

# Mennonite Mission Network

Financial Report  
07.31.2016

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
**Mennonite Mission Network**  
Elkhart, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of Mennonite Mission Network which comprise the statements of financial position as of July 31, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mennonite Mission Network as of July 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
**Mennonite Mission Network**

**Other Matter – Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Elkhart, Indiana  
November 23, 2016

**Mennonite Mission Network**

**Statements of Financial Position  
July 31, 2016 and 2015**

|  | 2016                 | 2015                 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Cash and cash equivalents  | \$ 3,743,534         | \$ 6,719,105         |
| Accounts receivable - missions and other   | 615,489              | 156,942              |
| Prepaid expenses and advances  | 165,541              | 199,873              |
| Notes receivable - churches and other, net of allowance for<br>doubtful notes of 2016 \$36,000 and 2015 \$42,000 | 235,056              | 256,490              |
| Investments  | 7,956,408            | 6,172,265            |
| Investment in Mutual Aid Sharing Plan  | 198,137              | 202,197              |
| Property and equipment, net of accumulated depreciation  | 5,897,099            | 6,149,431            |
| <b>Total assets</b>  | <b>\$ 18,811,264</b> | <b>\$ 19,856,303</b> |
| <b>LIABILITIES AND NET ASSETS</b>  |                      |                      |
| Accounts payable and accrued expenses  | \$ 350,528           | \$ 435,395           |
| Payable to Mennonite Church USA  | 244,984              | 254,623              |
| Funds held for overseas workers  | 181,091              | 189,301              |
| Deferred revenue   | 66,000               | 68,000               |
| Capital lease  | 30,361               | 15,326               |
| Commitment to MennoMedia   | -                    | 180,564              |
| Mortgage payable   | 95,857               | 848,019              |
| Annuities payable  | 31,427               | 41,119               |
| <b>Total liabilities</b>   | <b>1,000,248</b>     | <b>2,032,347</b>     |
| Net Assets   |                      |                      |
| Unrestricted   | 11,305,508           | 11,463,862           |
| Temporarily restricted   | 3,722,017            | 3,577,193            |
| Permanently restricted   | 2,783,491            | 2,782,901            |
| <b>Total net assets</b>  | <b>17,811,016</b>    | <b>17,823,956</b>    |
| <b>Total liabilities and net assets</b>  | <b>\$ 18,811,264</b> | <b>\$ 19,856,303</b> |

See notes to financial statements.

**Mennonite Mission Network**

**Statement Of Activities**

**Year Ended July 31, 2016**

**(with Summarized Comparative Totals for the Year Ended July 31, 2015)**

|  | Unrestricted     | Temporarily<br>Restricted | Permanently<br>Restricted | Total            |                   |
|--|------------------|---------------------------|---------------------------|------------------|-------------------|
|  |                  |                           |                           | 2016             | 2015              |
| Revenue, gains and other support:                        |                  |                           |                           |                  |                   |
| Contributions  | \$ 3,322,164     | \$ 2,517,016              | \$ 590                    | \$ 5,839,770     | \$ 6,009,294      |
| Estates and bequests                                     | 1,423,901        | 8,886                     | -                         | 1,432,787        | 3,944,665         |
| Capital campaign contributions                           | -                | 175,972                   | -                         | 175,972          | 3,668             |
| Grants - reduction of mortgage payable                   | -                | 594,500                   | -                         | 594,500          | 385,500           |
| Grants - programs  | -                | 386,229                   | -                         | 386,229          | 322,127           |
| Overseas workers and voluntary service units             | 554,195          | -                         | -                         | 554,195          | 592,962           |
| Fees - recovery of costs                                 | 206,438          | -                         | -                         | 206,438          | 181,581           |
| Investment income  | 118,144          | 86,420                    | -                         | 204,564          | 216,758           |
| Gain on sale of assets                                   | 1,702            | -                         | -                         | 1,702            | 202,240           |
| Other revenue  | 72,155           | -                         | -                         | 72,155           | 63,422            |
| Net assets released from purpose restrictions            | 3,624,199        | (3,624,199)               | -                         | -                | -                 |
| <b>Total revenues, gains and other support</b>           | <b>9,322,898</b> | <b>144,824</b>            | <b>590</b>                | <b>9,468,312</b> | <b>11,922,217</b> |
| Program expense:   |                  |                           |                           |                  |                   |
| International Ministries                                 | 3,729,886        | -                         | -                         | 3,729,886        | 3,452,514         |
| Christian Service  | 1,781,848        | -                         | -                         | 1,781,848        | 1,771,943         |
| Holistic Witness   | 323,440          | -                         | -                         | 323,440          | 333,647           |
| Mission Education and Resources                          | 1,121,194        | -                         | -                         | 1,121,194        | 1,142,616         |
| <b>Total program expenses</b>                            | <b>6,956,368</b> | <b>-</b>                  | <b>-</b>                  | <b>6,956,368</b> | <b>6,700,720</b>  |
| Supporting services expense:                             |                  |                           |                           |                  |                   |
| General administration                                   | 1,509,777        | -                         | -                         | 1,509,777        | 1,421,328         |
| Fundraising  | 536,075          | -                         | -                         | 536,075          | 560,035           |
| <b>Total supporting services expenses</b>                | <b>2,045,852</b> | <b>-</b>                  | <b>-</b>                  | <b>2,045,852</b> | <b>1,981,363</b>  |
| Payment to Executive Board                               | 498,906          | -                         | -                         | 498,906          | 338,054           |
| <b>Total expenses</b>                                    | <b>9,501,126</b> | <b>-</b>                  | <b>-</b>                  | <b>9,501,126</b> | <b>9,020,137</b>  |
| <b>Change in net assets from operations</b>              | <b>(178,228)</b> | <b>144,824</b>            | <b>590</b>                | <b>(32,814)</b>  | <b>2,902,080</b>  |
| Other changes:   |                  |                           |                           |                  |                   |
| Changes in value of annuity payable                      | (6,820)          | -                         | -                         | (6,820)          | (8,598)           |
| Change in value of investment in Mutual Aid Sharing Plan | 26,694           | -                         | -                         | 26,694           | 7,420             |
| <b>Change in net assets</b>                              | <b>(158,354)</b> | <b>144,824</b>            | <b>590</b>                | <b>(12,940)</b>  | <b>2,900,902</b>  |
| Net assets, beginning                                    | 11,463,862       | 3,577,193                 | 2,782,901                 | 17,823,956       | 14,923,054        |
| Net assets, ending                                       | \$ 11,305,508    | \$ 3,722,017              | \$ 2,783,491              | \$ 17,811,016    | \$ 17,823,956     |

See notes to financial statements.

**Mennonite Mission Network**

**Statement Of Activities  
Year Ended July 31, 2015**

|  | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Revenue, gains and other support:                        |                      |                           |                           |                      |
| Contributions  | \$ 3,639,955         | \$ 2,367,949              | \$ 1,390                  | \$ 6,009,294         |
| Estates and bequests                                     | 3,944,665            | -                         | -                         | 3,944,665            |
| Capital campaign contributions                           | -                    | 3,668                     | -                         | 3,668                |
| Grants - reduction of mortgage payable                   | -                    | 385,500                   | -                         | 385,500              |
| Grants - programs  | -                    | 322,127                   | -                         | 322,127              |
| Overseas workers and voluntary service units             | 592,962              | -                         | -                         | 592,962              |
| Fees - recovery of costs                                 | 181,581              | -                         | -                         | 181,581              |
| Investment income  | 29,152               | 187,606                   | -                         | 216,758              |
| Gain on sale of assets                                   | 202,240              | -                         | -                         | 202,240              |
| Other revenue  | 63,422               | -                         | -                         | 63,422               |
| Net assets released from purpose restrictions            | 3,091,595            | (3,091,595)               | -                         | -                    |
| <b>Total revenues, gains and other support</b>           | <b>11,745,572</b>    | <b>175,255</b>            | <b>1,390</b>              | <b>11,922,217</b>    |
| Program expense:   |                      |                           |                           |                      |
| International Ministries                                 | 3,452,514            | -                         | -                         | 3,452,514            |
| Christian Service  | 1,771,943            | -                         | -                         | 1,771,943            |
| Holistic Witness   | 333,647              | -                         | -                         | 333,647              |
| Mission Education and Resources                          | 1,142,616            | -                         | -                         | 1,142,616            |
| <b>Total program expenses</b>                            | <b>6,700,720</b>     | <b>-</b>                  | <b>-</b>                  | <b>6,700,720</b>     |
| Supporting services expense:                             |                      |                           |                           |                      |
| General administration                                   | 1,421,328            | -                         | -                         | 1,421,328            |
| Fundraising  | 560,035              | -                         | -                         | 560,035              |
| <b>Total supporting services expenses</b>                | <b>1,981,363</b>     | <b>-</b>                  | <b>-</b>                  | <b>1,981,363</b>     |
| Payment to Executive Board                               | 338,054              | -                         | -                         | 338,054              |
| <b>Total expenses</b>                                    | <b>9,020,137</b>     | <b>-</b>                  | <b>-</b>                  | <b>9,020,137</b>     |
| <b>Change in net assets from operations</b>              | <b>2,725,435</b>     | <b>175,255</b>            | <b>1,390</b>              | <b>2,902,080</b>     |
| Other changes:   |                      |                           |                           |                      |
| Changes in value of annuity payable                      | (8,598)              | -                         | -                         | (8,598)              |
| Change in value of investment in Mutual Aid Sharing Plan | 7,420                | -                         | -                         | 7,420                |
| <b>Change in net assets</b>                              | <b>2,724,257</b>     | <b>175,255</b>            | <b>1,390</b>              | <b>2,900,902</b>     |
| Net assets, beginning                                    | 8,739,605            | 3,401,938                 | 2,781,511                 | 14,923,054           |
| Net assets, ending                                       | <b>\$ 11,463,862</b> | <b>\$ 3,577,193</b>       | <b>\$ 2,782,901</b>       | <b>\$ 17,823,956</b> |

See notes to financial statements.

**Mennonite Mission Network**

**Statements Of Cash Flows**

**Years Ended July 31, 2016 and 2015**

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| <b>Cash Flows From Operating Activities</b>   |                     |                     |
| Change in net assets  | \$ (12,940)         | \$ 2,900,902        |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                     |                     |
| Depreciation  | 362,025             | 349,873             |
| Non-cash contributions  | (67,777)            | (77,258)            |
| Non-cash reduction in MennoMedia Grant  | -                   | (2,569)             |
| Change in fair value of investment in Mutual Aid Sharing Plan   | (26,694)            | (7,420)             |
| Contributions from matured annuities  | (8,426)             | (765)               |
| Contribution and grant revenue restricted for long-term purposes                                      | (808,159)           | (390,558)           |
| Provision for doubtful accounts and notes   | (6,000)             | (5,000)             |
| Gain on sale of assets  | (1,702)             | (202,240)           |
| Realized gain on sale of investments  | (40,294)            | (360,507)           |
| Unrealized loss on investments  | 27,854              | 340,643             |
| Change in value of annuity payable  | 6,820               | 8,598               |
| (Increase) decrease in:   |                     |                     |
| Accounts receivable   | (458,547)           | 3,434               |
| Prepaid expenses and advances   | 34,332              | (7,370)             |
| Pledges receivable  | -                   | 17,091              |
| Increase (decrease) in:   |                     |                     |
| Accounts payable and accrued expenses   | (93,663)            | 85,979              |
| Funds held for overseas workers   | (8,210)             | 21,418              |
| Deferred revenue  | (2,000)             | (2,000)             |
| <b>Net cash (used in) provided by operating activities</b>  | <b>(1,103,381)</b>  | <b>2,672,251</b>    |
| <b>Cash Flows From Investing Activities</b>   |                     |                     |
| Proceeds from sale of property and equipment  | 925                 | 65,194              |
| Acquisitions of property and equipment  | (79,374)            | (50,055)            |
| Principal collected from notes receivable   | 27,434              | 23,793              |
| Loans to churches and other   | -                   | (13,000)            |
| Return of investment in Mutual Aid Sharing Plan   | 30,754              | 30,754              |
| Proceeds from maturity or sale of investments   | 1,467,990           | 1,922,279           |
| Purchase of investments   | (3,171,916)         | (1,787,186)         |
| <b>Net cash (used in) provided by investing activities</b>  | <b>(1,724,187)</b>  | <b>191,779</b>      |
| <b>Cash Flows From Financing Activities</b>   |                     |                     |
| Gift annuity payments   | (8,086)             | (10,426)            |
| Payments on loan from Mennonite Church USA  | (843)               | (1,750)             |
| Payments on mortgage payable  | (752,162)           | (522,134)           |
| Payments on capital lease obligations   | (14,507)            | (14,837)            |
| Payments on commitment to MennoMedia  | (180,564)           | (179,491)           |
| Collections of contributions and grants restricted for long-term purposes                             | 808,159             | 393,207             |
| <b>Net cash used in financing activities</b>  | <b>(148,003)</b>    | <b>(335,431)</b>    |
| <b>(Decrease) increase in cash and cash equivalents</b>   | <b>(2,975,571)</b>  | <b>2,528,599</b>    |
| Cash and cash equivalents, beginning  | 6,719,105           | 4,190,506           |
| Cash and cash equivalents, ending   | <b>\$ 3,743,534</b> | <b>\$ 6,719,105</b> |

See notes to financial statements.



**Note 1. Nature of Organization and Significant Accounting Policies**

**Nature of Organization:** Mennonite Mission Network (“Mission Network”) exists to promote and administer activities and programs of evangelism, church growth and social concern at home (North America) and overseas, and to receive, hold and apply donations, bequests, properties and funds for these purposes. Mission Network receives a concentration of its contributions from members, churches and conferences of Mennonite Church USA. Offices are located in Newton, Kansas and Elkhart, Indiana.

Mission Network is one of five program boards under Mennonite Church USA and functions as the mission agency for Mennonite Church USA under the name Mennonite Mission Network (See Note 14).

**Significant accounting policies:**

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of presentation:** Mission Network has presented its assets and liabilities in an unclassified manner, but in order of liquidity.

**Classification and reporting of net assets:** Accounting standards require Mission Network to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the unrestricted, temporarily and permanently restricted net asset classes follows:

- Unrestricted net assets represent the portion of net assets of Mission Network that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of Mission Network.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by Mission Network is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Mission Network pursuant to those stipulations.

Temporarily restricted net assets also include, pursuant to Indiana law, cumulative appreciation and reinvested gains on permanently restricted net assets, which has not been appropriated by the Board of Directors.

- Permanently restricted net assets represent contributions and other inflows of assets whose use by Mission Network is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Mission Network.

**Cash and cash equivalents:** Mission Network has cash on deposit in financial institutions, which, at times, may exceed the limits of coverage provided by the Federal Deposit Insurance Corporation. For the purpose of the statement of cash flows, Mission Network considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

## Mennonite Mission Network

### Notes To Financial Statements

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**Accounts, pledges and notes receivable:** Accounts, pledges and notes receivable are carried at the original amount or remaining balance less a discount for long term pledges and less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by evaluating specifically identified notes or accounts Mission Network believes to be uncollectible in addition to an amount determined to be adequate, in management's judgment, to absorb probable uncollectible amounts. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. All pledges included in accounts receivable on the statement of financial position as of July 31, 2016 are due within one year. There were no pledges receivable as of July 31, 2015.

**Property, equipment, and depreciation:** Property and equipment are stated at cost, or for donations, at fair value at the date of the donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Normal repairs and maintenance are recorded as operating expenditures. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to or charged against operations for the period.

Donations of property and equipment are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, Mission Network reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Mission Network reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets.

**Investments:** Investments in mutual funds and bonds are carried at fair value based on quoted market prices. Investment income, including realized and unrealized gains and losses on investments, dividends and interest are reported under revenue, grants and other support in the statement of activities. Certificates of deposit are recorded at cost. Mission Network considers substantially all investments highly liquid.

**Revenue and support:** Contributions are included in income in the period the gifts are pledged or received. Contributions received, including estates and bequests, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Revenue from overseas workers and voluntary service units is recorded when received.

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Grant revenue is recognized as revenue, in accordance with the provisions of the grant agreements, typically in the year the grant is awarded.

Deferred revenue includes a use obligation for a life interest in real estate donated to the Organization. Deferred revenue from the use obligation is included in income based on the actuarial life expectancy of the donor.

## Mennonite Mission Network

### Notes To Financial Statements

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**Donated materials and services:** Donated materials are recorded as contributions in the accompanying statements at fair value at date of receipt. Mission Network generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Mission Network with specific assistance programs and various committee assignments.

**Functional allocation of expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income taxes:** Mission Network is incorporated as a not-for-profit organization under the laws of the State of Ohio and is exempt from federal and state income taxes pursuant to provisions of Section 501(c)(3) of the Internal Revenue Code, except for taxes pertaining to unrelated business income, if any. Mission Network is not considered a private foundation.

Mission Network follows the accounting guidance for uncertainty in income taxes. The standard clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management believes that Mission Network has no material uncertainties in income taxes.

Mission Network files Form 990-T when required in the U.S. federal jurisdiction and with applicable states as required. With few exceptions, Mission Network is no longer subject to examination by the Internal Revenue Service for years before 2013.

**Recently issued accounting pronouncements:** In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard is effective for the Organization in the fiscal year ending July 31, 2019, early adoption is allowed. The Organization is currently evaluating the impact of the adoption of the standard on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for the Organization's July 31, 2020 financial statements. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Organization has not yet selected a transition method and is currently evaluating the effect that the pending adoption of the updated standard will have on the financial statements.

## Mennonite Mission Network

### Notes To Financial Statements

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In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Organization's July 31, 2021 financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the effect of the pending adoption of the new standard on the financial statements.

#### Note 2. Investments

Investments, which include investments in Mutual Aid Sharing Plan as of July 31, 2016 and 2015 consisted of the following:

|  | 2016                | 2015                |
|--|---------------------|---------------------|
| Domestic equity mutual funds                         | \$ 3,033,016        | \$ 2,431,732        |
| Domestic equities                                    | -                   | 1,530               |
| Domestic bond mutual funds                           | 3,055,638           | 1,968,477           |
| US government and corporate bonds                    | 920                 | 48,316              |
| Foreign equity mutual funds                          | 1,093,334           | 793,311             |
| Other investments in mutual funds                    | 491,766             | 427,546             |
| Short-term bond fund                                 | -                   | 209,323             |
| Institutional money market funds                     | 106,734             | 47,030              |
| Real estate held for resale subject to life interest | 175,000             | 175,000             |
| Interest in undistributed estate assets              |                     | 70,000              |
|  | <u>7,956,408</u>    | <u>6,172,265</u>    |
| Investment in Mutual Aid Sharing Plan                | 198,137             | 202,197             |
|  | <u>\$ 8,154,545</u> | <u>\$ 6,374,462</u> |

At July 31, 2016 and 2015 Mission Network held investments in the following mutual funds that accounted for 10% or more of total investments:

|                               | 2016 | 2015 |
|-------------------------------|------|------|
| Domestic Equity Mutual Fund A | 15%  | 15%  |
| Domestic Bond Mutual Fund B   | 16%  | 14%  |
| Domestic Bond Mutual Fund C   | -    | 11%  |
| Domestic Bond Mutual Fund D   | 14%  | -    |

Investment securities in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near-term and such changes could materially affect the amounts reported in the statement of financial position.

## Mennonite Mission Network

### Notes To Financial Statements

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Investment income as of July 31, 2016 and 2015 is summarized as follows:

|                         | 2016              | 2015              |
|-------------------------|-------------------|-------------------|
| Interest and dividends  | \$ 215,953        | \$ 218,651        |
| Net realized gains      | 40,294            | 360,507           |
| Net unrealized losses   | (27,854)          | (340,643)         |
| Other investment income | 1,203             | 1,989             |
| Investment (expenses)   | (25,032)          | (23,746)          |
|                         | <u>\$ 204,564</u> | <u>\$ 216,758</u> |

Mutual funds and the short-term bond fund are valued at the Net Asset Value (NAV) of shares held by Mission Network at the measurement date. The NAV of the short-term bond fund as of July 31, 2016 and 2015 is none and \$209,323 respectively. Mission Network has no unfunded commitments to the short-term bond fund as of July 31, 2016. The fund invests in short-term fixed income securities, allows redemptions only at month end, and has no other redemption restrictions.

Investment in Mutual Aid Sharing Plan ("MASP") is valued at Mission Network's percentage ownership of net assets in the plan at the measurement date. The change in fair value of the investment in MASP is reported separately under the heading "other changes" in the statement of activities. MASP restricts withdrawal from the plan to October 1. In addition, the pay out on the equity begins twelve months after the withdrawal date and the annual distribution cannot exceed 10% of the total pool's reserve balance.

Real estate held for resale represents a specific property donated to Mission Network. The property is restricted for the life interest of family members of the donor, is recorded at its fair value on the date of the gift and is discounted for the estimated life of the persons holding the life interest, totaling \$66,000 and \$68,000, which is reported with deferred revenue on the statement of financial position as of July 31, 2016 and 2015 respectively.

The investment in undistributed assets of estates at July 31, 2015 represents an undivided interest in a note receivable held by the estate. The interest in the note is recorded at the amount expected to be received from the estate when the note is collected by the estate, net of expenses expected to be incurred by the estate. The amount was collected in 2016.

#### **Note 3. Fair Value Disclosure**

Mission Network follows the provisions of ASC 820-10, "*Fair Value Measurements*", which applies to all assets and liabilities that are being measured and reported at fair value. ASC 820-10 establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. Under GAAP, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. This standard enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The standard requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

**Level I** Quoted market prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I includes listed equities and listed derivatives.

## Mennonite Mission Network

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**Level II** Pricing inputs are other than quoted prices in active markets of comparable instruments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

**Level III** Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

In determining the appropriate levels, Mission Network performs a detailed analysis of the assets and liabilities that are subject to the standard.

The following table summarizes the valuation of Mission Network's investments, excluding certain real estate held for investment as indicated in Note 2, by the above fair value hierarchy levels as of July 31, 2016 and 2015:

|                                       | Assets at Fair Value as of July 31, 2016 |               |                   |                     |
|---------------------------------------|--|---------------|-------------------|---------------------|
|                                       | Level I                                  | Level II      | Level III         | Totals              |
| Investments:                          |  |               |                   |                     |
| Domestic equity mutual funds          | \$ 3,033,016                             | \$ -          | \$ -              | \$ 3,033,016        |
| Domestic bond mutual funds            | 3,055,638                                | -             | -                 | 3,055,638           |
| US government and corporate bonds     | -  | 920           | -                 | 920                 |
| Foreign equity mutual fund            | 1,093,334                                | -             | -                 | 1,093,334           |
| Other investments in mutual funds     | 491,766                                  | -             | -                 | 491,766             |
| Institutional money market funds      | 106,734                                  | -             | -                 | 106,734             |
| Investment in Mutual Aid Sharing Plan | -  | -             | 198,137           | 198,137             |
|                                       | <u>\$ 7,780,488</u>                      | <u>\$ 920</u> | <u>\$ 198,137</u> | <u>\$ 7,979,545</u> |

  

|   | Assets at Fair Value as of July 31, 2015 |                   |                   |                     |
|---|--|-------------------|-------------------|---------------------|
|   | Level I                                  | Level II          | Level III         | Totals              |
| Investments:                            |  |                   |                   |                     |
| Domestic equity mutual funds            | \$ 2,431,732                             | \$ -              | \$ -              | \$ 2,431,732        |
| Domestic equities                       | 1,530                                    | -                 | -                 | 1,530               |
| Domestic bond mutual funds              | 1,968,477                                | -                 | -                 | 1,968,477           |
| US government and corporate bonds       | -  | 48,316            | -                 | 48,316              |
| Foreign equity mutual fund              | 793,311                                  | -                 | -                 | 793,311             |
| Other investments in mutual funds       | 427,546                                  | -                 | -                 | 427,546             |
| Short-term bond fund                    | -  | 209,323           | -                 | 209,323             |
| Institutional money market funds        | 47,030                                   | -                 | -                 | 47,030              |
| Investment in Mutual Aid Sharing Plan   | -  | -                 | 202,197           | 202,197             |
| Interest in undistributed estate assets | -  | -                 | 70,000            | 70,000              |
|   | <u>\$ 5,669,626</u>                      | <u>\$ 257,639</u> | <u>\$ 272,197</u> | <u>\$ 6,199,462</u> |

## Mennonite Mission Network

### Notes To Financial Statements

The changes in the investment in MASP and other investments which Mission Network has determined fair value using Level III inputs for the years ended July 31, 2016 and 2015 is as follows:

|  | 2016              | 2015              |
|--|-------------------|-------------------|
| Beginning balance                                | \$ 272,197        | \$ 225,531        |
| Return of equity in MASP                         | (30,754)          | (30,754)          |
| Change in fair value of investment in MASP       | 26,694            | 7,420             |
| Distributions of estate assets                   | (70,000)          | -                 |
| Received interest in undistributed estate assets | -                 | 70,000            |
| Ending balance                                   | <u>\$ 198,137</u> | <u>\$ 272,197</u> |

#### Note 4. Property and Equipment

The cost of property and equipment and the related accumulated depreciation, including assets under capital leases, at July 31, 2016 and 2015 are as follows:

|                               | 2016                | 2015                |
|-------------------------------|---------------------|---------------------|
| Land                          | \$ 183,986          | \$ 183,986          |
| Buildings                     | 6,497,745           | 6,495,039           |
| Equipment                     | 1,331,273           | 1,260,614           |
|                               | <u>8,013,004</u>    | <u>7,939,639</u>    |
| Less accumulated depreciation | 2,115,905           | 1,790,208           |
|                               | <u>\$ 5,897,099</u> | <u>\$ 6,149,431</u> |

#### Note 5. Line of Credit, Long-Term Debt, and Capital Lease

Mission Network has a \$1,000,000 line of credit with a bank, none of which was outstanding at July 31, 2016. Any borrowings against the line of credit are due on demand, bear interest at bank prime rate (3.50% at July 31, 2016) and are unsecured.

Mission Network has a mortgage, which requires monthly installments of \$14,276 including principal and interest equal to the 30-day LIBOR plus 2.494%, with final payment due March 2017. In addition, Mission Network has a loan covenant to maintain unencumbered cash, cash equivalents, and investments equal to or greater than \$4,000,000. During 2016 and 2015 Mission Network received \$594,500 and \$385,500 respectively, designated for the reduction of the mortgage through the Purposeful Plan Campaign, a joint fundraising campaign being administered by Mennonite Church USA. At July 31, 2016 and 2015, the outstanding balance on the mortgage was \$95,857 and \$848,019 respectively. The loan was paid off in September 2016.

In August 2011, Mission Network entered into a capital lease arrangement for certain equipment, which required monthly installments of \$1,520 and expires July 2016. Effective June 1, 2013 the agreement was modified to require monthly installments of \$1,300 per month through the end of the agreement. The lease was terminated in June 2016. A new capital lease was entered into for new equipment in June 2016. The lease contract includes equipment, services and supplies and requires payments of \$1,115 per month. The amount of the monthly payment for services and supplies, \$499, is expensed each month. The equipment has been capitalized and the payment obligation has been recorded as a capital lease obligation.

At July 31, 2016 and 2015, the outstanding balance of the capital lease obligations was \$30,361 and \$15,326 respectively.

## Mennonite Mission Network

### Notes To Financial Statements

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Aggregate annual maturities of capital lease obligations are as follows:

|   |    |                |
|---|----|----------------|
| During the year ended July 31,          |    |                |
| 2017                                    | \$ | 6,837          |
| 2018                                    |    | 6,837          |
| 2019                                    |    | 6,837          |
| 2020                                    |    | 6,837          |
| 2021                                    |    | 5,698          |
| Total minimum lease payments            |    | <u>33,046</u>  |
| Less amount representing interest       |    | <u>(2,685)</u> |
| Present value of minimum lease payments | \$ | <u>30,361</u>  |

The cost, net of accumulated amortization, of the leased assets at July 31, 2016 and 2015 was \$30,273 and \$11,000 respectively.

#### Note 6. Restrictions on Net Assets

Mission Network's temporarily and permanently restricted net assets at July 31, 2016 and 2015 were available for the following purposes:

|                        | 2016                   |                        | 2015                   |                        |
|------------------------|------------------------|------------------------|------------------------|------------------------|
|                        | Temporarily Restricted | Permanently Restricted | Temporarily Restricted | Permanently Restricted |
| Overseas Mission       | \$ 2,604,972           | \$ 466,594             | \$ 2,470,260           | \$ 466,104             |
| Christian Service      | 107,835                | -                      | 96,959                 | -                      |
| Holistic Witness       | 133,870                | 19,184                 | 134,812                | 19,184                 |
| General Missions       | 775,340                | 2,297,713              | 875,162                | 2,297,613              |
| Building and Equipment | 100,000                | -                      | -                      | -                      |
|                        | <u>\$ 3,722,017</u>    | <u>\$ 2,783,491</u>    | <u>\$ 3,577,193</u>    | <u>\$ 2,782,901</u>    |



## Mennonite Mission Network

### Notes To Financial Statements

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#### Note 7. Contributions

|                        | 2016                |                        |                        | Total               |
|------------------------|---------------------|------------------------|------------------------|---------------------|
|                        | Unrestricted        | Temporarily Restricted | Permanently Restricted |                     |
| Operating Fund         | \$ 3,322,164        | \$ 1,682,066           | \$ -                   | \$ 5,004,230        |
| New Opportunities Fund | -                   | 175,750                | -                      | 175,750             |
| Special Projects       | -                   | 449,426                | -                      | 449,426             |
| Endowment              | -                   | 209,774                | 590                    | 210,364             |
| Total Contributions    | <u>\$ 3,322,164</u> | <u>\$ 2,517,016</u>    | <u>\$ 590</u>          | <u>\$ 5,839,770</u> |

  

|                        | 2015                |                        |                        | Total               |
|------------------------|---------------------|------------------------|------------------------|---------------------|
|                        | Unrestricted        | Temporarily Restricted | Permanently Restricted |                     |
| Operating Fund         | \$ 3,639,955        | \$ 1,777,284           | \$ -                   | \$ 5,417,239        |
| New Opportunities Fund | -                   | 341,590                | -                      | 341,590             |
| Special Projects       | -                   | 249,075                | -                      | 249,075             |
| Endowment              | -                   | -                      | 1,390                  | 1,390               |
| Total Contributions    | <u>\$ 3,639,955</u> | <u>\$ 2,367,949</u>    | <u>\$ 1,390</u>        | <u>\$ 6,009,294</u> |

#### Note 8. Endowment Net Assets

Mission Network's endowment consists of several individual funds established for various purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law:** The Board has interpreted Indiana Trust and Fiduciary Law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a restricted net asset classification until appropriated by the Board for expenditure unless explicitly stated otherwise in the gift instrument. In addition, the Board has interpreted Indiana Trust and Fiduciary Law to appropriate as much of net appreciation of permanently restricted net assets as is prudent considering the duration and preservation of the endowment fund, the purposes of the organization and endowment fund, general economic conditions, effect of inflation or deflation, expected total return on its investments, and the investment policy of the organization.

**Mennonite Mission Network**

**Notes To Financial Statements**

The following is a summary of endowment net asset composition by type of fund at July 31, 2016 and 2015:

|                                  | 2016             |                        |                        | Totals              |
|----------------------------------|------------------|------------------------|------------------------|---------------------|
|                                  | Unrestricted     | Temporarily Restricted | Permanently Restricted |                     |
| Donor Restricted Endowment Funds | \$ -             | \$ 2,606,413           | \$ 2,783,491           | \$ 5,389,904        |
| Board Designated Funds           | 53,870           | -                      | -                      | 53,870              |
| Total funds                      | <u>\$ 53,870</u> | <u>\$ 2,606,413</u>    | <u>\$ 2,783,491</u>    | <u>\$ 5,443,774</u> |

|                                  | 2015             |                        |                        | Totals              |
|----------------------------------|------------------|------------------------|------------------------|---------------------|
|                                  | Unrestricted     | Temporarily Restricted | Permanently Restricted |                     |
| Donor Restricted Endowment Funds | \$ -             | \$ 2,515,879           | \$ 2,782,901           | \$ 5,298,780        |
| Board Designated Funds           | 53,870           | -                      | -                      | 53,870              |
| Total funds                      | <u>\$ 53,870</u> | <u>\$ 2,515,879</u>    | <u>\$ 2,782,901</u>    | <u>\$ 5,352,650</u> |

The following is a summary of the changes in endowment net assets for the years ended July 31, 2016 and 2015.

|   | 2016             |                        |                        | Totals              |
|---|------------------|------------------------|------------------------|---------------------|
|   | Unrestricted     | Temporarily Restricted | Permanently Restricted |                     |
| Endowment net assets, beginning of year           | \$ 53,870        | \$ 2,515,879           | \$ 2,782,901           | \$ 5,352,650        |
| Investment return:                                |                  |                        |                        |                     |
| Investment income, net of fees                    | -                | 146,905                | -                      | 146,905             |
| Net realized and unrealized loss                  | -                | (60,485)               | -                      | (60,485)            |
| Total investment return                           | -                | 86,420                 | -                      | 86,420              |
| Contributions                                     | -                | 209,774                | 590                    | 210,364             |
| Appropriation of endowment assets for expenditure | -                | (205,660)              | -                      | (205,660)           |
| Endowment net assets, end of year                 | <u>\$ 53,870</u> | <u>\$ 2,606,413</u>    | <u>\$ 2,783,491</u>    | <u>\$ 5,443,774</u> |

## Mennonite Mission Network

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|   | 2015         |                        |                        | Totals       |
|---|--------------|------------------------|------------------------|--------------|
|   | Unrestricted | Temporarily Restricted | Permanently Restricted |              |
| Endowment net assets, beginning of year           | \$ 53,870    | \$ 2,565,498           | \$ 2,781,511           | \$ 5,400,879 |
| Investment return:                                |              |                        |                        |              |
| Investment income, net of fees                    | -            | 167,349                | -                      | 167,349      |
| Net realized and unrealized gain                  | -            | 20,257                 | -                      | 20,257       |
| Total investment return                           | -            | 187,606                | -                      | 187,606      |
| Contributions                                     | -            | -                      | 1,390                  | 1,390        |
| Appropriation of endowment assets for expenditure | -            | (237,225)              | -                      | (237,225)    |
| Endowment net assets, end of year                 | \$ 53,870    | \$ 2,515,879           | \$ 2,782,901           | \$ 5,352,650 |

**Funds with deficiencies:** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Indiana Trust and Fiduciary Law requires Mission Network to retain as a fund of perpetual duration. At July 31, 2016 and 2015 there were no funds with deficiencies.

**Return objectives and risk parameters:** Mission Network has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to support operations and programs of Mission Network by its endowment while seeking to preserve the endowment assets in perpetuity. In establishing this policy, Mission Network considered the long-term expected return on its endowment. Accordingly, over the long-term Mission Network expects the current spending policy to allow its endowment to grow by the amount of inflation annually. This is consistent with Mission Network's objective to preserve the capital assets of Mission Network in perpetuity as well as preserve the purchasing power of the endowment assets over time.

**Strategies employed for achieving objectives:** To satisfy the long-term return objectives, Mission Network relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Mission Network maintains an investment policy that targets an investment allocation of approximately 40%-80% in domestic and international equities and approximately 30%-40% in debt securities, and 0%-15% in alternative investments, cash and cash equivalents.

**Spending policy and how the investment objectives relate to spending policy:** Mission Network has a policy of appropriating for distribution on an annual basis 4.5% of the Average Market Value of Mission Network's endowment funds to support the charitable mission of Mission Network's programs. In establishing this policy, Mission Network considered the long-term expected return on its endowment. For spending purposes, the Average Market Value shall be established based on the 60 most recent months ended the previous July 31<sup>st</sup>. Accordingly, over the long-term Mission Network expects the current spending policy to allow its endowment to grow by the amount of inflation annually. This is consistent with Mission Network's return objectives.

## Mennonite Mission Network

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#### Note 9. Notes Receivable

The notes receivable – churches and other, are loans to individuals, churches and/or affiliated organizations and generally bear interest at rates of 0% to 7.5%. At July 31, 2016 and 2015, notes receivable – churches and other, consisted of the following:

|  | 2016              | 2015              |
|--|-------------------|-------------------|
| Notes and loans                        |                   |                   |
| Individual notes                       | \$ 44,199         | \$ 44,199         |
| Mission Workers Overseas               | 5,781             | 10,109            |
| Net notes and loans                    | <u>49,980</u>     | <u>54,308</u>     |
| Mortgages                              |                   |                   |
| Individuals - Domestic and Overseas    | 1,597             | 3,997             |
| North America Churches                 | 219,479           | 240,185           |
| Less allowance for uncollectible loans | (36,000)          | (42,000)          |
| Net mortgages                          | <u>185,076</u>    | <u>202,182</u>    |
| Total mortgages, notes, and loans      | <u>\$ 235,056</u> | <u>\$ 256,490</u> |

#### Note 10. Rental Agreements

Mission Network leases office space for its Newton, Kansas offices from a related party on a month-to-month basis for \$2,398 per month. The rental expense for this lease included in the statement of activities for the years ended July 31, 2016 and 2015 is approximately \$29,200 and \$31,300 respectively.

#### Note 11. Group Health Plans

Mission Network has a self-insured group health plan (the Plan) for its domestic staff employees under which it is responsible for individual health claims. Employees from Mennonite Church USA, a related party, and The Mennonite also participate in this plan.

The health plan which domestic staff participates in is a risk sharing arrangement for major medical claims sponsored by Mennonite Church USA called the Corinthian Plan. Certain other self-insured group health plans covering Mennonite Church USA pastors and employees of other Mennonite Church USA agencies and related organizations also participate in the Corinthian Plan. The Corinthian Plan is governed by Church Benefits Board which is appointed by Mennonite Church USA and is administered by Everence (formerly known as Mennonite Mutual Aid (“MMA”)), an agency of Mennonite Church USA. Under the Corinthian Plan, Everence provides reinsurance to participants in the Corinthian Plan based on the claims experience of all the participants in the Corinthian Plan. Mission Network is responsible for eligible claims up to \$20,000 per individual per year. The level of eligible claims for which Mission Network is responsible was determined by an actuarial analysis. There were 146 individuals covered by the Plan at July 31, 2016 and 2015 respectively.

## **Mennonite Mission Network**

### **Notes To Financial Statements**

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In addition, the Organization provides group health plans for mission workers overseas and certain participants and unit leaders in its Christian Service programs. These plans participate as one of the sixteen member organizations of a major medical expense pool referred to as Mutual Aid Sharing Plan ("MASP"). MASP is incorporated as a not-for-profit organization under the laws of the State of Pennsylvania and is exempt from federal and state income taxes pursuant to provisions of Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Each participating member made an initial investment into the MASP.

The participating members pay for their own actual claims incurred during the year. Each member is responsible for an initial level of claims for each covered individual based on the size of the agency. The MASP is responsible for the first \$250,000 of claims for each covered individual in excess of the member's responsibility. Each member enters into a reinsurance contract with a common reinsurance provider under an agreement, negotiated by MASP based on the claims experience of all members in MASP, which provides reinsurance for individual claims in excess of \$250,000 plus the member's initial level of claim responsibility. Mission Network is responsible for eligible claims up to \$15,000 per individual per year. The level of eligible claims for which Mission Network is responsible is determined based on the total number of lives enrolled in Mission Network health plans that participate in the MASP. There were 63 and 72 individuals covered by the MASP Plan at July 31, 2016 and 2015 respectively.

MASP has established policies for determining the ownership of the net assets of MASP. The amount recorded as "Investment in Mutual Aid Sharing Plan" has been determined based on these policies to be \$198,137 and \$202,197 as of July 31, 2016 and 2015 respectively.

Mission Network's share of income or loss of the MASP is recorded in the statement of activities. Periodically MASP takes action to adjust the ownership of net assets so that the ownership reflects the respective level of participation of each member agency in MASP. This action may require an agency to pay additional amounts to increase their ownership of net assets or the agency may receive a return of their investment in the net assets of MASP. The amount of \$30,754 was received during the years ended July 31, 2016 and 2015 respectively as a return of net assets from MASP.

A member's equity in the assets of MASP will be returned to the agency upon their withdrawal from the pool. The pay out on the equity begins twelve months after the date of pool termination. The annual distribution cannot exceed 10% of the total pool's reserve balance.

Should the MASP ever dissolve, final disposition is subject to MASP membership policies.

#### **Note 12. Employee Benefit Plan**

Current full-time and certain part-time employees (including overseas workers) of Mission Network are covered by a defined contribution plan administered by Mennonite Retirement Trust. Beginning January 1, 2005, Mission Network adopted a 403(b) plan administered by Mennonite Retirement Trust. Participants may elect to make contributions to the 403(b) plan through salary reduction arrangements. Benefits are determined by the individual's credits in the trust. Contributions into the plan by Mission Network aggregated approximately \$292,264 and \$275,055 for the years ended July 31, 2016 and 2015 respectively.

#### **Note 13. Funds Held For Overseas Workers**

Mission Network allows overseas workers to set aside a certain amount of income for relocation purposes. The funds are held by Mission Network in a separate bank account. Earnings are allocated proportionately to the participants. Mission Network will match contributions for employees with six or more years of service. Mission Network made contributions of \$11,627 and \$11,061 for the years ended July 31, 2016 and 2015 respectively.

**Note 14. Related Parties**

Mennonite Church USA consists of congregations that have affiliated with one another in regional district conferences. The conferences serve as the main administrative structure for congregations. The conferences are represented at a General Assembly that meets every two years to act in matters of interest to Mennonite Church USA constituency. The Executive Board of Mennonite Church USA functions on behalf of the General Assembly when the General Assembly is not in session. Mission Network is one of five church-wide program boards of Mennonite Church USA. In that capacity, Mission Network has entered into an agreement to provide funding to Mennonite Church USA Executive Board for their work with congregations and conferences. For the years ended July 31, 2016 and 2015, Mission Network paid \$498,906 and \$338,054 respectively, to Mennonite Church USA.

The Board of Directors of Mission Network is made up of thirteen members. Six of the members are appointed by Mennonite Church USA and the remaining seven members are elected by the General Assembly. In addition to missions (which is the mandate of Mission Network), the other program boards are involved in financial stewardship, education, media production, and health services. The other affiliated program boards consist of the following: Mennonite Education Agency, Everence (formerly known as Mennonite Mutual Aid), MennoMedia (a merger of a former agency, Mennonite Publishing Network, and Third Way Media, a former program of Mennonite Mission Network) and Mennonite Health Services.

Mission Network and Mennonite Church USA share certain expenses as part of their normal operations. Mennonite Church USA also receives certain contributions that are forwarded to Mission Network by agreement. Mission Network had amounts receivable, included in accounts receivable, from Mennonite Church USA of approximately \$60,000 and \$105,000 at July 31, 2016 and 2015 respectively. Mission Network had amounts payable, included in accounts payable, to Mennonite Church USA of approximately \$8,000 and \$14,000 at July 31, 2016 and 2015 respectively.

Mission Network and Mennonite Church USA share health plan costs based on their proportionate share of participants in the plan. The plan is administered by Mission Network. As of July 31, 2016 and 2015, approximately \$188,000 and \$197,000 respectively were due to Mennonite Church USA for amounts paid into the health plan in excess of costs.

In July 2013 Mennonite Church USA provided an interest free loan of \$89,955 to Mennonite Mission Network to cover certain grants that were part of the Joining Together Investing in Hope capital campaign. The campaign was a joint undertaking of Mennonite Church USA and Mission Network and has been administered by Mission Network. Mission Network made grant commitments of \$89,955 to Mennonite Church USA, who is administering the grant proceeds on behalf of grant recipients. Under the terms of the loan agreement the loan will be repaid as additional contributions are received by the campaign. The amount of the loan outstanding at July 31, 2016 and 2015 was \$56,717 and \$57,753 respectively.

During the year ended July 31, 2012, Mennonite Mission Network, on behalf of Mennonite Church USA, completed the construction of an office facility in Elkhart, Indiana that is to be shared by Mennonite Church USA agencies and related organizations. Beginning in January 2012 Mission Network shared the Elkhart office facility with three other agencies of Mennonite Church USA and several related organizations. The organizations have agreed to share the occupancy costs related to the facility. Mission Network received approximately \$99,000 and \$98,000 for the years ended July 31, 2016 and 2015 respectively, from the other agencies to offset operating costs of the facility.

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The Executive Board of Mennonite Church USA and Mission Network agree that it may be desirable for Mennonite Church USA to hold title to the real estate, equipment and furnishings that make up the office facility. Mission Network has agreed that upon request from the Executive Board it will transfer title of the office facility to Mennonite Church USA provided that the following condition is met; all loan commitments, liens and obligations related to the office facility have been satisfied and released.

Mission Network also shares costs for telephone systems and information technology with other agencies of Mennonite Church USA and related organizations.

Everence provides administrative services for all of the health plans maintained by Mission Network as well as providing re-insurance for the staff health plan (Note 11). Mission Network had amounts included in accounts receivable from Everence of approximately \$12,500 and none at July 31, 2016 and 2015 respectively.

The MASP provides re-insurance for health plans covering mission workers overseas and certain participants and unit leaders in its Christian Service programs (Note 11). Mission Network had amounts included in accounts receivable from the MASP of approximately \$53,500 and \$29,000 at July 31, 2016 and 2015 respectively.

#### **Note 15. Charitable Gift Annuities**

Mission Network receives assets from various individuals under agreements that require Mission Network to pay the donors varying amounts during their lifetime. These assets are recognized at their fair value at the time of their receipt. An actuarial present value of the payments to be made, based on the donor's age and annuity interest rates, is used to determine the obligation. The gift is based on the value of the assets less the obligation at the time the gift was received. The total annuity obligation as of July 31, 2016 and 2015 was approximately \$31,500 and \$41,000 respectively. The annuity liability is periodically reviewed and adjusted as necessary for changes due to revised life expectancy.

#### **Note 16. Transition-Related Agreements**

The integration of the Mennonite Church and the General Conference Mennonite Church has resulted in agreements that may result in future obligations for Mission Network. Agreements currently in place, may call for future payments to Mennonite Church Canada. These payments would be related to the proceeds received from the sale of real estate. If certain properties are sold, Mennonite Church Canada would receive a portion of the proceeds received by Mission Network. Payments of \$21,514 were due for the sale of properties that occurred during the year ended July 31, 2015. Payments are made as the proceeds of the sales are collected. The unpaid amounts included in accounts payable are \$16,154 and \$17,329 at July 31, 2016 and 2015 respectively.

#### **Note 17. Transfer of Assets**

Third Way Media, Mission Network's division primarily responsible for ministries using film, video, radio, and similar media and Mennonite Publishing Network agreed to form a new entity, MennoMedia. Mission Network signed an agreement on May 16, 2011, for the transfer of certain assets relating to Third Way Media, including cash, inventory, certain intangible assets, land, building, and equipment. Under terms of the agreement, the transfer of assets occurred on July 1, 2011.

## Mennonite Mission Network

### Notes To Financial Statements

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In addition, Mission Network has agreed to provide a subsidy to support annual operating expenses of MennoMedia. The maximum subsidy commitment is \$972,500, or approximately \$194,500 per year for 5 years beginning in July 2011 and is payable monthly. The amount of the subsidy is adjusted annually under terms defined in the transfer agreement. The amount paid to MennoMedia under this agreement for the years ending July 31, 2016 and 2015 was approximately \$180,564 and \$179,491 respectively. All commitments under the subsidy agreement were completed as of June 30, 2016.

#### Note 18. Subsequent Event

Mission Network has evaluated subsequent events for potential recognition and/or disclosure through November 23, 2016, the date the financial statements were available to be issued.

#### Note 19. Cash Flows Information

Supplemental information relative to the statement of cash flows for the years ended July 31, 2016 and 2015 is as follows:

|  | 2016      | 2015       |
|--|-----------|------------|
| Supplemental Disclosure of Cash Flow Information                           |           |            |
| Cash payments for interest   | \$ 18,937 | \$ 32,305  |
| Supplemental Disclosure of Non-Cash Investing<br>and Financing Activities: |           |            |
| Mortgage loan given on sale of real estate                                 | \$ -      | \$ 180,000 |
| Assets acquired under capital lease obligations                            | \$ 31,319 | \$ -       |



## **Supplementary Information**

**Mennonite Mission Network**

**Schedule Of Functional Expenses**

**Year Ended July 31, 2016**

**See Independent Auditor's Report**

| FUNCTIONAL EXPENSES                    | Program Expenses         |                    |                  |                                 | Total               | Supporting Services    |                   |                     | Mennonite Church USA | Total               |
|--|--------------------------|--------------------|------------------|---------------------------------|---------------------|------------------------|-------------------|---------------------|----------------------|---------------------|
|  | International Ministries | Christian Service  | Holistic Witness | Mission Education and Resources |                     | General Administration | Fundraising       | Total               |                      |                     |
| Compensation of Personnel:             |                          |                    |                  |                                 |                     |                        |                   |                     |                      |                     |
| Salaries                               | \$ 630,553               | \$ 401,824         | \$ 91,665        | \$ 685,058                      | \$ 1,809,100        | \$ 700,264             | \$ 242,712        | \$ 942,976          | \$ -                 | \$ 2,752,076        |
| Contracted personnel                   | 83,360                   | 111                |                  | 5,037                           | 88,508              | 145,260                | -                 | 145,260             | -                    | 233,768             |
| Fringe benefits and taxes              | 211,224                  | 134,202            | 28,877           | 227,866                         | 602,169             | 251,479                | 85,420            | 336,899             | -                    | 939,068             |
| Field Based Personnel:                 |                          |                    |                  |                                 |                     |                        |                   |                     |                      |                     |
| Salaries                               | 402,487                  | -                  | -                | -                               | 402,487             | -                      | -                 | -                   | -                    | 402,487             |
| Contracted personnel                   | 139,363                  | -                  | -                | -                               | 139,363             | -                      | -                 | -                   | -                    | 139,363             |
| Fringe benefits and taxes              | 313,377                  | -                  | -                | -                               | 313,377             | -                      | -                 | -                   | -                    | 313,377             |
| Housing and household costs            | 193,306                  | -                  | -                | -                               | 193,306             | -                      | -                 | -                   | -                    | 193,306             |
| <b>Total Personnel Costs</b>           | <b>1,973,670</b>         | <b>536,137</b>     | <b>120,542</b>   | <b>917,961</b>                  | <b>3,548,310</b>    | <b>1,097,003</b>       | <b>328,132</b>    | <b>1,425,135</b>    | <b>-</b>             | <b>4,973,445</b>    |
| Conferences, seminars and meetings     | 120,509                  | 24,193             | 17,362           | 3,264                           | 165,328             | 1,345                  | 1,892             | 3,237               | -                    | 168,565             |
| Depreciation                           | 1,590                    | -                  | -                | 2,350                           | 3,940               | 358,085                | -                 | 358,085             | -                    | 362,025             |
| Dues and subscriptions                 | 18,686                   | 701                | 29               | 1,698                           | 21,114              | 3,372                  | 150               | 3,522               | -                    | 24,636              |
| Software subscriptions and maintenance | 12,671                   | -                  | -                | -                               | 12,671              | 86,086                 | -                 | 86,086              | -                    | 98,757              |
| Small equipment and maintenance        | -                        | -                  | -                | 107                             | 107                 | 8,320                  | -                 | 8,320               | -                    | 8,427               |
| Field costs                            | 106,818                  | 625,202            | -                | -                               | 732,020             | -                      | -                 | -                   | -                    | 732,020             |
| Grants and subsidies                   | 1,439,515                | 103,184            | 55,792           | 1,417                           | 1,599,908           | 46,337                 | -                 | 46,337              | 498,906              | 2,145,151           |
| Insurance                              | 5,012                    | 2,506              | -                | -                               | 7,518               | 36,461                 | -                 | 36,461              | -                    | 43,979              |
| Interest                               | -                        | -                  | -                | -                               | -                   | 18,937                 | -                 | 18,937              | -                    | 18,937              |
| Miscellaneous                          | 9,149                    | 3,000              | -                | 1,880                           | 14,029              | (639)                  | 105               | (534)               | -                    | 13,495              |
| Occupancy                              | -                        | -                  | -                | -                               | -                   | 30,764                 | -                 | 30,764              | -                    | 30,764              |
| Office expenses                        | 2,386                    | 3,568              | 124              | 2,903                           | 8,981               | 15,501                 | 2,504             | 18,005              | -                    | 26,986              |
| Postage                                | 1,153                    | 2,189              | 1,121            | 40,621                          | 45,084              | 3,892                  | 5,304             | 9,196               | -                    | 54,280              |
| Mission education materials            | 276                      | 11,606             | 5,839            | 71,908                          | 89,629              | 2,567                  | 7,031             | 9,598               | -                    | 99,227              |
| Professional services                  | 1,670                    | -                  | -                | -                               | 1,670               | 43,735                 | -                 | 43,735              | -                    | 45,405              |
| Staff development                      | 4,828                    | 1,882              | -                | 4,045                           | 10,755              | 69,819                 | 10                | 69,829              | -                    | 80,584              |
| Telephone                              | 6,527                    | 6,742              | 2,168            | 4,033                           | 19,470              | 24,166                 | 1,540             | 25,706              | -                    | 45,176              |
| Travel                                 | 214,026                  | 78,338             | 20,863           | 94,507                          | 407,734             | 81,726                 | 39,807            | 121,533             | -                    | 529,267             |
| Allocations                            | (188,600)                | 382,600            | 99,600           | (25,500)                        | 268,100             | (417,700)              | 149,600           | (268,100)           | -                    | -                   |
|  | <b>1,756,216</b>         | <b>1,245,711</b>   | <b>202,898</b>   | <b>203,233</b>                  | <b>3,408,058</b>    | <b>412,774</b>         | <b>207,943</b>    | <b>620,717</b>      | <b>498,906</b>       | <b>4,527,681</b>    |
| <b>Total Expenses</b>                  | <b>\$3,729,886</b>       | <b>\$1,781,848</b> | <b>\$323,440</b> | <b>\$ 1,121,194</b>             | <b>\$ 6,956,368</b> | <b>\$ 1,509,777</b>    | <b>\$ 536,075</b> | <b>\$ 2,045,852</b> | <b>\$498,906</b>     | <b>\$ 9,501,126</b> |

**Mennonite Mission Network**

**Schedule Of Functional Expenses**

**Year Ended July 31, 2015**

**See Independent Auditor's Report**

| FUNCTIONAL EXPENSES                    | Program Expenses         |                    |                  |                                 |                     | Supporting Services    |                   |                     | Mennonite Church | Total               |
|--|--------------------------|--------------------|------------------|---------------------------------|---------------------|------------------------|-------------------|---------------------|------------------|---------------------|
|  | International Ministries | Christian Service  | Holistic Witness | Mission Education and Resources | Total               | General Administration | Fundraising       | Total               | USA              |                     |
| Compensation of Personnel:             |                          |                    |                  |                                 |                     |                        |                   |                     |                  |                     |
| Salaries                               | \$ 591,366               | \$ 397,080         | \$ 89,941        | \$ 688,916                      | \$ 1,767,303        | \$ 718,091             | \$ 230,675        | \$ 948,766          | \$ -             | \$ 2,716,069        |
| Contracted personnel                   | 80,213                   | -                  | 23,932           | 10,808                          | 114,953             | 144,382                | -                 | 144,382             | -                | 259,335             |
| Fringe benefits and taxes              | 192,940                  | 127,321            | 26,970           | 218,318                         | 565,549             | 227,900                | 78,256            | 306,156             | -                | 871,705             |
| Field Based Personnel:                 |                          |                    |                  |                                 |                     |                        |                   |                     |                  |                     |
| Salaries                               | 377,453                  | -                  | -                | -                               | 377,453             | -                      | -                 | -                   | -                | 377,453             |
| Contracted personnel                   | 144,390                  | -                  | -                | -                               | 144,390             | -                      | -                 | -                   | -                | 144,390             |
| Fringe benefits and taxes              | 395,343                  | -                  | -                | -                               | 395,343             | -                      | -                 | -                   | -                | 395,343             |
| Housing and household costs            | 222,644                  | -                  | -                | -                               | 222,644             | -                      | -                 | -                   | -                | 222,644             |
| <b>Total Personnel Costs</b>           | <b>2,004,349</b>         | <b>524,401</b>     | <b>140,843</b>   | <b>918,042</b>                  | <b>3,587,635</b>    | <b>1,090,373</b>       | <b>308,931</b>    | <b>1,399,304</b>    | <b>-</b>         | <b>4,986,939</b>    |
| Conferences, seminars and meetings     | 79,326                   | 26,596             | 12,570           | 10,510                          | 129,002             | 4,699                  | 2,697             | 7,396               | -                | 136,398             |
| Depreciation                           | 1,477                    | 79                 | -                | 1,391                           | 2,947               | 346,926                | -                 | 346,926             | -                | 349,873             |
| Dues and subscriptions                 | 18,110                   | 499                | 46               | 1,215                           | 19,870              | 2,731                  | 34                | 2,765               | -                | 22,635              |
| Software subscriptions and maintenance | 8,129                    | -                  | -                | -                               | 8,129               | 71,050                 | -                 | 71,050              | -                | 79,179              |
| Small equipment and maintenance        | -                        | -                  | -                | 75                              | 75                  | 7,927                  | -                 | 7,927               | -                | 8,002               |
| Field costs                            | 102,055                  | 635,317            | -                | -                               | 737,372             | -                      | -                 | -                   | -                | 737,372             |
| Grants and subsidies                   | 1,174,608                | 102,072            | 38,552           | 1,200                           | 1,316,432           | 46,337                 | -                 | 46,337              | 338,054          | 1,700,823           |
| Insurance                              | 9,301                    | 1,697              | 258              | -                               | 11,256              | 34,904                 | -                 | 34,904              | -                | 46,160              |
| Interest                               | -                        | -                  | -                | -                               | -                   | 32,305                 | -                 | 32,305              | -                | 32,305              |
| Miscellaneous                          | 8,995                    | 1,825              | 163              | 1,063                           | 12,046              | 320                    | 226               | 546                 | -                | 12,592              |
| Occupancy                              | -                        | -                  | -                | -                               | -                   | 37,166                 | -                 | 37,166              | -                | 37,166              |
| Office expenses                        | 2,480                    | 1,929              | 402              | 3,536                           | 8,347               | 15,403                 | 2,629             | 18,032              | -                | 26,379              |
| Postage                                | 1,204                    | 2,685              | 2,489            | 28,495                          | 34,873              | 3,749                  | 3,279             | 7,028               | -                | 41,901              |
| Mission education materials            | 911                      | 16,752             | 8,907            | 116,754                         | 143,324             | 2,295                  | 5,605             | 7,900               | -                | 151,224             |
| Professional services                  | 2,378                    | -                  | -                | -                               | 2,378               | 37,820                 | -                 | 37,820              | -                | 40,198              |
| Staff development                      | 3,093                    | 3,253              | 109              | 9,101                           | 15,556              | 22,771                 | 213               | 22,984              | -                | 38,540              |
| Telephone                              | 6,289                    | 6,459              | 2,784            | 2,133                           | 17,665              | 23,111                 | 1,252             | 24,363              | -                | 42,028              |
| Travel                                 | 198,809                  | 65,379             | 37,524           | 96,101                          | 397,813             | 94,441                 | 38,169            | 132,610             | -                | 530,423             |
| Allocations                            | (169,000)                | 383,000            | 89,000           | (47,000)                        | 256,000             | (453,000)              | 197,000           | (256,000)           | -                | -                   |
|  | <b>1,448,165</b>         | <b>1,247,542</b>   | <b>192,804</b>   | <b>224,574</b>                  | <b>3,113,085</b>    | <b>330,955</b>         | <b>251,104</b>    | <b>582,059</b>      | <b>338,054</b>   | <b>4,033,198</b>    |
| <b>Total Expenses</b>                  | <b>\$3,452,514</b>       | <b>\$1,771,943</b> | <b>\$333,647</b> | <b>\$ 1,142,616</b>             | <b>\$ 6,700,720</b> | <b>\$ 1,421,328</b>    | <b>\$ 560,035</b> | <b>\$ 1,981,363</b> | <b>\$338,054</b> | <b>\$ 9,020,137</b> |