ 10,630,482	$ 8,148,486
INTEREST PAID	$ 665,616	$ 697,849	$ 846,089
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Loans transferred to assets held for sale (including gain)	$ 173,863	$ -	$ -
Losses charged off	$ -	$ (105,908)	$ 812,689

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017, AND FOR THE THREE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

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 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.

The Board of Directors is responsible for setting and altering DCEF's investment policies. The Chief Financial Officer, the 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 support with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 gift income with donor restrictions within the statements of activities when received. Changes in the fair values of the underlying annuity investments are recognized as gift and investment income with donor restrictions 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. Net assets without donor restrictions have no donor-imposed restrictions placed upon them. However, DCEF has designated certain net assets without donor restrictions for specific purposes. Net assets with donor restrictions 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, and 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.

Measure of Operations—The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to DCEF's ongoing lending, investing, and building and capital planning services. Non-operating activities are limited to resources that generate return from investments, gifts, and other activities.

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.

Functional Expenses—The costs of providing lending and other services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among services benefited. Such allocations are determined by management on an equitable basis. The method of allocation for these expenses was to evaluate the time and effort spent on each.

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 income and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements—During 2018, DCEF adopted ASU 2016-14 – "Not for Profit Entities" (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 is intended to improve the net asset classification requirements and the information presented in the financial statements and notes to financial statements about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of ASU 2016-14 include:

- Presentation of two net asset classes versus the previously required three,
- Reporting of investment return net of external and direct internal expenses,
- Providing information in the notes to financial statements about financial assets and liquidity resources available within one year, and
- Reporting of expenses by both functional and natural classification.

A summary of the net asset reclassifications reflected in the financial statements as a result of the adoption of ASU 2016-14 as of December 31 follows below:

	ASU 2016-14 Reclassifications		
2017—Statement of Financial Position	**Net Assets Without Donor Restrictions**	**Net Assets With Donor Restrictions**	**Total Net Assets**
As previously presented:			
Unrestricted			
Interest-free loans funds	$ 3,802,585		
Accessibility low-interest loan funds	808,814		
Memorial, named, and other board designated funds	11,983,306		
General	6,864,485		
Total unrestricted	23,459,190		$ 23,459,190
Temporarily restricted		$ 3,685,704	3,685,704
Permanently restricted		1,144,703	1,144,703
	$ 23,459,190	$ 4,830,407	$ 28,289,597

	ASU 2016-14 Reclassifications		
2017—Statement of Activities	**Change in Net Assets Without Donor Restrictions**	**Change in Net Assets With Donor Restrictions**	**Total**
As previously presented:			
Income from operations	$ 1,065,576		
Other changes in unrestricted net assets:			
Bequests, annuities, and other gifts	431,285		
Gains (losses) on investments	751,935		
Contributions made to related entity	(864,363)		
Total change in unrestricted net assets	1,384,433		$ 1,384,433
Temporarily restricted net assets:			
Temporarily restricted gift and investment income		$ 140,374	
Net assets released from restrictions		(936,734)	
Total change in temporarily restricted net assets		(796,360)	(796,360)
Permanently restricted net assets—permanently restricted gift and investment income		36,222	36,222
	$ 1,384,433	$ (760,138)	$ 624,295

2016—Statement of Activities	ASU 2016-14 Reclassifications Change in Net Assets Without Donor Restrictions	 Change in Net Assets With Donor Restrictions	 Total
As previously presented:			
Income (loss) from operations	$ (67,059)		
Other changes in unrestricted net assets:			
Bequests, annuities, and other gifts	85,060		
Gains (losses) on investments	472,794		
Contributions made to related entity	(200,000)		
Total change in unrestricted net assets	290,795		$ 290,795
Temporarily restricted net assets:			
Temporarily restricted gift and investment income		$ 50,060	
Net assets released from restrictions		(246,399)	
Total change in temporarily restricted net assets		(196,339)	(196,339)
Permanently restricted net assets—permanently restricted gift and investment income		890	890
	$ 290,795	$ (195,449)	$ 95,346

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, 2018 and 2017, are summarized as follows:

	2018	
	Cost or Amortized Cost	Fair Value
Equities—common stocks	$ 100,989	$ 84,571
Fixed income:		
Corporate bonds	2,429,054	2,390,606
Government obligations	3,818,384	3,777,921
Other fixed income	3,697,315	3,797,315
Total fixed income	9,944,753	9,965,842
Certificates of deposit and commercial paper	1,590,476	1,575,186
Pooled investment funds with related party—debt/equity securities (Note 11)	8,035,184	8,409,541
Total investments	$ 19,671,402	$ 20,035,140

	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 11)	7,649,986	8,988,353
Total investments	$ 23,710,307	$ 25,073,524

The fair value of investments subject to gift agreement/agency transaction terms (included in pooled investment funds) totaled $366,065 and $375,989 at December 31, 2018 and 2017, respectively. Liabilities of $1,307,126 and $1,354,037 were also recorded related to these gift agreements/agency transactions at December 31, 2018 and 2017, respectively. The remaining assets associated with these gift agreements/agency transactions were $119,284 and $106,549 at December 31, 2018 and 2017, respectively, which were included in investments and receivables.

Net gain (loss) on investments for the years ended December 31, 2018, 2017, and 2016, consist of the following:

	2018	2017	2016
Realized gains on investments	$ (1,249)	$ 157,605	$ 3,615
Net change in unrealized gains (losses) on investments:			
Unrealized gains		594,330	469,179
Unrealized losses	(951,259)		
Gain (loss) on investments	(952,508)	751,935	472,794
Interest and dividends on investments	744,528	666,755	606,239
Total investment return	$(207,980)	$ 1,418,690	$ 1,079,033

Gain (loss) on investments is exclusive of $48,300 and $34,836, and $10,213 of unrealized gains in 2018, 2017, and 2016, 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.

	2018				
	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	$ 8,409,541	None	Immediate	None	None

	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

* 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, 2018 and 2017, are as follows:

	2018	2017
Within 1 year	$ 3,408,268	$ 5,176,854
After 1 year through 5 years	5,924,889	5,443,972
After 5 years through 10 years	494,416	2,310,551
Total debt securities	$ 9,827,573	$ 12,931,377

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, 2018, is as follows:

	Level 1	Level 2	Level 3	Total
Common stocks	$84,571	$ -	$ -	$ 84,571
Fixed income:				
Corporate bonds		2,390,606		2,390,606
Government obligations		3,777,921		3,777,921
Other		3,797,315		3,797,315
Certificates of deposit		1,575,186		1,575,186
Pooled investments with related party*		8,409,541		8,409,541
Total assets	$84,571	$19,950,569	$ -	$20,035,140

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

* Measured at Net Asset Value (NAV).

4. PROPERTY AND EQUIPMENT—NET

Property and equipment at December 31, 2018 and 2017, consist of the following:

	2018	2017
Leasehold improvements	$ 256,506	$ 256,506
Furniture and equipment	417,203	417,907
Computer software	798,326	665,305
	1,472,035	1,339,718
Less accumulated depreciation and amortization	(968,323)	(926,371)
	$ 503,712	$ 413,347

5. LOANS TO CHURCHES AND RELATED ORGANIZATIONS

Loans receivable at December 31, 2018 and 2017, consist of the following:

	2018	2017
Mortgage loans:		
Interest bearing	$ 127,984,028	$ 123,757,885
Noninterest bearing	1,257,994	2,617,534
Participation loans	5,339,682	2,903,206
	134,581,704	129,278,625
Unsecured loans	1,301,512	9,135,218
	135,883,216	138,413,843
Less allowance for loan losses	(1,763,024)	(2,003,445)
	$ 134,120,192	$ 136,410,398

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, 2018 and 2017, respectively, $5,339,682 and $2,903,206 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, 2018 and 2017, is as follows:

	2018	2017
Balance—January 1	$ 2,003,445	$ 2,354,966
Losses charged off		105,908
Provision for loan losses	(240,421)	(457,429)
Balance—December 31	$ 1,763,024	$ 2,003,445

Allowance for Loan Losses—The following table provides a summary of the allowance for loan losses and related loans as of December 31, 2018 and 2017:

	2018	2017
Allowance for loan losses:		
Individually evaluated for impairment	$ 1,677,989	$ 1,727,974
Collectively evaluated for impairment	85,035	275,471
Total allowance for loan losses	$ 1,763,024	$ 2,003,445
Loans receivable:		
Individually evaluated for impairment	$ 9,866,577	$ 8,304,834
Collectively evaluated for impairment	126,016,639	130,109,009
Total loans receivable	$ 135,883,216	$ 138,413,843

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, 2018 and 2017:

	2018	2017
Performing	$ 134,132,890	$ 136,663,517
Nonperforming (nonaccrual)	1,750,326	1,750,326
Total loans	$ 135,883,216	$ 138,413,843

Age Analysis of Past Due Loans—The following table summarizes DCEF's loans by age as of December 31, 2018 and 2017:

	2018		2017	
	Balance	**Allowance**	**Balance**	**Allowance**
Current	$ 120,855,098	$ (41,391)	$ 127,898,007	$ (325,529)
1–30 days past due	1,619,055	(8,118)	886,645	(4,440)
31–60 days past due	3,542,485	(35,526)	1,143,284	(11,441)
61–90 days past due			181,073	(2,732)
91–120 days past due	3,017,376		3,142,416	
121–150 days past due				
151+ past due	6,849,202	(1,677,989)	5,162,418	(1,659,303)
Total loan receivables	$ 135,883,216	$ (1,763,024)	$ 138,413,843	$ (2,003,445)

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, 2018 and 2017, are as follows:

2018	**Level 1**	**Level 2**	**Level 3**
Loans to churches and related organizations	$ -	$ -	$ 2,220,625

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

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, 2018, are as follows:

Years Ending December 31	
2019	$ 17,668,463
2020	4,535,794
2021	1,317,606
2022	3,259,175
2023	5,927,991
Thereafter	103,174,187
	$ 135,883,216

At December 31, 2018, DCEF had loan and line commitments outstanding of $43,910,545.

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, 2018 and 2017, consist of the following:

	2018	**2017**
Demand and term notes (interest at 0.01%–8.0%)	$ 127,357,745	$ 131,907,260
Investment notes relating to loans (one to five year maturity, interest at .01%–6.5% at 2018 and 2017)	9,247,599	13,847,545
	$ 136,605,344	$ 145,754,805

Maturities of investment notes and other obligations as of December 31, 2018, are as follows:

Years Ending December 31	
2019	$ 65,143,753
2020	30,386,368
2021	28,445,332
2022	7,624,757
2023	4,869,118
Thereafter	136,016
	$ 136,605,344

Over the past five years, reinvestment of DCEF's investment notes has averaged 72.58% per year. Of the $65,143,753 due in 2019, $44,182,131 are term notes and $20,961,622 are demand notes.

Interest compounded on investment notes was $1,862,392, $1,808,030, and $1,784,070, during 2018, 2017, and 2016, respectively. DCEF's effective interest rate at December 31 was 1.81%, 1.69%, and 1.76% for 2018, 2017, and 2016, 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, 2018, 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, 2018 and 2017, 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 5.02% at December 31, 2018 and 4.05% at December 31, 2017. The line expires on June 30, 2019. 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 liquid assets of not less than $10,000,000, and DCEF believes it was in compliance with this covenant as of December 31, 2018. The line of credit is guaranteed by CEFMR.

8. NET ASSETS

Net assets without donor restrictions as of December 31, 2018 and 2017, are available for the following purposes:

	2018	**2017**
Interest-free loan funds	$ 3,808,833	$ 3,802,585
Accessibility low-interest loan funds	812,411	808,814
Memorial, named, and other board designated loan funds	12,659,615	11,983,306
General	6,075,618	6,864,485
Total	$ 23,356,477	$ 23,459,190

Net assets with donor restrictions as of December 31, 2018 and 2017, are available for the following purposes:

	2018	2017
Annuity/life income trust agreements	$4,986,046	$4,830,407

Net assets with donor restrictions 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 endowment net assets with donor restrictions, (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. Also included in endowment net assets with donor restrictions are those amounts yet to be 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

Endowment net asset composition by type as of December 31, 2018, is as follows:

	Endowment Net Assets Without Donor Restrictions	Endowment Net Assets With Donor Restrictions	Total
Donor-restricted endowment funds		$4,391,833	$4,391,833
Board-designated endowment funds	$871,088		871,088
	$871,088	$4,391,833	$5,262,921

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

	Endowment Net Assets Without Donor Restrictions	Endowment Net Assets With Donor Restrictions	Total
Donor-restricted endowment funds		$4,238,396	$4,238,396
Board-designated endowment funds	$944,346		944,346
	$944,346	$4,238,396	$5,182,742

Changes in endowment net assets for the year ended December 31, 2018, is as follows:

	Endowment Net Assets Without Donor Restrictions	Endowment Net Assets With Donor Restrictions	Total
Endowment net assets December 31, 2017	$944,346	$4,238,396	$5,182,742
Investment return	(73,258)	108,991	35,733
Contributions		393,493	393,493
Appropriation of endowment assets for expenditure		(349,047)	(349,047)
Endowment net assets December 31, 2018	$871,088	$4,391,833	$5,262,921

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

	Endowment Net Assets Without Donor Restrictions	Endowment Net Assets With Donor Restrictions	Total
Endowment net assets December 31, 2016	$815,830	$ 5,100,096	$ 5,915,926
Investment return	128,516	112,135	240,651
Contributions		52,149	52,149
Appropriation of endowment assets for expenditure		(1,025,984)	(1,025,984)
Endowment net assets December 31, 2017	$944,346	$ 4,238,396	$ 5,182,742

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 2018 and 2017, 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. AVAILABILITY AND LIQUIDITY

The following represents Board of Church Extension of Disciples of Christ, Inc.'s financial assets at December 31, 2018:

	2018
Financial assets at year end:	
Cash and cash equivalents	$ 8,786,618
Investments	20,035,140
Accrued interest receivable	579,935
Loan principal payments due in 2019	17,668,463
Assets held for sale	786,600
Total financial assets	47,856,756
Less amounts not available to be used within one year:	
27% of Investment notes with maturities less than one year	17,862,417
Other short term liabilities	80,540
Net assets with donor restrictions	4,986,046
Total	22,929,003
Financial assets available to meet general expenditures over the next twelve months	$ 24,927,753

DCEF's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately $2,700,000). As part of its liquidity plan, excess cash is invested in short-term investment, including money market accounts and certificates of deposit. DCEF also has a $4,000,000 line of credit available to meet cash flow needs.

11. 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 $247,176, $219,316, and $332,769 for the years ended December 31, 2018, 2017, and 2016, respectively.

As of December 31, 2018 and 2017, DCEF maintained $20,545,403 and $20,613,510, respectively, of investment notes held by Christian Church Foundation. As of December 31, 2018 and 2017, DCEF has invested $8,035,184 and $7,649,986, respectively, in pooled investment funds of Christian Church Foundation, which have a fair value of $8,409,541 and $8,988,353, respectively.

During the years ended December 31, 2018, 2017 and 2016, DCEF provided operating support in the form of a contribution to HPMT of $26,000, $864,364, and $200,000, 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 $172,349, $184,315, and $159,228 for the years ended December 31, 2018, 2017, and 2016, respectively. Minimum payments under this agreement as of December 31, 2018, are as follows:

Years Ending December 31	
2019	$ 141,127
2020	141,127
2021	141,127
2022	141,127
2023	141,127
Thereafter	891,145
	$ 1,596,780

12. 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 $281,414, $253,069, and $236,330 for the years ended December 31, 2018, 2017, and 2016, 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.

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, 2019, the date the financial statements were available to be issued.

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