

**CHURCH DEVELOPMENT FUND, INC.**  
Irvine, California

**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Church Development Fund, Inc.  
Irvine, California

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Church Development Fund, Inc., which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for each of the three years in the period ended December 31, 2019 and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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(Continued)

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Church Development Fund, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Crowe LLP". The script is cursive and fluid, with the "C" being particularly large and stylized.

Crowe LLP

Costa Mesa, California  
March 16, 2020

CHURCH DEVELOPMENT FUND, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2019 and 2018  
(Dollar amounts in thousands)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 37,768	\$ 7,671
Investments	48,474	35,100
Accounts and other receivables, net	671	582
Prepaid expenses and other assets	576	642
Accrued interest and dividends	2,119	2,316
Loans receivable held for investment, net	516,521	552,515
Real estate	10,340	13,596
Restricted cash and investments	35	35
Investments held for benefit of trustors	813	744
Real estate held for lease, net	10,204	10,512
Property and equipment, net	<u>4,013</u>	<u>3,972</u>
Total assets	\$ <u>631,534</u>	\$ <u>627,685</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,707	\$ 1,695
Debt securities	577,257	576,565
Deferred income	606	520
Liabilities held under trust agreements	1,719	1,713
Reserve for unfunded commitments	<u>1,107</u>	<u>-</u>
Total liabilities	<u>582,396</u>	<u>580,493</u>
Net assets:		
Without donor restrictions	47,496	45,612
With donor restrictions	<u>1,642</u>	<u>1,580</u>
Total net assets	<u>49,138</u>	<u>47,192</u>
Total liabilities and net assets	\$ <u>631,534</u>	\$ <u>627,685</u>

See accompanying notes to consolidated financial statements.

CHURCH DEVELOPMENT FUND, INC.  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years ended December 31, 2019, 2018, and 2017  
(Dollar amounts in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Changes in net assets without donor restrictions:			
Interest income:			
Interest and fees on loans	\$ 25,975	\$ 27,929	\$ 28,650
Interest and dividends on cash and investments	1,946	961	657
Total interest income	<u>27,921</u>	<u>28,890</u>	<u>29,307</u>
Interest expense:			
Interest on debt securities	(16,344)	(16,099)	(16,590)
Short-term borrowing interest	(59)	(17)	(15)
Total interest expense	<u>(16,403)</u>	<u>(16,116)</u>	<u>(16,605)</u>
Net interest income	11,518	12,774	12,702
Negative provision (provision) for loan losses	289	(357)	(506)
Net interest income after provision for loan losses	<u>11,807</u>	<u>12,417</u>	<u>12,196</u>
Noninterest operating income and expenses:			
Contributions and bequests	578	377	1,347
Rental income	258	253	438
Construction services	273	246	151
Loan servicing fee income	111	67	58
Other income	1,072	1,586	1,702
Grant expense to other ministries	(1,404)	(948)	(1,629)
Provision for unfunded commitments	(1,107)	-	-
General operating expenses	(9,637)	(10,793)	(11,685)
Total noninterest operating income and expenses	<u>(9,856)</u>	<u>(9,212)</u>	<u>(9,618)</u>
Net operating income	<u>1,951</u>	<u>3,205</u>	<u>2,578</u>
Nonoperating income and expenses:			
Net realized and unrealized gain (losses) on investments	176	(129)	(205)
Net realized and unrealized losses on real estate	(166)	(454)	(569)
Net gain (losses) on sale of property, equipment, and leasehold improvements	1	(53)	(1)
Change in value of split-interest agreements	(79)	(79)	(210)
Total nonoperating income and expenses, net	<u>(68)</u>	<u>(715)</u>	<u>(985)</u>
Change in net assets without donor restrictions	<u>1,883</u>	<u>2,490</u>	<u>1,593</u>
Changes in net assets with donor restrictions:			
Contributions and bequests	-	5	-
Change in value of split-interest agreements	63	(10)	144
Change in net assets with donor restrictions	<u>63</u>	<u>(5)</u>	<u>144</u>
Change in net assets	1,946	2,485	1,737
Net assets, beginning of year	<u>47,192</u>	<u>44,707</u>	<u>42,970</u>
Net assets, end of year	\$ <u>49,138</u>	\$ <u>47,192</u>	\$ <u>44,707</u>

See accompanying notes to consolidated financial statements.

CHURCH DEVELOPMENT FUND, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2019, 2018, and 2017  
(Dollar amounts in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>			
Change in net assets	\$ 1,946	\$ 2,485	\$ 1,737
Adjustments to reconcile change in net assets to net cash from operating activities:			
Provision for loan losses, net	(289)	357	506
Provision for unfunded commitments	1,107	-	-
Provision for bad debt	-	-	84
Amortization of deferred loan costs, net	305	284	280
Net realized and unrealized investment (gain) losses	(176)	129	205
Net losses on real estate	166	454	569
Net (gain) losses on sale of property, equipment, and leasehold improvements	(1)	53	1
Noncash contributions	-	-	(963)
Depreciation and amortization	510	682	731
Change in value of split-interest agreements	16	89	66
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(89)	95	246
Accrued interest and dividends	197	(177)	144
Prepaid expenses and other assets	66	1,172	(834)
Accounts payable and accrued expenses	11	(532)	(66)
Deferred compensation liability	-	-	(41)
Deferred income	86	-	(14)
Other changes in trusts and church trust properties	(79)	(79)	(81)
Net cash from operating activities	<u>3,776</u>	<u>5,012</u>	<u>2,570</u>
<b>Cash flows from investing activities</b>			
New loans made to churches, net of administration fees	(93,713)	(68,963)	(50,890)
Proceeds from loan principal repayments	120,333	50,037	56,030
Proceeds from the sale of loans receivable	3,417	7,746	-
Purchases of loans receivable	-	-	(3,000)
Purchases of investments	(39,157)	(12,870)	(15,466)
Proceeds from pay down, maturities and sale of investments	25,959	13,525	15,053
Acquisitions of real estate	(65)	(124)	(1,095)
Proceeds from the sale of real estate	1,691	1,072	17,130
Purchases of property and equipment	(227)	(3,929)	(56)
Net cash from investing activities	<u>18,238</u>	<u>(13,506)</u>	<u>17,706</u>
<b>Cash flows from financing activities</b>			
Proceeds from debt securities	91,441	89,068	86,313
Redemption of debt securities	(97,831)	(118,570)	(109,251)
Reinvested interest on debt securities	14,473	14,172	14,454
Proceeds from related-party entities	-	-	334
Net cash from financing activities	<u>8,083</u>	<u>(15,330)</u>	<u>(8,150)</u>
Change in cash and cash equivalents	30,097	(23,824)	12,126
Cash and cash equivalents, beginning of year	<u>7,671</u>	<u>31,495</u>	<u>19,369</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 37,768</u></u>	<u><u>\$ 7,671</u></u>	<u><u>\$ 31,495</u></u>

See accompanying notes to consolidated financial statements.

CHURCH DEVELOPMENT FUND, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2019, 2018, and 2017  
(Dollar amounts in thousands)

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest on interest-bearing liabilities and line of credit	\$ 16,409	\$ 16,111	\$ 16,606
Supplemental disclosures of noncash investing and financing activities:			
Net investment in loans receivable transferred to real estate through			
property transfer, foreclosure and deed-in-lieu of foreclosure	\$ -	\$ 1,879	\$ 1,167
Real estate transferred to loans receivable held for investment	\$ 1,450	\$ 2,323	\$ 163
Debt securities transferred to fund the sale of loans receivable	\$ 7,391	\$ -	\$ -

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See accompanying notes to consolidated financial statements.



CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

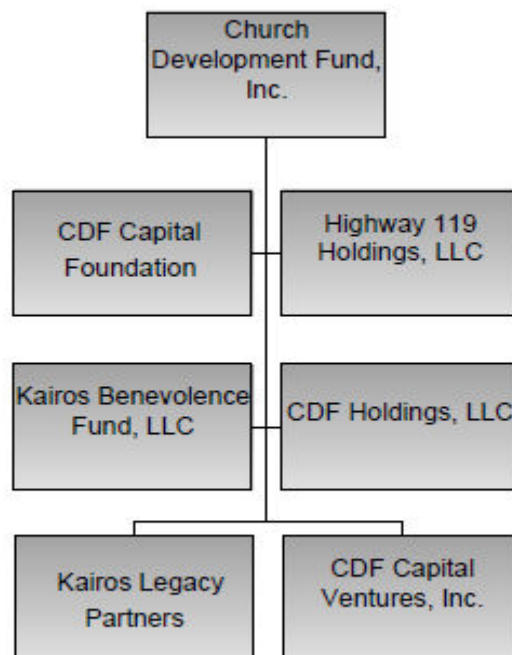
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**NOTE 1 – NATURE OF ORGANIZATION**

Church Development Fund, Inc. (CDF, CDF Capital, or Organization) is a California religious not-for-profit corporation that was established in 1953 and operates as a church extension fund, affiliated with independent Christian Churches. CDF's purpose is to help churches and ministries grow. It carries out this purpose by generating funds to finance the purchase, construction, and improvement of church-related properties, to refinance existing debt incurred for these purposes, and to provide for operational needs of churches and ministries. Funds for CDF's loan program are primarily generated through sales of debt securities, contributions, and borrowings. In addition, CDF provides a variety of consulting services to churches including leadership and strategic planning, donor development, and facilities review.

Principles of Consolidation: The consolidated financial statements include the accounts and operations of CDF and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Prior to April 1, 2017, CDF was a wholly controlled subsidiary of Provision Ministry Group (Provision). Effective as of April 1, 2017, Provision and CDF effectuated a governance change of control to remove control of CDF by Provision such that the CDF Board has control over the governance of CDF as a separate and independent entity. There were no changes in CDF's subsidiaries as a result of the change in control. Effective January 1, 2018, Co:Mission Foundation (now CDF Capital Foundation), previously a wholly controlled subsidiary of Provision, became a wholly controlled subsidiary of CDF through a change in governance. Effective January 1, 2019, Kairos Legacy Partners, previously a wholly controlled subsidiary of Provision, became a wholly controlled subsidiary of CDF through a change in governance. In 2019, CDF Land, LLC and CDF Loan Servicing, LLC were both dissolved. The following chart shows the current corporate organizational structure:



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(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting and Presentation: The consolidated financial statements of CDF are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Cash and Cash Equivalents: Cash and cash equivalents include checking accounts, money market accounts, and other highly liquid investments with original maturities of 90 days or less when purchased.

Investments: Investments are recorded at fair value. Valuation techniques are further discussed in Note 14. Unrealized gains and losses on investments are recorded on a net basis as nonoperating income or expense.

Property, Equipment, and Leasehold Improvements: Property, equipment, and leasehold improvements are carried at cost for expenditures over \$1,000 and an expected useful life of greater than one year. Depreciation expense is allocated on a straight-line basis over the estimated useful lives of the assets ranging from three to seven years for equipment and from 30 to 40 years for buildings.

Loans Receivable Held for Investment and Allowance for Loan Losses: Loans receivable held for investment are stated at their principal amount outstanding less the related allowance for loan losses and net of deferred loan fees and costs. Loans are generally collateralized by real estate. Interest is calculated using the simple-interest method and interest rates on the majority of loans are subject to adjustment every three to five years when loans either mature or are reset in accordance with the terms of the loan. Loans are typically amortized over a period of 25 to 30 years.

A portfolio segment is the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables is the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics, and methods for assessing risk. The Organization's portfolio segment is church, parachurch ministries, and related educational institution loans. The classes within this segment are mortgage, construction, and other, including lines of credit, other asset secured, and unsecured loans. Risk arises primarily due to the difference between expected and actual cash flows of the borrowers, specifically related to size of the organization and level of contributions and revenue they receive; however, the ultimate recoverability of CDF's investment in these loans may also depend on other factors such as the type of collateral securing these loans and its fair value, which may fluctuate as market conditions change.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management deems a loan unable to be collected and there is insufficient collateral to recover the principal and accrued interest. Recoveries, if any, are credited to the allowance. The allowance for loan losses is based upon periodic and systematic detailed reviews of the loan portfolio by management to identify credit risks and to assess the overall ability to collect on each loan. This analysis includes, but is not limited to, the borrower's management, financial condition, cash flows, repayment program, and the existence of collateral. In addition, the historical experiences of payment patterns and general economic conditions have been considered in management's evaluation of the allowance for loan losses. This process is based on estimates, and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for loan losses in the period in which they become known.

Loans are classified as impaired if management believes it is probable that CDF will not receive all principal and interest due on the loan according to the contractual terms of the loan agreement or if a modification of the contractual terms is determined to be a troubled debt restructuring of the loan.

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(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A loan is classified as a troubled debt restructuring when CDF grants a concession to a borrower experiencing financial difficulties. These concessions may include a reduction of the interest rate, reduction of principal or accrued interest, extension of the maturity date, or other actions intended to minimize potential losses. All loan modifications are evaluated on an individual basis to determine whether such modification meets the criteria to be classified as a troubled debt restructuring. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the loan is modified may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms for a sustained period of time but will continue to be disclosed as impaired.

The allowance for loan losses includes an amount for impaired loans. The allowance for impaired loans is calculated as the difference between the carrying value of the loan and either the present value of expected cash flows if the collection of principal and interest is primarily dependent on the operating cash flows of the borrower or the fair value of collateral if the collection of principal and interest is primarily dependent on the underlying collateral of the loan.

If payments on a loan become over 90 days past due, the loan is classified as delinquent. If payments on a loan become over 120 days past due, interest accrual ceases and the loan is classified as delinquent and impaired. However, in certain instances, CDF may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collection of principal is probable, in which case interest payments are credited to income. Nonaccrual assets may be restored to accrual status when principal and interest become current and full repayment is expected, generally after a period of six months of payment performance. Interest income is recognized on the cash basis for impaired loans not meeting the criteria for nonaccrual.

A loan that has been placed on nonaccrual status that is subsequently restructured will usually remain on nonaccrual status until the borrower is able to demonstrate repayment performance in compliance with the restructured terms for a sustained period, typically for six months. A restructured loan may return to accrual status sooner based on other significant events or mitigating circumstances. A loan that has not been placed on nonaccrual status may be restructured and such loan may remain on accrual status after such restructuring. In these circumstances, the borrower has made payments before and after the restructuring. Generally, this restructuring involves a reduction in the loan interest rate and/or a change to interest-only payments for a period of time. The restructured loan is considered impaired despite the accrual status and a specific allowance is calculated. Subsequent collections of cash are credited to income under the cash basis if ultimate collection of principal is probable for restructured loans not meeting the criteria for nonaccrual.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans issued to meet customer financing needs. The face amount for these items represents the potential exposure to loss. Such financial instruments are recorded when they are funded. To the extent funding is expected and there is a risk of loss, CDF will establish a reserve.

Concentration of Credit Risk: Financial instruments that potentially subject CDF to concentrations of credit risk consist principally of cash and cash equivalents, investments, loans receivable, and debt securities.

CDF places substantially all of its cash and cash equivalents with high-quality financial institutions and limits the amount of significant credit exposure to any one financial institution.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

At December 31, 2019, CDF had significant deposits in excess of federal deposit insurance limits at three financial institutions. The management of CDF does not believe that CDF is exposed to any significant risk of loss due to this concentration.

At December 31, 2019, a significant portion of the investment portfolio was invested in money market accounts (classified as cash and cash equivalents), mortgage-backed securities, corporate securities, and certificates of deposit held by UMB Bank, N.A, Pacific Mercantile Bank (PMB), CrossFirst Bank (CFB) and various other financial institutions.

Concentrations of credit risk with respect to loans receivable are limited to a certain extent by the secured position of CDF in most instruments, the number of organizations comprising CDF's loans receivable base, their dispersion across geographic area, and CDF's policy of limiting the maximum loan amount to any one borrower. CDF's loans are with churches and related organizations of the Christian Church and other independent church congregations. While CDF may be exposed to credit losses in the event of nonperformance by the above contracting parties, management has established an allowance for potential loan losses, which it believes is adequate to cover probable incurred losses as of December 31, 2019.

Deferred Loan Fees: Loan administration fees collected at the inception of loans held for investment, net of the costs of originating the loan, are deferred and amortized over the life of the loan as an adjustment of yield using a method that approximates the effective-interest method. These loan administration fees are recorded as part of loans receivable held for investment, net, in the accompanying consolidated statements of financial position. Net amortization of such deferred costs was \$305,000, \$284,000, and \$280,000, for the years ended December 31, 2019, 2018, and 2017, respectively, and was included in interest income in the accompanying consolidated statements of activities.

Transfers and Servicing of Financial Assets: The transfer of financial assets in which the Organization surrenders control over the assets is accounted for as a sale to the extent that consideration other than beneficial interests is received in exchange. GAAP sets forth the criteria that must be met for control over transferred assets to be considered to have been surrendered, which includes, among others: (1) the assets must be isolated from creditors of the transferor, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When the Organization transfers financial assets and the transfer fails any one of these criteria, the Organization is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing.

When de-recognition criteria are met and the transfer is accounted for as a sale, the Organization removes financial assets from the consolidated statements of financial position and a net gain or loss is recognized in income at the time of sale. In the ordinary course of business, as loans are sold, CDF makes standard industry representations and warranties about the loans. CDF may have to subsequently repurchase certain loans due to defects that occurred in the origination of the loans. Such defects are categorized as documentation errors, underwriting errors, or fraud. As of December 31, 2019, CDF has not been required or requested to repurchase any sold loans due to these circumstances and no reserve for repurchase has been recorded.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Investments Held for Benefit of Trustors and Liabilities Held under Trust Agreements: CDF is the trustee for irrevocable trusts, including charitable remainder unitrusts and charitable remainder annuity trusts. These trusts provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. Distributions to beneficiaries may be for a specified dollar amount or for a specified percentage of the trust's fair value as determined annually. Assets received under such agreements are typically fixed income securities or debt securities issued by CDF. The fixed income securities are recorded at fair value and are included in investments held for benefit of trustors in the accompanying consolidated statements of financial position. Debt securities accounts held with CDF are eliminated upon consolidation of the trusts.

The present value of the income interests is reported as trust liabilities using discount and mortality tables at rates that approximate the risk-adjusted rate of return at the time the agreement was established. At December 31, 2019, the risk-adjusted rate of return ranged from 6% to 8%. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to designated charitable organizations. Certain trusts contain provisions to distribute assets to charitable organizations other than CDF. The portion attributable to others is reflected as a component of the liabilities held under trust agreements. Changes in the fair value of the investments are combined with the changes in the estimated liability and are recorded in the consolidated statements of activities.

Real Estate and Real Estate Held for Lease: Generally, assets acquired through deed-in-lieu of foreclosure and donation are held for sale and are initially recorded at fair value, less estimated selling costs at the date of acquisition, establishing a new cost basis. Subsequent to acquisition, valuations are periodically obtained from independent sources. The assets are carried at the lower of carrying amount or fair value less costs to sell and included in real estate in the consolidated statements of financial position. Changes in the valuation allowance are included in net gain or loss on real estate in the consolidated statements of activities.

Certain assets acquired through deed-in-lieu of foreclosure and donation are held for lease and are initially recorded at fair value at the date of acquisition, establishing a new cost basis. Subsequent to acquisition, the assets are subject to depreciation and assessments for impairment. The assets are carried at the net carrying amount and included in real estate held for lease in the consolidated statements of financial position.

Debt Securities: The major source of funds used to finance loans is received from the sale of debt securities to investors whom CDF considers to be associated with its mission of serving churches. These debt securities are not collateralized. CDF classifies reinvested interest on debt securities in cash flows from financing activities on the consolidated statements of cash flows. Reinvested interest on debt securities was \$14,473,000, \$14,172,000, and \$14,454,000, for the years ended December 31, 2019, 2018, and 2017, respectively.

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CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Classes of Net Assets: The consolidated financial statements report amounts by classification of net assets as follows:

*Net assets without donor restrictions* are those currently available for use in CDF's operations, amounts designated by the Board for specific purposes and include those resources invested in property, equipment, and leasehold improvements. In addition, CDF maintains donor-advised funds in which donors are given the opportunity to make recommendations for grants to approved charities to be paid from the funds. The Organization maintains control over the funds and makes grants at its sole discretion.

*Net assets with donor restrictions* consist of contributions with donor stipulations for specific purposes or programs, or that impose certain time restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as received are classified as without donor restrictions support. Net assets with donor restrictions consist of donor restricted contributions, split-interest agreements, and endowments.

Donor restricted endowment funds are contributed with donor stipulations to invest the principal of the gift in perpetuity, with only the income to be utilized for ministry purposes with restrictions.

Income Taxes: CDF is an organization exempt from taxation under §501(a) of the Internal Revenue Code (IRC) and is classified as an exempt organization pursuant to §501(c)(3) and further described as a religious organization under §509(a)(1) and §170(b)(1)(A)(i). The Organization remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. CDF's subsidiaries included in the reporting entity consist of entities wholly owned by CDF and, therefore, disregarded for income tax purposes, separate organizations exempt under §501(c)(3), and further described as supporting organizations under §509(a)(3) and separate taxable corporations subject to federal and state income taxes. The income tax provision recorded, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

The Organization is required to determine whether it is more-likely than-not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely than-not recognition threshold is measured to determine the amount of expense or benefit to recognize in the consolidated financial statements. The Organization has concluded that there are no significant uncertain tax positions requiring disclosure in the consolidated financial statements as of December 31, 2019 and 2018.

Use of Estimates: The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could materially differ from those estimates. Significant estimates include the determination of loan loss reserves and the valuation of real estate.

Adoption of Accounting Standard and reclassifications: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP. The objective of this ASU is to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The standard prescribes five steps for measuring the recognition of revenue: (i) identify the contract, (ii) identify performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to performance obligations, and (v) recognize revenue as the entity satisfies performance obligations. CDF's in-scope revenue streams consist of gain on sale of other real estate, gain on sale of property and equipment, and other income, which are included as separate line items on the statements of financial activities. CDF's analysis of these revenue streams concluded that no changes were necessary regarding CDF's revenue recognition practices. Consequently, the adoption of this ASU on January 1, 2019 had no impact on the financial position or results of operations of CDF.

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CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

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**NOTE 3 – INVESTMENTS**

The fair value of investments consists of the following at December 31 (in thousands):

	<u>2019</u>	<u>2018</u>
Certificates of deposit	\$ 21,921	\$ 20,400
Mortgage-backed securities, residential	19,908	12,480
Agency bonds	-	1,229
Corporate securities	<u>6,645</u>	<u>991</u>
	<u>\$ 48,474</u>	<u>\$ 35,100</u>

All of the above securities are available for sale or redemption any time CDF determines liquidation is appropriate. The investments mature as of December 31 as follows (in thousands):

2020	\$ 9,301
2021	6,587
2022	4,602
2023	2,893
2024	4,519
Thereafter	<u>20,572</u>
	<u>\$ 48,474</u>

**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT**

An age analysis of loans receivable held for investment, by class, at December 31, 2019, is as follows (in thousands):

	<u>Current or Less Than 31 Days Past Due</u>	<u>31–60 Days Past Due</u>	<u>61–90 Days Past Due</u>	<u>91 Days or More Past Due</u>	<u>Total</u>
Mortgage loans	\$ 414,782	\$ -	\$ -	\$ 13,683	\$ 428,465
Construction loans	69,703	-	-	-	69,703
Other loans	<u>20,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,878</u>
	<u>\$ 505,363</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,683</u>	<u>\$ 519,046</u>
Percentage loan portfolio	97.4%	0.0%	0.0%	2.6%	100.0%

As of December 31, 2019, loans on nonaccrual included in 91 days or more past due are mortgage loans of \$13,683,000. There are no loans accruing interest included in 91 days or more past due.

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(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT** (Continued)

An age analysis of loans receivable held for investment, by class, at December 31, 2018, is as follows (in thousands):

	Current or Less Than 31 Days Past Due	31–60 Days Past Due	61-90 Days Past Due	91 Days or More Past Due	Total
Mortgage loans	\$ 462,631	\$ -	\$ -	\$ 12,884	\$ 475,515
Construction loans	53,846	-	-	-	53,846
Other loans	<u>26,705</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,705</u>
	<u>\$ 543,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,884</u>	<u>\$ 556,066</u>
Percentage of loan portfolio	97.7%	0.0%	0.0%	2.3%	100.0%

As of December 31, 2018, loans on nonaccrual included in 91 days or more past due are \$3,344,000 for mortgage loans. Loans accruing interest included in 91 days or more past due are mortgage loans of \$9,540,000.

The Organization evaluates its loans receivable using conforming or nonconforming as the primary credit quality indicator. Nonconforming refers to those loans that are internally classified by the Organization as substandard. These assets pose higher risk and elevated probability of default. Conforming refers to all loans not considered nonconforming. The Organization evaluates various criteria for determining whether a loan is conforming or nonconforming on an annual basis.

The table below presents credit quality indicators related to the Organization's loans by class at December 31, 2019 (in thousands):

	Mortgage Loans	Construction Loans	Other Loans	Total
Risk ratings				
Conforming	\$ 403,584	\$ 69,703	\$ 19,228	\$ 492,515
Nonconforming	<u>24,881</u>	<u>-</u>	<u>1,650</u>	<u>26,531</u>
Total	<u>\$ 428,465</u>	<u>\$ 69,703</u>	<u>\$ 20,878</u>	<u>\$ 519,046</u>
Allowance for loan losses				(2,870)
Deferred loan fees, net				<u>345</u>
				<u>\$ 516,521</u>

(Continued)



CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT** (Continued)

The table below presents credit quality indicators related to the Organization's loans by class at December 31, 2018 (in thousands):

	<u>Mortgage Loans</u>	<u>Construction Loans</u>	<u>Other Loans</u>	<u>Total</u>
Risk ratings				
Conforming	446,530	53,846	24,748	525,124
Nonconforming	<u>28,985</u>	<u>-</u>	<u>1,957</u>	<u>30,942</u>
Total	<u>\$ 475,515</u>	<u>\$ 53,846</u>	<u>\$ 26,705</u>	556,066
Allowance for loan losses				(3,938)
Deferred loan fees, net				<u>387</u>
				<u>\$ 552,515</u>

The following table presents a summary of the activity in the allowance for loan losses by class for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	<u>Mortgage Loans</u>	<u>Construction Loans</u>	<u>Other Loans</u>	<u>Total</u>
<u>December 31, 2019</u>				
Allowance for loan losses				
Beginning balance	\$ 2,420	\$ 56	\$ 1,462	\$ 3,938
Charge-offs	(779)	-	-	(779)
(Negative provision) provision	<u>(621)</u>	<u>82</u>	<u>250</u>	<u>(289)</u>
Ending balance	<u>\$ 1,020</u>	<u>\$ 138</u>	<u>\$ 1,712</u>	<u>\$ 2,870</u>
Amount of the allowance applicable to loans				
Individually evaluated for impairment	\$ 79	\$ -	\$ 1,650	\$ 1,729
Collectively evaluated for impairment	<u>941</u>	<u>138</u>	<u>62</u>	<u>1,141</u>
Total allowance for loan losses	<u>\$ 1,020</u>	<u>\$ 138</u>	<u>\$ 1,712</u>	<u>\$ 2,870</u>
Ending balance of loan portfolio composed of				
Individually evaluated for impairment	\$ 20,544	\$ -	\$ 1,650	\$ 22,194
Collectively evaluated for impairment	<u>407,921</u>	<u>69,703</u>	<u>19,228</u>	<u>496,852</u>
Total loan portfolio	<u>\$ 428,465</u>	<u>\$ 69,703</u>	<u>\$ 20,878</u>	<u>\$ 519,046</u>

(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT** (Continued)

	<u>Mortgage Loans</u>	<u>Construction Loans</u>	<u>Other Loans</u>	<u>Total</u>
<u>December 31, 2018</u>				
Allowance for loan losses				
Beginning balance	\$ 3,327	\$ 40	\$ 1,182	\$ 4,549
Charge-offs	(968)	-		(968)
Provision	<u>61</u>	<u>16</u>	<u>280</u>	<u>357</u>
Ending balance	<u>\$ 2,420</u>	<u>\$ 56</u>	<u>\$ 1,462</u>	<u>\$ 3,938</u>
Amount of the allowance applicable to loans				
Individually evaluated for impairment	\$ 1,197	\$ -	\$ 1,379	\$ 2,576
Collectively evaluated for impairment	<u>1,223</u>	<u>56</u>	<u>83</u>	<u>1,362</u>
Total allowance for loan losses	<u>\$ 2,420</u>	<u>\$ 56</u>	<u>\$ 1,462</u>	<u>\$ 3,938</u>
Ending balance of loan portfolio composed of				
Individually evaluated for impairment	\$ 21,994	\$ -	\$ 1,957	\$ 23,951
Collectively evaluated for impairment	<u>453,521</u>	<u>53,846</u>	<u>24,748</u>	<u>532,115</u>
Total loan portfolio	<u>\$ 475,515</u>	<u>\$ 53,846</u>	<u>\$ 26,705</u>	<u>\$ 556,066</u>
<u>December 31, 2017</u>				
Allowance for loan losses				
Beginning balance	\$ 3,978	\$ 33	\$ 111	\$ 4,122
Charge-offs	(79)	-	-	(79)
Provision	<u>(572)</u>	<u>7</u>	<u>1,071</u>	<u>506</u>
Ending balance	<u>\$ 3,327</u>	<u>\$ 40</u>	<u>\$ 1,182</u>	<u>\$ 4,549</u>
Amount of the allowance applicable to loans				
Individually evaluated for impairment	\$ 2,250	\$ -	\$ 1,129	\$ 3,379
Collectively evaluated for impairment	<u>1,077</u>	<u>40</u>	<u>53</u>	<u>1,170</u>
Total allowance for loan losses	<u>\$ 3,327</u>	<u>\$ 40</u>	<u>\$ 1,182</u>	<u>\$ 4,549</u>
Ending balance of loan portfolio composed of				
Individually evaluated for impairment	\$ 67,737	\$ -	\$ 1,907	\$ 65,644
Collectively evaluated for impairment	<u>429,019</u>	<u>24,402</u>	<u>26,226</u>	<u>479,647</u>
Total loan portfolio	<u>\$ 492,756</u>	<u>\$ 24,402</u>	<u>\$ 28,133</u>	<u>\$ 545,291</u>

(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT** (Continued)

The following is a summary of information pertaining to impaired loans as of December 31, 2019 and 2018 (in thousands):

	Impaired Loans without a Valuation Allowance	Impaired Loans with a Valuation Allowance	Total Recorded Investment	Valuation Allowance Related to Impaired Loans	Average Recorded Investment in Impaired Loans	Unpaid Principal Balance
<u>December 31, 2019</u>						
Mortgage loans	\$ 18,110	\$ 2,570	\$ 20,680	\$ 79	\$ 21,214	\$ 20,544
Construction loans	-	-	-	-	-	-
Other loans	-	1,650	1,650	1,650	2,075	1,650
Total	<u>\$ 18,110</u>	<u>\$ 4,220</u>	<u>\$ 22,330</u>	<u>\$ 1,729</u>	<u>\$ 23,289</u>	<u>\$ 22,194</u>
<u>December 31, 2018</u>						
Mortgage loans	\$ 4,838	\$ 17,156	\$ 21,994	\$ 1,197	\$ 39,184	\$ 21,994
Construction loans	-	-	-	-	-	-
Other loans	-	1,957	1,957	1,379	2,391	1,957
Total	<u>\$ 4,838</u>	<u>\$ 19,113</u>	<u>\$ 23,951</u>	<u>\$ 2,576</u>	<u>\$ 41,575</u>	<u>\$ 23,951</u>

The total recorded investment in loans includes uncollected loan fees not included in the principal balance of the loan.

Interest income recognized on impaired loans was \$425,000, \$1,703,000, and \$2,673,000, for the years ended December 31, 2019, 2018, and 2017, respectively.

The Organization seeks to assist customers that are experiencing financial difficulty by renegotiating loans. The portfolio may include modifications, both short- and long-term, of interest rates, principal or accrued interest, payment amount, length of term, or a combination thereof. The Organization makes loan modifications utilizing internal renegotiation programs, via direct customer contact, that manage debt exposures held by the Organization. The valuation allowance is based on the present value of projected cash flows discounted using the interest rate in effect prior to restructuring and prior to any risk-based increase in rate. If management determines that the collection of a loan is primarily dependent on the underlying collateral, the valuation allowance is based on fair value of the collateral.

(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT** (Continued)

The following table presents new troubled debt restructurings as of December 31 (dollars in thousands):

	2019			2018		
		Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment		Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
	Number of Loans			Number of Loans		
Trouble debt Restructurings						
Mortgage loans	1	\$ 8,999	\$ 8,999	-	\$ -	\$ -
Construction Loans	-	-	-	-	-	-
Other loans	-	-	-	3	2,437	1,957
Total	<u>1</u>	<u>\$ 8,999</u>	<u>\$ 8,999</u>	<u>3</u>	<u>\$ 2,437</u>	<u>\$ 1,957</u>

For any of these loans, in the event that CDF provides a concession through a refinance or modification which CDF would not ordinarily consider, in order to protect as much of the investment as possible, such loan may be considered a troubled debt restructuring even though it was performing throughout its term. The circumstances regarding any modification and a borrower's specific situation, such as their ability to obtain financing from another source at similar market terms, are evaluated on an individual basis to determine if a troubled debt restructuring has occurred.

All performing restructured loans were on accrual status prior to the loan modifications and have remained on accrual status after the loan modifications due to the borrowers making payments before and after the restructurings. In these circumstances, generally, a borrower may have had a fixed-rate loan that they continued to repay but may be having cash flow difficulties. In an effort to work with certain borrowers, CDF has agreed to interest rate reductions, interest-only payments for a period of time, principal reductions and/or extensions of the loan maturity date.

The following table provides a summary of troubled debt restructuring loans as of December 31 that defaulted within 12 months of their modification date (dollars in thousands):

	2019		2018		2017	
	Number of Loans	Period End Recorded Investment	Number of Loans	Period End Recorded Investment	Number of Loans	Period End Recorded Investment
Mortgage loans	-	\$ -	-	\$ -	1	\$ 8,585
Construction Loans	-	-	-	-	-	-
Other loans	-	-	-	-	-	-
Total defaulted troubled debt restructuring loans	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>1</u>	<u>\$ 8,585</u>

There was one mortgage loan modified with payment defaults during year ended December 31, 2017, which included modifications to the repayment terms.

(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

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**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT** (Continued)

As of December 31, 2019 and 2018, there were \$1,107,000 and \$800,000 remaining commitments to lend additional funds to debtors whose terms have been modified in a troubled debt restructuring.

As of December 31, 2019 and 2018, CDF had no loans receivable held for investment in which CDF's interests as secured lender were subordinate to third-party senior lenders.

As of December 31, 2019 and 2018, CDF had no loans and two loans totaling \$405,000, respectively, that were unsecured.

Loans receivable held for investment are contractually scheduled to mature as follows as of December 31, 2019 (in thousands):

2020	\$ 47,275
2021	30,138
2022	92,838
2023	91,727
2024	39,149
Thereafter	<u>217,919</u>
	<u>\$ 519,046</u>

As of December 31, 2019, CDF had loans receivable held for investment to borrowers with balances as follows (dollars in thousands):

	<u>Number of Borrowers</u>	<u>Principal Outstanding</u>	<u>Percentage of Loan Portfolio</u>
<u>Aggregate Loan Balance</u>			
Less than \$1,000,001	99	\$ 33,938	7 %
\$1,000,001 - \$5,000,000	71	168,538	32
\$5,000,001 - \$10,000,000	18	127,332	25
Over \$10,000,000	<u>12</u>	<u>189,238</u>	<u>36</u>
	<u>200</u>	<u>\$ 519,046</u>	<u>100 %</u>

CDF has no geographic lending restrictions. Aggregate loans by state greater than or equal to 5% of the total loans receivable held for investment portfolio are concentrated in the following states as of December 31, 2019 (dollars in thousands):

	<u>Number of Borrowers</u>	<u>Principal Outstanding</u>	<u>Percentage of Loan Portfolio</u>
California	45	\$ 160,522	31 %
Ohio	23	60,543	12
Arizona	18	42,428	8
Colorado	10	34,629	7
Nevada	<u>4</u>	<u>31,950</u>	<u>6</u>
	<u>100</u>	<u>\$ 330,072</u>	<u>64 %</u>

(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2019, 2018 and 2017

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**NOTE 4 – LOANS RECEIVABLE HELD FOR INVESTMENT** (Continued)

During the year ended December 31, 2019, CDF sold participation interests consisting of 31% to 49% of four loans at par to a third party for total proceeds approximating \$10,809,000. Based on the terms of the participation agreement, for a loan less than 100% sold, CDF maintains all records, performs all servicing requirements for a fee, and remits monthly the appropriate interest and principal amounts collected.

During the year ended December 31, 2018, CDF sold participation interests consisting of 45% of two loans at par to a third party for total proceeds approximating \$7,746,000. Based on the terms of the participation agreement, for a loan less than 100% sold, CDF maintains all records, performs all servicing requirements for a fee, and remits monthly the appropriate interest and principal amounts collected.

CDF's interests in participated loans are included in loans receivable held for investment in the accompanying consolidated statements of financial position and total \$43,914,000 and \$28,232,000 at December 31, 2019 and 2018, respectively. The outstanding principal balances, including both CDF and third-party interests, of all sold and participated loans serviced by CDF total \$77,637,000 and \$51,550,000 at December 31, 2019 and 2018, respectively.

In connection with the participation and sales agreements, CDF earned \$111,000, \$67,000, and \$58,000, of net loan servicing fee income for the years ended December 31, 2019, 2018, and 2017, respectively.

**NOTE 5 – REAL ESTATE**

Real estate, excluding real estate held for lease, consists of the following as of December 31 (dollars in thousands):

	<u>2019</u>	<u>Number of Properties</u>	<u>2018</u>	<u>Number of Properties</u>
Land and buildings acquired by:				
Deed-in-lieu of foreclosure	\$ 10,279	1	\$ 11,953	2
Donation	<u>61</u>	<u>1</u>	<u>1,643</u>	<u>2</u>
	<u>\$ 10,340</u>	<u>2</u>	<u>\$ 13,596</u>	<u>4</u>

As of December 31, 2019 and 2018, two properties represent undeveloped land and the remaining represent buildings and land. These properties are geographically dispersed among two and four states, respectively.

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(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 – REAL ESTATE** (Continued)

The table below presents real estate activity for the years ended December 31, 2018 and 2019 (dollars in thousands):

	<u>Lower of Cost or Fair Value</u>	<u>Number of Properties</u>
Real estate, January 1, 2018	\$ 17,051	6
Additional costs, capitalized	12	-
Valuation adjustments (3 properties)	(348)	-
Properties sold	<u>(3,119)</u>	<u>(2)</u>
Real estate, December 31, 2018	13,596	4
Additional costs, capitalized	56	-
Valuation adjustments (1 property)	44	-
Properties sold	<u>(3,356)</u>	<u>(2)</u>
Real estate, December 31, 2019	<u>\$ 10,340</u>	<u>2</u>

Activity in the real estate valuation allowance for the years ended December 31 is summarized as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance, January 1	\$ 739	\$ 997	\$ 930
Additions	6	372	149
Sales	(689)	(606)	(77)
Valuation adjustments	<u>(50)</u>	<u>(24)</u>	<u>(5)</u>
Ending balance, December 31	<u>\$ 6</u>	<u>\$ 739</u>	<u>\$ 997</u>

**NOTE 6 – REAL ESTATE HELD FOR LEASE**

Real estate held for lease consists of the following at December 31 (in thousands):

	<u>2019</u>	<u>2018</u>
Land	\$ 3,419	\$ 3,419
Land improvements	293	293
Buildings	7,565	7,565
Building improvements	242	234
Furniture, fixtures, and equipment	<u>226</u>	<u>219</u>
	11,745	11,730
Less accumulated depreciation and amortization	<u>(1,541)</u>	<u>(1,218)</u>
	<u>\$ 10,204</u>	<u>\$ 10,512</u>

(Continued)

CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 6 – REAL ESTATE HELD FOR LEASE (Continued)**

CDF is a lessor in one noncancelable operating lease with minimum future rentals of \$16,000 during 2020 and \$0 thereafter.

Depreciation and amortization expense on real estate held for lease totaled \$322,000, \$316,000, and \$290,000, for the years ended December 31, 2019, 2018, and 2017, respectively.

**NOTE 7 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31 (in thousands):

	<u>2019</u>	<u>2018</u>
Land	\$ 1,763	\$ 1,763
Buildings	1,080	1,080
Building improvements	747	747
Furniture, fixtures, and equipment	<u>1,479</u>	<u>1,461</u>
	5,069	5,051
Less accumulated depreciation and amortization	<u>(1,056)</u>	<u>(1,079)</u>
	<u>\$ 4,013</u>	<u>\$ 3,972</u>

Depreciation and amortization expense on property, equipment, and leasehold improvements totaled \$187,000, \$366,000, and \$440,000, for the years ended December 31, 2019, 2018, and 2017, respectively.

**NOTE 8 – DEBT SECURITIES**

The major source of funds used to finance church loans during the years presented was received from the sale of debt securities to investors whom CDF considers to be associated with its mission of serving churches. These debt securities are not collateralized.

As of December 31, 2019, debt securities are contractually set to mature as follows (in thousands):

<u>Fiscal Year of Maturity</u>	<u>Weighted Average Rate</u>	<u>Amount</u>
Demand	1.6 %	\$ 73,795
2020	2.8	193,173
2021	3.2	138,315
2022	3.0	50,309
2023	3.2	62,568
2024	3.6	53,093
Thereafter	<u>3.5</u>	<u>6,004</u>
	<u>2.9 %</u>	<u>\$ 577,257</u>

Amounts are presented in the above schedule based on the year in which the underlying debt securities are scheduled to mature. Notwithstanding the foregoing, CDF may require 60-day written notice for any redemption request. In addition, CDF may, but is not required to, permit redemption of debt securities prior to maturity, and if CDF elects to permit such early redemption, CDF may charge an early redemption fee.

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(Continued)



CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 8 – DEBT SECURITIES** (Continued)

Aggregate debt securities by state greater than or equal to 5% of the total debt securities outstanding as of December 31, 2019 are concentrated in the following states (dollars in thousands):

<u>State</u>	<u>Number of Investors</u>	<u>Aggregate Balance</u>	<u>Percentage of Total Debt Securities Outstanding</u>
California	2,248	\$ 202,225	35 %
Arizona	544	45,297	8
Ohio	655	43,648	8
Oregon	<u>488</u>	<u>30,012</u>	<u>5</u>
	<u>3,935</u>	<u>\$ 321,182</u>	<u>56 %</u>

**NOTE 9 – SHORT TERM BORROWINGS**

CDF has a revolving credit line totaling \$20,000,000 with PMB that is usable upon delivery of adequate eligible collateral, as defined in the agreement. As a condition to the line of credit, CDF is required to provide PMB with a first priority security interest in all assets as collateral and maintain compensating cash investments of at least \$5,000,000. Interest for this line is at the prime rate which was 4.75% and 5.50% as of December 31, 2019 and 2018, respectively. The line of credit with PMB expires on July 2, 2020. As of December 31, 2019 and 2018, there was no outstanding balance.

**NOTE 10 - LIQUIDITY**

It is CDF's policy to maintain liquid assets and available unused line of credit borrowing (up to 2% of outstanding debt securities) equal to at least 8% of the principal amount of its outstanding debt securities. Liquid assets are generally held in interest-bearing savings accounts, certificates of deposit, marketable securities, and money market accounts. Liquid assets are held primarily to provide CDF with operational liquidity and to fund redemptions of its outstanding debt securities.

As of December 31, 2019 and 2018, the Organization had cash, cash equivalents, readily marketable securities and available line of credit (limited to 2% of outstanding debt securities) of \$97,787,000 and \$54,302,000 respectively. This represented approximately 16.9% and 9.4% of outstanding debt securities as of December 31, 2019 and 2018, respectively.

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(Continued)

CHURCH DEVELOPMENT FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 11 – ENDOWMENTS AND NET ASSETS**

The Organization's endowment consists of five individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds, and funds designated by the Board to function as endowments. 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.

Interpretation of Relevant Law: The Organization has interpreted the State of California Uniform Prudent Management of Institutional Fund 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, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Changes in endowment net assets for 2018 and 2019 are as follows (in thousands):

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2018	\$ 17,878	\$ 1,415	\$ 19,293
Investment income	798	-	798
Transfer to create board-designated endowment	46	-	46
Appropriation of endowment assets for expenditure	<u>(768)</u>	<u>-</u>	<u>(768)</u>
Endowment net assets, December 31, 2018	\$ 17,954	\$ 1,415	\$ 19,369
Investment income	778	-	778
Transfer to create (reduce) board-designated endowment	(5,776)	-	(5,776)
Appropriation of endowment assets for expenditure	<u>(812)</u>	<u>-</u>	<u>(812)</u>
Endowment net assets, December 31, 2019	<u>\$ 12,144</u>	<u>\$ 1,415</u>	<u>\$ 13,559</u>

(Continued)

CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 11 – ENDOWMENTS AND NET ASSETS** (Continued)

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain preservation of the endowment assets. Endowment assets include investments in loans receivable and other assets held by the Organization. The Organization manages its endowment funds to achieve maximum long-term total return while preserving endowment assets. Actual returns in any given year available for distribution may vary significantly.

Spending Policy: The Organization's policy for distribution of funds each year is to distribute earnings to programs based on a conservative projection of the current year's earnings of the fund. This allows for a predictable stream of funding while preserving the original value of assets of the endowment. Distributions from board-designated endowment funds may exceed the yield on the underlying assets of the funds in any given year based on Board approval.

Dornette Memorial Endowment Fund: The Board of CDF has established the Dornette Memorial Fund (DMF) to provide funds to various church and parachurch ministries each year. These funds were donated to CDF without any restrictions on how they may be used. Although the Board has currently designated these funds to be used to support church and parachurch ministries, it has the right to change this designation or to use the funds for other purposes at its discretion. As of December 31, 2019 and 2018, the balance in the DMF was \$3,797,000. Grants from the DMF were \$105,000, \$82,000, and \$114,000, during fiscal years ended December 31, 2019, 2018, and 2017, respectively.

The Church Planting Endowment Fund: In 2003, the Board of CDF created the Church Planting Fund (CPF). These funds were donated to CDF without any restrictions on how they may be used. Although the Board has currently designated these funds to be used to support church planting activities, it has the right to change this designation or to use the funds for other purposes at its discretion. In 2019, the Board reduced the amount designated to the CPF by \$5,776,000. As of December 31, 2019 and 2018, the balance in the CPF was \$7,383,000 and \$13,349,000, respectively. During the years ended December 31, 2019, 2018, and 2017, grants from the CPF totaled \$597,000, \$602,000, and \$601,000, respectively.

In 2009, CDF received donations to the Church Planting Fund that were donor restricted as an endowment to assist with planting churches in Alabama. The donation was recorded as a net asset with donor restrictions. As of December 31, 2019 and 2018, the balance in the Church Planting Fund for Alabama was \$625,000. During the years ended December 31, 2019, 2018, and 2017, grants from the Alabama Church Planting Fund totaled \$31,000, \$25,000, and \$28,000, respectively.

Also in 2009, CDF received donations to the Church Planting Fund that were donor restricted as an endowment to assist with planting churches in Georgia. The donation was recorded as a net asset with donor restrictions. As of December 31, 2019 and 2018, the balance in the Church Planting Fund for Georgia was \$790,000. During the years ended December 31, 2019, 2018, and 2017, grants from the Georgia Church Planting Fund totaled \$39,000, \$32,000, and \$35,000, respectively.

The Kairos Benevolence Endowment Fund: In 2012, the Board of CDF created the Kairos Benevolence Fund (KBF) to assist in meeting specific financial hardship ministerial needs. These funds were donated to CDF without any restrictions on how they may be used. Although the Board has currently designated these funds to be used to support benevolence activities, it has the right to change this designation or to use the funds for other purposes at its discretion. As of December 31, 2019 and 2018, the balance in the KBF was \$964,000 and \$800,000, respectively. During the years ended December 31, 2019, 2018, and 2017, grants from the KBF totaled \$40,000, \$0, and \$19,000, respectively.

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CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 11 – ENDOWMENTS AND NET ASSETS** (Continued)

The Organization's net assets without donor restrictions as of December 31 consist of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 34,182	\$ 25,989
Board-designated endowments		
Church Planting Fund	7,383	13,357
Dornette Memorial Fund	3,797	3,797
Kairos Benevolence Fund	<u>964</u>	<u>800</u>
Total board-designated endowments	12,144	17,954
Donor-advised funds	<u>1,170</u>	<u>1,669</u>
	<u>\$ 47,496</u>	<u>\$ 45,612</u>

The Organization's net assets with donor restrictions as of December 31 consist of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Donor restricted endowments for planting		
Christian churches in Georgia and Alabama	\$ 1,415	\$ 1,415
Split interest donor agreements	222	160
Donor restricted contributions	<u>5</u>	<u>5</u>
	<u>\$ 1,642</u>	<u>\$ 1,580</u>

Grants from donor-advised funds totaled \$567,000, \$180,000, and \$87,000, for the years ended December 31, 2019, 2018, and 2017, respectively.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

Loan Commitments: In the normal course of business, CDF makes commitments to extend loans to churches and parachurch organizations. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being fully drawn upon, the amounts lent under such commitment will differ from the contractual obligations.

CDF evaluates each borrower's credit on a case-by-case basis. The amount of collateral obtained by CDF upon extension of credit is based on management's credit evaluation. Collateral held principally includes property and equipment. CDF controls the credit risk of its commitments by using credit approvals, limits, and monitoring procedures.

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(Continued)

CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)**

At December 31, 2019, CDF had outstanding loan commitments totaling approximately \$121,515,000, which consisted of \$43,396,000 of approved commitments to refinance existing maturing loans, \$24,996,000 of approved unfunded commitments for new loans, \$9,814,000 of undrawn lines of credit, \$42,065,000 of unfunded commitments for existing construction loans, and \$1,244,000 of unfunded commitments for existing mortgage loans.

Legal Proceedings: CDF may, from time to time, be involved in litigation proceedings arising out of its normal course of business. As of December 31, 2019, CDF had no significant lawsuits, actions, or other legal proceedings or pending claims against them.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

Several members of CDF's management team and Board are either associated with or maintain senior positions at churches or affiliated organizations that have loans with or have purchased debt securities from CDF. Loans receivable from and/or debt securities to affiliated churches and organizations are made at similar rates and terms as nonrelated parties. As of December 31, 2019 and 2018, such loans had an aggregate principal balance of approximately \$13,413,000 and \$8,062,000, unfunded commitments aggregating approximately \$3,707,000 and \$0, and a weighted average interest rate of 5.4% and 5.2% per annum, respectively. Interest income on related-party loans for the years ended December 31, 2019, 2018, and 2017 was approximately \$726,000, \$418,000, and \$674,000, respectively. As of December 31, 2019 and 2018, such debt securities had an aggregate outstanding balance of approximately \$7,433,000 and \$6,387,000 and a weighted average interest rate of 2.7% and 2.5% per annum, respectively. Interest expense on related-party debt securities for the years ended December 31, 2019, 2018 and 2017 was approximately \$202,000, \$157,000, and \$51,000, respectively. In addition, there is one CDF Board member who maintains a senior position at an institution where CDF has cash and an investment in a certificate of deposit. Such cash and investment totaled \$6,907,000 and \$3,496,000 as of December 31, 2019 and 2018, respectively.

As discussed in Note 1, Provision was the parent company of CDF for the three months ended March 31, 2017. Provision had common expenses with its subsidiaries, including CDF, which were allocated based primarily on time studies. Total allocations paid by CDF to Provision, while it was a subsidiary were \$704,000 for the three months ended March 31, 2017, which represented 62% of the total operating expenses of Provision for the related period. CDF had various related-party transactions with its sister organizations under Provision: Stadia: New Church Strategies (Stadia), Kairos Legacy Partners (KLP), Visioneering Studios, Inc. (Visioneering), Slingshot Group, Inc. (Slingshot), and Co:Mission Foundation (Co:Mission). Co:Mission continued to be a related party until January 1, 2018 when it became a subsidiary of CDF as discussed in Note 1.

CDF provides financial support to Stadia through grants. Grants provided while a related party, totaled \$160,000 for the three months ended March 31, 2017. KLP received grants, while a related party, totaling \$132,000 for the three months ended March 31, 2017. Co:Mission received grants from CDF totaling \$406,000 for the year ended December 31, 2017.

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**NOTE 14 – FAIR VALUE DISCLOSURES**

Levels 1, 2, and 3 Valuation Techniques: Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 are summarized below (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Certificates of deposit	-	21,921	-	21,921
Mortgage-backed securities	-	19,908	-	19,908
Corporate securities	-	6,645	-	6,645
	<u>-</u>	<u>6,645</u>	<u>-</u>	<u>6,645</u>
Total assets	<u>\$ -</u>	<u>\$ 48,474</u>	<u>\$ -</u>	<u>\$ 48,474</u>

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 are summarized below (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Certificates of deposit	\$ -	\$ 20,400	\$ -	\$ 20,400
Mortgage-backed securities	-	12,480	-	12,480
Agency bonds	-	1,229	-	1,229
Corporate securities	-	991	-	991
	<u>-</u>	<u>991</u>	<u>-</u>	<u>991</u>
Total assets	<u>\$ -</u>	<u>\$ 35,100</u>	<u>\$ -</u>	<u>\$ 35,100</u>

A brief description of the valuation techniques used for assets and liabilities measured on a recurring basis is provided below:

*Investments* - Investments are classified as Level 2. Fair value for Level 2 is determined by quoted prices in less active markets for identical assets that the Organization has the ability to access at the measurement date.

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(Continued)

CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 14 – FAIR VALUE DISCLOSURES** (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis: Assets measured at fair value on a nonrecurring basis at December 31, 2019 are summarized below (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Impaired loans, net	\$ -	\$ -	\$ 1,930	\$ 1,930
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,930</u>	<u>\$ 1,930</u>

Assets measured at fair value on a nonrecurring basis at December 31, 2018 are summarized below (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Impaired loans, net	\$ -	\$ -	\$ 15,388	\$ 15,388
Real estate	<u>-</u>	<u>-</u>	<u>13,534</u>	<u>13,534</u>
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,922</u>	<u>\$ 28,922</u>

A brief description of the valuation techniques used for assets measured on a nonrecurring basis is provided below:

*Impaired Loans* - Loans receivable held for investment are evaluated for impairment using Level 3 inputs. Loans receivable held for investment include impaired loans measured based on the estimated fair value of the underlying collateral. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the cost approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and cost data available. Adjustments may also be made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement.

Impaired loans with a carrying amount of \$1,947,000 were recorded at their fair value of \$1,930,000 and a negative provision of \$19,000 was included in earnings for the year ended December 31, 2019. Impaired loans with a carrying amount of \$16,520,000 were recorded at their fair value of \$15,388,000 and a negative provision of \$163,000 was included in earnings for the year ended December 31, 2018.

*Real Estate* - Real estate is evaluated using Level 3 inputs, which are generally based on estimated market prices from independently prepared current appraisals or negotiated sales prices with potential buyers, less estimated costs to sell. As discussed above and to the extent a negotiated sales price or reduced listing price represents a significant discount to an observable market price, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement.

In 2018, real estate with a carrying amount of \$13,883,000 was written down to its fair value of \$13,534,000, resulting in a loss of \$349,000, which was included in earnings for the year ended December 31, 2018.

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CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 15 – RETIREMENT PLAN**

Defined-Contribution Plan: CDF has established a defined-contribution retirement plan (the Plan), which covers substantially all employees. CDF, in its sole discretion, may make either an employer matching contribution after one year of service, a discretionary contribution based on length of service, or both. The vesting for this plan is immediate. CDF's contributions to the Plan were \$355,000, \$357,000, and \$283,000, for the years ended December 31, 2019, 2018, and 2017, respectively.

**NOTE 16 – FUNCTIONAL EXPENSE CLASSIFICATION**

The following table presents a summary of expenses by function for the year ended December 31, 2019 (in thousands):

	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Interest and loan expenses	\$ 17,162	\$ 59	\$ -	\$ 17,221
Salaries and benefits	3,430	2,147	102	5,679
Grants to other ministries	1,404	-	-	1,404
Depreciation	454	53	3	510
Technology	445	92	9	546
Marketing and promotion	609	-	69	678
Professional fees and services	177	303	-	480
Travel	323	70	22	415
Other operating expenses	<u>1,040</u>	<u>237</u>	<u>52</u>	<u>1,329</u>
Total operating expenses	<u>\$ 25,044</u>	<u>\$ 2,961</u>	<u>\$ 257</u>	<u>\$ 28,262</u>

The following table presents a summary of expenses by function for the year ended December 31, 2018 (in thousands):

	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Interest and loan expenses	\$ 16,456	\$ 17	\$ -	\$ 16,473
Salaries and benefits	3,594	2,337	111	6,042
Grants to other ministries	948	-	-	948
Depreciation	569	109	5	683
Technology	396	130	8	534
Marketing and promotion	547	13	139	699
Professional fees and services	255	248	-	503
Travel	321	80	9	410
Other operating expenses	<u>1,064</u>	<u>807</u>	<u>51</u>	<u>1,922</u>
Total operating expenses	<u>\$ 24,150</u>	<u>\$ 3,741</u>	<u>\$ 323</u>	<u>\$ 28,214</u>

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(Continued)



CHURCH DEVELOPMENT FUND, INC.  
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**NOTE 16 – FUNCTIONAL EXPENSE CLASSIFICATION** (Continued)

The following table presents a summary of expenses by function for the year ended December 31, 2017 (in thousands):

	<u>Program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Interest and loan expenses	\$ 17,180	\$ 15	\$ -	\$ 17,195
Salaries and benefits	3,343	1,521	104	4,968
Grant expense to other ministries	1,591	-	-	1,591
Depreciation	595	130	5	730
Technology	334	91	15	440
Marketing and promotion	614	-	138	752
Professional fees and services	288	431	1	720
Travel	341	80	8	429
Other operating expenses	<u>1,566</u>	<u>2,004</u>	<u>30</u>	<u>3,600</u>
Total operating expenses	<u>\$ 25,852</u>	<u>\$ 4,272</u>	<u>\$ 301</u>	<u>\$ 30,425</u>

Methods Used for Allocation of Expenses Between Program and Support Functions: Certain categories of expenses are attributable to both program and supporting functions of the Organization. Salaries and benefits are allocated based on estimates of time and effort; depreciation is based on estimates of resources utilized; technology and marketing expenses are allocated based on estimates of time and costs of specific technology and materials utilized; professional fees, travel and other operating expenses are based on estimates of effort and costs of specific resources utilized.

**NOTE 17 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 16, 2020, the date the consolidated financial statements were available to be issued.