



Christian Reformed Church Loan Fund, Inc. - U.S.

Financial Statements Years Ended June 30, 2018, 2017 and 2016

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Financial Statements
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Christian Reformed Church Loan Fund, Inc. - U.S.

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Independent Auditor's Report

Board of Directors
Christian Reformed Church Loan Fund, Inc. - U.S.
Grand Rapids, Michigan

We have audited the accompanying financial statements of Christian Reformed Church Loan Fund, Inc. - U.S. (the Fund), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities and cash flows for each of the three years in the period ended June 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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 Christian Reformed Church Loan Fund, Inc. - U.S. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for each of the three years in the period ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

August 6, 2018

Financial Statements

Christian Reformed Church Loan Fund, Inc. - U.S.

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 3,618,933	\$ 6,102,071
Accrued interest receivable	89,107	78,327
Loans receivable - net of allowance for loan losses of \$400,073 in 2018 and \$405,836 in 2017 (Note 3)	17,208,128	17,485,214
Prepaid support charges (Note 7)	26,000	52,000
Equipment, net	16,587	18,606
Total Assets	\$ 20,958,755	\$ 23,736,218
Liabilities		
Certificates payable (Note 4)	\$ 15,044,428	\$ 17,990,490
Accrued interest payable	33,919	39,905
Refundable commitment fees	15,987	14,000
Total Liabilities	15,094,334	18,044,395
Net Assets		
Unrestricted	5,864,421	5,691,823
Total Liabilities and Net Assets	\$ 20,958,755	\$ 23,736,218

See accompanying notes to financial statements.

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Statements of Activities

<i>Year ended June 30,</i>	2018	2017	2016
Revenues			
Interest income	\$ 824,789	\$ 874,850	\$ 930,462
Interest income from concentrated cash management	24,885	45,717	52,047
Other income	13,438	1,606	1,099
Total Revenues	863,112	922,173	983,608
Expenses			
Interest	313,350	447,427	573,254
Provision for loan losses - CRCNA (Note 7)	-	1,948,000	-
Christian Reformed Church in North America support charges (Note 7)	253,552	215,336	237,424
Administrative	123,612	126,623	127,000
Total Expenses	690,514	2,737,386	937,678
Change in Net Assets	172,598	(1,815,213)	45,930
Net Assets, beginning of year	5,691,823	7,507,036	7,461,106
Net Assets, end of year	\$ 5,864,421	\$ 5,691,823	\$ 7,507,036

See accompanying notes to financial statements.

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Statements of Cash Flows

<i>Year ended June 30,</i>	2018	2017	2016
Cash Flows From (for) Operating Activities			
Change in net assets	\$ 172,598	\$ (1,815,213)	\$ 45,930
Adjustments to reconcile change in net assets to net cash from operating activities:			
Depreciation expense	4,920	2,634	-
Provision for loan losses - CRCNA	-	1,948,000	-
Provision for loan losses	(5,763)	(122,111)	-
Loss on sale of assets held for sale	-	87,230	-
Changes in operating assets and liabilities:			
Accrued interest receivable	(10,780)	(9,503)	50,484
Prepaid support charges	26,000	-	-
Accrued interest payable	(5,986)	(83,319)	58,178
Refundable commitment fees	1,987	11,500	2,500
Net Cash From Operating Activities	182,976	19,218	157,092
Cash Flows From (for) Investing Activities			
Purchases of equipment	(2,900)	(21,240)	-
Proceeds from sale of assets held for sale	-	210,908	-
Advances on loans receivable	(2,810,359)	(1,393,624)	(450,300)
Collections on loans receivable	3,093,208	2,522,263	3,011,412
Net Cash From Investing Activities	279,949	1,318,307	2,561,112
Cash Flows From (for) Financing Activities			
Issuances of certificates payable	653,839	100,000	1,978,388
Redemptions of certificates payable	(3,599,901)	(9,650,736)	(1,478,106)
Net Cash From (for) Financing Activities	2,946,062	(9,550,736)	500,282
Net Increase (Decrease) in Cash and Cash Equivalents	(2,483,138)	(8,213,211)	3,218,486
Cash and Cash Equivalents, beginning of year	6,102,071	14,315,282	11,096,796
Cash and Cash Equivalents, end of year	\$ 3,618,933	\$ 6,102,071	\$ 14,315,282
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$ 39,015	\$ 122,544	\$ 19,616
Interest expense reinvested in certificates payable	280,321	408,202	495,460
Non-Cash Investing Activity			
Transfer from loans to assets held for sale	\$ -	\$ -	\$ 298,138

See accompanying notes to financial statements.

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Notes to Financial Statements

1. Organization

The purpose of the Christian Reformed Church Loan Fund, Inc. - U.S. (the Fund), a nonprofit corporation, is to assist congregations of the Christian Reformed Church in financing capital expansion projects. To accomplish this, the Fund grants loans, up to certain limits, for land and other capital expenditures to churches in the United States of America. Loan recipients are charged interest at rates sufficient to cover the Fund's cost of borrowing and operating expenses.

The Fund operates from office facilities provided by Christian Reformed Church in North America (CRCNA).

2. Summary of Significant Accounting Policies

Basis of Presentation

Net assets of the Fund and changes therein are classified and reported as follows:

- Unrestricted Net Assets - net assets which are not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets - net assets subject to donor-imposed stipulations that should be met by actions of the Fund and/or the passage of time.
- Permanently Restricted Net Assets - net assets subject to donor-imposed stipulations requiring that they be maintained permanently by the Fund.

The Fund has no temporarily or permanently restricted net assets; however, the Board of Directors has designated \$334,164 of unrestricted net assets for any future loan losses in excess of the allowance account.

Revenues and investment income are reported as follows:

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Temporarily restricted contributions whose restrictions are satisfied in the same year in which the contribution revenue is recorded are reported as unrestricted contributions.

Reclassifications

Certain amounts previously reported in prior fiscal years have been reclassified to conform with the current year's presentation.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions

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Notes to Financial Statements

that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through August 6, 2018, the date the financial statements were available to be issued. Based on evaluation, there were no matters identified that had a significant impact on the financial statements as presented.

Income Taxes

The Fund is included in the CRCNA group exemptions as an organization described under Internal Revenue Code Section 501(c)(3), exempt from taxation under Section 501(a). Contributions to the Fund are deductible for federal tax purposes.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments purchased with an original maturity of three months or less at the date of purchase.

In response to the recent years' decline in loan demand, the Fund determined that its cash position should be reduced by approximately \$8.0 million, in order to reduce excess interest expense. The Fund accomplished this objective during 2017 by not accepting new investment funds as well as by redeeming all maturing investment certificates for an eight-month period during the year.

Concentrations of Credit Risk

The Fund maintains its cash in various bank and brokerage accounts managed by CRCNA, and does not consider there to be a significant credit risk arising from deposits in excess of federally insured limits.

The risk associated with making many large loans is managed by limiting the size of each secured loan to \$1,500,000 or 6% of total assets. A loan may exceed \$1,500,000 only if members of the church invest in investment certificates with a minimum term of three years and in an amount at least equal to the amount by which the loan exceeds \$1,500,000. The total amount of all unsecured loans shall not exceed 10% of the total outstanding loans of the Fund (see Note 3). There were no loans with a balance over \$1,500,000 for the years ended June 30, 2018 or 2017.

Loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at the principal balance outstanding, net an allowance for loan losses.

The loan portfolio is segmented into standard loans and construction loans, both of which are secured by a mortgage on the property. The Fund also makes unsecured loans for capital improvements or repairs to existing church-owned buildings. Construction loans are loans in the construction stage and are not completed to the point where permanent occupancy is permitted.

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The Fund considers a loan impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the original loan agreement.

Interest Income

Interest income is recognized and accrued on loans receivable and cash and cash equivalents, when earned. Interest income on impaired loans is recognized only when interest payments are received.

Allowance for Loan Losses

The allowance for loan losses is increased by a provision for losses charged to expense and reduced by loans charged-off, net of recoveries. The allowance is maintained at a level considered adequate to provide for probable incurred loan losses based on management's evaluation of the anticipated impact on the loan portfolio of current economic conditions, past loan experience, probable future losses on loans to specific borrowers, the financial condition of the borrower, the value of underlying collateral, and other pertinent factors that management believes require current recognition in estimating probable loan losses. Specific reserves are established for any impaired loan for which the recorded investment in the loan exceeds the fair value of the loan, less estimated costs to sell. There were no charge-offs or recoveries in the years ended June 30, 2018, 2017 or 2016.

Fair Value Measurements

Recorded book value approximates fair value for all financial instruments within the Fund.

3. Loans Receivable

The components of loans receivable by class, net, at June 30 are as follows:

	2018	2017
Commercial real estate loans		
Secured loans	\$ 17,131,469	\$ 17,790,279
Unsecured loans	476,732	100,771
Allowance for loan losses	(400,073)	(405,836)
Loans Receivable, net	\$ 17,208,128	\$ 17,485,214

The allowance for loan losses relates solely to standard loans, and these loans have been evaluated for impairment. During the year ended June 30, 2017, the allowance account decreased by \$122,111. During the year ended June 30, 2018, the allowance account decreased by \$5,763.

Loans receivable at June 30, 2018 bear interest at predominantly adjustable interest rates ranging from 4.75% to 5.75% at June 30, 2018, and mature in various amounts through 2038. Substantially all loans receivable are secured by first or second real estate mortgages.

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Notes to Financial Statements

Maturities on loans receivable at June 30, 2018 are summarized as follows:

Year ending June 30,

2019	\$	17,300
2020		318,700
2021		89,300
2022		166,300
2023		886,400
Thereafter		16,130,201
Total		\$ 17,608,201

A summary of current and past due loans at June 30, 2018 was as follows:

	Current	30-59 Days	60-89 Days	90+ Days	Total
Standard	\$ 17,608,201	\$ -	\$ -	\$ -	\$ 17,608,201

A summary of current and past due loans at June 30, 2017 is as follows:

	Current	30-59 Days	60-89 Days	90+ Days	Total
Standard	\$ 17,891,050	\$ -	\$ -	\$ -	\$ 17,891,050

There was one impaired loan at June 30, 2018 and 2017 with a balance of \$511,622 and \$526,690, respectively. This impaired loan had a specific allowance of \$0 recorded as of June 30, 2018 and 2017, respectively. This restructured loan is considered a Troubled Debt Restructuring based on the fact that the Fund has granted a concession to the borrower, which was considered to be experiencing financial difficulties. The subject loan is not included in nonperforming loans, as it is considered probable that all contractual principal and interest due under the restructured terms will be collected.

4. Certificates Payable

Certificates payable are issued under certificate offerings either registered or exempt from registration in the states where the certificates are offered. The certificates are initially offered in minimum denominations of \$1,000 or \$5,000, depending on the type of certificate, and may be issued by the Fund at any time. Interest is paid monthly or quarterly, depending on the amount invested, and may be reinvested by the certificate holder at an annual percentage yield (predominately fixed) ranging from 1.5% to 2.75% at June 30, 2018 (weighted average at June 30, 2018, 2017 and 2016 of 2.21%, 1.96% and 1.95%, respectively). Principal amounts are due at maturity or upon demand, depending on the type of certificate.

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Maturities on outstanding certificates at June 30, 2018 are summarized as follows:

Year ending June 30,

Flex certificates, payable on demand	\$ 2,933,428
2019	4,738,700
2020	2,957,800
2021	2,430,800
2022	726,700
2023	1,257,000
Total	\$ 15,044,428

In 2018 and 2017, the Fund had certificates payable renewed at maturity in the amount of approximately \$5,359,000 and \$1,582,000, respectively.

5. Line of Credit

The Fund has an unsecured line of credit with a bank which permits borrowings up to \$2,000,000 at the bank's prime rate. This line of credit expires on February 28, 2019; no amounts were outstanding as of June 30, 2018 or 2017.

6. Commitments

As of June 30, 2018, the Fund had outstanding commitments and approved loans aggregating approximately \$2,025,000 which will be disbursed as they are requested by the churches.

7. Transactions With Other Christian Reformed Church Entities and Related Parties

During the years ended June 30, 2018, 2017 and 2016, the Fund incurred charges of approximately \$254,000, \$215,000 and \$237,000, respectively, from CRCNA for support charges related to the consolidated financial services function.

The Fund manages its cash in conjunction with the CRCNA consolidated cash management system. As part of this process, CRCNA may borrow funds from participating entities. At June 30, 2016, the Fund held a note receivable from CRCNA in the amount of \$2,000,000. CRCNA had been making quarterly interest payments to the Fund, based on an interest rate of 1.3%. The net affect due to the write-off of this note for the Fund was a \$1,948,000 loan loss provision expense for the year ended June 30, 2017, which included a \$52,000 credit by CRCNA for the Fund's lost interest income for two years. This credit is being used to partially offset the Fund's CRCNA support charges, and has been recorded as prepaid support charges on the accompanying statements of financial position. This action will greatly benefit the CRCNA's overall ministry objectives.

Certificates payable include approximately \$163,000 and \$168,000 at June 30, 2018 and 2017, respectively, due to certain directors, officers and employees of the Fund.