

Mennonite Mission Network

Financial Report
July 31, 2022

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RSM US LLP

Independent Auditor's Report

Board of Directors
Mennonite Mission Network

Opinion

We have audited the accompanying financial statements of Mennonite Mission Network (Mission Network), which comprise the statements of financial position as of July 31, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mission Network as of July 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mission Network and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mission Network's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mennonite Mission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mennonite Mission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Elkhart, Indiana
January 20, 2023

Mennonite Mission Network

**Statements of Financial Position
July 31, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 5,140,506	\$ 3,631,619
Contributions receivable, net	238,016	756,826
Prepaid expenses and advances	104,442	145,238
Notes receivable, net	137,515	149,757
Investments	12,629,274	14,075,093
Investment in Mutual Aid Sharing Plan	105,928	119,582
Beneficial interest in trust accounts	149,970	174,640
Assets not available due to restrictions	175,000	175,000
Property and equipment, net	4,878,151	5,059,725
Total assets	\$ 23,558,802	\$ 24,287,480
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 284,647	\$ 315,752
Payable to Mennonite Church USA	158,554	156,842
Funds held for overseas workers	55,188	47,494
Deferred revenue	59,000	57,000
Capital lease	21,605	28,768
Annuities payable	4,140	4,695
Total liabilities	583,134	610,551
Net assets:		
Without donor restrictions	16,243,344	15,988,136
With donor restrictions	6,732,324	7,688,793
Total net assets	22,975,668	23,676,929
Total liabilities and net assets	\$ 23,558,802	\$ 24,287,480

See notes to financial statements.

Mennonite Mission Network

Statement of Activities

Year Ended July 31, 2022

(With Summarized Comparative Totals for the Year Ended July 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
Revenue, gains and other support:				
Contributions	\$ 3,165,599	\$ 1,494,543	\$ 4,660,142	\$ 4,670,775
Estates and bequests	2,145,310	18,500	2,163,810	2,318,428
Gift of beneficial interest in trust	-	-	-	66,000
Grants - programs	-	232,479	232,479	128,496
Overseas workers and voluntary service units	16,939	-	16,939	91,817
Fees - recovery of costs	113,625	-	113,625	87,191
Investment (loss) income, net	(468,582)	(535,495)	(1,004,077)	2,042,045
Other revenue	23,952	-	23,952	6,814
Net assets released from purpose restrictions	2,144,321	(2,144,321)	-	-
Total revenue, gains and other support	7,141,164	(934,294)	6,206,870	9,411,566
Program expense:				
International Ministries	2,534,172	-	2,534,172	2,303,533
Christian Service	667,448	-	667,448	966,345
Mission Resourcing and Education	1,307,626	-	1,307,626	1,220,187
Total program expenses	4,509,246	-	4,509,246	4,490,065
Supporting services expense:				
General administration	1,426,031	-	1,426,031	1,550,865
Fundraising	607,192	-	607,192	594,989
Total supporting services expenses	2,033,223	-	2,033,223	2,145,854
Payment to Executive Board	329,295	-	329,295	312,943
Total expenses	6,871,764	-	6,871,764	6,948,862
Change in net assets from operations	269,400	(934,294)	(664,894)	2,462,704
Other changes:				
Changes in value of split-interest agreements	(538)	(22,175)	(22,713)	8,603
Change in value of investment in Mutual Aid Sharing Plan	(13,654)	-	(13,654)	26,092
Change in net assets	255,208	(956,469)	(701,261)	2,497,399
Net assets, beginning	15,988,136	7,688,793	23,676,929	21,179,530
Net assets, ending	\$ 16,243,344	\$ 6,732,324	\$ 22,975,668	\$ 23,676,929

See notes to financial statements.

Mennonite Mission Network

Statement of Activities Year Ended July 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Contributions	\$ 3,203,894	\$ 1,466,881	\$ 4,670,775
Estates and bequests	2,313,428	5,000	2,318,428
Gift of beneficial interest in trust	-	66,000	66,000
Grants - programs	-	128,496	128,496
Overseas workers and voluntary service units	91,817	-	91,817
Fees - recovery of costs	87,191	-	87,191
Investment income, net	704,770	1,337,275	2,042,045
Other revenue	6,814	-	6,814
Net assets released from purpose restrictions	1,951,838	(1,951,838)	-
Total revenue, gains and other support	8,359,752	1,051,814	9,411,566
Program expense:			
International Ministries	2,303,533	-	2,303,533
Christian Service	966,345	-	966,345
Mission Resourcing and Education	1,220,187	-	1,220,187
Total program expenses	4,490,065	-	4,490,065
Supporting services expense:			
General administration	1,550,865	-	1,550,865
Fundraising	594,989	-	594,989
Total supporting services expenses	2,145,854	-	2,145,854
Payment to Executive Board	312,943	-	312,943
Total expenses	6,948,862	-	6,948,862
Change in net assets from operations	1,410,890	1,051,814	2,462,704
Other changes:			
Changes in value of split-interest agreements	(551)	9,154	8,603
Change in value of investment in Mutual Aid Sharing Plan	26,092	-	26,092
Change in net assets	1,436,431	1,060,968	2,497,399
Net assets, beginning	14,551,705	6,627,825	21,179,530
Net assets, ending	\$ 15,988,136	\$ 7,688,793	\$ 23,676,929

See notes to financial statements.

Mennonite Mission Network

Statements of Cash Flows Years Ended July 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (701,261)	\$ 2,497,399
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	243,138	232,100
Non-cash contributions	(64,112)	(76,384)
Change in fair value of investment in Mutual Aid Sharing Plan	13,654	(26,092)
Contributions from matured annuities	-	(3,907)
Contribution and grant revenue restricted for long-term purposes	-	(3,025)
Gain on sale of assets	(2,317)	(663)
Realized and unrealized loss (gain) on investments	1,455,948	(1,731,205)
Changes in value of split-interest agreements	(22,713)	(8,603)
Decrease (increase) in:		
Contribution receivable	518,810	(534,205)
Prepaid expenses and advances	40,796	11,618
Increase (decrease) in:		
Accounts payable and accrued expenses	29,393	29,561
Funds held for overseas workers	(7,694)	(70,262)
Deferred revenue	(2,000)	-
Net cash provided by operating activities	1,501,642	316,332
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1,300	200
Acquisitions of property and equipment	(73,816)	(28,522)
Principal collected from notes receivable	12,242	12,060
Return of investment in Mutual Aid Sharing Plan	19,607	53,938
Proceeds from maturity or sale of investments	1,170,398	2,683,606
Purchase of investments	(1,116,415)	(3,500,574)
Proceeds from distributions from trusts	2,538	55,194
Net cash provided by (used in) investing activities	15,854	(724,098)
Cash flows from financing activities:		
Gift annuity payments	(620)	(758)
Payments on capital lease obligations	(7,992)	(6,779)
Collections of contributions and grants restricted for long-term purposes	-	3,025
Net cash used in financing activities	(8,612)	(4,512)
Increase (decrease) in cash and cash equivalents	1,508,884	(412,278)
Cash and cash equivalents, beginning	3,631,619	4,043,897
Cash and cash equivalents, ending	\$ 5,140,503	\$ 3,631,619
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 320	\$ 320
Supplemental disclosures of noncash investing and financing activities:		
Assets acquired by capital lease	\$ -	\$ 29,940
Gifts of securities and beneficial interest in trust at fair value	\$ 64,112	\$ 76,384

See notes to financial statements.

Mennonite Mission Network

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 (see Note 14).

Significant accounting policies:

Basis of presentation: Mission Network prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which require Mission Network to report information regarding its financial position and activities as without donor restrictions or with donor restrictions based on the existence or absence of donor-imposed restrictions.

Use of estimates: The preparation of financial statements in conformity with GAAP 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.

Net assets without donor restrictions: Net assets are available for use in general operations and not subject to donor or grantor restrictions and may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions: Net assets are contributions and other inflows of assets whose use by Mission Network is limited by donor or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net assets with donor restrictions also include, pursuant to Indiana law, cumulative appreciation and reinvested gains on assets with donor-imposed restrictions that are perpetual in nature, which have not been appropriated by the Board of Directors.

Cash and cash equivalents: For the purpose of the statements 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. 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.

Mennonite Mission Network

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Contributions receivable: Contributions are carried at the original amount or remaining balance less a discount for contributions due over one year from fiscal year-end and an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by evaluating specifically identified receivables 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. Management determined no significant allowance for doubtful accounts was necessary as of July 31, 2022 and 2021. There were no contributions receivable beyond one year as of July 31, 2022 and 2021.

Property, equipment and depreciation: Property and equipment is stated at cost, or for donations, at fair value at the date of the donation, and includes 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 net assets without donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions at that time.

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

	<u>Years</u>
Buildings	20-40
Equipment	3-10

Long-lived assets: Mission Network reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the exceeded future net cash flows be less than the carrying value, Mission Network would recognize an impairment loss at that date. As impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of long-lived assets. There was no impairment at July 31, 2022 and 2021.

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 statements of activities. Mission Network considers substantially all investments highly liquid.

Mennonite Mission Network

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Beneficial interest in trust accounts: Mission Network has a beneficial interest in irrevocable trusts, which are currently held and administered by independent trustees. Mission Network's portion of the fair value of the underlying assets of the trusts are recorded in net assets with donor restrictions. The net change in value of the assets of the trusts due to realized and unrealized gains (losses) and other investment income is reported within the change in the value of split-interest agreements in the statements of activities.

Revenue and support: Contributions are included in income in the period the gifts are pledged or received. Contributions received, including estates and bequests, are classified and reported based on the existence or absence of donor-imposed restrictions.

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. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Grant revenue is derived from nonexchange transactions with nonprofit organizations and individuals. Revenue is recognized in accordance with the provisions of the grant agreements, typically in the year the grant is awarded.

Mission Network receives revenue from exchange transactions. Funds received from partnering organizations for the services of some overseas workers and voluntary service unit participants is recorded after services are performed and require no further obligation by Mission Network. Additionally, Mission Network receives fees for providing IT services to other Mennonite Church USA agencies and some other related organizations. Revenue from fees for IT services is recognized as services are provided. Fees for participation in seminars and learning tours sponsored by Mission Network are recognized at the time the event takes place. Revenue received from congregations for expenses related to speaking engagements is recognized after the speaking event.

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

Contributed nonfinancial assets: 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, occasionally 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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or service are charged directly to that program or service. Costs common to multiple functions have been allocated among the various functions using a reasonable allocation that is consistently applied, as follows:

Mennonite Mission Network

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The costs related to shared services and personnel are allocated based on the full-time equivalent of domestic staff employees for each program compared to total full-time equivalent of domestic staff for Mission Network. The costs related to shared services and personnel include office services, information technology and other shared office expenses. Costs for other areas such as Program Human Resources, Marketing and Communications, Church Relations and certain other staff are allocated based on estimates of time devoted to each activity. The cost of certain mixed use publications are allocated to fundraising based on the fundraising content in the materials. Management evaluates these allocations on an annual basis. See Note 18 for functional expenses presented by natural classification.

General and administrative expenses includes costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of Mission Network.

Income taxes: Mission Network is incorporated as a nonprofit 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 is not required to file Form 990. 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 and the applicable state agencies for years before 2019.

Adopted accounting standard: Mission Network adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which required a not-for-profit entity to present contributed nonfinancial assets in the statements of activities as a line item that is separate from contribution of cash or other financial assets as well as required additional disclosures. The new standard did not have a significant impact on the financial statements.

Recently issued accounting pronouncement: In February 2016, the Financial Accounting Standards Board (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 statements 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 statements of activities. The new standard is effective for Mission Network's July 31, 2023, 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. Mission Network is currently evaluating the effect of the pending adoption of the new standard on the financial statements.

Subsequent events: Mission Network has evaluated subsequent events for potential recognition and/or disclosure through January 20, 2023, the date the financial statements were available to be issued.

Mennonite Mission Network

Notes to Financial Statements

Note 2. Liquidity and Availability of Resources

The following table reflects Mission Network's financial assets, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of restrictions as of July 31, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 5,140,506	\$ 3,631,619
Contributions receivable	238,016	756,826
Notes receivable	137,515	149,757
Investments	12,629,274	14,075,093
	<u>18,145,311</u>	<u>18,613,295</u>
Less amounts not available to be used within one year:		
Long-term portion of note receivable	125,088	137,697
Net assets with donor restrictions	6,732,324	7,688,793
	<u>6,857,412</u>	<u>7,826,490</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,287,899</u>	<u>\$ 10,786,805</u>

Mission Network has reserves that are included in cash and cash equivalents in the table above to ensure that there is cash available to meet unexpected expenses that might result from claims submitted to the self-funded health plans, repair and maintenance costs or other unanticipated needs; however, these amounts are available to be expended in the next year.

In addition, Mission Network's Board has established policies that are used to ensure that there are adequate financial assets available to meet general operating expenditures. These board policies require Mission Network to maintain cash reserves as follows:

- (1) Reserves equal to 25% of the combined revenue and contributions budget adopted for the next fiscal year.
- (2) Reserves that provide for estate and bequest gifts received each year to be used over a four year period from date of receipt.

Mission Network's Board has approved investing cash reserves, included in the table above as investments held for operations in a diversified portfolio managed using a conservative investment risk allocation. These investments are highly liquid and available within the next year and are considered part of the cash reserves in accordance with board policies.

Mission Network is also required to maintain a line of credit of at least 10% of the annual operating budget (see Note 6).

Mennonite Mission Network

Notes to Financial Statements

Note 3. Investments

Investments as of July 31, 2022 and 2021 consisted of the following:

	2022	2021
Domestic equity mutual funds	\$ 4,588,149	\$ 5,104,286
Domestic bond mutual funds	5,931,797	6,379,530
Foreign equity mutual funds	1,572,488	1,745,710
Real estate mutual funds	282,269	311,651
Institutional money market funds	254,571	533,916
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	12,629,274	14,075,093
Investment in Mutual Aid Sharing Plan	105,928	119,582
Beneficial interest in trust accounts	149,970	174,640
	<hr/>	<hr/>
	\$ 12,885,172	\$ 14,369,315

At July 31, 2022 and 2021, Mission Network held investments in the following mutual funds that accounted for 10% or more of total investments:

	2022	2021
Domestic Equity Mutual Fund A	11%	10%
Domestic Bond Mutual Fund B	18%	17%
Domestic Bond Mutual Fund C	17%	16%
Domestic Bond Mutual Fund D	*	*
Domestic Bond Mutual Fund E	11%	10%
International Bond Mutual Fund F	10%	*

* Fund did not account for more than 10% of investments.

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 statements of financial position.

Mennonite Mission Network

Notes to Financial Statements

Note 4. Fair Value Disclosure

Mission Network follows the provisions of Accounting Standards Codification (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 1:** Quoted market prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes listed equities and listed derivatives.
- Level 2:** 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 3:** 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. All mutual funds are actively traded and are based upon market quotations of national security exchanges.

The investment in the 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 statements of activities. The MASP requires a notice of 120 days to withdraw from the plan. The member's remaining reserve fund balance is paid to the member after the closing of activities of the plan year in which the agency withdraws. The fair value estimate of this investment is classified as Level 3.

The fair value of the beneficial interest in trust accounts held by others is based on the fair value of the trust's underlying assets provided by the trustee, which includes investments at varying levels. The fair value estimate of this beneficial interest asset is classified as Level 3.

Mennonite Mission Network

Notes to Financial Statements

Note 4. Fair Value Disclosure (Continued)

The following table summarizes the valuation of Mission Network's investments by the above fair value hierarchy levels as of July 31, 2022 and 2021:

	Assets at Fair Value as of July 31, 2022			
	Level 1	Level 2	Level 3	Totals
Investments:				
Domestic equity mutual funds	\$ 4,588,149	\$ -	\$ -	\$ 4,588,149
Domestic bond mutual funds	5,931,797	-	-	5,931,797
Foreign equity mutual fund	1,572,488	-	-	1,572,488
Real estate mutual funds	282,269	-	-	282,269
Institutional money market funds	254,571	-	-	254,571
Investment in Mutual Aid Sharing Plan	-	-	105,928	105,928
Beneficial interest in trust accounts	-	-	149,970	149,970
	<u>\$ 12,629,274</u>	<u>\$ -</u>	<u>\$ 255,898</u>	<u>\$ 12,885,172</u>

	Assets at Fair Value as of July 31, 2021			
	Level 1	Level 2	Level 3	Totals
Investments:				
Domestic equity mutual funds	\$ 5,104,286	\$ -	\$ -	\$ 5,104,286
Domestic bond mutual funds	6,379,530	-	-	6,379,530
Foreign equity mutual fund	1,745,710	-	-	1,745,710
Real estate mutual funds	311,651	-	-	311,651
Institutional money market funds	533,916	-	-	533,916
Investment in Mutual Aid Sharing Plan	-	-	119,582	119,582
Beneficial interest in trust accounts	-	-	174,640	174,640
	<u>\$ 14,075,093</u>	<u>\$ -</u>	<u>\$ 294,222</u>	<u>\$ 14,369,315</u>

During the years ended July 31, 2022 and 2021, there were no transfers in or out of Level 3.

Mennonite Mission Network

Notes to Financial Statements

Note 5. Property and Equipment

The cost of property and equipment and the related accumulated depreciation, including assets under capital leases, at July 31, 2022 and 2021 is as follows:

	2022	2021
Land	\$ 177,860	\$ 183,986
Buildings	6,538,500	6,538,500
Equipment	1,174,729	1,127,777
	<u>7,891,089</u>	<u>7,850,263</u>
Less accumulated depreciation	3,012,938	2,790,538
	<u>\$ 4,878,151</u>	<u>\$ 5,059,725</u>

Note 6. Line of Credit and Capital Lease

Mission Network has a \$1,000,000 line of credit with a bank. Any borrowings against the line of credit are due on demand, bear interest at bank prime rate (5.50% at July 31, 2022) and are unsecured. The line of credit expires on January 31, 2023. Management intends to renew the line of credit.

There were no outstanding balances on the line of credit as of July 31, 2022 and 2021, or borrowings for the years then ended.

In May 2021, Mission Network entered into a capital lease arrangement for certain equipment, which required monthly installments of \$805 and expires in May 2025. The lease contract includes equipment, services and supplies. The amount of the monthly payment for services and supplies, \$139, is expensed each month. The equipment has been capitalized and the payment obligation has been recorded as a capital lease obligation.

At July 31, 2022 and 2021, the outstanding balance of the capital lease obligation was \$21,605 and \$28,768, respectively.

Aggregate annual payments of capital lease obligations are as follows:

Years ending July 31:		
2023	\$	7,992
2024		7,992
2025		<u>6,660</u>
Total minimum lease payments		22,644
Less amount representing interest		<u>(1,039)</u>
Present value of minimum lease payments	\$	<u>21,605</u>

The cost, net of accumulated amortization, of the leased assets at July 31, 2022 and 2021, was \$21,207 and \$28,692, respectively.

Mennonite Mission Network

Notes to Financial Statements

Note 7. Restrictions on Net Assets

Mission Network's net assets with donor restrictions at July 31 were restricted for the following purposes or periods:

	2022	2021
Subject to expenditure for specified purpose:		
Overseas Mission	\$ 2,383,323	\$ 2,774,371
Christian Service	13,838	14,408
Mission Resourcing and Education	222,108	269,101
General Missions	1,048,457	1,539,645
	<u>3,667,726</u>	<u>4,597,525</u>
Subject to the passage of time:		
Beneficial interest in trust agreements	149,970	174,640
Land subject to life interest	116,000	118,000
	<u>265,970</u>	<u>292,640</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
General Missions	2,300,240	2,300,240
Overseas Mission	479,204	479,204
Mission Resourcing and Education	19,184	19,184
	<u>2,798,628</u>	<u>2,798,628</u>
	<u>\$ 6,732,324</u>	<u>\$ 7,688,793</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 the Indiana Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment, (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added and (c) realized and unrealized gains of donor-restricted endowment funds until appropriated by the Board for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Board considers the duration and preservation of the endowment fund, the purposes of Mission Network and endowment fund, general economic conditions, effect of inflation or deflation, expected total return on its investments, and the investment policy of Mission Network.

Mennonite Mission Network

Notes to Financial Statements

Note 8. Endowment Net Assets (Continued)

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ 53,870	\$ 6,708,527	\$ 6,762,397
Investment return:			
Investment income, net of fees	-	247,295	247,295
Net realized and unrealized loss	-	(782,790)	(782,790)
Total investment return	-	(535,495)	(535,495)
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(428,200)	(428,200)
Endowment net assets, end of year	\$ 53,870	\$ 5,744,832	\$ 5,798,702
	2021		
	Without Donor Restrictions	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ 53,870	\$ 5,602,477	\$ 5,656,347
Investment return:			
Investment income, net of fees	-	203,144	203,144
Net realized and unrealized gain	-	1,134,131	1,134,131
Total investment return	-	1,337,275	1,337,275
Contributions	-	3,025	3,025
Appropriation of endowment assets for expenditure	-	(234,250)	(234,250)
Endowment net assets, end of year	\$ 53,870	\$ 6,708,527	\$ 6,762,397

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, 2022 and 2021, there were no funds with deficiencies.

Mennonite Mission Network

Notes to Financial Statements

Note 8. Endowment Net Assets (Continued)

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 55% in domestic and international equities, 35% in debt securities and 10% in alternative investments.

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 moving average of the previous 20 quarters ending July 31. 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.

Note 9. Notes Receivable

The notes receivable are loans to individuals, churches and/or affiliated organizations and generally bear interest at rates of 0% to 1.5% during the years ended July 31, 2022 and 2021. At July 31, 2022 and 2021, notes receivable consisted of the following:

	2022	2021
Individual notes	\$ 44,199	\$ 44,199
North American church mortgages	93,316	105,558
Total mortgages, notes and loans	<u>\$ 137,515</u>	<u>\$ 149,757</u>

There was no allowance for uncollectible notes receivable deemed necessary as of July 31, 2022 and 2021. There were no material long-term notes receivable as of July 31, 2022 and 2021.

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 \$2,776 per month. The rental expense for this lease included in the statements of activities for the years ended July 31, 2022 and 2021, is approximately \$25,000 and \$33,300, respectively.

Mennonite Mission Network

Notes to Financial Statements

Note 11. Group Health Plans

Mission Network has three self-insured group health plans for its domestic staff employees, mission workers overseas, and certain unit leaders in its domestic service programs, under which it is responsible for individual health claims. The health plan that covered domestic voluntary service participants was closed in June 2022 as the responsibility for covering these individuals was transferred to the local supporting congregations. Employees from Mennonite Church USA, a related party also participate in the plan for domestic staff employees.

The health plan which domestic staff participates in is part of 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 the 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 plans that participate 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 99 and 109 individuals covered by the Plan at July 31, 2022 and 2021, respectively.

Mission Network also provides two separate group health plans for mission workers overseas and unit leaders in its Service Adventure program. These plans participate as one of approximately twenty member organizations of a major medical expense pool referred to as the Mutual Aid Sharing Plan (MASP). The 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 the 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 \$17,500 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 34 and 25 individuals covered by the MASP Plan at July 31, 2022 and 2021, 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 \$105,928 and \$119,582 as of July 31, 2022 and 2021, respectively.

Mission Network's share of income or loss of the MASP is recorded in the statements of activities. Periodically MASP has taken 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. During the years ended July 31, 2022 and 2021, Mission Network received \$19,607 and \$53,938, respectively, as a return of net assets from MASP.

Mennonite Mission Network

Notes to Financial Statements

Note 11. Group Health Plans (Continued)

A member's equity in the assets of MASP will be returned to the agency upon their withdrawal from the pool. An Agency may withdraw its participation in the MASP by giving the MASP no less than 120 days' notice in writing. The member's remaining reserve fund balance is paid to the member after the closing of activities of the plan year in which the agency withdraws. If the member's reserve fund balance exceeds ten percent (10%), the total MASP reserve fund balance may be paid over 90 days.

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

Note 12. Retirement Plan

Current full-time and certain part-time employees (including overseas workers) of Mission Network are covered by a defined contribution plan sponsored by Mennonite Church USA known as Mennonite Retirement Trust. Participants may elect to make contributions to the plan through salary reduction arrangements. Benefits are determined by the individual's credits in the trust. Contributions into the plan by Mission Network aggregated \$248,509 and \$265,237 for the years ended July 31, 2022 and 2021 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 \$3,167 and \$7,300 for the years ended July 31, 2022 and 2021, respectively.

Note 14. Related Parties

Mennonite Church USA consists of congregations that have affiliated with one another in conferences, many of which are regional in nature, but may also reflect other affinities. The conferences serve as the main administrative structure for congregations. The congregations 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 churchwide 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, 2022 and 2021, Mission Network paid \$329,295 and \$312,943, respectively, to Mennonite Church USA.

The Board of Directors of Mission Network is made up of 13 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: Everence, Mennonite Education Agency, 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.

Mennonite Mission Network

Notes to Financial Statements

Note 14. Related Parties (Continued)

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 contributions receivable, from Mennonite Church USA of approximately \$102,000 and \$130,000 at July 31, 2022 and 2021, respectively. Mission Network had amounts payable, included in accounts payable and accrued expenses, to Mennonite Church USA of approximately \$6,200 and \$700 at July 31, 2022 and 2021, 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, 2022 and 2021, approximately \$159,000 and \$157,000, respectively, were due to Mennonite Church USA for amounts paid into the health plan in excess of costs.

Mennonite Mission Network, on behalf of Mennonite Church USA, constructed an office facility in Elkhart, Indiana, that is to be shared by Mennonite Church USA agencies and related organizations. Mission Network shares the Elkhart office facility with three other agencies of Mennonite Church USA and several other organizations. Mission Networks have agreed to share the occupancy costs related to the facility. Mission Network received approximately \$62,400 and \$63,000 for the years ended July 31, 2022 and 2021, respectively, from the other organizations to offset operating costs of the facility, which is included as a reduction to occupancy costs within the functional expenses (see Note 18).

The Executive Board of Mennonite Church USA and Mission Network agree that it may become 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 conditions are met; all loan commitments, liens and obligations related to the office facility have been satisfied and released. As of July 31, 2022, there are no loan commitments, liens or other obligations related to the office facility. No request to transfer title has been received from the Executive Board as of July 31, 2022.

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 health plans maintained by Mission Network as well as providing reinsurance for the staff health plan (see Note 11). Total expenses incurred for health plan costs paid to Everence was approximately \$619,000 and \$657,000 for the years ended July 31, 2022 and 2021, respectively. Mission Network had amounts included in contributions receivable from Everence of approximately \$6,200 and \$700 at July 31, 2022 and 2021, respectively. Mission Network had amounts included in accounts payable and accrued expenses for health plan claims of approximately \$5,300 and \$3,600 at July 31, 2022 and 2021, respectively.

The MASP provides reinsurance for health plans covering mission workers overseas and certain participants and unit leaders in its Christian Service programs (see Note 11). Total expenses incurred for health plan costs paid to MASP was approximately \$42,000 and \$35,000 for the years ended July 31, 2022 and 2021, respectively. Mission Network had no amounts included in accounts receivable from the MASP at July 31, 2022 and 2021.

Mennonite Mission Network

Notes to Financial Statements

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, 2022 and 2021 was approximately \$4,000 and \$5,000, respectively. The annuity liability is periodically reviewed and adjusted as necessary for changes due to revised life expectancy.

Note 16. Transition-Related Agreements

The formation of Mennonite Church USA and Mennonite Mission Network in 2002 resulted in agreements that 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 are made as the proceeds of the sales are collected. The unpaid amounts included in accounts payable and accrued expenses are \$10,556 at July 31, 2022 and 2021.

Note 17. Assets Not Available Due to Restrictions

Assets not available due to restrictions are made up of real estate donated to Mission Network with attached restrictions as to its available use. The property was recorded at the lower of cost or fair value, \$175,000, on the date of the gift and is restricted for the life interest of family members of the donor. As a result, it is discounted for the estimated life of the persons holding the life interest, totaling \$59,000 and \$57,000 as of July 31, 2022 and 2021, respectively, and is reported with deferred revenue on the statements of financial position.

Mennonite Mission Network

Notes to Financial Statements

Note 18. Functional Expenses

Functional expenses for Mission Network are as follows for the years ended July 31, 2022 and 2021:

	2022						Total
	Program Expenses			Support Services		Mennonite	
	International Ministries	Christian Service	Mission Education and Resources	General Administration	Fundraising	Church USA	
Domestic salaries and benefits	\$ 686,890	\$ 395,875	\$ 1,018,079	\$ 913,849	\$ 530,268	\$ -	\$ 3,544,961
Field personnel salaries, benefits and housing	660,383	-	-	-	-	-	660,383
Field costs	45,741	59,093	-	-	-	-	104,834
Grants and subsidies	899,447	126,672	82,820	46,337	-	329,295	1,484,571
Mission education material	4,109	2,218	29,655	3,485	10,674	-	50,141
Depreciation	7,717	3,042	11,949	217,224	3,206	-	243,138
Occupancy	26,007	17,367	57,809	11,855	17,891	-	130,929
Outside services	44,452	22,294	45,957	141,728	18,633	-	273,064
Travel and meetings	111,488	20,035	31,637	44,488	12,629	-	220,277
Other operating expenses	47,938	20,852	29,720	47,065	13,891	-	159,466
Total expenses	\$ 2,534,172	\$ 667,448	\$ 1,307,626	\$ 1,426,031	\$ 607,192	\$ 329,295	\$ 6,871,764

	2021						Total
	Program Expenses			Support Services		Mennonite	
	International Ministries	Christian Service	Mission Education and Resources	General Administration	Fundraising	Church USA	
Domestic salaries and benefits	\$ 633,100	\$ 531,544	\$ 1,027,787	\$ 1,048,769	\$ 515,148	\$ -	\$ 3,756,348
Field personnel salaries, benefits and housing	736,464	-	-	-	-	-	736,464
Field costs	57,577	169,853	-	-	-	-	227,430
Grants and subsidies	760,550	184,698	22,935	46,337	-	312,943	1,327,463
Mission education material	-	12,417	57,642	2,268	11,927	-	84,254
Depreciation	5,228	2,266	6,421	215,059	3,126	-	232,100
Occupancy	26,620	19,787	44,037	21,305	25,573	-	137,322
Outside services	17,755	11,639	30,424	165,766	19,542	-	245,126
Travel and meetings	28,015	18,634	6,768	659	5,761	-	59,837
Other operating expenses	38,224	15,507	24,173	50,702	13,912	-	142,518
Total expenses	\$ 2,303,533	\$ 966,345	\$ 1,220,187	\$ 1,550,865	\$ 594,989	\$ 312,943	\$ 6,948,862