

Mennonite Mission Network

Financial Report
July 31, 2023

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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, 2023 and 2022, the related statements of activities 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, 2023 and 2022, 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 Mission Network'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 Mission Network'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 29, 2024

Mennonite Mission Network

**Statements of Financial Position
July 31, 2023 and 2022**

	2023	2022
Assets		
Cash and cash equivalents	\$ 3,598,452	\$ 5,140,506
Contributions receivable, net	1,071,941	238,016
Prepaid expenses and advances	90,043	104,442
Notes receivable, net	142,089	137,515
Investments	13,811,908	12,629,274
Investment in Mutual Aid Sharing Plan	87,641	105,928
Beneficial interest in trust accounts	140,050	149,970
Assets not available due to restrictions	175,000	175,000
Property and equipment, net	4,642,460	4,878,151
	<u>4,642,460</u>	<u>4,878,151</u>
Total assets	\$ 23,759,584	\$ 23,558,802
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 277,744	\$ 284,647
Payable to Mennonite Church USA	137,728	158,554
Funds held for overseas workers	63,133	55,188
Deferred revenue	57,000	59,000
Capital lease obligation	-	21,605
Lease liability—finance lease	14,206	-
Annuities payable	4,003	4,140
	<u>4,003</u>	<u>4,140</u>
Total liabilities	553,814	583,134
Net assets:		
Without donor restrictions	16,379,851	16,243,344
With donor restrictions	6,825,919	6,732,324
	<u>6,825,919</u>	<u>6,732,324</u>
Total net assets	23,205,770	22,975,668
	<u>23,205,770</u>	<u>22,975,668</u>
Total liabilities and net assets	\$ 23,759,584	\$ 23,558,802
	<u>\$ 23,759,584</u>	<u>\$ 23,558,802</u>

See notes to financial statements.

Mennonite Mission Network

Statement of Activities

Year Ended July 31, 2023

(With Summarized Comparative Totals for the Year Ended July 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2023	2022
Revenue, gains and other support:				
Contributions	\$ 2,440,086	\$ 1,173,514	\$ 3,613,600	\$ 4,660,142
Estates and bequests	2,153,968	136,105	2,290,073	2,163,810
Grants—programs	-	153,324	153,324	232,479
Overseas workers and voluntary service units	750	-	750	16,939
Fees—recovery of costs	150,237	-	150,237	113,625
Investment income (loss), net	303,928	295,107	599,035	(1,004,077)
Other revenue	5,991	-	5,991	23,952
Net assets released from restrictions	1,667,626	(1,667,626)	-	-
Total revenue, gains and other support	6,722,586	90,424	6,813,010	6,206,870
Program expense:				
International Ministries	2,330,203	-	2,330,203	2,534,172
Christian Service	774,984	-	774,984	667,448
Mission Resourcing and Education	1,292,977	-	1,292,977	1,307,626
Total program expenses	4,398,164	-	4,398,164	4,509,246
Supporting services expense:				
General administration	1,822,828	-	1,822,828	1,426,031
Fundraising	778,553	-	778,553	607,192
Total supporting services expenses	2,601,381	-	2,601,381	2,033,223
Payment to Executive Board	380,873	-	380,873	329,295
Total expenses	7,380,418	-	7,380,418	6,871,764
Change in net assets from operations	(657,832)	90,424	(567,408)	(664,894)
Other changes:				
Changes in value of split-interest agreements	(484)	3,171	2,687	(22,713)
Change in value of investment in Mutual Aid Sharing Plan	(18,287)	-	(18,287)	(13,654)
Gain on sale of property	813,110	-	813,110	-
Change in net assets	136,507	93,595	230,102	(701,261)
Net assets, beginning	16,243,344	6,732,324	22,975,668	23,676,929
Net assets, ending	\$ 16,379,851	\$ 6,825,919	\$ 23,205,770	\$ 22,975,668

See notes to financial statements.

Mennonite Mission Network

Statement of Activities Year Ended July 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Contributions	\$ 3,165,599	\$ 1,494,543	\$ 4,660,142
Estates and bequests	2,145,310	18,500	2,163,810
Grants—programs	-	232,479	232,479
Overseas workers and voluntary service units	16,939	-	16,939
Fees—recovery of costs	113,625	-	113,625
Investment loss, net	(468,582)	(535,495)	(1,004,077)
Other revenue	23,952	-	23,952
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
Program expense:			
International Ministries	2,534,172	-	2,534,172
Christian Service	667,448	-	667,448
Mission Resourcing and Education	1,307,626	-	1,307,626
Total program expenses	4,509,246	-	4,509,246
Supporting services expense:			
General administration	1,426,031	-	1,426,031
Fundraising	607,192	-	607,192
Total supporting services expenses	2,033,223	-	2,033,223
Payment to Executive Board	329,295	-	329,295
Total expenses	6,871,764	-	6,871,764
Change in net assets from operations	269,400	(934,294)	(664,894)
Other changes:			
Changes in value of split-interest agreements	(538)	(22,175)	(22,713)
Change in value of investment in Mutual Aid Sharing Plan	(13,654)	-	(13,654)
Change in net assets	255,208	(956,469)	(701,261)
Net assets, beginning	15,988,136	7,688,793	23,676,929
Net assets, ending	\$ 16,243,344	\$ 6,732,324	\$ 22,975,668

See notes to financial statements.

Mennonite Mission Network

Statements of Cash Flows Years Ended July 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 230,102	\$ (701,261)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	241,348	243,138
Noncash contributions	(292,260)	(64,112)
Change in fair value of investment in Mutual Aid Sharing Plan	18,287	13,654
Contribution and grant revenue restricted for long-term purposes	(2,500)	-
Gain on sale of assets	(813,110)	(2,317)
Realized and unrealized (gain) loss on investments	(114,112)	1,455,948
Changes in value of split-interest agreements	2,687	(22,713)
(Increase) decrease in:		
Contribution receivable	(833,925)	518,810
Prepaid expenses and advances	14,399	40,796
Increase (decrease) in:		
Accounts payable and accrued expenses	(27,729)	29,393
Funds held for overseas workers	7,945	(7,694)
Deferred revenue	(2,000)	(2,000)
Net cash (used in) provided by operating activities	(1,570,868)	1,501,642
Cash flows from investing activities:		
Proceeds from sale of property and equipment	843,196	1,303
Acquisitions of property and equipment	(35,743)	(73,816)
Notes receivable issued	(17,001)	-
Principal collected from notes receivable	12,427	12,242
Return of investment in Mutual Aid Sharing Plan	7,233	19,607
Proceeds from maturity or sale of investments	935,596	1,170,398
Purchase of investments	(1,711,858)	(1,116,415)
Proceeds from distributions from trusts	-	2,538
Net cash provided by investing activities	33,850	15,857
Cash flows from financing activities:		
Gift annuity payments	(137)	(620)
Cash paid for finance leases	(7,399)	(7,992)
Collections of contributions and grants restricted for long-term purposes	2,500	-
Net cash used in financing activities	(5,036)	(8,612)
(Decrease) increase in cash and cash equivalents	(1,542,054)	1,508,887
Cash and cash equivalents, beginning	5,140,506	3,631,619
Cash and cash equivalents, ending	\$ 3,598,452	\$ 5,140,506
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ 320	\$ 320
Supplemental schedule of noncash investing and financing activities: and financing activities:		
Gifts of securities and beneficial interest in trust at fair value	\$ 292,260	\$ 64,112

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 12).

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 (FDIC). Mission Network has not experienced any losses in such accounts to date. Mission Network also maintains cash equivalents in investment accounts that are not FDIC insured. Mission Network has \$4,392,923 and \$4,889,394 in cash and cash equivalent accounts that exceed federally insured limits at July 31, 2023 and 2022, respectively.

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, 2023 and 2022. There were no contributions receivable beyond one year as of July 31, 2023 and 2022.

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, 2023 and 2022.

Investments: Investments in money market funds, 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 and other noncash donations are recorded as contributions at their estimated fair values on the date received. Mission Network generally pays for services requiring specific expertise. Many individuals volunteer their time and perform a variety of tasks that assist Mission Network with their programs and administration, but these donated services are not reflected in the financial statements because they do not meet the requirements for inclusion.

Contributions of services are recognized if the services received: (a) create or enhance nonfinancial assets, or (b) require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Mennonite Mission Network

Notes to Financial Statements

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

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:

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 16 for functional expenses presented by natural classification.

General and administrative expenses include 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.

Adopted accounting standard: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. This new standard was effective for the 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.

The Mission Network adopted this ASU for the year ended July 31, 2023. The impact of the adoption was not material to the Mission Network's financial statements.

Subsequent events: Mission Network has evaluated subsequent events for potential recognition and/or disclosure through January 29, 2024, 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, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 3,598,452	\$ 5,140,506
Contributions receivable	1,071,941	238,016
Notes receivable	142,089	137,515
Investments	13,811,908	12,629,274
	<u>18,624,390</u>	<u>18,145,311</u>
Less amounts not available to be used within one year:		
Long-term portion of notes receivable	129,474	125,088
Net assets with donor restrictions	6,825,919	6,732,324
	<u>6,955,393</u>	<u>6,857,412</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,668,997</u>	<u>\$ 11,287,899</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, 2023 and 2022 consisted of the following:

	2023	2022
Domestic equity mutual funds	\$ 4,946,253	\$ 4,588,149
Domestic bond mutual funds	5,791,576	5,931,797
Foreign equity mutual funds	1,674,918	1,572,488
Real estate mutual funds	301,326	282,269
Institutional money market funds	1,097,835	254,571
	<u>13,811,908</u>	<u>12,629,274</u>
Investment in Mutual Aid Sharing Plan	87,641	105,928
Beneficial interest in trust accounts	140,050	149,970
	<u>\$ 14,039,599</u>	<u>\$ 12,885,172</u>

At July 31, 2023 and 2022, Mission Network held investments in the following mutual funds that accounted for 10% or more of total investments:

	2023	2022
Domestic Equity Mutual Fund A	10%	11%
Domestic Bond Mutual Fund B	16%	18%
Domestic Bond Mutual Fund C	15%	17%
Domestic Bond Mutual Fund D	10%	11%
International Bond Mutual Fund E	10%	10%

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 money market funds and mutual funds are actively traded and are based upon market quotations of national security exchanges. These financial instruments are classified as Level 1.

The investment in the Mutual Aid Sharing Plan (MASP) is valued annually at the insurance reserve fund's fiscal year end and is based on activity in the specific funds invested within the reserve fund and related operating results. 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.

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Notes to Financial Statements

Note 4. Fair Value Disclosure (Continued)

The following tables summarize the valuation of Mission Network's investments by the above fair value hierarchy levels as of July 31, 2023 and 2022:

	Assets at Fair Value as of July 31, 2023			
	Level 1	Level 2	Level 3	Totals
Investments:				
Domestic equity mutual funds	\$ 4,946,253	\$ -	\$ -	\$ 4,946,253
Domestic bond mutual funds	5,791,576	-	-	5,791,576
Foreign equity mutual fund	1,674,918	-	-	1,674,918
Real estate mutual funds	301,326	-	-	301,326
Institutional money market funds	1,097,835	-	-	1,097,835
Investment in Mutual Aid Sharing Plan	-	-	87,641	87,641
Beneficial interest in trust accounts	-	-	140,050	140,050
	<u>\$ 13,811,908</u>	<u>\$ -</u>	<u>\$ 227,691</u>	<u>\$ 14,039,599</u>

	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>

During the years ended July 31, 2023 and 2022, there were no transfers in or out of Level 3.

Note 5. Property and Equipment

The cost of property and equipment and the related accumulated depreciation, including assets under capital leases, at July 31, 2023 and 2022, is as follows:

	2023	2022
Land	\$ 177,860	\$ 177,860
Buildings	6,416,642	6,538,500
Equipment	1,189,813	1,174,729
Construction in process	13,124	-
	<u>7,797,439</u>	<u>7,891,089</u>
Less accumulated depreciation	<u>3,154,979</u>	<u>3,012,938</u>
	<u>\$ 4,642,460</u>	<u>\$ 4,878,151</u>

Mennonite Mission Network

Notes to Financial Statements

Note 6. Line of Credit

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 (8.50% at July 31, 2023) and are unsecured. The line of credit expires on January 31, 2024. Management intends to renew the line of credit.

There were no outstanding balances on the line of credit as of July 31, 2023 and 2022, or borrowings for the years then ended.

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:

	2023	2022
Subject to expenditure for specified purpose:		
Overseas Mission	\$ 2,323,720	\$ 2,383,323
Christian Service	151,813	13,838
Mission Resourcing and Education	217,275	222,108
General Missions	1,073,933	1,048,457
	<u>3,766,741</u>	<u>3,667,726</u>
Subject to the passage of time:		
Beneficial interest in trust agreements	140,050	149,970
Land subject to life interest	118,000	116,000
	<u>258,050</u>	<u>265,970</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
General Missions	2,301,240	2,300,240
Overseas Mission	480,704	479,204
Mission Resourcing and Education	19,184	19,184
	<u>2,801,128</u>	<u>2,798,628</u>
	<u>\$ 6,825,919</u>	<u>\$ 6,732,324</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.

Mennonite Mission Network

Notes to Financial Statements

Note 8. Endowment Net Assets (Continued)

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.

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ 53,870	\$ 5,744,832	\$ 5,798,702
Investment return:			
Investment income, net of fees	3,223	186,010	189,233
Net realized and unrealized loss	25,641	109,097	134,738
Total investment return	28,864	295,107	323,971
Contributions	642,418	2,500	644,918
Appropriation of endowment assets for expenditure	-	(271,100)	(271,100)
Endowment net assets, end of year	\$ 725,152	\$ 5,771,339	\$ 6,496,491
	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 gain	-	(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

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, 2023 and 2022, 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. Group Health Plans

Mission Network has two 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. 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 88 and 99 individuals covered by the Plan at July 31, 2023 and 2022, 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 20 member organizations of a major medical expense pool referred to as the 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.

Mennonite Mission Network

Notes to Financial Statements

Note 9. Group Health Plans (Continued)

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 19 and 34 individuals covered by the MASP Plan at July 31, 2023 and 2022, 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 \$87,641 and \$105,928 as of July 31, 2023 and 2022, 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, 2023 and 2022, Mission Network received \$6,063 and \$19,607, 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. 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 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 10. 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 \$261,016 and \$248,509 for the years ended July 31, 2023 and 2022, respectively.

Note 11. 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 \$2,250 and \$3,167 for the years ended July 31, 2023 and 2022, respectively.

Mennonite Mission Network

Notes to Financial Statements

Note 12. 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, 2023 and 2022, Mission Network paid \$380,873 and \$329,295, 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.

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 \$199,000 and \$102,000 at July 31, 2023 and 2022, respectively. Mission Network had amounts payable, included in accounts payable and accrued expenses, to Mennonite Church USA of approximately \$0 and \$6,200 at July 31, 2023 and 2022, 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, 2023 and 2022, approximately \$138,000 and \$159,000, respectively, were due to Mennonite Church USA for amounts paid into the health plan in excess of costs.

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 Network has agreed to share the occupancy costs related to the facility. Mission Network received approximately \$62,400 for the years ended July 31, 2023 and 2022, 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 16).

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, 2023, 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, 2023.

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

Mennonite Mission Network

Notes to Financial Statements

Note 12. Related Parties (Continued)

Everence provides administrative services for all health plans maintained by Mission Network as well as providing reinsurance for the staff health plan (see Note 9). Total expenses incurred for health plan costs paid to Everence was approximately \$614,000 and \$619,000 for the years ended July 31, 2023 and 2022, respectively. Mission Network had amounts included in contributions receivable from Everence of approximately \$11,900 and \$6,200 at July 31, 2023 and 2022, respectively. Mission Network had amounts included in accounts payable and accrued expenses for health plan claims of approximately \$5,800 and \$5,300 at July 31, 2023 and 2022, 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 9). Total expenses incurred for health plan costs paid to MASP was approximately \$21,000 and \$42,000 for the years ended July 31, 2023 and 2022, respectively. Mission Network had no amounts included in accounts receivable from the MASP at July 31, 2023 and 2022.

Note 13. 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, 2023 and 2022, was approximately \$4,000. The annuity liability is periodically reviewed and adjusted as necessary for changes due to revised life expectancy.

Note 14. 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 \$8,089 and \$10,556 at July 31, 2023 and 2022, respectively.

Note 15. 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 \$57,000 and \$59,000 as of July 31, 2023 and 2022, respectively, and is reported with deferred revenue on the statements of financial position.

Mennonite Mission Network

Notes to Financial Statements

Note 16. Functional Expenses

Functional expenses for Mission Network are as follows for the years ended July 31, 2023 and 2022:

	2023						Total
	Program Expenses			Support Services		Mennonite	
	International Ministries	Christian Service	Mission Education and Resources	General Administration	Fundraising	Church USA	
Domestic salaries and benefits	\$ 747,778	\$ 387,258	\$ 1,055,222	\$ 1,227,487	\$ 621,529	\$ -	\$ 4,039,274
Field personnel salaries, benefits and housing	711,214	5,045	-	-	-	-	716,259
Field costs	62,155	118,736	2,683	-	-	-	183,574
Grants and subsidies	586,775	142,236	7,000	46,337	-	380,873	1,163,221
Mission education material	41	860	49,967	4,671	23,941	-	79,480
Depreciation	7,992	3,192	8,910	215,589	5,665	-	241,348
Occupancy	24,227	11,646	35,460	7,322	17,792	-	96,447
Outside services	22,323	19,275	28,942	127,018	22,167	-	219,725
Travel and meetings	130,179	65,707	83,921	111,259	67,443	-	458,509
Other operating expenses	37,519	21,029	20,872	83,145	20,016	-	182,581
Total expenses	\$ 2,330,203	\$ 774,984	\$ 1,292,977	\$ 1,822,828	\$ 778,553	\$ 380,873	\$ 7,380,418

	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