

# PROSPECTUS

(Date of this Prospectus: APRIL 1, 2020)

## INVESTMENT ACCOUNTS OFFERED BY Grace Brethren Investment Foundation, Inc.

P.O. Box 587, Winona Lake, Indiana 46590

Phone: (888) 340-4243

**in an offering amount not to exceed \$35,000,000 nationwide under this Prospectus.**

<u>Type of Securities</u>	<u>Minimum Investment Amount</u>	<u>Current Rate of Interest</u>
Investment Accounts	\$25.00	2.0%*

\* As of the date of this Prospectus, interest on Investment Accounts is being paid at the rate of **2.0%** annually, accruing daily and credited monthly. This rate has been in effect since **May 1, 2013**. The rate of interest payable on the Investment Accounts is subject to change by the Foundation from time to time, without approval or consent by the holders of the Investment Accounts. The Investment Accounts have no stated maturity date. The Foundation is obligated to pay principal and interest to a holder of an Investment Account not later than 30 days after demand to the Foundation is made for payment. See **“DESCRIPTION OF INVESTMENT ACCOUNTS”** and **“PLAN OF DISTRIBUTION.”**

**This Prospectus contains essential information about the issuer and the securities being offered hereby. Persons are advised to read this Prospectus carefully prior to making any decision to purchase these securities.**

Grace Brethren Investment Foundation, Inc. (the “Foundation”) is a tax-exempt, not-for-profit corporation operating under the laws of the State of Indiana and is associated with the Fellowship of Grace Brethren Churches d/b/a Charis Fellowship (the “Fellowship”). Pursuant to this Prospectus, the Foundation is soliciting, on a continuous basis, funds from associates of Grace Brethren churches (“Investment Accounts”), to be used principally in furtherance of the land purchase and development and the subsequent building and remodeling activities of Grace Brethren churches, schools, and associated organizations. The Investment Accounts are being offered by and sold (through this Prospectus and other prospectuses used by the Foundation in other states from time to time) only to persons associated with the Fellowship. Offers and sales made in reliance upon this Prospectus shall not exceed \$35,000,000; the aggregate amount of Investment Accounts outstanding at any time will differ and will likely be more than \$35,000,000. The Foundation estimates that the annual expenses associated with the offering will be \$100,000, all of which will be paid by the Foundation from its general funds.

**THIS OFFERING IS SUBJECT TO CERTAIN RISKS. (SEE “RISK FACTORS” BEGINNING AT PAGE 2)**

**THESE SECURITIES ARE EITHER REGISTERED OR EXEMPT FROM REGISTRATION IN THE VARIOUS STATES OR JURISDICTIONS IN WHICH THEY ARE OFFERED OR SOLD BY THE ISSUER. THIS OFFERING IS BEING MADE ONLY IN THOSE STATES IN WHICH THE MAKING OF SUCH OFFERS AND SALES MAY LAWFULLY BE MADE AND DOES NOT CONSTITUTE AN OFFER IN ANY OTHER STATES. THIS PROSPECTUS HAS BEEN FILED WITH THE SECURITIES ADMINISTRATORS IN SUCH STATES OR JURISDICTIONS THAT REQUIRE IT FOR REGISTRATION OR EXEMPTION.**

**THESE SECURITIES ARE ISSUED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER SECTION 3(a)(4) OF THE FEDERAL SECURITIES ACT OF 1933. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.**

**THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT DETERMINED THE ACCURACY, ADEQUACY, TRUTHFULNESS, OR COMPLETENESS OF THIS DOCUMENT AND HAVE NOT PASSED UPON THE MERIT OR VALUE OF THESE SECURITIES OR APPROVED, DISAPPROVED, OR ENDORSED THE OFFERING. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING, BUT NOT LIMITED TO, THE DISCLOSURE, MERITS AND RISKS INVOLVED.**

**THE INVESTMENT ACCOUNTS ARE NOT SAVINGS OR DEPOSIT ACCOUNTS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, ANY STATE BANK INSURANCE FUND OR ANY OTHER GOVERNMENTAL AGENCY. THE PAYMENT OF PRINCIPAL AND INTEREST TO AN INVESTOR IN THE INVESTMENT ACCOUNTS IS DEPENDENT UPON THE ISSUER’S FINANCIAL CONDITION. THE INVESTMENT ACCOUNTS ARE NOT OBLIGATIONS OF, NOR GUARANTEED BY THE FELLOWSHIP OR BY ANY CHURCH, CONFERENCE, INSTITUTION OR AGENCY AFFILIATED WITH THE FELLOWSHIP.**

**NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED ON AS HAVING BEEN MADE BY GRACE BROTHERS INVESTMENT FOUNDATION, INC.**

**INVESTORS ARE ENCOURAGED TO CONSIDER THE CONCEPT OF INVESTMENT DIVERSIFICATION WHEN DETERMINING THE AMOUNT OF INVESTMENT ACCOUNTS THAT WOULD BE APPROPRIATE FOR THEM IN RELATION TO THEIR OVERALL INVESTMENT PORTFOLIO AND PERSONAL FINANCIAL NEEDS.**

**THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT WITH THE FOUNDATION'S CONSENT AND AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM.**

The minimum required to open an Investment Account pursuant to this offering is \$25.00. The periodic value of an Investment Account is the amount that an investor decides to allocate to an Investment Account as a result of this offering or by means of future additions to the Investment Account, together with accrued interest thereon, less any withdrawals. See **"DESCRIPTION OF INVESTMENT ACCOUNTS"** and **"PLAN OF DISTRIBUTION."**

Neither the Foundation nor any third party will be entitled to any underwriting or selling commission on the funds received through this offering. All expenses of this offering, which are not expected to exceed approximately \$100,000, will be paid by the Foundation from its general funds. See **"USE OF PROCEEDS."**

No sinking fund or trust indenture will be used by the Foundation in conjunction with the sale of Investment Accounts. Investors must rely solely upon the financial condition of the Foundation for repayment of Investment accounts. Investment Accounts are unsecured debts of the Foundation and are of equal priority with all other current indebtedness of the Foundation, except to the extent of any senior secured indebtedness (see Risk Factor 3, **"Senior Secured Indebtedness"** at page 2).

## **STATE NOTICES**

### ***Notice to Alabama Residents:***

**THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER CODE OF ALABAMA 1975, SECTION 8-6-10(8), AND SECTION 3(a)(4) OF THE SECURITIES ACT OF 1933. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE ALABAMA SECURITIES COMMISSION OR WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. NEITHER THE ALABAMA SECURITIES COMMISSION NOR THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION HAS PASSED UPON THE VALUE OF THESE SECURITIES, MADE ANY RECOMMENDATIONS AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED THE OFFERING, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.**

### ***Notice to California Residents:***

**THE OFFERING OF SECURITIES DESCRIBED HEREIN IS AUTHORIZED BY A PERMIT GRANTED BY THE DEPARTMENT OF BUSINESS OVERSIGHT OF THE STATE OF CALIFORNIA. THE DEPARTMENT DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF THESE SECURITIES NOR HAS THE DEPARTMENT PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS PROSPECTUS.**

### ***Notice to Florida Residents:***

**THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER CHAPTER 517.051(9), FLORIDA STATUTES. THE FOUNDATION IS REGISTERED WITH THE FLORIDA OFFICE OF FINANCIAL REGULATION AS AN ISSUER-DEALER. OFFERS AND SALES OF THESE SECURITIES WILL BE MADE ONLY THROUGH REPRESENTATIVES OF THE FOUNDATION REGISTERED WITH THE FLORIDA OFFICE OF FINANCIAL REGULATION AS ASSOCIATED PERSONS OF THE FOUNDATION.**

*Notice to Kentucky Residents:*

**THESE SECURITIES ARE ISSUED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER SECTION KRS 292.400(9) OF THE KENTUCKY SECURITIES ACT.**

*Notice to Michigan Residents:*

**A REGISTRATION STATEMENT, OR A CLAIM OF EXEMPTION FROM REGISTRATION, RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS, CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU (CSCL). NEITHER THE CSCL NOR THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION HAS PASSED UPON THE VALUE OF THESE SECURITIES, MADE ANY RECOMMENDATIONS AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED THE OFFERING, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.**

*Notice to Missouri Residents:*

**THE MISSOURI SECURITIES DIVISION HAS NOT IN ANY WAY PASSED UPON THE MERITS OR QUALIFICATIONS OF THE SECURITIES HEREBY OFFERED, OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE MISSOURI SECURITIES ACT UNDER THE EXEMPTION PROVIDED BY SECTION 409.2-201(7)(B) OF THE REVISED STATUTES OF MISSOURI. NO APPROVAL HAS BEEN GIVEN TO THE ISSUER, THESE SECURITIES, OR THE OFFER OR SALE THEREOF IN CONNECTION TO ANY MISSOURI RESIDENTS.**

*Notice to Oregon Residents:*

**THE FOUNDATION HAS REGISTERED AN AGGREGATE AMOUNT OF \$500,000 FOR THIS OFFERING IN OREGON.**

*Notice to Pennsylvania Residents:*

***NOTICE OF RIGHT TO WITHDRAWAL:* IF YOU HAVE ACCEPTED AN OFFER TO PURCHASE THESE SECURITIES MADE PURSUANT TO A PROSPECTUS WHICH CONTAINS A WRITTEN NOTICE EXPLAINING YOUR RIGHT TO WITHDRAW YOUR ACCEPTANCE PURSUANT TO SECTION 207(m)(1) OF THE PENNSYLVANIA SECURITIES ACT OF 1972, YOU MAY ELECT, WITHIN TWO BUSINESS DAYS AFTER THE FIRST TIME YOU HAVE RECEIVED THIS NOTICE AND A PROSPECTUS (WHICH IS NOT MATERIALLY DIFFERENT FROM THE FINAL PROSPECTUS) TO WITHDRAW FROM YOUR PURCHASE AGREEMENT AND RECEIVE A FULL REFUND OF ALL MONIES PAID BY YOU. YOUR WITHDRAWAL WILL BE WITHOUT ANY FURTHER LIABILITY TO ANY PERSON. TO ACCOMPLISH THIS WITHDRAWAL, YOU NEED ONLY SEND A WRITTEN NOTICE (INCLUDING A NOTICE BY FACSIMILE OR ELECTRONIC MAIL) TO THE ISSUER INDICATING YOUR INTENTION TO WITHDRAW.**

**A REGISTRATION STATEMENT WITH RESPECT TO THE SECURITIES OFFERED BY THIS PROSPECTUS HAS BEEN FILED IN THE OFFICES OF THE DEPARTMENT OF BANKING AND SECURITIES IN HARRISBURG, PENNSYLVANIA. THE REGISTRATION STATEMENT INCLUDES CERTAIN EXHIBITS ONLY SUMMARIZED OR ALLUDED TO IN THIS PROSPECTUS. SUCH ADDITIONAL DOCUMENTS ARE AVAILABLE FOR INSPECTION AT THE HARRISBURG OFFICE OF THE DEPARTMENT DURING REGULAR BUSINESS HOURS (ADDRESS: PENNSYLVANIA DEPARTMENT OF BANKING AND SECURITIES, 17 NORTH 2ND STREET, SUITE 1300, ATTN: CORPORATION FINANCE OFFICE, HARRISBURG, PA 17101; PHONE: 717-787-8061).**

**IT IS THE POSITION OF THE PENNSYLVANIA DEPARTMENT OF BANKING AND SECURITIES THAT INDEMNIFICATION BY THE FOUNDATION OF ITS OFFICERS, DIRECTORS, AGENTS AND EMPLOYEES IN CONNECTION WITH VIOLATIONS OF SECURITIES LAWS IS AGAINST PUBLIC POLICY AND VOID.**

*Notice to Washington Residents:*

**THE OFFER AND SALE OF THE CERTIFICATES IN WASHINGTON IS LIMITED TO THOSE PERSONS WHO PRESENTLY HOLD INVESTMENT SECURITIES ISSUED BY THE FOUNDATION.**

## FORWARD LOOKING STATEMENTS

Investment in the securities to be issued by the Foundation involves certain risks. Prospective investors are encouraged to review all the materials contained in this Prospectus and to consult their own attorneys and financial advisors.

This Prospectus includes “forward-looking statements” within the meaning of the federal and state securities laws. Statements about the Foundation and its expected financial position, business and financing plans are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “pro forma,” “anticipates,” “intends,” “projects,” or other variations or comparable terminology, or by discussions of strategy or intentions. Although the Foundation believes that the expectations reflected in its forward-looking statements are reasonable, the Foundation cannot assure any investor that the Foundation’s expectations will prove to be correct. Forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, prospective investors should not consider the Foundation’s forward-looking statements as predictions of future events or circumstances. A number of factors could cause the Foundation’s actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by the Foundation’s forward-looking statements. These factors include, but are not limited to: changes in economic conditions in general and in the Foundation’s business; changes in prevailing interest rates and the availability of and terms of financing to fund the Foundation’s business; changes in the Foundation’s capital expenditure plans; and other factors discussed in this Prospectus. Given these uncertainties, prospective investors should not rely on the Foundation’s forward-looking statements in making an investment decision. The Foundation disclaims any obligation to update investors on any factors that may affect the likelihood of realization of the Foundation’s expectations. All written and oral forward-looking statements attributable to the Foundation, including statements before and after the date of this Prospectus, are deemed to be supplements to this Prospectus and are incorporated herein and are expressly qualified by these cautionary statements.

Although the Foundation believes that the forward-looking statements are reasonable, prospective investors should not place undue reliance on any forward-looking statements, which speak only as of the date made. Prospective investors should understand that the factors discussed under “**RISK FACTORS**” could affect the Foundation’s future results and performance. This could cause those results to differ materially from those expressed in the forward-looking statements.

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## SUMMARY INFORMATION

The following is a summary of the Foundation's offering and contains only selected information. This summary does not contain all of the information that a potential investor should consider before investing. The information provided in this summary should be read in conjunction with the detailed information contained in this Prospectus, including the Foundation's audited financial statements (the "Financial Statements").

**The Offering.** The Foundation may sell up to Thirty-Five Million Dollars (\$35,000,000) of Investment Accounts during the 12-month period ending March 31, 2021. This amount may be sold throughout the fifty (50) states and the District of Columbia to the extent qualified for offer and sale in such jurisdictions.

**The Foundation.** The Foundation is a tax-exempt, not-for-profit corporation organized in 1955 for the principal purpose of enabling individuals who support the objectives of the Fellowship to invest funds at a reasonable rate of interest and to provide thereby a source of funding for acquiring, developing, and remodeling land and buildings for churches, schools, and other associated organizations. For more information, see "**HISTORY AND OPERATIONS**," at page 4.

**Use of Proceeds.** The offering described in this Prospectus is being made solely by the Foundation, which will retain 100% of the proceeds. The Foundation estimates that the annual expenses associated with the offering will be \$100,000. Funds received from the offering of Investment Accounts will be added to the Foundation's general funds, invested, and then used to make loans, on an as needed basis, to churches, schools, and similar organizations affiliated with the Fellowship, or to pay interest on or withdrawals from Investment Accounts. For more information, see "**USE OF PROCEEDS**" at page 7.

**Lending Activities.** The Foundation's loan portfolio consists of loans made to churches, schools, and similar organizations affiliated with the Fellowship. Repayment of these loans is, therefore, based in part on the level of charitable contributions given to such borrowers, which may change, potentially leaving the borrowers unable to repay the loans. For more information, see "**LENDING ACTIVITIES**" at page 10.

**Management.** The affairs of the Foundation are managed by its Board of Directors. The day-to-day operations of the Foundation are the responsibility of its Executive Staff. See "**MANAGEMENT**" at page 17.

**Description of Investment Accounts.** An Investment Account is a means by which a person may invest any sum equal to or greater than \$25.00 in the Foundation. The Investment Accounts have no stated maturity date, earn interest at a rate fixed from time to time by the Foundation accruing daily and credited monthly, and upon request principal and accrued but unpaid interest may be paid to an Investment Account holder at any time. The Foundation reserves the right to require thirty (30) days advance written notice of any withdrawal and to change the rate at which interest is accrued at any time without prior notice to or the approval or consent of investors. Investors will be notified no later than ten (10) days in advance of any rate change, and may call the Foundation at any time (888-340-4243) to determine the currently applicable rate of interest being accrued on the Investment Accounts. The Investment Accounts being offered by and sold through this Prospectus will be treated as separate Investment Accounts from those preexisting Investment Accounts which the Foundation formerly offered to Grace Brethren North American Missions, Inc., as Trustee for certain Intervivos and Retirement Trust Accounts. For more information, see "**DESCRIPTION OF INVESTMENT ACCOUNTS**" at page 14.

**Summary Statement of Selected Financial Data.** The following table presents selected summary financial data for the twelve (12) months ending December 31, 2019. Additional information is available under the heading "**SELECTED FINANCIAL DATA**" at page 13.

Cash and Cash Equivalents	\$ 22,869,811
Investment Reserves	30,362,622
Total Loans Receivable	58,903,659
Unsecured Loans Receivable	131,269
Percentage Unsecured Loans	0.22%
Percentage Loan Delinquencies	0.00%
Total Assets	110,453,029
Total Investment Accounts Payable	99,220,866
Investment Accounts Redeemed	19,827,132
Net Assets	10,459,776
Operating Revenue	4,720,873
Operating Expenses	3,052,242
Other Support and Revenue (Expenses)	(1,324,931)
Change in Net Assets	343,700

## RISK FACTORS

**THE INVESTMENT ACCOUNTS OFFERED BY THE FOUNDATION INVOLVE CERTAIN ELEMENTS OF RISK. YOU, AS AN INVESTOR, SHOULD CAREFULLY CONSIDER THE INFORMATION CONTAINED IN THIS PROSPECTUS, INCLUDING THE FOLLOWING RISK FACTORS, BEFORE DECIDING WHETHER TO INVEST IN AN INVESTMENT ACCOUNT.**

1. **Unsecured and Uninsured General Obligations.** The Investment Accounts are unsecured obligations of the Foundation and are not insured. The Investment Accounts are not obligations of any other organization affiliated with the Fellowship. Account holders are dependent solely upon the general financial condition of the Foundation for repayment of the principal invested in the Investment Accounts as well as interest payments on those amounts.

2. **No Trust Indenture or Sinking Fund.** There is no trust indenture governing the rights and obligations of the investors and the Foundation, and no independent trustee to act on behalf of the investors. Further, the Foundation has not established any sinking fund in connection with the Foundation's offering of Investment Accounts. The absence of a sinking fund and trust indenture may adversely affect the Foundation's ability to repay the Investment Accounts.

3. **Senior Secured Indebtedness.** Although the Foundation has not granted any security interests and there are no other material liens on its assets, the Foundation's assets could be subject to liens from time to time, and the Foundation reserves the right to issue future obligations, or to obtain another line of credit, secured by a first lien on its assets. The Foundation has a policy that it will not create, incur, or voluntarily permit any material lien upon any of its assets or otherwise incur material indebtedness having a prior claim to its assets or otherwise senior to the Investment Accounts except for certain specified types of liens ("Senior Secured Indebtedness"). The Foundation will not incur or issue Senior Secured Indebtedness in an amount which exceeds ten percent (10%) of the tangible assets of the Foundation. To the extent the Foundation incurs any such Senior Secured Indebtedness, the repayment of such indebtedness will have priority in the Foundation's assets over all other unsecured creditors of the Foundation, including investors in Investment Accounts. See "**FINANCING AND OPERATIONAL ACTIVITIES**" at page 7.

4. **No Public Market for Investment Accounts.** There is no secondary market for the Investment Accounts and none will develop. The only method of recovering funds invested in the Investment Accounts is by withdrawal. The Foundation may require up to 30 days advance written notice of withdrawals.

5. **Loan Collection Risks; Loan Policies.** Unlike commercial lenders, the Foundation's loans are made only to not-for-profit congregations, schools, and other organizations associated with the Fellowship that would qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Repayment of these loans is therefore based in part on the level of charitable contributions given to such borrowers, which may change, potentially leaving the borrowers unable to repay the loans. Further, the Foundation is motivated by other than strictly commercial or profit motives and this may affect how it deals with its borrowers. In addition, while most of the Foundation's loans are secured by a first mortgage position on the land and facility that are the subject of the loan, because they are often "limited purpose" facilities (*e.g.*, churches), the market value of these assets in a foreclosure could be less than the amount owed, exposing the Foundation to risk of loss. See "**LENDING ACTIVITIES**" at page 10.

6. **Special Purposes of the Foundation.** The purposes of the Foundation are religious – to promote the growth and development of Grace Brethren churches, schools, and associated organizations – and, therefore, the Foundation may not make decisions based solely upon profitability considerations. Investors should take the purposes of the Foundation into account when making an investment decision.

7. **Interest Rate Fluctuation.** Interest rates may vary in the future. Investors should be aware that if commercial interest rates rise, the Foundation is not legally or otherwise obligated to pay competitive rates of interest and that the interest rate offered by the Foundation may rise or fall independently from commercial interest rates.

8. **Liquidity.** The Foundation's results of operations and liquidity could be adversely affected by sustained and substantial increases or decreases in prevailing interest rates. Due to the relatively fixed-rate nature of the Foundation's long-term loan portfolio, the Foundation may not be able to increase its rate of interest paid on Investment Accounts to the same extent as increases in market rates of interest which, together with the fact that such loans may not be easily liquidated, could result in liquidity problems for the Foundation should large dollar amounts of Investment Accounts be withdrawn in search of better interest rates elsewhere. Although the Foundation does not maintain liquid reserves sufficient to fund the hypothetical



need for cash that would result from any assumed withdrawal of all its Investment Accounts at any one time (see “**FINANCING AND OPERATIONAL ACTIVITIES**” at page 7), a significant portion of the Foundation’s assets as of the date of the Prospectus are maintained in its investments, cash and cash equivalents, and management expects its liquidity to be sufficient to satisfy the Foundation’s obligations to holders of Investment Accounts for the foreseeable future (see Notes 1, 2, and 7 to the Financial Statements). The Foundation’s investments, as of December 31, 2019, were all certificates of deposit, notes receivable, bonds, and alternative investments. Such investments are subject to various market risks which could result in changes in market value, and a material decline in market value of such investments may affect the Foundation’s ability to pay Investment Accounts.

**9. Future Changes in Federal or State Laws.** Changes in federal and state laws, rules, or regulations regarding the sale of debt obligations of religious, charitable, or other not-for-profit organizations may make it more difficult and costly for the Foundation to offer its Investment Accounts in some states in the future. Such a change could result in a decrease in the number of Investment Accounts that the Foundation may offer. To the extent the Foundation depends upon the proceeds of future sales of its Investment Accounts to make payments of principal or interest on outstanding Investment Accounts, a substantial decrease in such sales could affect the Foundation’s ability to meet its obligations.

**10. Litigation Risk.** The Foundation is not currently involved in any litigation; however, there can be no assurance that the Foundation will not become involved in litigation which could have a material adverse effect on its operations or financial condition.

**11. Restrictions of Transferability.** The Investment Accounts are not transferable without the consent of the Foundation. The Foundation will, however, transfer funds upon the death of the investor(s) in accordance with the terms of the account agreement. In addition, conditions on transfer of the Investment Accounts may be imposed under the securities laws of certain states.

**12. Varying Rights Upon Default.** Should the Foundation default in its payment, when due, of interest on your Investment Account or fail to honor any proper request to withdraw funds from your Investment Account, you will have rights that may vary from state to state depending upon where you live. The Foundation’s default may, for example, be deemed a breach of contract and may entitle you to commence a proceeding in a state or federal court to recover the amount held in your Investment Account. If you do not act upon any rights you might have in a timely fashion, you may lose your rights entirely under various statutes of limitation applicable to the claims you might have. If the Foundation becomes insolvent, your rights may be subject to the laws of bankruptcy and creditors’ rights generally, and as an unsecured, uninsured investor, the amount you receive may not be the full amount invested in your Investment Account. You should consult with an attorney if you have any questions about what your rights might be.

**13. Claims Due to Fellowship Affiliation.** The Foundation is a separate legal entity from the Fellowship and its affiliates and, therefore, believes that it is not liable for any claims made against the Fellowship and its affiliates although it is possible that claims may be made against the Foundation in relation to matters associated with the Fellowship or its affiliates.

**14. Tax Consequences.** The interest paid or payable on the Investment Accounts will be taxable as ordinary income to the account holders in the year it is paid or accrued, regardless of whether the accrued interest is withdrawn by the Investment Account holder. For further information concerning federal income tax matters, including special rules that may be applicable to account holders who invest more than \$250,000 in the aggregate with the Foundation, see “**TAX ASPECTS**” at page 16.

**15. Ability to Call Investment Accounts.** The Foundation reserves the right to refuse any investment, limit the amount which may be invested, return all or any part of any investment, or close any account whenever it may choose, without written or other notice to the investor. Interest will be paid to the date of redemption on all accounts closed by the Foundation.

**16. Concentration of Loans.** The Foundation had six (6) borrowers each having loans with a total outstanding principal balance greater than five percent (5%) of the Foundation’s total loan balance of \$58,903,659 as of December 31, 2019 (see “**LENDING ACTIVITIES**” at page 10), with an aggregate principal balance of \$35,107,541 or 59.60% of the Foundation’s total loans outstanding on that date. Therefore, financial difficulties experienced by any of these six (6) borrowers would have a significantly greater impact on the Foundation than would financial difficulties experienced by any of the larger number of borrowers with smaller loan balances.

17. **Risks May Be Greater Than Implied by Relatively Low Interest Rates.** The Foundation regularly reviews national indexes of bank-insured products with a view to offering an annual interest rate percentage on the Investment Accounts that is greater than prevailing rates for federally-insured bank deposits. However, Investment Accounts may carry more risk than other non-insured investments with comparable interest rates.

18. **Geographic Concentration of Loans.** Approximately 94% of the Foundation's loan balances as of December 31, 2019, were with borrowers located in only four states: California (9%), Indiana (10%), Ohio (70%), and Pennsylvania (5%) (see Note 4 to the Financial Statements). If the economic conditions of these states were to suffer an adverse change, then the churches and other organizations in these states might also suffer economically, and their ability to repay their loans to the Foundation could to that extent be adversely affected.

19. **Environmental Risks on Collateral.** There is potential environmental liability associated with the collateral securing the loans made by the Foundation. While the Foundation does ask borrowers to provide copies of any certified environmental studies they may have received, the Foundation does not typically require a third-party Environmental Screen Report or a Phase I Environmental Site Assessment unless the information furnished in the borrower's loan application indicates a potential problem. In the event that environmental pollution or other contamination is found on or near property securing a loan, the Foundation could, in some cases, face environmental liability or the security for the loan could be impaired. In addition, changes to environmental regulations could require a borrower to incur significant unanticipated expenses to comply with such regulations which could adversely affect the borrower's ability to repay the Loan.

20. **Construction Risks.** Many of the loans made by the Foundation are used by borrowers for construction of new facilities or improvements to existing facilities. Consequently, such loans will be subject to usual construction-related risks. Such risks include defaults or bankruptcies of contractors or subcontractors, construction delays (due to events such as weather conditions, strikes, shortage of materials, natural disasters, regulatory delays, etc.), increased and unexpected costs, adverse effects on adjacent facilities and other operations, and other factors and contingencies unknown to or beyond the control of the borrower or other parties. In the event that construction is delayed or prevented, or if costs for construction increase substantially, the borrower's ability to repay a loan could be adversely affected.

21. **Contributions of Net Income to Fellowship Sponsored Activities and Affiliated Ministries.** The Board of Directors of the Foundation has established a policy to contribute a portion of the Foundation's net income to activities sponsored by the Fellowship and organizations and entities affiliated with the Fellowship. Such contributions are discretionary on the part of the Board of Directors, and the Board of Directors annually evaluates whether it is prudent to make contributions considering the Foundation's current financial condition and, if so, in what amount. To the extent that the Foundation makes contributions to such activities, organizations and entities, such contributions will reduce the net assets of the Foundation. See "FINANCING AND OPERATIONAL ACTIVITIES, Contributions" at page 9.

22. **Coronavirus.** In December 2019, a novel strain of Coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization declared the outbreak to constitute a "Public Health Emergency of International Concern." By March 2020, the COVID-19 outbreak reached every state in the United States. Public and governmental reaction to the outbreak has, among other things, resulted in the limiting of mass gathering of individuals, the closing of retail locations, and the disruption of supply chains, production and sales across a range of industries. Churches and schools, which are the Foundation's primary borrowing entities, have also been affected. The extent of the impact of the COVID-19 outbreak on the Foundation's operational and financial performance will depend on certain developments, including the duration of the outbreak, governmental reaction and mandates, and the impact on the Foundation's investors, borrowers, and employees, all of which are uncertain and cannot be predicted.

## HISTORY AND OPERATIONS

The Foundation is a tax-exempt, not-for-profit corporation operating under the laws of the State of Indiana and is associated with the Fellowship. The principal business office of the Foundation is located at 1401 Kings Highway, Winona Lake, Indiana 46590. The Foundation has been determined by the Internal Revenue Service to be exempt from federal income tax under Section 501(c)(3), effective October 31, 1973. The Service has since also determined that the Foundation is not a private foundation within the meaning of Section 501(a) of the Code, finding that it is a "supporting organization" described in Section 509(a)(3) of the Code.

## History of Foundation

The Foundation was organized in 1955 as an Indiana not-for-profit corporation for the purpose of assisting Grace Brethren churches, schools, and associated organizations that had experienced difficulties in securing loans from commercial financial institutions to build facilities. Accordingly, the intent was and remains that funds invested in the Foundation would be used to make long-term mortgage loans to Grace Brethren churches, schools, and associated organizations.

### **Association with Fellowship**

The Foundation is associated with the Fellowship, which was founded in 1939 as a non-profit national association of churches that subscribe to a particular statement of religious faith. The Fellowship was formally organized under the Indiana Not-for-Profit Corporation Act of 1971, as amended in 1986. As of December 31, 2018, the Fellowship was comprised of 230 churches located throughout the United States and Canada, which had an aggregate of 23,447 members. The 2019 statistics were not available at the date of this Prospectus due to the time necessary to gather and compile the information. Each church is an autonomous institution, separately incorporated as a not-for-profit organization under the law of the state in which it is located and congregationally governed.

### **National Boards Associated with Fellowship**

The Foundation is one of seven national boards associated with the Fellowship, each of which is separately incorporated, which has been formed to accomplish specific purposes of the Fellowship. These national boards and their activities include:

1. The Grace Trust, Inc. (d/b/a Encompass World Partners), the global arm of the Fellowship, which coordinates Grace Brethren cross-cultural ministries throughout the world;
2. Grace Schools, Inc. (college and theological seminary), which offers undergraduate and graduate programs and training for the ministry;
3. The Brethren Missionary Herald Company, Inc., which provides educational and communication services to the Fellowship;
4. CE National, Inc., which is a church effectiveness ministry, focusing on youth, the overlooked, and leadership development.;
5. Association of Grace Brethren Ministers–INSPIRE, which ministers to the needs of its members, pastors and ministry leaders of the Fellowship, and helps to bring qualified ministry leaders to every church;
6. Women of Grace, USA, which seeks to inspire and equip women to fulfill their God-given calling; and
7. Grace Brethren Investment Foundation, Inc., described more fully in this Prospectus.

Periodic contributions are made from the Foundation to Fellowship national boards and other affiliated ministries to assist the financing of various Fellowship and church-related activities. These contributions are made from revenue generated by the Foundation's investment activities not required to pay administrative costs or interest payments to Investment Account holders. Goodwill contributions to Fellowship ministries are made by board action according to a board approved policy. See "**FINANCING AND OPERATIONAL ACTIVITIES, Contributions**" at page 9.

## Purpose of Foundation

The Foundation's Articles of Incorporation provide, in pertinent part, the following statement of purpose:

The purpose of the Foundation is to enable individuals who support the objectives of the Fellowship to invest funds at a reasonable rate of interest and to provide thereby a source of funding, in the form of capital loans, for acquiring, developing, and remodeling, land and buildings for churches, schools, and other associated organizations and, in connection with and ancillary to such purpose:

1. To assist in the extension of Christian work by and through the agencies of the Fellowship and the affiliated agencies of the Foundation, and to contribute and loan funds to Grace Brethren churches, conventions or associations of churches, Grace Brethren schools, and affiliated organizations.

2. To provide funds for Biblical teaching, to assist evangelical work, to assist churches of Grace Brethren faith and Grace Brethren missionary endeavor, and to assist and encourage men and women in the dedication of their lives to definite Christian services.

3. To receive, hold, borrow, invest, loan, and disburse funds; to own, mortgage, lease, rent, and sell real and personal property of all kinds in order to attain the aforesaid purposes.

4. To promote the Christian faith through the Fellowship and to promote the missionary institutions of the Fellowship, with primary consideration given to the cause of establishing new churches in North America.

At the discretion of the Foundation's Board of Directors, the Foundation may contribute a portion of its net income to activities sponsored by the Fellowship and organizations and entities affiliated with the Fellowship. See "**FINANCING AND OPERATIONAL ACTIVITIES, Contributions**" at page 9. The Foundation also provides administrative support for the Fellowship's Chaplaincy Ministry.

In the event of any dissolution of the Foundation, the Foundation's assets would be first applied to the payment of its debts and the satisfaction of its other obligations, including its indebtedness and other obligations to the holders of the Investment Accounts. Any remaining assets would then be distributed exclusively for the stated purposes of the Foundation in such manner, or to such organization or organizations organized and operated exclusively for charitable, educational or religious purposes that is affiliated with the Fellowship (see, for example, those organizations listed under "National Boards Associated with Fellowship" above) and at that time also qualifies as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or corresponding provisions of any subsequent Federal tax laws, as the Board of Directors shall determine.

### **Nature and Extent of Offering**

The Investment Accounts are being offered by and sold through this Prospectus only to persons who are, prior to receipt of this Prospectus, members of, contributors to, or otherwise associated with the Fellowship or in any program, activity or organization which constitutes a part of the Fellowship. The offering is being made only in those states in which the making of such offers and sales may lawfully be made, and subject to the limitations imposed by the laws of the various states. The Investment Accounts are unsecured obligations of the Foundation, all having the same priority to the Foundation's assets and ranking on parity with its obligations to other general creditors. The Foundation desires to offer its Investment Accounts primarily in any state in which there is a Grace Brethren congregation, subject to prior compliance with the securities laws of such state. In those states which require it, offers and sales will be made only by a Foundation officer or employee licensed as a salesperson or agent under the securities laws of those states. No underwriting or selling agreements exist, and no direct or indirect commissions or other remuneration is paid to any individual or organization in connection with the offer and sale of the Investment Accounts.

The Foundation's offering of Investment Accounts is continuous. Offers are or will be made by means of this Prospectus only pursuant to an exemption from registration under state securities laws or by registration, qualification, or other regulatory procedure. The extent to which Investment Accounts will be offered in any state (if any) will depend on a number of factors, including the Foundation's prior experience in a state and the number of Grace Brethren churches located in that state, as well as the size of their respective congregations, securities filing and registration fees, and the necessity for periodic approval of the offerings or amounts in that state.

### **Operations and Business Activities**

The Foundation's business activities enable individuals who are associated with the Fellowship and who support its objectives to invest funds in the Investment Accounts at a reasonable rate of interest and thereby, provide funding for loans to associated churches and organizations to acquire, develop and remodel, land and buildings. The Investment Accounts, which provide general obligation financing for the Foundation, shall not be specifically secured by particular loans to specific

borrowing entities. The interest earned on the mortgage loans is intended to be sufficient to pay the interest expense of the Foundation, as well as its costs of operation.

The Foundation's offices are located in the north-central Indiana town of Winona Lake, which has a population of approximately 5,100. Immediately adjacent is the city of Warsaw, which has a population of approximately 14,700. The Foundation occupies approximately 8,788 square feet in the 15,454 square foot building, owned by the Foundation, known as Kings Way Suites located at 1401 Kings Highway, Winona Lake, Indiana 46590. The square footage in the building not occupied by the Foundation is made available for rent or lease for professional offices. The majority of business transactions are by mail; however, the Foundation also maintains walk-up business hours at its offices in Winona Lake, Indiana, 8:00 a.m. to 4:30 p.m. local time Monday through Friday.

## USE OF PROCEEDS

The maximum proceeds anticipated for the offering described in this Prospectus is \$35,000,000. This offering is being made solely by the Foundation, which will retain 100% of the proceeds. Funds received from the offering of Investment Accounts will be used in making loans to its affiliated churches and organizations, but will be invested pursuant to the Foundation's investment policies pending utilization to make loans to its affiliated churches and organizations, to pay interest on Investment Accounts, to pay withdrawals from Investment Accounts, and as working capital to support the operations of the Foundation, all as further described below.

Neither the Foundation nor any third party will be entitled to any underwriting or selling commission on the funds received through this offering. The offering described in this Prospectus will be made solely by the Foundation through its officers and employees, and the Foundation will retain 100% of the proceeds. All expenses of this offering, including printing, mailing, attorneys' fees, accountants' fees, and securities registration fees, will be paid by the Foundation from its general funds. Funds received from the offering of the Investment Accounts will be added to the Foundation's general funds and will be invested in certain cash and cash equivalents and marketable securities pending their use in the Foundation's lending activities, or as working capital to support the operations of the Foundation (including its expenses incurred in the offer and sale of Investment Accounts) or held as reserves to meet its payment obligations for payment of interest on or withdrawals of Investment Accounts. The Foundation estimates that expenses associated with the offering (advertising, mailing, promoting, legal and accounting services, and state filing fees) will be approximately \$100,000 per year, or less than 1% of the maximum offering amount of \$35,000,000. It is anticipated that interest earned on the proceeds from loans and reserve investments will be sufficient, as in the past, to cover all expenses associated with the offering of the Foundation.

Loans are made only to churches, schools, and organizations associated with the Fellowship, principally to finance capital improvement projects, including the acquisition and development of land for the construction of new facilities and the remodeling of existing facilities. In the normal course of its operations, the Foundation periodically makes loan commitments based on the availability of funds and will have varying numbers of outstanding loans in process, for which advances may or may not have been made. Although proceeds of this offering may be used to fund some portion of loans in process and loan commitments, these commitments have not been made in contemplation of this offering and will be funded regardless of the results of this offering.

The proceeds of this offering may be used along with existing general funds, the revenue from investments, proceeds from repayments of loans, and the sale or maturity of portfolio investments, to meet withdrawals from the Investment Accounts or interest payments.

## FINANCING AND OPERATIONAL ACTIVITIES

The repayment of funds invested and the payment of interest earned thereon depends on the financial condition of the Foundation and the availability of funds. The primary sources of funds historically have included funds invested in Investment Accounts, payments of interest and repayments of principal on outstanding loans, and proceeds derived from sales or maturities of other investments. As of December 31, 2019, the Foundation had total net assets of \$10,459,776 and an Allowance for Loan Losses of \$2,753,868. The Allowance for Loan Losses is a contingency fund for loan losses. The Foundation intends to maintain the Allowance for Loan Losses at a minimum of 1% of outstanding loans. The Foundation attempts to structure its investments so as to provide liquidity through frequent maturities. The Foundation has never failed to meet principal requirements on its outstanding Investment Accounts; however, the Foundation has no sources of capital other than those described herein.

The Foundation has a policy that it will not create, incur, or voluntarily permit any material lien upon any of its assets or otherwise incur material indebtedness having a prior claim to its assets or otherwise senior to the Investment Accounts except for: (i) liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or which remain payable without penalty or the validity of which are contested in good faith; (ii) liens made to secure statutory obligations, surety, or appeal bonds or bonds for the release of attachments or for stay of execution; (iii) purchase money security interests for property hereafter acquired; or (iv) judgment liens. For purposes of the policy, the term “material” means an amount which equals or exceeds 10% of the total tangible assets of the Foundation.

### Investment Accounts

The following table details the proceeds from the sale of the Investment Accounts of the Foundation for the past five (5) years ended on December 31 of each year indicated.

<i>Investment Account Data</i>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Investment Accounts outstanding at beginning of year	\$99,065,532	\$99,533,783	\$101,795,785	\$99,759,953	\$95,514,084
Sales of Investment Accounts during year	18,008,308	22,076,120	20,407,185	24,525,493	22,155,637
Interest paid on Investment Accounts	1,974,158	1,987,748	2,025,090	2,014,259	1,988,920
Redemption of Investment Accounts during year	(19,827,132)	(24,532,119)	(24,694,277)	(24,503,920)	(19,898,688)
Investment Accounts outstanding at end of year	99,220,866	99,065,532	99,533,783	101,795,785	99,759,953

### Loans Receivable

On December 31, 2019, the Foundation had 60 outstanding loans receivable. The following table details the amount and nature of the Foundation’s outstanding loans receivable at the end of the fiscal year ended December 31, 2019.

<i>Loans Receivable</i>	<u>Loan Amount</u>	<u>Percentage*</u>
First Mortgage Loans Receivable	\$55,317,991	93.91%
Second Mortgage Loans Receivable	2,954,399	5.02%
Third Mortgage Loans Receivable	500,000	0.85%
Unsecured Loans Receivable	<u>131,269</u>	<u>0.22%</u>
Total Loans Receivable	\$58,903,659	100.00%
Allowance for Loan Losses	<u>(2,753,868)</u>	<u>4.68%</u>
Loans Receivable – net	<u>\$56,149,791</u>	<u>95.32%</u>

*\*Percentages derived using outstanding loan balances and total loans receivable.*

The Foundation’s first mortgage loans are all secured by a mortgage on the existing facility or real property. On all second or third mortgage loans, the Foundation also holds the prior lien positions as primary lender. The Foundation will consider second or third mortgage loans only when the Foundation also holds all prior lien positions.

At December 31, 2019, the Foundation had loans outstanding in the aggregate principal amount of \$58,903,659. On December 31, 2019, 2018, and 2017, the contractual principal payments receivable for their respective fiscal years were as follows:

<i>Contractual Maturities</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>
2018	N/A	N/A	\$2,089,503
2019	N/A	\$2,442,459	2,161,460
2020	\$2,747,121	\$2,480,773	2,222,457
2021	2,627,777	2,449,770	2,148,094
2022	2,598,354	2,406,107	2,107,818
2023	2,663,091	2,477,117	N/A
2024	2,799,687	N/A	N/A
Thereafter	<u>45,467,629</u>	<u>45,482,420</u>	<u>46,559,711</u>
TOTAL	<u>\$58,903,659</u>	<u>\$57,738,646</u>	<u>\$57,289,043</u>

This tabulation should not be regarded as a forecast of future cash collections. These figures are based on contractual loan maturities.

The Foundation's financial condition, results of operations, and liquidity could be adversely affected by sustained and substantial increases or decreases in prevailing interest rates. In a rapidly rising interest rate environment, the Foundation's income on loans and investments may not increase at the same rate as its interest expense on Investment Accounts, which would adversely affect the Foundation's net income. Substantially all of the Foundation's outstanding loans are made on a long-term basis and bear interest at a rate that is typically fixed at the time of origination of the loans. The interest rates and terms of loans vary. Loan terms are typically 20 to 30 years with the initial interest rate fixed for the first 1 to 10 years of the loan. After the expiration of the initial fixed period, the interest rate on the Foundation's long-term loans typically cannot be adjusted to reflect a higher rate without the consent of the borrowers, which the borrowers might not be willing to give to the Foundation.

If market interest rates should in the future rise to sustained levels that are substantially in excess of rates that currently prevail, the Foundation's ability to raise the rate of interest it pays on Investment Accounts may be limited by its inability to earn increased interest on its long-term loan portfolio. This limitation on the ability of the Foundation to respond to increased market rates of interest could result in liquidity problems for the Foundation should large dollar amounts of Investment Accounts be withdrawn in search of better interest rates elsewhere. Although the Foundation does not maintain liquid reserves sufficient to fund the hypothetical need for cash that would result from any assumed withdrawal of all its Investment Accounts at any one time, a majority of the Foundation's assets as of the date of the Prospectus are maintained in its investments and cash and cash equivalents, not in its loan portfolio, and management expects its liquidity to be sufficient to satisfy the Foundation's obligations to holders of Investment Accounts for the foreseeable future (see Notes 1, 2, and 7 to the Financial Statements).

### Revenues and Expenses

The following table shows selected summary revenue and expense data relating to the operations of the Foundation for the past five (5) years ending on December 31 of each year indicated.

<i>Statement of Activity Data</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Operating Revenue	\$4,720,873	\$4,680,860	\$4,388,096	\$4,236,784	\$4,305,630
Operating Expense	3,052,242	3,026,529	3,117,816	3,078,868	3,162,900
Change in Net Assets from Operations	1,668,631	1,654,331	1,270,280	1,157,916	1,142,730
Total Other Support and Revenue (Expenses)	(1,324,931)	(1,622,050)	(957,595)	(856,229)	(773,084)
Change in Net Assets	343,700	32,281	312,685	301,687	369,646

### Contributions

To the extent that the Foundation accumulates revenue in excess of that needed to defray its administrative and interest expenses or to make loans, in accordance with its status as a not-for-profit religious organization, it makes periodic contributions of a portion of this excess revenue to various activities sponsored by the Fellowship and organizations and entities affiliated with the Fellowship. Contributions to these organizations totaled \$763,962 during the fiscal year ending December 31, 2019. The policy and procedure governing goodwill contributions, as adopted in November 2006, provides, in part, that the awarding of goodwill contributions shall be entirely at the discretion of the Board, following the completion of the annual audit, and shall always be considered as ancillary to the Foundation's primary purpose of providing a source of

funding, in the form of capital loans, for acquiring, developing, and remodeling, land and buildings for churches, schools and other associated organizations in the Fellowship. The Foundation will not make any contribution that would cause the Foundation to no longer be in compliance with state securities laws, regulations, guidelines, or policy statements applicable to the offering of the Investment Accounts, or to be in breach of its fiduciary duties.

### Competition

There are a wide variety of financial institutions, investment companies, and investment opportunities available to prospective and current Investment Account holders in addition to the Foundation's Investment Accounts. For example, many banks and savings and loans offer certificates of deposit or savings accounts that may be attractive investments for some investors. Others may be more interested in riskier investments afforded through corporate bonds, equity securities, and mutual funds. Thus, there is a potentially infinite variety of investment opportunities available to prospective Investment Account holders that from time to time may offer more attractive rates of interest or more security than Investment Accounts.

However, the Foundation may be distinguished from this group by one of its primary purposes and goals: to make loans solely for the purpose of acquiring, developing, and remodeling, land and buildings for churches, schools, and other associated organizations. The Foundation limits the availability of Investment Accounts to those who are associated with the Fellowship. While there are several other nationwide religious organizations that solicit funds from members of their denomination for purposes similar to those of the Foundation, they generally limit their solicitations to members of their own denomination. Thus, the Foundation does not perceive these groups as being direct competitors of the Foundation.

## LENDING ACTIVITIES

### General Conditions

The Foundation makes loans only to not-for-profit organizations that would qualify under Section 501(c)(3) of the Internal Revenue Code as tax-exempt organizations. These consist of churches, schools, and other organizations associated with the Grace Brethren Fellowship. The purpose of substantially all of these loans is to enable churches, schools, and other organizations associated with the Fellowship to acquire and develop land, build facilities, or remodel and expand existing facilities, with reasonable financing costs. Typically, the Foundation will not consider a loan for the purpose of constructing a new building until the congregation or other organization holds title to the property on which it is to be erected.

Generally, loans made by the Foundation must be secured by a first mortgage on the real property of the borrower and/or by other property of the borrower. Particularly, at least ninety (90%) of the Foundation's outstanding loans will be secured by real or personal property. The Foundation will consider second or third mortgage loans only when the Foundation is also the primary lender in the prior lien positions. As of December 31, 2019, of the Foundation's total outstanding loans, 93.91% were secured by a first mortgage on the existing facility or real property, 5.02% were secured by second mortgage loans wherein the Foundation is also the primary lender in the first lien position, 0.85% were secured by third mortgage loans wherein the Foundation is also the primary lender in the first and second lien positions, and 0.22% were unsecured. As of December 31, 2019, the interest rate charged ranged from 4.00% to 6.00% based on term, loan to value ratio, and credit factors.

It is the Foundation's policy that, in all but unusual circumstances, collateral securing a loan should have a market value in excess of the amount of the loan. However, many of these properties may be viewed as "limited purpose" facilities and may not be readily adaptable to other uses without extensive remodeling. Due to the limited market for "limited purpose" properties, there can be no assurance that the collateral for any of the Foundation's loans could be sold, in the event of a foreclosure, for net sale proceeds equal to the amounts then due the Foundation under the related loan.

### Loan Applications

The Chief Executive Officer is empowered to approve loans up to and including \$500,000 total indebtedness. Loans in excess of \$500,000 total indebtedness must be approved by the Foundation's Board of Directors. The loan documentation required prior to approval includes a completed application with supporting documentation, firm bids on construction projects, and copies of the proposed plans and cost estimates, which are reviewed by the Director of Credit Services and the Chief Executive Officer. Loans exceeding \$500,000 total indebtedness are then presented for screening to the Loan Committee, which consists of the members of the Executive Staff of the Foundation as well as the Foundation's Business



Manager, who directly assists in the processing of loan applications and related documents. The Loan Committee may authorize the Chief Executive Officer to present the request to the Board of Directors for final approval.

Borrowers do not pay “points” for closing a loan as they might when dealing with commercial lending institutions. Other actual loan preparation costs such as preparation and filing of the mortgage instrument, title insurance, and escrow fees are assessed against the borrower. In addition, the Foundation requires normal lender protections such as title insurance or an opinion of counsel as to the validity of title and an adequate property insurance policy naming the Foundation in the loss payable clause.

## Reports

The Foundation receives annual reports from its debtors, which reports are subjected to internal review. The Foundation staff monitor delinquencies monthly and report on delinquencies semi-annually to the Board of Directors. If a debtor is unable to meet its obligations, the Foundation and the debtor attempt to agree on arrangements that will assure that the debt is paid. To date, no church, school, or other associated organization has defaulted to the extent that foreclosure was necessary.

**The above loan policies are determined by the Foundation’s Board of Directors and are subject to revision. Thus, no assurance may be given that the foregoing loan policies, amounts of loan funds available, and interest rates offered will not change periodically.**

## Material Loans and Loan Delinquencies

The Foundation had six (6) borrowers each having loans with a total outstanding principal balance greater than five percent (5%) of the Foundation’s total loan balance of \$58,903,659 as of December 31, 2019, with an aggregate principal balance of \$35,107,541 or 59.60% of the Foundation’s total loans outstanding on that date. Each such borrower’s total outstanding loan principal balance, as of December 31, 2019, was as follows:

<u>Borrower’s Total Outstanding Loan Principal Balance (As of 12/31/2019)</u>	<u>Percentage of Total Loans Outstanding (As of 12/31/2019)</u>
\$11,500,831	19.52%
\$6,209,300	10.54%
\$5,979,965	10.15%
\$4,562,927	7.75%
\$3,775,960	6.41%
\$3,078,558	5.23%

On December 31, 2019, 2018, and 2017, loan payments 30-60 days past due were \$0, \$0, and \$0, respectively, payments 61-90 days past due were \$0, \$0, and \$1,644, respectively, and payments more than 90 days past due were \$0, \$0, and \$0, respectively. The percentage of past due payments to total loans outstanding as of December 31, 2019, 2018, and 2017, was 0.00%, 0.00%, and 0.00%, respectively. As of December 31, 2019, none of the Foundation’s loans was past due 90 days or more. The Foundation has incurred no material loan losses within the last three fiscal years.

In most instances, the ability of the congregations, schools, and other organizations to repay loans will depend primarily upon contributions they receive from their constituents and fees or other charges imposed for services rendered. Both the number of constituents of a church, school, or other organization and the amount of revenue or contributions it receives, may fluctuate. The Foundation is motivated by other than strictly commercial or profit motives and this may affect how it deals with its borrowers. In addition to monitoring delinquencies monthly, when a loan becomes delinquent the Foundation contacts the debtor to determine the reason for the delinquency and the time when the Foundation may expect payment. The Foundation maintains contact with the debtor until the delinquency is resolved. If a debtor is unable to meet its obligations currently, the Foundation attempts to work with the debtor to assure ultimately that the debt is paid. It is the stated purpose of the Foundation to aid its borrowers to meet their obligations and to avoid the loss of properties through foreclosure. Therefore, the delinquency experience of the Foundation cannot be directly compared with that of commercial lenders.

## Loan Loss Reserves

The Foundation's policy is to maintain a minimum reserve of 1 percent (1%) of the total loan balance for possible uncollectible loan accounts. As of December 31, 2019, the loan loss reserve was \$2,753,868 (representing 4.68% of the total loan balance).

## INVESTING ACTIVITIES

By policy and historical practice, exercising due diligence, the Foundation's investment activities provide for reasonable and prudent diversification and preservation of cash, cash equivalents, readily marketable securities, and other investments. The Foundation's investment positions and activities are reviewed semi-annually, in session, by the Board of Directors, including a standing committee, the Investment/Loan Committee.

The Foundation concentrates its investments in short-term government securities backed by the full faith and credit of the United States (directly or through a government agency), in certificates of deposits offered by local banks or by other financial institutions, in similar bank-offered investments backed by government or federally insured securities, in high-quality investment grade commercial paper, and in a closed-end mutual fund consisting of investment grade commercial paper. The Foundation may also hold a portion of its investments in privately-placed securities. It designs its investment plan with the intention of holding each investment until its maturity, with the concurrent intention of maintaining those short-term investments necessary to meet all of its cash needs. One hundred percent (100%) of the certificates of deposit are fully insured. The Foundation also invests in certain money market funds which are invested in United States government securities, government agencies, or in premier banks and financial institutions, from which it may readily withdraw sums on deposit. Selected securities dealers are used as safekeeping agents. The Foundation reviews the ratings, capital positions, and safekeeping insurances for each selected securities dealer prior to its being entrusted with safekeeping.

The Board of Directors and the Executive Officers of the Foundation are jointly responsible for setting or altering the Foundation's investment policy. The Chief Executive Officer, in consultation with the Director of Finance and Administration, is responsible for making and maintaining the Foundation's investments, which are reviewed semi-annually by the Board of Directors. See "MANAGEMENT" at page 17.

The following table shows outstanding investments categorized according to the type of investments held at the end of fiscal year December 31, 2019. The amount invested in each category is stated in both monetary terms and as a percentage of the Foundation's total investments.

<u>Category of Investment</u>	<u>Amount Invested</u>	<u>Percentage</u>
Cash and Cash Equivalents	\$22,869,811	43.0%
Bonds	14,710,622	27.6%
Certificates of Deposit (at cost)	10,952,000	20.6%
Notes Receivable (at cost)	1,200,000	2.2%
Alternative Investments	<u>3,500,000</u>	<u>6.6%</u>
Totals	\$53,232,433	100.0%

Interest on the certificates of deposit is paid monthly, quarterly, or semi-annually at rates varying from 1.75% to 2.81%. Certificates of deposit redeemed prior to maturity date could be subject to forfeiture of interest. As of December 31, 2019, the notes receivable are unsecured with \$1,000,000 scheduled to mature on June 30, 2020, and \$200,000 scheduled to mature on November 20, 2021. (See Note 2 to the Financial Statements)

For years ending December 31, 2019, 2018, and 2017, management did not experience any loss of interest income due to early redemption of certificates of deposit. For the years ending December 31, 2019, 2018, and 2017, the Foundation had realized and unrealized gains (losses) in its investment reserves of \$1,144,115, \$(859,825), and \$451,267, respectively.

The Foundation's policy is to maintain in readily available form consisting of cash, government securities, corporate bonds, and certificates of deposit, an amount more than that anticipated to be sufficient to meet its expected needs for liquidity in connection with its liability for the Investment Accounts. As of December 31, 2019, approximately 43.9% of the Foundation's assets were in the form of cash and cash equivalents (20.7%), corporate bonds (13.3%), and certificates of deposit (9.9%).

## SELECTED FINANCIAL DATA

The following table presents selected financial data of the Foundation for the past five years ending on December 31 of each year indicated.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$22,869,811	\$22,533,356	\$29,076,113	\$35,848,311	\$39,881,803
Investment Reserves	30,362,622	29,564,194	23,912,841	20,589,246	10,135,000
Total Loans Receivable	58,903,659	57,738,646	57,289,043	55,579,046	59,659,696
Amount of Unsecured Loans Receivable	131,269	169,641	182,982	238,986	272,982
Percent of Unsecured Loans Receivable*	0.22%	0.29%	0.32%	0.43%	0.46%
Percent of Loan Delinquencies**	0.00%	0.00%	0.00%	0.54%	0.00%
Total Assets	110,453,029	109,895,169	110,409,860	112,276,036	110,003,022
Total Investment Accounts Payable	99,220,866	99,065,532	99,533,783	101,795,785	99,759,953
Investment Accounts Redeemed	19,827,132	24,532,119	24,694,277	24,503,920	19,898,688
Net Assets	10,459,776	10,116,076	10,083,795	9,771,110	9,469,423
Change in Net Assets	343,700	32,281	312,685	301,687	369,646

\*Percentages derived using outstanding unsecured loan balances over total loans receivable.

\*\*Percentages derived using outstanding loan balances with past due loan payments of 90 days or more over total loans receivable.

### Management's Financial Summary

The Board of Directors and the Executive Staff of the Foundation review its overall financial position periodically. The Foundation's operating philosophy is to maintain a position of liquidity sufficient to provide for operating cash requirements, a capital position sufficient to support its financial position and operations, and a margin of assets over liabilities. A significant shift in interest rates or loan demand may adversely affect actual performance. The Foundation may modify existing procedures or implement new procedures to enable the Foundation to operate under changing economic conditions. Some of the key areas regularly reviewed are the following:

**Source of Funds for Payment of Investment Accounts.** Under the Foundation's method of accounting, interest payments on Investment Accounts have been made from the Foundation's operating income and unrestricted net assets, and principal payments on Investment Accounts have been made from the Foundation's assets, exclusive of new Investment Account proceeds. The Foundation anticipates that new Investment Account proceeds will not be needed for operating expenses or to repay interest and principal due on Investment Accounts.

**Capital Adequacy.** As of December 31, 2019, the Foundation's net assets as a percentage of its total assets was 9.47%, determined as follows:

	<u>12/31/2019</u>
Net Assets.....	\$ 10,459,776
Total Assets .....	110,453,029
Net Assets Percentage of Total Assets .....	9.47%

**Liquidity Status.** As of December 31, 2019, the Foundation had cash, cash equivalents, and readily marketable securities equal to 37.87% of the total outstanding Investment Accounts determined as follows:

	<u>12/31/2019</u>
Cash and cash equivalents.....	\$ 22,869,811
Readily marketable securities.....	<u>14,710,622</u>
Total.....	\$ 37,580,433
Investment Accounts Payable.....	\$ 99,220,866
Cash, cash equivalents and readily marketable securities percentage of Investment Accounts Payable	37.87%

**Cash Flow Performance.** The ratio of available cash, cash equivalents and readily marketable securities as compared to cash redemptions has been at least one to one. As a result, the Foundation's cash flows have been and are anticipated to remain sufficient to meet its cash requirements for expenses as well as payments of interest and principal due on Investment

Accounts. The Foundation's ratio of available cash to cash redemptions for its three most recent fiscal years is at least one to one (1:1) as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents, beginning of fiscal year	\$22,533,356	\$29,076,113	\$35,848,311
Readily marketable securities, beginning of fiscal year	12,887,194	13,214,841	10,534,246
Net cash provided by operating activities	1,019,540	1,042,903	270,292
Loan principal payments less loan disbursements	(1,165,013)	(598,551)	(1,860,260)
Cash from sales of Investment Accounts	<u>18,008,308</u>	<u>22,076,120</u>	<u>20,407,185</u>
Total Available Cash	<u>\$53,283,385</u>	<u>\$64,811,426</u>	<u>\$65,199,774</u>
Redemption of Investment Accounts	19,827,132	24,532,119	24,694,277
Ratio (x: 1)	2.7:1	2.6:1	2.6:1

**Loan Quality.** As of December 31, 2019, none of the Foundation's loans was past due 90 days or more. The Foundation has incurred no material loan losses within the last three fiscal years.

**Operating Trends.** The Foundation has had a net surplus of income over expenses in all of the last five fiscal years. Below is a summary of GBIF's change in net assets for each of the last five (5) fiscal years:

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Change in net assets for the year then ended.....	\$ 343,700	\$ 32,281	\$ 312,685	\$ 301,687	\$ 369,646

#### DESCRIPTION OF INVESTMENT ACCOUNTS

An Investment Account is a means by which a person may invest any sum of money in cash or check equal to or greater than \$25.00 in the Foundation. The value of an Investment Account at any point in time is that amount that the person had invested in his or her Investment Account previously, less any withdrawals, plus accrued but unpaid interest on the periodic balance of funds in the Investment Account. Investments or withdrawals generally are made by mailing to the Foundation a check in the amount of the investment or a request for a withdrawal. The Foundation processes the transaction, usually on the day it is received, and returns a receipt of the transaction to the Investment Account holder with, if applicable, a check representing the amount withdrawn. The Foundation does not issue paper certificates to investors evidencing such investment. Instead, the Investment Accounts are book-entry securities evidenced on the books and records of the Foundation and confirmed to an investor by an investment confirmation receipt and periodic statements specifying the value of the investment. The Foundation provides all investors with quarterly statements that reflect account activity (investments, withdrawals, interest, fees) since the prior reporting period. The terms and conditions of Investment Accounts will be construed under and governed by Indiana law.

The Foundation determines the interest rate to be paid on Investment Accounts based on a combination of factors including current market rates and the current rate of interest being earned on the Foundation's loans receivable and other investment vehicles. The Foundation reserves the right to change the rate at which interest is earned at any time without prior notice to or the approval or consent of investors; however, investors will be given written notice of any changes no later than ten days prior to their effective date. Investors may determine the current rate of interest at any given time by calling the Foundation at 888-340-4243 during normal business hours (8:00 a.m.– 4:30 p.m. local time Monday-Friday). Interest accrues daily and is credited monthly on investments from the date of investment to the date of withdrawal at such rate as approved by the Board of Directors. As of the date of this Prospectus, interest on Investment Accounts is being paid at the rate of 2.0% annually, accruing daily and credited monthly. Interest earned on an Investment Account will be added to the account (*i.e.*, compounded) monthly unless, only in the case of an Investment Account having a minimum balance of \$25,000, the investor elects to have such interest paid monthly to the investor's specified bank account via ACH transfer. The Board of Directors of the Foundation has authorized the Chief Executive Officer of the Foundation to increase or decrease the

interest rate paid on Investment Accounts in increments of 0.25%, up to an aggregate of .5% in the interim between board meetings, and any interest rate adjustment exceeding these limitations must be approved by the Board of Directors.

Investors receive receipts that detail investments, withdrawals, interest credits, and the running balance. The majority of transactions in these accounts are received by mail. The Foundation also maintains walk-up business hours at its facility 8:00 a.m. to 4:30 p.m. local time Monday through Friday, primarily for the convenience of students of the nearby Grace College and Theological Seminary and local investors associated with the Fellowship or a Grace Brethren church.

All cash receipts are immediately recorded, and the Foundation sends deposits to a local financial institution daily. Investments and withdrawal requests received in the mail generally are processed and returned by mail that same day. A minimum balance of \$25.00 is required to avoid a monthly service fee of \$2.00.

Money invested and the interest thereon may be withdrawn only by order of the investor in writing or by his/her legal representative in case of death. The Foundation reserves the right to only honor requests for withdrawal on approved forms via mail or electronic device and to disburse the withdrawal by a check payable to the investor or by ACH electronic transfer. If the investor chooses to name another person to act as his/her attorney-in-fact, the investor must provide the Foundation with the original power of attorney and other satisfactory evidence before conducting any transaction. Once recorded on the records of the Foundation, the appointment stands until rescinded by the account holder and the Foundation has received written notification of the revocation and has had reasonable time to act upon it.

Statements and other information regarding accounts will be sent to the last address provided to the Foundation by the investor. When mail is returned as “undeliverable,” the account status is changed from active to dormant. The Foundation is required to turn over dormant accounts to the state as specified by state law after a specified period of time. To recover funds, a claim must be filed with the applicable state agency.

The Investment Accounts have no stated maturity date, and upon request principal and accrued but unpaid interest may be paid to an Investment Account holder at any time. Although withdrawal requests usually are processed on the day received, the Foundation reserves the right to require thirty (30) days advance written notice of any withdrawal. The Investment Accounts are not transferable. The Investment Accounts represent unsecured obligations of the Foundation and, thus, would rank behind secured obligations in the event of a liquidation of the Foundation, although the Foundation had no secured obligations at December 31, 2019, 2018, and 2017.

The Foundation formerly offered separate Trust Investment Accounts, available only to Grace Brethren North American Missions (“GBNAM”), as Trustee for certain Intervivos and Retirement Accounts, at an interest rate higher than the Investment Accounts offered by and sold through this Prospectus. The rate of interest on these preexisting Trust Investment Accounts is a floating rate of 1.5% above the regular rate. As of December 31, 2019, the rate of interest was 3.5%, and the aggregate outstanding balance of these accounts was \$36,024. GBNAM historically invested the balances of these Trust Investment Accounts with the Foundation and they were presumed to be long-term investments. Because of their long-term nature, and because of the residual benefit to mission work in the Fellowship that was tied to most of these accounts (via gift annuity and charitable remainder trust annuity contracts), the Foundation determined that offering a higher rate of interest was appropriate. The Trust Investment Accounts are general unsecured obligations of the Foundation and have no seniority in right of payment over the Investment Accounts. The Trustee of the Trust Investment Accounts therefore would share (on a pro rata basis) with the Investment Account holders in the distribution of the assets of the Foundation available for distribution to creditors of the Foundation, in the event that the Foundation were ever to become insolvent.

The Investment Accounts being offered by and sold through this Prospectus are to be treated as separate Investment Accounts from the preexisting Trust Investment Accounts and the information within this Prospectus pertains only to the Investment Accounts being offered herein.

## PLAN OF DISTRIBUTION

The primary means of solicitation of investments in Investment Accounts is through direct mailings of this Prospectus to constituents of the Fellowship. If prospective investors do not have a current Prospectus, and they live in a state in which offers or sales of Investment Accounts may then be lawfully made by the Foundation, they may obtain one by mailing a request to the Foundation’s office in Winona Lake, Indiana. The Foundation also mails this Prospectus directly to current and prospective investors and makes it available to them on its website as well.

After receiving a Prospectus, prospective investors complete an application form requiring name, address, social security number, indication of whether the applicant is subject to backup withholding under the Internal Revenue Code, and affirmation of the applicant's association with the Fellowship. The applicant is asked to specify the account type from the following options: (1) *Individual Account*. An account owned by a single account holder; (2) *Joint Account with Right of Survivorship*. An account owned by two or more individuals as joint owners. Any one or all of the owners may make withdrawals. Upon the death of one owner, his or her interest in the account passes automatically to the surviving joint owner(s); (3) *UTMA (IN) Account—Minor with Custodian*. Gifts or transfers made to minor children under the applicable law of the Indiana Uniform Transfers to Minors Act. The account is opened in the name of the minor and is controlled by a custodian until the minor reaches the statutory age of majority (21 years), at which time the custodian is required to request a transfer of the Investment Account into the sole name of the minor; (4) *Trust Account*. An account opened in the name of a trust, having one or more person(s) designated as "trustee(s)." The trust agreement governing the account must be on file at the Foundation; or (5) *Organization Account*. An account opened in the name of an organization and managed by designated authorized signers.

An investor must subscribe his/her name on a signature card, thereby signifying assent to the terms and conditions as initially provided to the investor and that they may be amended as herein provided. The terms and conditions may be altered, amended, or rescinded including those relating to the earning and computation of interest. Notice of changes will be provided to the account holder by any means the Foundation considers to be appropriate, but are effective even if the investor does not actually receive notice of the change if the Foundation has mailed a notice at the address of record.

No underwriting or selling agreements exist on funds received through this offering, and no direct or indirect commissions or other remuneration will be paid to any individuals or organizations in connection with the offer and sale of the Investment Accounts.

#### TAX ASPECTS

Investment Account Holders are not entitled to claim a deduction for a charitable contribution upon investment of funds in an Investment Account. The interest paid or payable on the Investment Account will be taxable as ordinary income to the account holder in the year it is paid or accrued. The Foundation suggests that account holders consult their accountants or legal advisors as to the proper recognition of the interest paid for federal and state income tax purposes.

The Foundation is required in certain circumstances to withhold 24% of the interest paid on the Investment Accounts including, for example, when account holders fail to provide the Foundation a correct Social Security or Federal Tax Identification Number and when notified by the Internal Revenue Service that an account holder is subject to "backup withholding." At the beginning of each calendar year, Form 1099s are mailed to each account holder identifying the interest earned on each account during the preceding calendar year.

In addition, account holders investing greater than \$250,000 in the aggregate with the Foundation may, under certain circumstances, depending in part on the interest rates paid by the Foundation from time to time, be deemed to have realized for federal income tax purposes "imputed interest" income in an amount that is greater than the amount of interest actually paid to the account holder, as a result of the below-market interest rules of Internal Revenue Code Section 7872. Depending on the account holder's particular circumstances, a deduction for a charitable contribution may be available to the extent that an account holder reports interest income in an amount that is greater than the amount of interest actually paid to the account holder. An account holder with aggregate balances greater than \$250,000 should discuss this issue with his or her tax advisor.

#### LITIGATION AND OTHER MATERIAL TRANSACTIONS

As of the date of this Prospectus, there were no lawsuits, actions, or other legal or administrative proceedings or claims pending or threatened against the Foundation and there were no lawsuits, actions, or other legal or administrative proceedings or claims pending or threatened against the directors or officers in relation to their duties with the Foundation. Further, there were no transactions or investment decisions that may materially affect the offering of the Investment Accounts.

## MANAGEMENT

The management of the Foundation is directed by a Board of Directors (the “Board”) through officers of the Foundation who are responsible for its daily activities. The directors and officers adhere to a conflict of interest policy, signed annually. The composition of the Board and officers is as described below.

The Foundation is a not-for-profit, tax-exempt Indiana corporation and thus has no shareholders. Its membership consists of all persons who have made a contribution of at least \$25.00 or more during the fiscal year to support the ministries of the Foundation or ministries administered by the Foundation and who are affiliated with a Grace Brethren church. It is these members, and not the holders of Investment Accounts, who are entitled to vote on matters related to the Foundation. There are ten members of the Foundation’s Board who may be elected to serve three-year terms, which are staggered. Accordingly, approximately one-third of the individuals to serve as directors on the Foundation’s Board are elected each year. Three of the ten Board members are elected by an officer of the Fellowship Council (*i.e.*, the Board of Directors) of the Fellowship of Grace Brethren Churches d/b/a Charis Fellowship and three are elected by an officer of The Brethren Missionary Herald Company (being Charis Fellowship’s media company), and the remaining four Board members are elected by the members of the Foundation. The annual meeting of the members of the Foundation is held in conjunction with the National Conference of the Fellowship. Semi-annual meetings of the Board of Directors are held in the spring and fall.

There is no limit on the number of terms an individual may serve. Candidates for Board membership are selected by the existing Board. The Foundation strives to maintain a reasonable diversification of the membership of the Board by selecting individuals from various geographic regions and backgrounds, including the clergy, business, industry, teaching, legal, or other professions whose experience or expertise is believed valuable to the Board.

Each of the directors receives reimbursement for travel and other expenses associated with board and committee meetings that are incurred by directors and their spouses, but otherwise the directors receive no reimbursement or compensation for their services as directors. In addition, members of the Board may be investors in the Foundation on the same terms and conditions as other investors. As of December 31, 2019, the directors, officers, and executive staff of the Foundation, as a group, held personal Investment Accounts aggregating \$311,818. These accounts are funded totally by personal contributions, and they do not represent a form of compensation from the Foundation. Furthermore, these accounts are subject to the same interest rate and terms of all general investment accounts of the Foundation. No director or officer of the Foundation has, during the past ten years, been convicted of any criminal proceeding (other than for traffic violations or other minor misdemeanors), is the subject of any pending criminal proceedings, or was the subject of any order, judgment or decree of any court enjoining such individual from any activities associated with the offer or sale of securities.

### Directors

The following individuals presently serve as directors of the Board of the Foundation:

<b>Theodore J. Adomanis</b>	Director since:	01/01/2005
Pahrump, Nevada	Term expires:	12/31/2021

Mr. Adomanis serves as Director of Finance and Administration for Assist Church eXpansion. He has served in this position since 2001. Mr. Adomanis is a certified public accountant and holds a Master of Ministry degree from Grace Theological Seminary.

<b>James R. Augspurger</b>	Director since:	01/01/2010
Westerville, Ohio	Term expires:	12/31/2021

Dr. Augspurger is Executive Pastor of Grace Polaris Church, Worthington, Ohio, a position he has held since 1998. Prior to his position at the church, he managed his own dental practice for 25 years.

<b>Joshua D. Balmer</b>	Director since:	01/01/2005
Telford, Pennsylvania	Term expires:	12/31/2020

Mr. Balmer serves as President of Retail and Finance at Penn Valley Gas, Inc. in Telford, Pennsylvania, where he has been employed since 2002.

**David H. Coleman**  
Powell, Ohio

Director since: 01/01/2005  
Term expires: 12/31/2021

Dr. Coleman is a staff member of Grace Brethren Church of Powell, Ohio, serving in the areas of church operations, financial management, facilities and ministry support staff, a position he has held since 2002. He also teaches in the graduate business programs for both Indiana Wesleyan University and Mount Vernon Nazarene University. He formerly had worked in the healthcare administration/insurance industry for 17 years in various management and executive level positions.

**George S. Merchant**  
Annapolis, Maryland

Director since: 01/01/2012  
Term expires: 12/31/2020

Mr. Merchant served as the Director of Operations, Missions Coordinator, and Minister of Music at the Grace Brethren Church of Clinton, Maryland from 2008 to July 2014. He and his wife, Carol, moved to Annapolis and are worshipping with the family at the Calvert Grace Brethren Church. Mr. Merchant served 21 years in the US Air Force and 20 years as a professor and manager at the Defense Acquisition University. He currently serves as the Chairman of the Calvert Grace Outreach Committee.

**Keith A. Michael**  
Falling Waters, West Virginia

Director since: 01/01/2017  
Term expires: 12/31/2022

Mr. Michael is a Senior Level IT Program Manager at the Department of Veterans Affairs, a position he has held since 2006. He also serves as a Medical Administration (MSC) Officer at the 167<sup>th</sup> Airlift Wing in the West Virginia Air National Guard.

**A. Kent Semple**  
Lewis Center, Ohio

Director since: 01/01/1999  
Term expires: 12/31/2020

Mr. Semple is a certified public accountant and works as the Senior Tax Manager for the Dublin, Ohio office of CBIZ MHM, LLC, a position he has held since 1995.

**Richard C. Stair**  
Akron, Ohio

Director since: 07/01/2003  
Term expires: 12/31/2021

Mr. Stair retired in 2015 from Zimmer, Inc. of Warsaw, Indiana, after 30 years of service, most recently serving as Senior Vice President, Global Operations and Logistics. Mr. Stair is Chairman of the Board of the Foundation.

**J. Carlos Téllez**  
Clarkston, Georgia

Director since: 01/01/2017  
Term expires: 12/31/2022

Mr. Téllez currently is leading a multi-ethnic church planting effort in Atlanta, Georgia. He formerly was employed by Grace College of Winona Lake, Indiana from 2007 to 2016, most recently serving as Dean of the Chapel and Director of Global Initiatives.

**Steven E. Williams**  
Long Beach, California

Director since: 01/01/2020  
Term expires: 12/31/2022

Dr. Williams is Pastor of Seniors at Grace Community Church of Seal Beach, California. He has served continuously at the church since 1989 as College Pastor, Associate Pastor and Senior Pastor. Prior to his ministry at the church, he formed a business with his brother and continued with the company until 1993.

## Officers

The Board appoints the officers of the Foundation. Officers are selected based upon their qualifications and considering the duties of the position. The present officers of the Foundation are set forth below. The current President and CEO, Mr. Kenneth A. Seyfert, will be retiring at the end of May 2020, and Ryan Bowell, the current Vice President and Director of Credit Services, will become President and CEO on May 14, 2020.



**Kenneth A. Seyfert, President and  
Chief Executive Officer (until May 14, 2020)**

Warsaw, Indiana

Mr. Seyfert has served as President and Chief Executive Officer of the Foundation since April 18, 2013. From 2004 to 2013 he was the Foundation's Vice President and Executive Director of Operations. He also served as Treasurer of the Foundation from 1999 to 2013. From June 1997 to August 2004 he was Managing Director and Officer of Operations. He is responsible for the daily direction and supervision of the Foundation, as well as management of the investment and loan portfolios. Mr. Seyfert has more than 44 years of experience in banking and finance. He formerly was an Investment Executive with Fahnestock & Co., Inc. with over \$30,000,000 of assets under his management. He holds a Bachelor of Arts degree magna cum laude from Lebanon Valley College, Annville, Pennsylvania, and graduated from PBA School of Banking and Finance at Bucknell University, Lewisburg, Pennsylvania. Mr. Seyfert has taken and passed the Series 63 examination required of individuals who must be registered under the laws of certain states to represent an issuer in the offer or sale of the issuer's securities, and he is licensed in all states in which such licensure is required. In addition, he has taken and passed the Series 7 examination generally required for general securities representative licensure with securities industry self-regulatory organizations. He continues with additional education and conferences that relate to assisting with his management responsibilities at the Foundation and is a member of the Christian Leadership Alliance. Mr. Seyfert served as the national moderator for the 2007 meetings of the Denominational Investment Loan Association. He currently serves as chairman of the Retirement Investment Plan for the Fellowship of Grace Brethren Churches d/b/a Charis Fellowship. Mr. Seyfert is an active member of the Winona Lake Grace Brethren Church.

**Ryan A. Bowell, Vice President and  
Director of Credit Services (becoming President  
and Chief Executive Officer on May 14, 2020)**

Warsaw, Indiana

Mr. Bowell is Vice President and Director of Credit Services for the Foundation. He has been an employee of the Foundation since July 1, 2013. Mr. Bowell holds a Bachelor of Science degree magna cum laude in Business Administration and Accounting from Grace College, Winona Lake, Indiana. He also is a Certified Public Accountant, having received the designation in 1997. Mr. Bowell has taken and passed the Series 63 examination required of individuals who must be registered under the laws of certain states to represent an issuer in the offer or sale of the issuer's securities. Formerly Mr. Bowell was the Controller and Chief Financial Officer for Encompass World Partners, the international missionary arm of the Fellowship, from 1998 to 2013. Additionally, he has been an adjunct professor for Grace College. Mr. Bowell serves on the business commission of the Winona Lake Grace Brethren Church.

**Brenda S. Byers, Treasurer/Secretary and  
Director of Finance and Administration**

Warsaw, Indiana

Mrs. Byers is Treasurer/Secretary and Director of Finance and Administration for the Foundation. She has been an employee of the Foundation since 1986. Mrs. Byers holds a Bachelor of Science degree in Business Administration from Grace College, Winona Lake, Indiana, and a Master of Science degree in Management from Indiana Wesleyan University, Marion, Indiana. Mrs. Byers also serves on the human resource committee and worship team of the Winona Lake Grace Brethren Church.

**Executive Staff**

The Executive Staff of the Foundation, who are engaged in its day-to-day operations, include the following officers, whose biographical information appears above under "**Officers**":

Mr. Kenneth A. Seyfert, President and Chief Executive Officer  
Mr. Ryan A. Bowell, Vice President and Director of Credit Services  
Mrs. Brenda S. Byers, Treasurer/Secretary and Director of Finance and Administration

## Compensation of Officers and Executive Staff

Officers of the Foundation are paid salaries and benefits, which include: group health and life insurance, group disability insurance, and a group retirement investment plan. The annual compensation paid to officers of the Foundation during its most recent fiscal year ended December 31, 2019, is shown below, in the aggregate for all officers and also individually for any officer in excess of \$150,000 (if any):

<u>Employee</u>	<u>Salary</u>	<u>Benefits</u>	<u>Total Remuneration</u>
Kenneth A. Seyfert President & CEO	\$ 127,126	\$ 23,677	\$150, 803
Aggregate for all officers	\$ 310,559	\$ 74,940	\$ 385,499

## Committees

The Chairman of the Board appoints directors to the Investment/Loan Committee, which is empowered to review savings and loan policy and rates and to assess the financial reports and reserve portfolios of the Foundation during the semi-annual meetings of the Board. The Chairman also appoints directors to the Audit Review Committee, which reviews the annual certified audit of the Foundation and any accompanying management letter. Other standing committees of the Board include Finance, Nominating/Board Development, and Executive Care. The Executive Staff and Business Manager of the Foundation serve as the Loan Committee, which reviews loan applications prior to submission, if applicable, to the Board for approval.

## **MATERIAL AFFILIATED TRANSACTIONS**

Except as otherwise disclosed in this Prospectus, there have been no material transactions between the Foundation and any director or officer of the Foundation during the three-year period immediately preceding the date of this Prospectus. Any future transaction between the Foundation and a director or officer of the Foundation will be made and entered into on terms no less favorable to the Foundation than those that the Foundation could obtain with an unaffiliated third party. With respect to any future affiliated transaction, or any forgiveness of the loan of a borrower with which a director or officer of the Foundation is affiliated, a majority of the Foundation's independent, disinterested directors must approve such affiliated transaction or loan forgiveness.

## **LEGAL OPINIONS**

Spencer Fane LLP, St. Louis, Missouri, has given its opinion that the Investment Accounts, when acknowledged with an investment receipt issued by the Foundation upon receipt by the Foundation of the consideration therefor, will be legally issued and binding obligations of the Foundation.

## **INVESTOR REPORTS**

The Foundation's current audited financial statements will be made available to Investment Account holders upon written request and will be mailed to investors within 120 days of its last fiscal year end.

## **INDEPENDENT AUDITORS AND AUDITED FINANCIAL STATEMENTS**

The statements of financial position of the Foundation as of December 31, 2019 and 2018, and the related statements of activities, statements of functional expenses, and the statements of cash flows for the years ended December 31, 2019 and 2018, set forth in this Prospectus have been included in reliance upon the report of BKD, LLP, Fort Wayne, Indiana, independent certified public accountants, given on the authority of that firm as independent auditors. Such statements of the Foundation, with respect to the year ended December 31, 2017, were audited by the Foundation's previous auditors. See auditors report, and accompanying audited financial statements and notes thereto, beginning at page 21.

## Independent Auditor's Report

Board of Directors  
Grace Brethren Investment Foundation, Inc.  
Winona Lake, Indiana

We have audited the accompanying financial statements of Grace Brethren Investment Foundation, Inc. (Foundation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grace Brethren Investment Foundation, Inc. as of December 31, 2019 and 2018, 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.

***Prior Year Audited by Other Auditors***

The 2017 financial statements were audited by other auditors, and their report thereon, dated February 22, 2018, expressed an unmodified opinion.

**BKD, LLP**

Fort Wayne, Indiana  
February 7, 2020

# Grace Brethren Investment Foundation, Inc.

## Statements of Financial Position December 31, 2019, 2018 and 2017

	2019	2018	2017
<b>Assets</b>			
Cash and cash equivalents	\$ 22,869,811	\$ 22,533,356	\$ 29,076,113
Investment reserves	30,362,622	29,564,194	23,912,841
Loans receivable, net	56,149,791	56,661,867	56,063,316
Accrued interest receivable	399,957	425,959	409,300
Other receivable	-	-	248,635
Prepaid expenses and other assets	98,132	107,701	52,474
Property and equipment, net	572,716	602,092	647,181
Total assets	\$ 110,453,029	\$ 109,895,169	\$ 110,409,860
<b>Liabilities</b>			
Investment accounts	\$ 98,909,048	\$ 98,566,257	\$ 98,928,874
Investment accounts - officers, directors and executive staff	311,818	499,275	604,909
Accounts payable and other liabilities	772,387	713,561	792,282
Total liabilities	99,993,253	99,779,093	100,326,065
<b>Net Assets</b>			
Without donor restrictions			
Undesignated	9,845,627	9,469,555	9,390,691
Board-designated	41,433	44,429	45,923
Net investment in property and equipment	572,716	602,092	647,181
Total net assets	10,459,776	10,116,076	10,083,795
Total liabilities and net assets	\$ 110,453,029	\$ 109,895,169	\$ 110,409,860

**Grace Brethren Investment Foundation, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2019, 2018 and 2017**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Revenues</b>			
Interest on loans	\$ 3,073,015	\$ 3,028,043	\$ 3,032,515
Investment reserves return	1,582,347	1,395,236	1,286,075
Rental and other income	65,511	257,581	69,506
Total revenue	<u>4,720,873</u>	<u>4,680,860</u>	<u>4,388,096</u>
<b>Expenses</b>			
Interest on investment accounts	1,974,158	1,987,748	2,025,090
Salaries and wages	504,998	459,319	460,288
Insurance	130,506	133,352	158,523
Professional services	42,190	54,861	62,551
Board expenses	55,468	46,710	71,025
Depreciation	48,469	52,769	54,207
Repairs and maintenance	32,274	42,222	37,878
Data processing services	40,698	36,791	38,430
Utilities	36,450	37,964	35,480
Payroll taxes	36,272	34,048	34,805
Travel expenses	29,918	28,623	25,646
Retirement fund	41,095	37,424	37,447
Office expenses	23,102	19,346	21,013
Telephone	11,422	11,051	11,785
FGBC National Conference	8,883	4,229	5,370
Postage	10,573	11,203	9,138
Securities registration	9,410	9,556	9,535
Promotion and advertising	10,922	10,453	8,909
Reserve investment expense	-	-	3,114
Bank charges	4,068	5,523	5,189
Miscellaneous	1,366	3,337	2,393
Total expenses	<u>3,052,242</u>	<u>3,026,529</u>	<u>3,117,816</u>
<b>Change in Net Assets Before Other Support and Revenues (Expenses)</b>	<u>1,668,631</u>	<u>1,654,331</u>	<u>1,270,280</u>
<b>Other Support and Revenues (Expenses)</b>			
Contribution expenses	(763,962)	(745,730)	(809,068)
Chaplaincy ministry expenses	(27,995)	(16,495)	(14,995)
Realized and unrealized gains (losses) on investment reserves	1,144,115	(859,825)	451,267
Retirement benefit modification	-	-	(59,799)
Reserve expenses for loans receivable	(1,677,089)	-	(525,000)
Total other support and revenues (expenses)	<u>(1,324,931)</u>	<u>(1,622,050)</u>	<u>(957,595)</u>
<b>Change in Net Assets</b>	343,700	32,281	312,685
<b>Net Assets Without Donor Restrictions, Beginning of Year</b>	<u>10,116,076</u>	<u>10,083,795</u>	<u>9,771,110</u>
<b>Net Assets Without Donor Restrictions, End of Year</b>	<u>\$ 10,459,776</u>	<u>\$ 10,116,076</u>	<u>\$ 10,083,795</u>

# Grace Brethren Investment Foundation, Inc.

## Statements of Functional Expenses

### Years Ended December 31, 2019, 2018 and 2017

	Year Ended December 31, 2019			Year Ended December 31, 2018			Year Ended December 31, 2017		
	Program	Support	Total Expenses	Program	Support	Total Expenses	Program	Support	Total Expenses
Interest on investment accounts	\$ 1,974,158	\$ -	\$ 1,974,158	\$ 1,987,748	\$ -	\$ 1,987,748	\$ 2,025,090	\$ -	\$ 2,025,090
Salaries and wages	225,363	279,635	504,998	206,650	252,669	459,319	202,527	257,761	460,288
Insurance	81,499	49,007	130,506	82,859	50,493	133,352	92,673	65,850	158,523
Professional services	8,438	33,752	42,190	10,972	43,889	54,861	12,510	50,041	62,551
Board expenses	-	55,468	55,468	-	46,710	46,710	-	71,025	71,025
Depreciation	32,959	15,510	48,469	35,883	16,886	52,769	36,861	17,346	54,207
Repairs and maintenance	21,947	10,327	32,274	28,711	13,511	42,222	25,757	12,121	37,878
Data processing services	32,558	8,140	40,698	29,433	7,558	36,991	30,744	7,686	38,430
Utilities	24,786	11,664	36,450	25,815	12,149	37,964	24,126	11,354	35,480
Payroll taxes	17,170	19,102	36,272	15,809	18,239	34,048	15,662	19,143	34,805
Travel expenses	23,934	5,984	29,918	22,898	5,725	28,623	20,517	5,129	25,646
Retirement fund	18,350	22,745	41,095	16,545	20,879	37,424	16,477	20,970	37,447
Office expenses	15,710	7,392	23,102	13,155	6,191	19,346	14,289	6,724	21,013
Telephone	7,767	3,655	11,422	7,515	3,536	11,051	8,014	3,771	11,785
FCBC National Conference	8,883	-	8,883	4,229	-	4,229	5,370	-	5,370
Postage	7,190	3,383	10,573	7,618	3,585	11,203	6,214	2,924	9,138
Securities registration	9,410	-	9,410	9,556	-	9,556	9,535	-	9,535
Promotion and advertising	6,616	4,306	10,922	6,616	3,837	10,453	7,600	1,309	8,909
Reserve investment expense	-	-	-	-	-	-	2,460	654	3,114
Bank charges	3,255	813	4,068	4,419	1,104	5,523	4,151	1,038	5,189
Miscellaneous	-	1,366	1,366	-	3,337	3,337	-	2,393	2,393
Contribution expenses	763,962	-	763,962	745,730	-	745,730	809,068	-	809,068
Chaplaincy ministry expenses	27,995	-	27,995	16,495	-	16,495	14,995	-	14,995
Retirement benefit modifications	-	-	-	-	-	-	32,292	27,507	59,799
Reserve expenses for loans receivable	1,677,089	-	1,677,089	-	-	-	525,000	-	525,000
	<u>\$ 4,989,039</u>	<u>\$ 532,249</u>	<u>\$ 5,521,288</u>	<u>\$ 3,278,656</u>	<u>\$ 510,098</u>	<u>\$ 3,788,754</u>	<u>\$ 3,941,932</u>	<u>\$ 584,746</u>	<u>\$ 4,526,678</u>

# Grace Brethren Investment Foundation, Inc.

## Statements of Cash Flows

Years Ended December 31, 2019, 2018 and 2017

	2019	2018	2017
<b>Operating Activities</b>			
Change in net assets	\$ 343,700	\$ 32,281	\$ 312,685
Items not requiring (providing) operating activities cash flow			
Depreciation	48,469	52,769	54,207
Realized and unrealized (gains) losses on investment reserves	(1,144,115)	859,825	(451,267)
Reserve for loans receivable	1,677,089	-	525,000
Change in			
Accrued interest receivable	26,002	(16,659)	(65,009)
Other receivable	-	248,635	(248,635)
Prepaid expenses and other assets	9,569	(55,227)	60,170
Accounts payable and other liabilities	58,826	(78,721)	83,141
Net cash provided by operating activities	1,019,540	1,042,903	270,292
<b>Investing Activities</b>			
Purchase of property and equipment	(19,093)	(7,680)	(47,900)
Proceeds from sale of investment reserves	5,715,828	3,613,411	1,137,653
Purchase of investment reserves	(5,370,141)	(10,124,589)	(4,009,981)
Principal payments - loans receivable	7,406,193	9,881,101	6,791,192
New loans issued	(8,571,206)	(10,479,652)	(8,651,452)
Net cash used in investing activities	(838,419)	(7,117,409)	(4,780,488)
<b>Financing Activities</b>			
Increase in investment accounts	19,737,339	23,972,633	22,289,130
Decrease in investment accounts	(19,394,548)	(24,335,250)	(23,793,832)
Increase in investment accounts - officers, directors and executive staff	245,127	91,235	143,145
Decrease in investment accounts - officers, directors and executive staff	(432,584)	(196,869)	(900,445)
Net cash provided by (used in) financing activities	155,334	(468,251)	(2,262,002)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	336,455	(6,542,757)	(6,772,198)
<b>Cash and Cash Equivalents, Beginning of Year</b>	22,533,356	29,076,113	35,848,311
<b>Cash and Cash Equivalents, End of Year</b>	\$ 22,869,811	\$ 22,533,356	\$ 29,076,113
<b>Supplemental Cash Flows Information</b>			
Interest paid	\$ 1,974,158	\$ 1,987,748	\$ 2,025,090



# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Operations*

Grace Brethren Investment Foundation, Inc. (Foundation) is incorporated in the state of Indiana as a not-for-profit organization and has been approved by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (Code). The Foundation is classified as a publicly supported organization, which is not a private foundation under Section 509(a)(1) of the Code. Contributions are tax-deductible within limitations prescribed by the Code.

The primary purpose of the Foundation is to loan to affiliates of the Fellowship of Grace Brethren Churches, Inc., d/b/a. Charis Fellowship (Fellowship), including churches and affiliated organizations, for buildings, remodeling and expansion. Financing for these projects is provided by offering investment accounts to those affiliated organizations and their members. The rate of return paid on these accounts is dependent on the overall financial condition of the Foundation and the availability of funds. Due to the fact that all investing and financing opportunities are restricted to persons and organizations affiliated with the Fellowship as described above, all deposit and lending transactions are deemed, as such, to be with related parties.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates. Significant estimates in these financial statements include the allocation of expenses on a functional basis and reserves for loan losses.

#### *Cash and Cash Equivalents*

For financial statement purposes, the Foundation considers investments in money market funds, short-term investments and certificates of deposit with original maturities of 90 days or less as cash equivalents. At December 31, 2019, cash equivalents exceeded federally insured limits by approximately \$22,300,000.

A summary of cash and cash equivalents is as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash in checking accounts	\$ 329,099	\$ 426,494	\$ 553,401
Money market funds	<u>22,540,712</u>	<u>22,106,862</u>	<u>28,522,712</u>
Total	<u>\$ 22,869,811</u>	<u>\$ 22,533,356</u>	<u>\$ 29,076,113</u>

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

### ***Investment Reserves and Investment Return***

Investment reserves consist of certificates of deposit, notes receivable, corporate bonds and certain nonmarketable securities. Investments having a readily determinable fair value are carried at fair value. Nonmarketable securities are valued at estimated fair value by the respective fund managers, in the absence of readily determinable fair values. The certificates of deposit and notes receivable are valued at cost. Investment return includes interest and dividends, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

### ***Property and Equipment***

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method based upon the estimated useful life of the related asset, ranging from 5 to 30 years. The Foundation capitalizes expenditures for property and equipment in excess of \$5,000.

### ***Net Assets***

Net assets without donor restrictions are those currently available at the discretion of the Board of Directors for use in the Foundation's operations and those resources invested in property and equipment. The Board of Directors has designated, from net assets without donor restrictions, funds used in support of the Charis Fellowship's chaplaincy ministry, for the purpose of contributing scholarships to chaplain candidates, according to the policy governing the application process.

### ***Contributions***

To the extent that the Foundation accumulates revenue in excess of that needed to defray its administrative and interest expense or to make loans, in accordance with its status as a not-for-profit religious organization, it makes periodic contributions of a portion of this revenue to various activities sponsored by the Fellowship. These organizations include Fellowship church-planting ministry, Grace Schools, CE National, Encompass World Partners and other Fellowship affiliates. Contributions to these organizations were \$763,962, \$745,730 and \$809,068 for the years ended December 31, 2019, 2018 and 2017, respectively. The final amount of contributions in any fiscal year is determined at the sole discretion of the Board of Directors.

### ***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses or any deferred fees or costs. Generally, loans are placed on nonaccrual status when management determines there is a probable likelihood of not collecting the principal and accrued interest.

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

### ***Allowance for Loan Losses***

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established if the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Foundation's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Foundation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

### ***Functional Allocation of Expenses***

The costs of supporting the Foundation's program and other activities have been summarized on a natural basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program and support categories based on the time and effort, costs of services utilized and square-footage and other methods.

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements December 31, 2019, 2018 and 2017

### **Reclassifications**

Certain reclassifications have been made to the 2018 and 2017 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net assets.

### **Note 2: Investment Reserves and Investment Return**

The Foundation's investments at December 31 consisted of the following:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
At fair value			
Corporate bonds (cost value; 2019 - \$14,073,321; 2018 - \$13,464,960; 2017 - \$12,885,838)	\$ 14,710,622	\$ 12,887,194	\$ 13,214,841
Alternative investments	3,500,000	-	-
At cost			
Certificates of deposit	10,952,000	13,477,000	8,498,000
Notes receivable	1,200,000	3,200,000	2,200,000
Total	\$ 30,362,622	\$ 29,564,194	\$ 23,912,841

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2019, 2018 and 2017:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Dividends and interest	\$ 1,582,347	\$ 1,395,236	\$ 1,286,075
Net realized and unrealized gains (losses) on investments	1,144,115	(859,825)	451,267
Total return on investments	\$ 2,726,462	\$ 535,411	\$ 1,737,342

Aggregate annual maturities of certificates of deposits as of December 31, 2019 are:

	<b>Certificates of Deposit</b>
2020	\$ 6,967,000
2021	2,241,000
2022	747,000
2023	250,000
2024	-
Thereafter	747,000
	\$ 10,952,000

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

Certificates of deposit redeemed prior to maturity date could be subject to forfeiture of interest. For the years ending December 31, 2019, 2018 and 2017, management did not experience any loss of interest income due to early redemption of certificates of deposit. Interest is paid monthly, quarterly or semi-annually at rates varying from 1.75 percent to 2.81 percent.

The Foundation's notes receivable investment holdings have been valued in accordance with the valuation policy described in Note 1. Interest for the notes receivable is paid quarterly at rates varying from 7.00 percent to 8.50 percent. Notes receivable are unsecured with \$1,000,000 scheduled to mature on June 30, 2020, and \$200,000 scheduled to mature on November 20, 2021.

### Alternative Investments

The fair value of alternative investments has been estimated using the net asset value per share as a practical expedient. Alternative investments held at December 31 consist of the following:

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate fund (A)	\$ 3,500,000	\$ 200,000	N/A	N/A

(A) This is an investment in a real estate fund with the objective of obtaining long-term capital growth. These investments do not allow for the Foundation to withdraw from the fund or withdraw any portion of its capital accounts, except under certain limited circumstances as defined within the subscription agreement. Instead, the nature of the investments in this category is that distributions are received as rental and other return is generated on the underlying investments of the fund.

### Note 3: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements December 31, 2019, 2018 and 2017

### Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019, 2018 and 2017:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2019</b>				
Investment reserves				
Bonds	\$ 14,710,622	\$ -	\$ 14,710,622	\$ -
Alternative investments (A)	3,500,000	-	-	-
<b>December 31, 2018</b>				
Investment reserves				
Bonds	\$ 12,887,194	\$ -	\$ 12,887,194	\$ -
<b>December 31, 2017</b>				
Investment reserves				
Bonds	\$ 13,214,841	\$ -	\$ 13,214,841	\$ -

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019. The Foundation has no liabilities measured at fair value on a recurring basis. Additionally, the Foundation has no assets or liabilities measured at fair value on a nonrecurring basis.

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

### Corporate Bonds

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. The Foundation has no investments classified as Level 1. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified as Level 2 of the valuation hierarchy. Level 2 securities include corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Foundation has no investments classified as Level 3.

### Note 4: Loans Receivable

The Foundation's loans receivable are as follows at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Mortgage loans receivable	\$ 58,903,659	\$ 57,738,646	\$ 57,289,043
Less: Allowance for loan losses	<u>(2,753,868)</u>	<u>(1,076,779)</u>	<u>(1,225,727)</u>
	<u>\$ 56,149,791</u>	<u>\$ 56,661,867</u>	<u>\$ 56,063,316</u>

Interest rates vary as set by the Board of Directors and historically have ranged from 4.00 percent to 7.75 percent. As of December 31, 2019, interest rates ranged from 4.00 percent to 6.00 percent. All mortgage loans are real estate mortgages and are secured by church property. Maturity of these loans are variable as determined at the loan origination (or as later modified by Board of Directors or CEO approval) and range from a few months to a maximum of 30 years.

Aggregate annual maturities of loans receivable as of December 31, 2019, are:

	<u>Loans Receivable</u>
2020	\$ 2,747,121
2021	2,627,777
2022	2,598,354
2023	2,663,091
2024	2,799,687
Thereafter	<u>45,467,629</u>
	<u>\$ 58,903,659</u>

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements December 31, 2019, 2018 and 2017

### Concentrations

Although the Foundation has no geographic restrictions within the United States on where loans are made, the aggregate loans in excess of 5.0 percent of total balances are located in the following states as of December 31, 2019:

State	Number of Loans	Principal Outstanding	Percent of Loan Portfolio
Ohio	31	\$ 41,128,563	70%
Indiana	5	6,030,182	10%
California	6	5,257,654	9%
Pennsylvania	6	3,216,024	5%
	<u>48</u>	<u>\$ 55,632,432</u>	<u>94%</u>

The Foundation had six borrowers each having loans with a total outstanding principal balance greater than 5 percent of the Foundation's total loan balance of \$58,903,659 as of December 31, 2019, with an aggregate principal balance of \$35,107,541 or 59.60 percent of the Foundation's total loans outstanding on that date.

Allowance for loan losses as of December 31:

	2019	2018	2017
Allowance for loan losses			
Beginning balance	\$ 1,076,779	\$ 1,225,727	\$ 850,990
Charge-offs	-	(148,948)	(150,263)
Provision	1,677,089	-	525,000
	<u>\$ 2,753,868</u>	<u>\$ 1,076,779</u>	<u>\$ 1,225,727</u>

The allowance for loan losses and financing receivables were collectively evaluated for impairment.

The following information presents credit exposure by performance status for the years ended December 31, 2019, 2018 and 2017. Status for performing and nonperforming loans is based on payment activity. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when payment is past due greater than 180 days or the underlying assets of the loan are held for sale. There was no such support during the years ended December 31, 2019, 2018 and 2017.

For each class of loans receivable, the following presents the balance by credit quality indicator.



# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements December 31, 2019, 2018 and 2017

### **Credit Quality Indicator Categories**

Loan grades are assigned as either performing or non-performing. The use and application of these grades by the Foundation will be uniform and shall conform to the Foundation's policy.

**Performing** Loans rated performing have continued expectation of timely repayment, all obligations of the borrower are current, and the borrower complies with material terms and conditions of the loan agreement.

**Non-performing** Loans that have potential weakness that deserve management's attention and if left uncorrected may, at some future date, result in the weakening of the repayment prospects for the loan or note. These potential weaknesses may be due to circumstances being experienced by the borrower. These loans or notes are not adversely classified and do not expose the Foundation to sufficient risk to warrant adverse classification. Ordinarily, non-performing loans or notes have characteristics which corrective management action would remedy:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Performing	\$ 58,903,659	\$ 57,738,646	\$ 56,988,327
Non-performing	-	-	300,716
	\$ 58,903,659	\$ 57,738,646	\$ 57,289,043

Age analysis of past-due financing receivables at December 31:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
30-60 days past due	\$ -	\$ -	\$ -
61-90 days past due	-	-	1,644
Greater than 90 days	-	-	-
	-	-	1,644
Current	58,903,659	57,738,646	57,287,399
	\$ 58,903,659	\$ 57,738,646	\$ 57,289,043

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Foundation will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include performing loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. All loans are evaluated for impairment on an individual basis.

At December 31, 2019, there was one impaired loan, which was performing, totaling \$4,562,928. There were no impaired loans at December 31, 2018. At December 31, 2017, impaired loans totaled \$325,617.

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements December 31, 2019, 2018 and 2017

As of and during the years ended December 31, 2019, 2018 and 2017, there were no new troubled debt restructurings.

### Note 5: Property and Equipment

Property and equipment, at December 31, consist of:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 116,875	\$ 116,875	\$ 116,875
Building	570,625	570,625	570,625
Building improvements	456,985	437,892	430,212
Furnishings and office equipment	126,983	126,983	126,983
Other equipment and software	185,603	185,603	185,603
	<u>1,457,071</u>	<u>1,437,978</u>	<u>1,430,298</u>
Less accumulated depreciation	<u>(884,355)</u>	<u>(835,886)</u>	<u>(783,117)</u>
	<u>\$ 572,716</u>	<u>\$ 602,092</u>	<u>\$ 647,181</u>

### Note 6: Investment Accounts

Funds invested in investment accounts are subject to withdrawal upon demand, although the Foundation reserves the right to require 30 days advance written notice. At December 31, 2019, 2018 and 2017, interest was paid, respectively, at a rate of 2.00 percent annually and compounded monthly. There are special accounts that have floating rates of 1.5 percent above the regular rate. The amounts in these special accounts as of December 31, 2019, 2018 and 2017, totaled \$36,024, \$117,007 and \$232,517, respectively.

The fair value of these investment accounts approximates the amount payable on demand as of the balance sheet date.

The directors, officers and executive staff of the Foundation may be investors on the same terms and conditions as other investors. As of the years ended December 31, 2019, 2018 and 2017, as a group, they held investments aggregating \$311,818, \$499,275 and \$604,909, respectively.

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

**December 31, 2019, 2018 and 2017**

The Foundation had 273, 280 and 280 investors with aggregate balances of \$100,000 or more as of December 31, 2019, 2018 and 2017, respectively. The balances over \$100,000 are distributed as follows:

<b>December 31, 2019</b>			
<b>Investment Account Balances</b>	<b>Number of Investors</b>	<b>Aggregate Balance</b>	<b>Percentage of Investment Accounts</b>
\$100,000 - \$200,000	159	\$ 21,436,365	22%
\$200,001 - \$300,000	70	16,637,285	17%
\$300,001 - \$500,000	31	11,899,226	12%
Greater than \$500,000	13	8,202,855	8%
	273	\$ 58,175,731	59%

  

<b>December 31, 2018</b>			
<b>Investment Account Balances</b>	<b>Number of Investors</b>	<b>Aggregate Balance</b>	<b>Percentage of Investment Accounts</b>
\$100,000 - \$200,000	175	\$ 23,700,198	24%
\$200,001 - \$300,000	63	15,135,829	15%
\$300,001 - \$500,000	29	11,087,070	11%
Greater than \$500,000	13	8,261,850	8%
	280	\$ 58,184,947	58%

  

<b>December 31, 2017</b>			
<b>Investment Account Balances</b>	<b>Number of Investors</b>	<b>Aggregate Balance</b>	<b>Percentage of Investment Accounts</b>
\$100,000 - \$200,000	175	\$ 23,627,526	24%
\$200,001 - \$300,000	59	13,807,734	14%
\$300,001 - \$500,000	33	12,444,035	13%
Greater than \$500,000	13	8,703,110	9%
	280	\$ 58,582,405	60%

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements December 31, 2019, 2018 and 2017

The Foundation's investors are primarily concentrated in the following states at December 31:

<b>2019</b>			
<b>State</b>	<b>Number of Investors</b>	<b>Aggregate Balances</b>	<b>Percentage of Investment Accounts</b>
Indiana	733	\$ 19,692,187	20%
Ohio	690	26,589,795	27%
Pennsylvania	589	24,523,834	25%
	<u>2,012</u>	<u>\$ 70,805,816</u>	<u>72%</u>
<b>2018</b>			
<b>State</b>	<b>Number of Investors</b>	<b>Aggregate Balances</b>	<b>Percentage of Investment Accounts</b>
Indiana	791	\$ 20,008,807	20%
Ohio	733	26,359,763	27%
Pennsylvania	621	24,313,880	25%
	<u>2,145</u>	<u>\$ 70,682,450</u>	<u>72%</u>
<b>2017</b>			
<b>State</b>	<b>Number of Investors</b>	<b>Aggregate Balances</b>	<b>Percentage of Investment Accounts</b>
Indiana	802	\$ 20,522,964	26%
Ohio	752	26,139,155	24%
Pennsylvania	636	23,730,463	21%
	<u>2,190</u>	<u>\$ 70,392,582</u>	<u>71%</u>

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

### Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 22,823,377	\$ 22,488,927
Investment reserves	30,362,622	29,564,194
Loans receivable, net	2,747,121	2,442,459
Accrued interest receivable	<u>399,957</u>	<u>425,959</u>
	<u>\$ 56,333,077</u>	<u>\$ 54,921,539</u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing mission-related activities, as well as the conduct of service undertaken to support those activities, to be general expenditures.

### Note 8: Employee Benefits

The Foundation has a defined contribution plan qualifying under Section 403(b) of the Code, which was established as of January 1, 1991. All current employees are eligible for participation in the Plan. The Foundation contributes 8 percent of eligible employees' compensation to this plan. Included in expenses were \$41,095, \$37,424, and \$37,447, for the years ended December 31, 2019, 2018 and 2017, respectively. Additionally, in 2017 the Foundation made an additional contribution to the plan of \$59,799 to correct prior year contributions, shown as other support and revenues (expenses) in the statement of activities as of December 31, 2017.

The Foundation offers employees a health savings account plan and other benefits such as dental, disability and life. The health savings account premiums are partially employer funded. The employer does not incur any liability for claims made by employees. The costs incurred for the plan and other benefits were \$76,352, \$82,269, and \$108,018, for the years ended December 31, 2019, 2018 and 2017, respectively.

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

### Note 9: Financial Instruments With Off-Balance Sheet Credit Risk

Accounting principles generally accepted in the United States of America require all entities to disclose certain information about their financial instruments. Specifically, all entities are required to disclose the risk of an accounting loss from a financial instrument. The possibility that a loss may occur from the failure of another party to perform according to the terms of a contract represent credit risk.

The Foundation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments are commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial position. The contract amounts of those instruments reflect the extent of involvement the Foundation has in those particular classes of financial instruments.

The Foundation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Foundation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established by the contract. Commitments are fixed to the maximum dollar amount that is available to a particular customer. The making of the commitment itself may require the payment of a fee. Not all commitments have the full amount of the approved funds advanced upon execution of the loan, and some do not fully utilize the entire commitment established. Consequently, the total commitment amounts do not necessarily represent future cash requirements.

# Grace Brethren Investment Foundation, Inc.

## Notes to Financial Statements

December 31, 2019, 2018 and 2017

The creditworthiness of each loan applicant is assessed on a case-by-case basis. The Foundation makes loans only to not-for-profit organizations that would qualify under Section 501(c)(3) of the Code as tax-exempt organizations. These consist of churches, schools and other organizations associated with the Fellowship of Grace Brethren Churches, Inc. The purpose of the loans is to enable churches, schools and other organizations associated with the Fellowship to acquire and develop land, build facilities or remodel and expand existing facilities, with reasonable financing costs. Currently, 93.91 percent of loans are secured by a first mortgage on the existing facility or real property, 5.02 percent are secured by a second mortgage loan wherein the Foundation is also the primary lender in the first lien position, 0.85 percent are secured by a third mortgage loan wherein the Foundation is also the primary lender in the first lien position and 0.22 percent are unsecured loans. The Foundation will consider second or third mortgage loans only when the Foundation also holds the first and second lien position. Other credit considerations are represented by the terms of the loan, loan to value ratios and other credit factors. Currently, the interest rate charged is 4.00 percent to 6.00 percent. The Foundation maintains a policy to review all loans monthly to determine past due or delinquent statuses based on contractual terms and how recently payments have been received. As of December 31, 2019, 2018 and 2017, the Foundation maintained a reserve of 4.68 percent, 1.86 percent, and 2.14 percent, respectively, of the total loan balance for uncollectible accounts. The Foundation has a policy of placing uncollectible accounts on nonaccrual status after 180 days. If facts and circumstances suggest a date other than 180 days, the Foundation may adjust the date. Payments received on nonaccrual status apply first to accrued interest and then to principal. Interest begins to accrue at the point that accrued interest is paid off in full. Loans are placed on nonaccrual status or charged off if the collection of principal or interest is considered doubtful. As of December 31, 2019, the Foundation had one loan placed on nonaccrual status in the amount of \$4,562,928. There were no such loans at December 31, 2018 and 2017. Provisions have been added to the allowance for credit losses.

Typically, the Foundation will not consider a loan for the purpose of constructing a new building until the congregation or other organization has met an equity interest in the property to the satisfaction of the Foundation. In most cases, the ability of these organizations to repay loans will depend primarily upon the contributions they receive from their constituents and fees or other related charges assessed for services rendered. The number of constituents of the organizations, and the amounts of contributions they receive may fluctuate. Further, the Foundation is motivated by other than commercial and/or profit motives only. This fact alone may affect how it deals with its borrowers.

As of December 31, 2019, the Foundation had approved but not disbursed \$7,317,013 in mortgage loans to churches.

### **Note 10: Significant Group Concentrations of Credit Risk**

As disclosed in Note 9, the Foundation makes loans only to not-for-profit organizations that would qualify under Section 501(c)(3) of the Code as tax-exempt organizations. These consist of churches, schools and other organizations associated with the Fellowship. As of December 31, 2019, 2018 and 2017, the Foundation's loan receivables from those organizations are disclosed in Note 4.

# **Grace Brethren Investment Foundation, Inc.**

## **Notes to Financial Statements**

**December 31, 2019, 2018 and 2017**

### **Note 11: Subsequent Events**

Subsequent events have been evaluated through February 7, 2020, which is the date the financial statements were available to be issued.