



# Church Extension Fund

Michigan District of  
The Lutheran Church—Missouri Synod

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THESE SECURITIES MAY EITHER BE REGISTERED OR EXEMPT FROM REGISTRATION IN THE VARIOUS STATES OR JURISDICTIONS IN WHICH THEY ARE OFFERED OR SOLD BY THE ISSUER. THIS OFFERING CIRCULAR 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 THE DISCLOSURE, MERITS, AND RISKS INVOLVED.

THE NOTES 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.

(CONTINUED ON NEXT PAGE)

# OFFERING CIRCULAR

The date of this Offering Circular is May 1, 2017  
(Intended to be used by investors from May 1, 2017 until April 30, 2018)

Fifty Million; (\$50,000,000) of unsecured investment obligations of varying interest rates. The aggregate amount of the securities being offered may be sold in any one of the following categories:

## INVESTMENT INSTRUMENTS

### Fixed Rate Note

Term	Minimum Investment
3 Months (up to 6 Months)	\$500
6 Months (up to 12 Months)	\$500
12 Months (up to 24 Months)	\$500
24 Months (up to 60 Months)	\$500
60 Months	\$500

Interest Rate: A fixed interest rate as described on page 13.

### Fixed Rate 2+2 Note

Term	Minimum Investment
17 Months	\$2,500

Interest Rate: A fixed interest rate as described on page 13.

### Variable Rate Note

Term	Minimum Investment
1 Year Term	\$500
2 ½ Year Term	\$500
5 Year Term	\$500

Interest Rate: A variable interest rate set and adjusted quarterly as described on page 13.

### Dedicated Savings Certificate

Minimum initial investment	\$5.00
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Interest Rate: A variable interest rate set and adjusted monthly as described on page 14.

### ExtensionPlus Account Certificates

A demand Certificate accessible with check writing privileges and an optional debit/ATM card.

Minimum initial investment	\$100
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Interest Rate: A variable interest rate set and adjusted monthly as described on page 14.

### SAVING STAMPS

Cost	\$.25 & \$1.00
Amount	\$130,000

## CONGREGATION AND ORGANIZATION

### INVESTMENT INSTRUMENTS

#### Variable Rate Certificate

Term	Minimum Investment
1, 2 or 5 Year Term	\$500

Interest Rate: A variable interest rate set and adjusted quarterly as described on page 15.

#### Fixed Rate Note

Term	Minimum Investment
1, 2 or 5 Year Term	\$500

Interest Rate: A fixed interest rate for the term of the Note as described on page 15.

#### Demand Savings Certificate

Minimum Investment	\$500
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Interest Rate: a variable interest rate set and adjusted monthly as described on page 15.

Application for Investment is found on last pages of this Offering Circular.

THIS OFFER IS SUBJECT TO CERTAIN RISK FACTORS AS DESCRIBED ON PAGE 6 HEREIN.

CEF INVESTMENTS ARE NOT SIPC OR FDIC INSURED DEPOSIT ACCOUNTS.

THE PAYMENT OF PRINCIPAL AND INTEREST TO AN INVESTOR IN THE NOTES IS DEPENDENT UPON THE ISSUER'S FINANCIAL CONDITION. ANY PROSPECTIVE INVESTOR IS ENTITLED TO REVIEW THE ISSUER'S FINANCIAL STATEMENTS, WHICH SHALL BE FURNISHED AT ANY TIME DURING BUSINESS HOURS UPON REQUEST. THE NOTES ARE NOT OBLIGATIONS OF, NOR GUARANTEED BY, THE MICHIGAN DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD, OR BY ANY CHURCH, CONFERENCE, INSTITUTION OR AGENCY AFFILIATED WITH THE LUTHERAN CHURCH-MISSOURI SYNOD.

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 OFFERING CIRCULAR, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED ON AS HAVING BEEN MADE BY THE CHURCH EXTENSION FUND.

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

**PLEASE NOTE THESE ADDITIONAL STATE-SPECIFIC DISCLOSURES.**

**MICHIGAN RESIDENTS**

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE DEPARTMENT OF LICENSING & REGULATORY AFFAIRS (LARA), CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU (CSCL), SECURITIES DIVISION. 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 OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**FLORIDA RESIDENTS**

THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER CHAPTER 517.051(9), FLORIDA STATUTES. THE CHURCH EXTENSION FUND IS REGISTERED WITH THE DEPARTMENT OF BANKING AND FINANCE AS AN ISSUER/DEALER. OFFERS AND SALES OF THESE SECURITIES WILL BE MADE ONLY THROUGH REPRESENTATIVES OF THE CHURCH EXTENSION FUND REGISTERED WITH THE DEPARTMENT OF BANKING AND FINANCE AS ASSOCIATED PERSONS OF THE CHURCH EXTENSION FUND.

**INDIANA RESIDENTS**

THE INDIANA SECURITIES DIVISION HAS NOT IN ANY WAY PASSED UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, THE SECURITIES HEREBY OFFERED, OR PASSED UPON THE ACCURACY OR ADEQUACY OF THE OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**ILLINOIS RESIDENTS**

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECRETARY OF STATE OF ILLINOIS OR THE STATE OF ILLINOIS, NOR HAS THE SECRETARY OF STATE OF ILLINOIS OR THE STATE OF ILLINOIS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**KENTUCKY RESIDENTS**

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

**OHIO RESIDENTS**

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED AS AN INVESTMENT FOR ANY OHIO RESIDENT BY THE OHIO DIVISION OF SECURITIES, NOR HAS THE DIVISION PASSED UPON THE ACCURACY OF THE OFFERING CIRCULAR.

**SOUTH CAROLINA RESIDENTS**

NOTES AND CERTIFICATES WHICH HAVE NO FIXED MATURITY AND ARE PAYABLE ON DEMAND ARE NOT AVAILABLE TO, AND ARE NOT BEING OFFERED AND WILL NOT BE ISSUED TO, RESIDENTS OF SOUTH CAROLINA. ONLY NOTES AND CERTIFICATES WITH A FIXED MATURITY WILL BE OFFERED AND SOLD TO SOUTH CAROLINA RESIDENTS.

**WASHINGTON RESIDENTS**

ANY PROSPECTIVE PURCHASER IS ENTITLED TO REVIEW FINANCIAL STATEMENTS OF THE ISSUER WHICH SHALL BE FURNISHED UPON REQUEST. RECEIPT OF NOTICE OF EXEMPTION BY THE WASHINGTON ADMINISTRATOR OF SECURITIES DOES NOT SIGNIFY THAT THE ADMINISTRATOR OF SECURITIES HAS APPROVED OR RECOMMENDED THESE SECURITIES, NOR HAS THE ADMINISTRATOR PASSED UPON THE OFFERING. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE RETURN OF FUNDS OF THE PURCHASER IS DEPENDENT UPON THE FINANCIAL CONDITION OF THE ORGANIZATION.

**FORWARD LOOKING STATEMENTS**

INVESTMENT IN THE SECURITIES TO BE ISSUED BY CHURCH EXTENSION FUND INVOLVES CERTAIN RISKS. PROSPECTIVE INVESTORS ARE ENCOURAGED TO REVIEW ALL THE MATERIALS CONTAINED IN THIS OFFERING CIRCULAR AND TO CONSULT THEIR OWN ATTORNEYS AND FINANCIAL ADVISORS.

THIS OFFERING CIRCULAR INCLUDES "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE FEDERAL AND STATE SECURITIES LAWS. STATEMENTS ABOUT CHURCH EXTENSION FUND 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 CHURCH EXTENSION FUND BELIEVES THAT THE EXPECTATIONS REFLECTED IN ITS FORWARD-LOOKING STATEMENTS ARE REASONABLE, CHURCH EXTENSION FUND CANNOT ASSURE ANY INVESTOR THAT CHURCH EXTENSION FUND'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 CHURCH EXTENSION FUND'S FORWARD-LOOKING STATEMENTS AS PREDICTIONS OF FUTURE EVENTS OR CIRCUMSTANCES. A NUMBER OF FACTORS COULD CAUSE CHURCH EXTENSION FUND'S ACTUAL RESULTS, PERFORMANCE, ACHIEVEMENTS OR INDUSTRY RESULTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY CHURCH EXTENSION FUND'S FORWARD-LOOKING STATEMENTS. THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: CHANGES IN ECONOMIC CONDITIONS IN GENERAL AND IN CHURCH EXTENSION FUND'S BUSINESS;

CHANGES IN PREVAILING INTEREST RATES AND THE AVAILABILITY OF AND TERMS OF FINANCING TO FUND CHURCH EXTENSION FUND'S BUSINESS; CHANGES IN CHURCH EXTENSION FUND'S CAPITAL EXPENDITURE PLANS; AND OTHER FACTORS DISCUSSED IN THIS OFFERING CIRCULAR. GIVEN THESE UNCERTAINTIES, PROSPECTIVE INVESTORS SHOULD NOT RELY ON CHURCH EXTENSION FUND'S FORWARD-LOOKING STATEMENTS IN MAKING AN INVESTMENT DECISION. CHURCH EXTENSION FUND DISCLAIMS ANY OBLIGATION TO UPDATE INVESTORS ON ANY FACTORS THAT MAY AFFECT THE LIKELIHOOD OF REALIZATION OF CHURCH EXTENSION FUND'S EXPECTATIONS. ALL WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO CHURCH EXTENSION FUND, INCLUDING STATEMENTS BEFORE AND AFTER THE DATE OF THIS OFFERING CIRCULAR, ARE DEEMED TO BE SUPPLEMENTS TO THIS OFFERING CIRCULAR AND ARE INCORPORATED HEREIN AND ARE EXPRESSLY QUALIFIED BY THESE CAUTIONARY STATEMENTS. ALTHOUGH CHURCH EXTENSION FUND 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 CHURCH EXTENSION FUND'S FUTURE RESULTS AND PERFORMANCE. THIS COULD CAUSE THOSE RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS.

**LIMITED CLASS OF INVESTORS**

THE OFFER AND SALE OF THE NOTES IS LIMITED TO i) PERSONS WHO, PRIOR TO RECEIPT OF THIS CIRCULAR, WERE MEMBERS OF, CONTRIBUTORS TO, OR PARTICIPANTS IN THE LUTHERAN CHURCH—MISSOURI SYNOD, INCLUDING ANY DISTRICT OR OTHER PROGRAM, ACTIVITY OR ORGANIZATION WHICH CONSTITUTES A PART OF THE SYNOD OR ANY OF ITS DISTRICTS, OR ANY CONGREGATION OF THE SYNOD, OR OTHER PERSONS WHO ARE ANCESTORS, DESCENDANTS, OR SUCCESSORS IN INTEREST TO SUCH PERSONS ("INDIVIDUAL INVESTORS"), ii) CONGREGATIONS, ASSOCIATIONS OF MEMBER CONGREGATIONS, EARLY CHILDHOOD CENTERS, ELEMENTARY AND SECONDARY SCHOOLS, RECOGNIZED SERVICE ORGANIZATIONS, AND OTHER ORGANIZATIONS AFFILIATED WITH THE SYNOD OTHER THAN SYNODICAL CORPORATIONS AND OTHER ORGANIZATIONS WHOSE PURPOSES INCLUDE SERVING MEMBERS OF THE LUTHERAN FAITH OR TO CARRY OUT THE PURPOSES OF THE LUTHERAN CHURCH—MISSOURI SYNOD ("ORGANIZATIONAL INVESTORS"), OR iii) SYNODICAL CORPORATIONS AND/OR ANY PERSON OR ORGANIZATION WHEN ACTING IN A FIDUCIARY CAPACITY FOR INDIVIDUAL INVESTORS ("CUSTODIAL INVESTORS"). INDIVIDUAL INVESTORS AND ORGANIZATIONAL INVESTORS AND CUSTODIAL INVESTORS ARE HEREINAFTER COLLECTIVELY REFERRED TO AS "INVESTORS". ANY FIDUCIARY FOR AN INDIVIDUAL INVESTOR OTHER THAN A CUSTODIAL INVESTOR SHALL BE DEEMED TO BE AN INDIVIDUAL INVESTOR.

THERE WILL BE NO COMMISSIONS OR DISCOUNTS PAID IN CONNECTION WITH THIS ANTICIPATED OFFERING OF \$50,000,000. CHURCH EXTENSION FUND WILL RECEIVE 100% OF THE PROCEEDS FROM THE SALE(S) AND WILL BEAR ALL EXPENSES INCIDENT TO THIS OFFERING, INCLUDING SECURITIES REGISTRATION FEES, PRINTING, MAILINGS, ACCOUNTING FEES, AND ATTORNEY FEES, ESTIMATED TO BE LESS THAN \$50,000.

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

## **DEFINITIONS**

Certain terms, abbreviations or acronyms may be used throughout this Offering Circular and are defined as follows:

- “audited financial statements” means financial statements that have been audited and reported upon by an independent public accounting firm in accordance with auditing standards generally accepted in the United States.
- “CEF” means the Church Extension Fund of the Michigan District of the Lutheran Church-Missouri Synod, a Michigan Church Trustee Corporation.
- “change in net assets” means the change in net assets as reported in the Statements of Financial Activities of CEF in conformity with GAAP which reflects the net increase or decrease in net assets of CEF.
- “district” is defined as a corporation established by the Synod to more effectively achieve its objectives and carry on its activities, usually within a defined geographic area.
- “existing congregation” means and refers to an LCMS congregation that has previously constructed or purchased its first facility for ministry.
- “GAAP” means accounting principles generally accepted in the United States of America as established by the Financial Accounting Standards Board (FASB), under the FASB Accounting Standards Codification (ASC).
- “investor” means a person who purchases Notes.
- “issuer” means CEF which issues or proposes to issue Notes.
- “loan delinquencies” means borrower loan balances on which payments of principal or interest are delinquent ninety (90) days or more, whether in default or not.
- “LCMS” or “Synod” is the Lutheran Church-Missouri Synod and is the national religious denomination that functions through its affiliated corporations in support of its member congregations.
- “net assets” (as defined by GAAP) means the excess or deficiency of assets over liabilities, classified according to the existence or absence of donor-imposed restrictions.
- “notes” means notes, certificates, similar debt instruments or other evidences of indebtedness which may be certificated or issued in book-entry form by CEF and represent a general unsecured obligation to repay a specific principal amount at a stated or variable rate of interest when due. In the case of CEF, the Notes consist of the Notes and Certificates described in the section of the Offering Circular entitled “Description of Notes (Investments).”
- “person” means an individual, a trust, a corporation, a limited liability company, a partnership, an association, organization, a government or a political subdivision of a government, or other legal entity.
- “RSO” is a Recognized Service Organization that is separately incorporated as a service organization (other than an Auxiliary Organization) formally recognized by the Synod that extends the mission and ministry of the Synod, but which is not part of the Synod’s constitutional structure. Each RSO establishes and develops its own objectives, activities and programs.
- “senior secured indebtedness” means any debt or debt securities incurred or issued by CEF and secured by assets of CEF in such a manner as to have a priority claim against any of the assets of CEF over and above the Note. Such debt may include, but is not limited to, a mortgage loan incurred for the purchase of an advance church site or CEF’s headquarters building, and a secured operating line of credit with a commercial financial institution.
- “state” (when used as a noun and not a verb) means a state, commonwealth or similar jurisdiction in the United States.
- “tax-deferred plan” means any IRS-approved arrangement by which the Investor may lawfully defer or not pay federal income taxes on the earnings of an investment. Examples include IRAs and any other IRS-qualified savings plan that allows individual participants to select their own investment vehicle.

## **SUMMARY OF OFFERING**

This summary is being provided for the convenience of potential investors and contains selected information. It does not contain all the information a person should consider before investing. Therefore, this should be read in conjunction with the more complete information in the Offering Circular, including the audited financial statements.

### **Operational Summary**

1. The Church Extension Fund (CEF) of the Michigan District of the Lutheran Church–Missouri Synod, with its principal office located at 3773 Geddes Road, Ann Arbor, MI 48105, is a Michigan Church Trustee Corporation. It was incorporated on June 18, 1901 as a Board of Trustees to “take, hold, invest, sell and otherwise manage and control property” of the Michigan District of the Lutheran Church–Missouri Synod.

2. The Fund is a not-for-profit corporation and is currently exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code as part of a group tax exemption for the Lutheran Church–Missouri Synod.

3. The Church Extension Fund provides loans and funds as permitted in its Bylaws, including to such entities as member congregations of the District, the District itself, and associations qualifying as Lutheran Church–Missouri Synod recognized service organizations located in Michigan. Loans may be extended for purposes set forth in the Bylaws, such as loans for capital expansion, renovation, equipment, operating, housing and projects which contribute to the ministry of the Michigan District and its member congregations. A complete presentation regarding “use of proceeds” is presented on page 7.

4. Each investor is entitled to receive a complete Offering Circular before making a decision to invest or reinvest. Copies can be obtained at the Church Extension Fund office, via the CEF website, or at local congregations of the Michigan District of the Lutheran Church–Missouri Synod.

5. Notes offered through this Offering Circular bear either fixed or variable (floating) interest rates and have maturities ranging from ninety (90) days to five (5) years. Interest payable on such Notes is taxable to the Investor (other than for IRAs or other Tax-Deferred Plans) in the year in which paid or credited to the Investor’s account. As more fully described in the “Description of Notes (Investments)” section on pages 13-16, upon the expiration of the Note’s term, Investors may provide for any fixed or variable rate term Note to be extended for a new term at the then current interest rate.

6. Investments offered by the Church Extension Fund are unsecured and are not SIPC or FDIC insured deposit accounts. Investors will be dependent upon the general financial condition of the Church Extension Fund for repayment of principal and interest.

7. The Church Extension Fund has a substantial portion of its loans outstanding to congregations and other Lutheran Church–Missouri Synod member-based organizations. The ability of each such borrower to repay its loan will generally depend on the amount of contributions it receives from its members. The number of members of each such organization and the per capita contribution has fluctuated in the past and will continue to fluctuate. The collateral value of such loans generally consist of properties used for church, charitable, or educational purposes and may not have market values equal to the loan amounts.

8. The Church Extension Fund maintains investment portfolios until funds are disbursed for new loans and to provide resources for operations and for liability payments. Assets invested in readily marketable securities are subject to various market risks which may result in losses if market values of investments decline.

9. Securities of the Church Extension Fund of the Michigan District should not be confused with those offered by the national church organization, the Lutheran Church Extension Fund–Missouri Synod headquartered in St. Louis, Missouri. Potential investors should consult the Offering Circulars of the Church Extension Fund of the Michigan District and the Lutheran Church Extension Fund–Missouri Synod independently. Neither organization underwrites, or is financially involved in, the security offerings of the other.

### **Financial Summary**

Selected financial data for the past five years, together with management’s comments and analysis, may be found on page 12. For the most recent fiscal year ended December 31, 2016, the financial data is as follows:

Cash, Cash Equivalents,	
Deposits and Investments	\$104,160,940
Loans Receivable	\$157,378,755
Unsecured Loans Receivable	\$ 1,150,905
% of Unsecured Loans Receivable	0.73%
Loans Receivable with Payments	
90 Days or More Past Due	1.37%
Total Assets	\$268,539,272
Notes Payable	\$211,196,879
Amount of Notes Redeemed	
and Exchanged in 2016	\$ 37,616,592
Other Long Term Debt	\$ 0
Net Assets	\$ 56,781,503
Change in Net Assets	\$ 636,641



**Church Extension Fund**

800-242-3944 [www.mi-cef.org](http://www.mi-cef.org)

## **RISK FACTORS**

### **A. Unsecured and Uninsured Investments**

The evidences of indebtedness to be issued pursuant to this offering are unsecured obligations of the Church Extension Fund and not secured by specific loans to specific borrowers. They are not SIPC or FDIC insured deposit accounts. The repayment of the principal and interest thereon is dependent solely upon the financial condition of the issuer.

### **B. No Sinking Fund or Trust Indenture**

There is no sinking fund or trust indenture that has been or will be established to ensure or secure the repayment of the Notes.

### **C. Ranking and Priority**

The instruments issued hereunder are not subordinated to any other securities issued by the Church Extension Fund. There will also be subsequent issues of securities which, when issued, will have equal rank with securities heretofore issued and those issued hereunder. The amount of any senior secured indebtedness to which the Notes are or will be subordinated shall not exceed ten percent (10%) of the tangible assets of the Church Extension Fund.

### **D. No Market**

There is no market for the securities and there is no assurance that a market will develop. Consequently, investors are not able to resell any securities purchased. However, the practice and policy of the Church Extension Fund has been to honor requests for early redemption, as set forth below in connection with the "Description of Notes (Investments)" section on pages 13-16.

### **E. No Guarantees to Repay**

The Church Extension Fund has suffered no financial losses in the past decade which would have caused the operating expense to exceed the operating income of CEF. Historically, Church Extension Fund has been able to make payments of principal and interest on the Notes when due. No guarantee or representation is made for future financial conditions and abilities to repay Notes.

### **F. Liquid Funds (Reserves)**

A cash-and-liquid funds (reserve) equal to ten percent (10%) of the total Notes outstanding is maintained in readily marketable securities for the payment of interest and redemption of Notes. Assets invested in readily marketable securities are subject to various market risks which may result in losses if market values of investments decline.

### **G. Tax Consequences**

There are no income tax benefits with respect to investing in the Notes. Interest paid or payable on the Notes will be taxable as ordinary income to an investor, regardless of whether the interest is paid out or retained and compounded.

### **H. Loans Outstanding**

The Church Extension Fund has the vast majority of its loan portfolio outstanding to congregations of the Michigan District of the Lutheran Church–Missouri Synod, all concentrated within the geographic boundaries of the State of Michigan. The ability of each borrowing congregation or organization to repay its loan will generally depend upon the amount of contributions it receives from its members. The number of members of each congregation and the per capita contribution has fluctuated in the past and will continue to fluctuate. To the extent that a congregation or organization that was granted a loan experiences a decrease in revenues, payments on the loan may be adversely affected.

### **I. Loan Policy**

The Church Extension Fund was and is incorporated under the laws of the State of Michigan as a "Church Trustee Corporation" and, as such, was organized for the primary benefit of the member congregations of the Michigan District of the Lutheran Church–Missouri Synod. The relationship of the Church Extension Fund cannot be compared to that of a commercial lender. In view of its relationship to its borrowers, the Church Extension Fund may be willing to accept partial, deferred or late payments. Loans and funds made available to member congregations may be at interest rates and terms not generally offered by traditional commercial lenders. Loans are primarily secured with church and school properties which are considered "special purpose uses", and may have limited market value in the event of a forced sale or foreclosure.

### **J. Changes in Law**

Changes in the Federal or State laws may make it more difficult or costly to offer and sell Notes in the future. The Church Extension Fund does not anticipate that the continued sale of its Notes will be necessary to service its Notes. However, a decrease in the sales of its Notes could affect the ability to meet such obligations if it did become necessary to rely on these sales.

### **K. Activities**

The Church Extension Fund Board of Trustees administers and operates what is commonly known throughout the Michigan District as the "Church Extension Fund".

Monies received by the Church Extension Fund from the sale of its unsecured evidences of indebtedness are used to make funds available for purposes allowed in its Bylaws, including capital expansion and ministry purposes. Loans are generally secured by a mortgage on the real property of the borrower.

The Church Extension Fund also purchases and holds a number of advance mission sites, which are properties to be utilized in the future as sites for new and/or expanding congregations. From time to time, properties considered to be excess inventory or without anticipated use are disposed.

There are no other activities of the Church Extension Fund other than the operations described within this Offering Circular which we anticipate would have a material financial impact on the operations of CEF.

### **L. Specific Transactions**

There are risks involved in specific transactions or arrangements, such as loan securitizations, undertaken or entered into. The Church Extension Fund was not involved in any securitizations as of the date of this Circular, nor has it ever been. However, CEF may (at some future date) securitize up to ten percent (10%) of its loan portfolio.

### **M. Geographic Concentrations**

There are risks related to geographic concentration of loans to affiliated churches or other related organizations within a limited region, such that changes in economic conditions of that region could affect the ability of the churches or organizations, as a group, to repay the loans.

### **N. Low Rates & No Insurance**

Risks of investment in the Notes may be greater than implied by relatively low interest rates on the Notes and the Notes are not insured by any governmental agency or private insurance company.

## **HISTORY AND OPERATIONS**

The Church Extension Fund was organized in 1901 for the primary purpose of serving the congregations and entities of what is now known as the Michigan District of the Lutheran Church–Missouri Synod.

The Michigan District of the Lutheran Church–Missouri Synod is comprised of Lutheran congregations banded together to perform functions which they, alone, could not perform. The latest statistics available show it to have 367 congregations with membership of 184,139 baptized members served by 390 parish pastors. The District's executive offices are located at 3773 Geddes Road, Ann Arbor, Michigan 48105-3098.

The Michigan District is the largest of 35 Districts of The Lutheran Church–Missouri Synod, the national association of Lutheran congregations whose membership, according to the latest available statistics, numbered 2,060,514 baptized members in 5,990 congregations served by 5,524 parish pastors.

Although the Church Extension Fund is a separate corporation, its trustees are elected by the Michigan District at its conventions. The Michigan District, being a part of the Lutheran Church–Missouri Synod, is subject to the Constitution of the Synod and, hence, so then is the Church Extension Fund.

In the 116-year history of its existence, the Church Extension Fund of the Michigan District has not suffered any significant losses by reason of this program. Also, no investor has lost any invested money in that CEF has always met withdrawal requests. The debt is not secured by a pledge or mortgage of specific assets, and there is no sinking fund for repayment. There is no secondary market for the evidences of indebtedness hereby offered, repayment only being available from the issuer.

The Church Extension Fund anticipates that it will issue up to \$50,000,000 in investment instruments during the next 12-month period, primarily to residents in the State of Michigan. Offers and sales may occur in other selected states where a significant number of investors have migrated from a previous address in Michigan and, hence, desire to continue to invest or re-invest with the Church Extension Fund. Generally, we do not solicit new investors from said selected states but make offers and sales there primarily to accommodate existing investors.

The Church Extension Fund of the Michigan District of the Lutheran Church–Missouri Synod is incorporated as a Church Trustee Corporation under the laws of the State of Michigan. It was incorporated in 1901. The Church Extension Fund is a not-for-profit corporation and is currently exempt from income taxes under section 501(c)(3) of the Internal Revenue Code as part of the group tax exemption of The Lutheran Church–Missouri Synod.

The principal business office of the Church Extension Fund is located at 3773 Geddes Road, Ann Arbor, Michigan 48105-3098. The local telephone number is 734-665-3791. Telephone contact may also be made toll-free at 800-242-3944.

## **USE OF PROCEEDS**

Proceeds received by the Church Extension Fund from the issuance of Notes are used or retained, together with other funds, for loans, grants and other funding permitted by CEF's bylaws and lending policies. Recipients include (i) member congregations of the Michigan District, (ii) the Michigan District itself, (iii) LCMS schools and colleges, (iv) entities and associations qualifying as Michigan District or LCMS RSOs and (v) entities owned or operated by member congregations. Such loans, grants and other funding are used for capital expansion and ministry purposes including acquiring property, erecting buildings, remodeling facilities, purchasing equipment, and

supporting operations or projects. Mortgage loans are also provided to congregations, schools, RSOs and the Michigan District to enable them to provide housing for their workers.

While the primary purpose of CEF shall be to contribute to the ministry and purposes of the Michigan District and its member congregations, CEF may also participate in a loan, either in whole or in part, originated by another church extension fund located in another district of the LCMS, or by the Lutheran Church Extension Fund of the LCMS.

Proceeds may be invested in interest-bearing obligations pending utilization, and are not necessarily earmarked for any particular loan or program.

In addition to making loans for the purchase of sites and the construction or renovation of church facilities, the Church Extension Fund acquires real property to be utilized in the future by congregations which the Michigan District anticipates will be established. The Church Extension Fund attempts to acquire such sites in areas which it appears that congregations may be formed in the future, and the acquisitions are often made in areas in which it is anticipated that there will be growth in the Lutheran population. However, real estate may be held for long periods of time without the formation of the anticipated congregations. Sites may be sold to third parties when it becomes apparent that the establishment of a congregation is unlikely. The proceeds from such sale would be used to acquire more sites or used for funding the other activities of the Church Extension Fund.

At year-end 2016, the Church Extension Fund held ownership in 13 various parcels of real estate located in various places within the State of Michigan. Properties are held at the cost of acquisition or fair value, less estimated costs to sell, whichever is less. It is current policy to obtain a market evaluation of each property every five years. CEF has rented facilities to congregations in anticipation of them meeting certain growth goals. The carrying value of all 13 properties, as of December 31, 2016 was \$5,698,577 or 2.12% of Total Assets.

The Church Extension Fund also operates a Grants Program at its discretion to help foster and promote ministry in the Michigan District. Any Grants Program offered requires a congregation or other applicant to submit a request for inclusion in the program. The Board of Trustees sets internal guidelines and criteria that will determine whether or not the request will be granted.

The Board of Trustees may designate a portion of a year's financial results in the form of interest rebates to borrowers based upon the net operating income of the year. The primary purpose of the Church Extension Fund is to provide low-cost loans to congregations and Church organizations who need to borrow money for expansion and ministry purposes. The interest rates charged borrowers is determined on a formula basis related to the net cost of the Church Extension Fund acquiring monies, primarily through the sale of securities. If CEF experiences a particularly good increase in Net Assets it may pass excess revenue back to borrowing congregations in the form of an interest rebate or interest rate reduction. In December of 2014, \$338,416 in interest rebates were returned to current borrowing congregations. No rebates were granted in 2015 or 2016.

## FINANCING AND OPERATIONAL ACTIVITIES

### Outstanding Notes Payable

The Church Extension Fund's primary means of generating funds for the Church Extension Fund activities is through the sale of its Notes. The following chart sets forth the types of Notes and debt obligations that have been sold and incurred as of December 31, 2016:

Notes	\$135,296,513
Variable Rate Certificates	12,567,749
Dedicated Savings	7,364,048
Demand Savings	2,196,889
ExtensionPlus	30,673,033
IRA Notes	22,954,722
IRA Dedicated Savings	29,193
Savings Stamps	<u>114,732</u>
Total	\$211,196,879

### Maturities - Notes Payable

The following chart states the maturities of Notes payable. The Church Extension Fund believes that it will be able to pay these redemptions from repayments of loan principal and interest expected to be received for the same periods:

Year	Maturities
Demand	\$40,730,266
2017	59,040,460
2018	34,731,437
2019	16,410,790
2020	30,527,999
2021	25,015,577
2022-2026	3,679,266
2027-2031	1,055,607
2032-2036	<u>5,477</u>
Total	\$211,196,879

### Receipts and Redemptions

The chart below is a comparative Investment & Redemption report of activity for the years ended December 31, 2016 and 2015. "Exchanges" denotes the circumstance where an investor does not wish to withdraw their funds upon the maturity of a security (Note) previously purchased but no longer offered under the current Offering Circular, or when the investor wishes to change the format of a matured investment. For example, an investor holding a matured Fixed Rate Note might wish to "exchange" by reinvesting in a Variable Rate Note or reinvest for a different maturity. "Interest Added" denotes either 1) the circumstance where a security is rolled over upon maturity, and the interest earned on the original issue security is added to the principal of the renewed security, or 2) interest is being compounded and added to the security upon Notes which have not yet reached maturity. "Redemptions" denote the termination of funds from security instruments without reinvestment.

	2016	2015
New Investments	\$26,090,728	\$19,827,466
Exchanges	11,897,294	9,280,711
Interest Added	<u>2,907,061</u>	<u>2,958,943</u>
	\$40,895,083	\$32,067,120
Redemptions	\$25,719,298	\$32,566,270
Exchanges	<u>11,897,294</u>	<u>9,280,711</u>
	<u>37,616,592</u>	<u>41,846,981</u>
Net	\$ 3,278,491	(\$9,779,861)

### Loans Receivable

Outstanding loan balances receivable, with the weighted average interest rates are shown below for the year ended December 31, 2016.

Loans Receivable	Weighted Avg.	
	Int. Rate	Principal
Mortgages-Congregation	2.971%	\$113,984,555
Mortgages-RSOs	2.875	21,734,867
Mortgages-District	2.426	2,492,427
Land Contracts	3.997	215,972
Housing Loans-Congregation	3.811	18,433,369
Housing Loans-RSOs	<u>3.659</u>	<u>517,565</u>
Total	3.051%	\$157,378,755

A summary of the maturities of loan balances (as of December 31, 2016) which are expected to mature in the upcoming years:

2017	\$29,381,790
2018	31,131,540
2019	19,073,481
2020	19,636,317
2021	34,594,745
2022+	<u>23,560,882</u>
Total	\$157,378,755

### Non-Related Revenues and Expenses

During the past year ended December 31, 2016, there were no direct or indirect revenues or expenses of non-related Church Extension Fund activity.

### Ability to Repay Notes

The securities issued by the Church Extension Fund are of various maturities. Historically, the Church Extension Fund has been able to meet principal and interest requirements on its outstanding investment obligations from the principal and interest it receives on its outstanding loans and from available reserves. Because of the non-liquid nature of outstanding loans, repayment of outstanding Notes by the Church Extension Fund may depend to some extent on continued sale of investment securities and renewal of investments by a percentage of existing Note holders.

## LENDING ACTIVITIES

### Nature and Types of Loans

Loans are made to various borrowers as previously described above in the section "Use of Proceeds" (see page 7). Loans are made for real estate acquisition, construction, renovation, relocation, repairs, equipment and to a minor extent, operating funds. Loans are also made to eligible borrowers (as previously described) for the purpose of housing.

The Church Extension Fund loans are primarily interest-bearing loans which are normally secured by pledge of mortgage of the property and buildings for which the funds are to be used. Interest rates are determined by the Board of Trustees policy by using the current cost of funds plus a percentage margin of at least one percent (1%) for costs associated with administering CEF. Interest rates on housing loans are set by using the above guideline plus taking into consideration the rates currently offered by conventional lenders for residential mortgages. The minimum target differential ratio between the Church Extension Fund cost of funds and the interest rates of return on the entire loan portfolio should be at or above one percent (1%).



## LENDING ACTIVITIES

(Continued)

Generally, loans are offered with an amortization of up to twenty-five years with a five year term of maturity. At maturity, the loan is generally extended for another period of years at the prevailing rate at that time. Loans may also be offered with an adjustable rate of interest with amortizations up to 25 years. Loans for housing are currently granted for a term of 3, 5, or 15 years with amortization periods up to 30 years, and require monthly payments of principal and interest.

On occasion, the Church Extension Fund may approve a "member participation loan" for a borrowing congregation, wherein all funds for the loan are garnered from members of the congregation and 'earmarked' for the specific project. This allows the congregation to (i) establish the interest rates to be paid on member investments and, (ii) participate in establishing the rate of interest to be paid on the loans. The group of notes sold to individual investors from the congregation are not secured, and are unsecured obligations of the Church Extension Fund not unlike any other notes offered. The specific loan is secured by a real estate mortgage on the property for which the proceeds of the loan are being used.

One of the primary functions of the Church Extension Fund is to make loans to new congregations ("mission churches"). CEF provides these borrowers with a subsidy reflected in lower interest rates. Current loans to mission churches include (i) site loans that allow land to be purchased and held, and (ii) construction loans for the construction of a mission church. Site loans have terms that typically do not exceed three years and are at 0% interest during the term. Construction loans have terms that typically do not exceed five years and are at interest rates as follows: 0% interest during construction, interest only during the first two years after construction is completed, and principal and interest at cost of funds plus 0.25% during the final three years.

### Loan Policy and Underwriting

Factors considered in deciding on the issuance of a loan include: a) the purpose toward which the funds will be used and how such will aid the ministry; b) the history of the congregation, including membership and financial statistics; c) projected community and membership population; d) an analysis of past, current, and projected financial capacity of the congregation; e) a cost analysis of the project and f) a review of the architectural plans and specifications. It is normally required that the church property for which the loan will be used be owned free and clear by the borrower in order to secure a first lien in favor of the Church Extension Fund. If later construction or remodeling loans are issued, the mortgage is rewritten to encompass the entire property for purposes of the lien security.

In connection with loans made to congregations (excluding housing loans), investment support provided by members of the borrowing congregation is considered. The current Church Extension Fund Investment Incentive Program encourages the borrowing congregation's members to have invested 25% of the loan amount in the Church Extension Fund Notes. The rate of interest on loans to congregations can be decreased by the ratio of member investments to the loan amount. Under current policy, a ½% interest rate reduction is given to congregations with members investing 50% or more of the loan amount, and should 100% in member investments be achieved, an interest rate reduction of 1% is applied.

### Material Loans to a Single Borrower

In order to manage the risk in making loans, loans are limited in size to 20% of net assets. When a borrower may request loan(s) in excess of 20% of CEF's net assets, the Board of Trustees may obtain participation in the loan from other entities (i.e., LCEF, banks, insurance companies, etc.). As of December 31, 2016, the Church Extension Fund's net assets were \$56,781,503.

Loans exceeding 20% of net assets were outstanding to a single borrower totaling \$16.3 million, namely, Concordia University, Inc. Mequon, Wisconsin. Concordia University-Ann Arbor, Michigan was merged into Concordia University-Wisconsin at June 30, 2013. As part of the merger, previous loan balances owed to CEF by the Ann Arbor school were assumed by the new entity. Loans are secured by a first real estate mortgage on the University's campus in Ann Arbor. Balances outstanding totaled \$16,261,475 as of December 31, 2016.

In addition, the risk associated with making many large loans is managed by limiting the total amount of all loans with a balance greater than 10% of net assets to the total net assets of CEF. Loans exceeding 10% of net assets must be approved by a 2/3 majority vote of the Board, with a minimum of six votes for approval.

At the close of business on December 31, 2016, there were two borrowers with an unpaid principal balance in excess of 10% of net assets, the two borrowers' balances are as follows:

\$16,261,475  
\$ 5,747,031  
\$22,008,506

### Delinquencies and Loan Loss

The Church Extension Fund has experienced loan losses due to uncollectible balances that were forgiven, or real estate sales of CEF's collateral being less than the loan balances owed. The past three years of gross charges taken are as follows:

2016 = \$20,881      2015 = \$454,112      2014 = \$165,410

It is the mission of the Church Extension Fund to assist congregations with low-cost financing in support for their ministries. Occasionally, borrowers may experience financial hardship, for any one of a variety of reasons. As a result of a situation analysis, existing loans (either delinquent or current) may be restructured by amending the required monthly payment or requiring "interest-only" payments for a certain period of time and/or adjusting the interest rate. Such accommodations are done in an effort to give the borrower financial relief and provide them with improved cash flow. Disclosure of restructured loans can be found under *Management's Comments & Analysis of Selected Data-Loan Delinquencies* on page 12 and in the footnotes to the audited financial statements.

## LENDING ACTIVITIES

(Continued)

The table below provides a summary of loan delinquency for the three most recent years, indicating the recorded investment balance of all loans that were 90 or more days past due:

<b>Date</b>	<b>Balance</b>	<b>Percentage of Loans Outstanding</b>
December 2016	\$ 2,161,917	1.37%
December 2015	\$ 2,523,080	1.54%
December 2014	\$ 5,376,755	3.20%

An explanation may be found under “Management’s Comments & Analysis of Selected Financial Data”, contained in the “Loan Delinquencies” section on page 12.

### Related Party Loans

At year end 2016, the Michigan District of the Lutheran Church–Missouri Synod had loan balances outstanding with the Church Extension Fund in the amount of \$2,492,427 as noted in a separate line item in the accompanying audited financial statements. These loans are secured with real estate mortgages on various properties and have been made, through the years, primarily for the housing of professional church workers. Loans may be made to the District also for property acquisition, improvement or operating purposes.

### Participation Loans

CEF may, from time-to-time, participate in a loan, either in part or in whole, originated by another CEF located in another district of the Lutheran Church–Missouri Synod or by the Lutheran Church Extension Fund of the LCMS. Participation loans are secured by a first lien position on a church and/or school property given as collateral by the borrower. At year-end December 31, 2016, CEF was a participant in one loan with an outstanding balance (our portion) of \$1,434,575.

## INVESTING ACTIVITIES

### Nature and Amount of Invested Funds

At the end of the year, December 31, 2016, the Church Extension Fund had cash, cash equivalents, deposits, investments and available lines of credit of \$107.7 million or 51.0% of Notes Payable, achieving the requirement of at least 10% of Notes Payable. An unsecured line of credit in the amount of \$3.5 million is maintained with our primary deposit bank to assist with any daily liquidity needs. In addition, CEF has an established line of credit with Morgan Stanley. Borrowings under the line of credit are collateralized by securities held at Morgan Stanley. The interest rate is negotiated at the time the line is accessed. The line of credit is available for general operating purposes.

### Policy

The Board of Trustees sets and approves the operating policies of CEF, including an Investment Policy. A conservative approach is taken toward the investment of reserve dollars with the portfolio generally limited to the following: U.S. Treasury Bills, Notes and Bonds, U.S. Government Agency securities, Certificates of Deposit, Corporate Bonds that meet or exceed a credit rating of “BBB”, Municipal Bonds, Collateralized Mortgage Obligations (CMOs) that are agency guaranteed, Lutheran Church Extension Fund securities, Lutheran Church Missouri Synod Foundation investments and money market funds/savings account.

There is a separate Investment Policy for the Endowment Fund portion of the Church Extension Fund. The Endowment Fund Investment Policy includes all of the general fund investment policy (types of investments) as written above, plus it allows for up to 50% of the Endowment Fund assets to be invested in equities or equity mutual funds. At the close of 2016, approximately 40% of the Endowment Fund investments were held in equities.

### Investing Responsibilities

The Church Extension Fund maintains an investment portfolio for liquidity purposes and until funds are disbursed for new loans. The investment portfolio is managed by the Chief Executive Officer and the President of the Church Extension Fund, receiving counsel from the Investment Committee.

The Investment Committee consists of eight persons that generally meet two times annually and is composed of four Trustees, together with four other members appointed “at large” and considered to possess knowledge in financial matters. The Investment Committee makes recommendations to the Board of Trustees regarding CEF’s Investment Policy. A portion of the general fund investment portfolio is managed by and through two outside firms. Of the \$97.5 million in the entire deposits and investments portfolio, \$15.5 million was under management of Western Asset Management and held by Morgan Stanley at year end 2016. Likewise, \$14.1 million was under management by KeyBank, NA. These firms have been given the Investment Policy of the Church Extension Fund and are required to adhere to it. Monthly statements of activity from these firms are reviewed by the management of the Church Extension Fund. Periodic reports of progress with analysis of yield and portfolio holdings are reviewed by the Investment Committee described above.

### Investments & Maturities

The following chart indicates the types and dollar amounts of investments held in reserve (at market value) as of December 31, 2016:

		<b>% of Portfolio</b>
Certificates of Deposit	\$ 8,816,700	9 %
U.S. T-Notes	5,497,122	6
U.S. Govt Agencies	21,886,840	22
CMOs	3,453,873	4
Municipal Bonds	1,923,847	2
Corporate Bonds	47,774,566	49
Mutual Funds	5,633,434	6
Lutheran Church Extension Fund	1,000,000	1
LCMS Foundation	<u>1,540,828</u>	<u>1</u>
Total	\$97,527,210	100%

## INVESTING ACTIVITIES

(Continued)

Maturities of various investments, as of December 31, 2016, ranged from zero to thirty years and coming due as follows:

Demand	\$8,184,941
2017	11,747,296
2018	11,819,629
2019	9,628,382
2020	12,562,449
2021	7,780,647
2022 & beyond	<u>35,803,866</u>
Total	\$97,527,210

A “maturity ladder” of investments is maintained which provides for maturities in nearly every month of the year.

### Aggregate Gains & Losses

As the portfolio is managed, whether internally by the Church Extension Fund management, or externally by the outside firms noted above, purchases and sales of securities often produce either gains or losses depending upon the market values at the time of acquisition or disposition. Aggregate realized and unrealized gains and losses from investments for each of the past three years were as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Realized Gain/(Loss)	\$ 135,361	\$ 257,406	\$ 74,856
Unrealized Gain/(Loss)	(\$604,679)	(\$1,270,106)	\$736,293
Net Gain/(Loss)	(\$469,318)	(\$1,012,700)	\$811,149



**Church Extension Fund**

800-242-3944 [www.mi-cef.org](http://www.mi-cef.org)

## SELECTED FINANCIAL DATA

Selected financial data is set forth below with respect to the Church Extension Fund and its operations for the most recent five years.

Year End 12/31 -	2016	2015	2014	2013	2012
Cash, Cash Equivalents,					
Deposits and Investments	\$ 104,160,940	\$ 93,502,356	\$ 99,004,907	\$ 90,738,488	\$ 82,951,236
Total Loans Receivable	\$ 157,378,755	\$ 164,055,760	\$ 168,178,384	\$ 178,711,471	\$ 190,111,370
Unsecured Loans Receivable	\$ 1,150,905	\$ 1,143,576	\$ 1,829,350	\$ 2,057,879	\$ 896,997
% of Unsecured Loans Receivable	0.73%	0.70%	1.09%	1.15%	0.47%
Loan Delinquencies as a Percent					
of Loans Receivable	1.37%	1.54%	3.20%	3.65%	3.05%
Total Assets	\$ 268,539,272	\$ 264,719,123	\$ 274,078,328	\$ 275,631,729	\$ 275,658,350
Total Notes Payable	\$ 211,196,879	\$ 207,918,388	\$ 217,698,249	\$ 222,628,151	\$ 224,906,076
Amount of Notes Redeemed and					
Exchanged During the Fiscal Year	\$ 37,616,592	\$ 41,846,981	\$ 38,762,514	\$ 36,906,772	\$ 37,863,326
Other Long Term Debt	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Assets	\$ 56,781,503	\$ 56,144,862	\$ 56,027,962	\$ 52,634,205	\$ 50,446,081
Change in Net Assets	\$ 636,641	\$ 116,900	\$ 3,393,757	\$ 2,188,124	\$ 1,556,888

### Management's Comments &

#### Analysis of Selected Financial Data:

Management regularly reviews the overall financial condition of the Church Extension Fund. This is done in part by reviewing past and expected performance in certain key areas. Complete financial information and other data is presented at each regular meeting of the Church Extension Fund Board of Trustees.

#### Cash & Liquidity

The amount of available cash as compared to cash redemptions, historically, has met the demand for redemption of term Notes from principal repayments from the loan receivable portfolio. Generally, redemption activity from demand Notes has historically been funded from additions to these same instruments.

CEF maintains both operating liquidity to provide for cash requirements for the next twelve months as well as a reserve liquidity equal to 10% of the outstanding Notes payable. For the fiscal year ended December 31, 2016, cash, cash equivalents, deposits and investments had a market value equal to 49% of its outstanding Notes.

#### Loans Receivable

Nearly all loans are secured by a first real estate mortgage position on the borrower's property. Less than one percent of Loans Receivable are unsecured.

#### Loan Delinquencies

At December 31, 2016, the balance of loans with payments 90 days or more past due amounted to 1.37% of total recorded investment in Loans Receivable. Historically, loan delinquency has been in the three percent range or less.

It is management's opinion that this level of loan delinquency will not significantly impair liquidity, cash flow or net assets, nor will it result in any significant loan loss. CEF restructures existing loans, that may or may not be delinquent, but have become impaired. Generally, accommodations are made for borrowers experiencing a decrease in revenue for a variety of reasons, i.e. reduction in attendance or offerings, conflict in the parish, an increase of unemployment in the community, etc.

The terms of the loan may be restructured to revise the payment amortization and/or the interest rate to provide the borrower with financial relief for a certain period of time. Three loans with balances totaling \$1,807,341 were restructured during 2016. Management believes such is in the best interest of the borrower(s) at this time and will not have a material impact on the financial stability of CEF. As of 12/31/16, loans classified as troubled debt restructurings with balances of \$20.9 million were considered impaired, compared with outstanding balances of \$21.5 and \$20.0 million at 12/31/15 and 12/31/14, respectively.

#### Source of Funds for Redemption of Notes

Historically, interest and principal payments on CEF Notes have been made primarily from the amounts received as principal and interest payments on outstanding loans. CEF anticipates that it will continue to experience similar results in the future. To date, repayments of loans receivable have been sufficient to fund redemptions of term Notes.

#### Net Assets & Capital Adequacy

For the year ended December 31, 2016, net assets were equal to 21.14% of total assets. CEF strives to maintain a strong capital position to support its growth and operations.

#### Change in Net Assets

CEF strives to manage its operations to provide interest income sufficient to fund interest expense on its Notes payable and operating expenses. CEF has achieved positive operating income in all of the past five years. Total net assets increased by \$636,641 in 2016. Net Assets include the Endowment Fund, shown as a separate line item on the audited financial statements, categorized as 'board designated'.

The Endowment Fund was established in 1992 to receive gifts and bequests to be used to promote the purpose of the Church Extension Fund, hence, known as 'board designated'. Monies may also be received for the benefit of a third party, the earnings from which are paid unto the third party as designated by the donor, hence, classified as 'funds held for others'.

## **DESCRIPTION OF NOTES (INVESTMENTS)**

Type of Notes, terms, nature, including interest computation and/or accrual are described below. Investments offered by the Church Extension Fund are securities with rates of interest set either upon the original purchase date and remaining fixed for the term, or securities with a rate which varies over the term of the investment.

### **Interest Rates:**

Interest rates are set based on average rates published in national indexes such as Bankrate.com, plus or minus increments determined by Church Extension Fund. Factors that may influence the increments determined by CEF include, but are not limited to, CEF's loan demand, CEF's cash flow needs, CEF's average interest rate spread between loans receivable and Notes payable, investment gap analysis, the national economy, and current policies of the Federal Reserve. For Fixed Rate Notes, after being set, interest rates remain fixed for the term of the Note. For Variable Rate Notes, the rates are set and adjusted quarterly. For Dedicated or Demand Notes, the rates are set and adjusted monthly. The maximum interest rate on any Note or Certificate will not exceed 10%.

### **Fixed Rate Note:**

Fixed Rate Notes are offered, giving the investor the flexibility of choosing the actual term (maturity). These Notes have terms of 3 up to 6 months, 6 up to 12 months, 12 up to 24 months, 24 up to 60 months, or 5 years.

A minimum investment of \$500 is required on Fixed Rate Notes. Additions to Fixed Rate Notes are not allowed during the term of the Note.

The interest rate is fixed for the entire term of the Note. Interest is earned and added at the end of each calendar quarter. Investors may elect to have interest earnings compound or be paid said earnings on a monthly or quarterly basis. The investor has the option of receiving interest earned by check or by electronic transfer of funds to a financial institution.

Fixed Rate Notes are automatically renewable at the option of the Church Extension Fund for a like term as described above. Investors will be apprised of impending maturities in writing at least 30 days prior to the original due date and each extended due date. If presentation and written demand for payment is not timely made, the Notes may be extended for continuous terms equal to the original term at the prevailing rate then offered for Notes with the same length of maturity, until such demand for payment is made by the investor at the next maturity date.

### **Fixed Rate 2+2 Note:**

Fixed Rate 2+2 Notes are offered, giving the investor the flexibility of making 2 additions and/or 2 redemptions during the term of the Note, while yet maintaining the interest rate and maturity date. The balance may not be drawn down below the original investment amount, however. These Notes have a term of 17 months.

A minimum investment of \$2,500 is required on Fixed Rate 2+2 Notes.

The interest rate is fixed for the entire term of the Note. Interest is earned and added at the end of each calendar quarter. Investors may elect to have interest earnings compound or be paid said earnings on a monthly or quarterly basis. The investor has the option of receiving interest earned by check or by electronic transfer of funds to a financial institution.

Fixed Rate 2+2 Notes are automatically renewable at the option of the Church Extension Fund for a like term as described above. Investors will be apprised of impending maturities in writing at least 30 days prior to the original due date and each extended due date. If presentation and written demand for payment is not timely made, the Notes may be extended for continuous terms equal to the original term at the prevailing rate then offered for Notes with the same length of maturity, until such demand for payment is made by the investor at the next maturity date.

### **Variable Rate Note:**

These Notes have a specified term of either 1 year, 2½ years, or 5 years, with rates adjusted each calendar quarter over the term. A minimum investment of \$500 is required. Additional investments in minimum amounts of \$100 may be made and added to the principal balance of a Variable Rate Note while maintaining the same maturity. Interest is earned and added at the end of each calendar quarter. Investors may elect to have interest earnings compound or be paid said earnings on a monthly or quarterly basis. The investor has the option of receiving interest earned by check or by electronic transfer of funds to a financial institution.

Variable Rate Notes are automatically renewable at the option of the Church Extension Fund for a like term as described above. Investors will be apprised of impending maturities in writing at least 30 days prior to the original due date and each extended due date. If presentation and written demand for payment is not timely made, the Notes may be extended for continuous terms equal to the original term until such demand for payment is made by the investor at the next maturity date.

### **Step-Up Rate Note:**

These Notes are no longer available as of May 1, 2016. Step-Up Rate Notes previously issued will not be renewed at maturity. Principal will be paid out to the investor, together with any accrued interest earnings upon surrender of the original Certificate. The investor, of course, may exchange the Step-Up Rate Note at maturity for an alternate investment offered by CEF at that time - at the interest rate offered at that time.

### **Growth Note:**

These Notes were no longer available as of May 1, 2015. Growth Notes previously issued and not presented for payment at their original maturity will automatically be renewed for a one year term at an interest rate offered for Fixed Rate Notes with a one year maturity prevailing at that time.

## **DESCRIPTION OF NOTES (INVESTMENTS)**

(Continued)

### **Dedicated Savings Certificates:**

This is a plan that permits additions to the investment and redemption privileges at any time with no loss of interest. A minimum investment of \$5.00 is required. The interest rate on all Dedicated Savings Certificates (new and outstanding) will be adjusted on the first day of each month, that rate to be effective to the close of the last day of that month. Monthly interest rates vary according to the total amount invested in this instrument as follows: 1) amounts less than \$100; 2) amounts of at least \$100 and less than \$1,000; 3) amounts of at least \$1,000 and less than \$10,000; 4) amounts of at least \$10,000 and more. At the end of each calendar month, interest earned to that date will be added to the principal amount of the investment. For balances of \$10,000 or more, the investor may request that interest not be compounded but be paid out on a regular basis.

An investor with a Dedicated Savings Certificate may have the added convenience of redeeming funds at any time by completing an application for such privileges. The investor is assigned a "pass-code" of their choosing. The investor then may telephone the Church Extension Fund office (toll free at 800-242-3944) during normal business hours and request that a partial redemption be made from the Dedicated Savings Account and forwarded to the investor; such requests are honored and forwarded to the investor within 24 hours.

### **ExtensionPlus Account Certificate:**

This demand Certificate has a four-tiered minimum balance, which pays a higher interest rate for higher balances. Additions to the investment as well as redemptions are permitted at any time. Check writing access for redemptions is available, the minimum amount per check is \$250. Additionally, the investor may choose a VISA® check card option for access to the balance for retail purchases and at ATM's (automated teller machines).

A minimum investment of \$100 is required to open and a minimum balance of \$100 must be maintained. The interest rate on all ExtensionPlus Account Certificates (new and outstanding) will be adjusted on the first day of each month, with that rate to be effective till the close of the last day of that month.

Monthly interest rates vary according to the total amount invested in this instrument as follows: 1) amounts less than \$1,000; 2) amounts of a least \$1,000 and less than \$10,000; 3) amounts of at least \$10,000 and less than \$25,000; 4) amounts of at least \$25,000 and more. Each month, interest earned will be added to the principal amount of the investment.

The Church Extension Fund has entered into an agreement with UMB Bank of Kansas City, Missouri for the servicing of both the check writing and check card features of the ExtensionPlus Account. Twenty-four hour customer service is provided by UMB Bank for lost or stolen check cards by telephoning their toll-free number: 800-449-9176.



**Church Extension Fund**

**800-242-3944 [www.mi-cef.org](http://www.mi-cef.org)**

## **DESCRIPTION OF NOTES (INVESTMENTS)**

(Continued)

### **Variable Rate Certificate**

#### **For Congregation Endowment And Special Funds:**

Congregations that are members of the Michigan District, the District itself, and organizations and associations affiliated with the Lutheran Church–Missouri Synod may invest in all of the investment instruments described above. In addition, the Church Extension Fund offers a special Variable Rate Certificate for these organizations for Endowment Fund and Special Purpose Fund investments. These Variable Rate Certificates require a minimum investment of \$500, are available for a 1, 2 or 5 year term, and will allow additional investments in minimum amounts of \$500, while maintaining the same maturity date. No early redemptions of principal amount invested will be allowed on these investments without penalty.

The interest rate on all certificates sold and outstanding will be set and adjusted on the first day of each calendar quarter, with that rate to remain in effect throughout the quarter. The investor has the option of receiving interest earnings by check or leaving it to be compounded.

Variable Rate Certificates are automatically renewable at the option of the Church Extension Fund for a like term under the same notice requirements as provided for Variable Rate Notes and Fixed Rate Notes. The rate of interest at the renewal date will be the interest rate then in effect for Variable Rate Certificates.

### **Fixed Rate Note**

#### **For Congregation Endowment And Special Funds:**

Fixed Rate Notes are offered to congregations that are members of the Michigan District, the District itself, organizations and associations affiliated with the Lutheran Church–Missouri Synod. Minimum investment for these types of Notes is \$500 with maturities of either 1, 2 or 5 years.

Interest earnings may be withdrawn prior to maturity, however, redemptions of the principal amount will not be permitted without penalty. Additions to the principal will not be allowed during the term of these Notes.

The interest rate is fixed for the entire term of the Note. Interest is earned and added to the account at the end of each calendar quarter. Investors may elect to have interest earnings compound or be paid said earnings on a monthly or quarterly basis. The investor has the option of receiving interest earned by check or by electronic transfer of funds to a financial institution.

Fixed Rate Notes are automatically renewable at the option of the Church Extension Fund for a like term as described above. Investors will be apprised of impending maturities in writing at least 30 days prior to the original due date and each extended due date. If presentation and written demand for payment is not timely made, the Notes may be extended for continuous terms equal to the original term at the prevailing rate then offered for Notes with the same length of maturity, until such demand for payment is made by the investor at the next maturity date.

### **Congregation Demand Savings Certificate:**

A Demand Savings Account is offered to congregations and organizations with a minimum balance of \$500. Additional funds may be added at any time and redemptions made at any time without any penalty.

The interest rate will be adjusted on the first day of each month, that rate to be effective to the close of the last day of that month. Monthly interest rates vary according to the total amount invested in this instrument as follows: 1) amounts less than \$500; 2) amounts of at least \$500 and less than \$1,000; 3) amounts of at least \$1,000 and less than \$10,000; 4) amounts of at least \$10,000 and more.

### **Savings Stamps:**

These are sold primarily to children and youth through the Sunday Schools and parochial day schools of Michigan District congregations. Stamps have cash values of \$.25 and \$1.00, and may be accumulated in stamp books. Stamps may be transferred to Dedicated Savings Certificates for the face value of all stamps accumulated in the stamp books. Congregations purchase the savings stamps from the Church Extension Fund in blocks of \$50.00 and \$100.00 books and sell them to their members and/or members' children. The stamps may be purchased on account and paid for as they are sold.

### **IRA Investment Instruments:**

The Church Extension Fund offers its Dedicated Savings Certificate, Fixed Rate Notes and Variable Rate Notes, as investments to fund Individual Retirement Accounts ("IRAs").

Dedicated Savings Certificates acquired as an investment for an IRA are offered with an initial minimum investment amount of \$100. Variable Rate Notes and Fixed Rate Notes are offered as investments for an IRA as described in the preceding paragraphs.

Responsibility for establishing an Individual Retirement Account which will qualify for tax deferral under provisions of the tax law dealing with IRAs rests with the individual investor. The Church Extension Fund, however, has made arrangements with a financial institution with trust powers to act as custodian of self-directed IRAs, and upon direction of individual investors, to invest funds with the Church Extension Fund of the Michigan District of the Lutheran Church–Missouri Synod. That institution is UMB Bank, N.A. of Kansas City, Missouri. Please be aware that a processing fee may be assessed by UMB Bank for annual distributions or closure of an IRA account. Detailed information about this program is available either through the Church Extension Fund office or UMB Bank, in the latter case addressed to UMB Bank, N.A, 1010 Grand Blvd., Kansas City, MO 64106. For additional information regarding IRA investment options or required forms, contact the Church Extension Fund office directly.

Because an Individual Retirement Account is subject to specific requirements under the Internal Revenue Code, investors are encouraged to consult their tax advisors before deciding to invest IRA assets in a CEF Investment.

## **DESCRIPTION OF NOTES (INVESTMENTS)**

(Continued)

### **Verification Of Investor Identity:**

In order to comply with the US Patriot Act or other government regulation, CEF may require information, in addition to the information initially requested on the Application to Invest, before accepting any new investment, including an IRA. Investor identity will be verified on all new investment applications. Investor privacy is protected insofar as is described within the CEF Privacy Policy or that of the UMB Bank Privacy Policy as it concerns new IRA investments. CEF reserves the right to reject any Application for Investment without cause or further explanation.

### **Receipts And Certification Of Notes:**

Notes may be issued as uncertificated securities (i.e. in book-entry form), and the right of investors in such Notes will be reflected upon the books and records of CEF. An Investment Certification, along with a Terms & Conditions document, will be provided to Investors to confirm their investment. The investor receives periodic statements indicating the balance of a Note including any additions, redemptions, and any interest credited, withdrawn or accumulated.

### **Penalties For Redemptions Prior To Maturity:**

Fixed Rate Notes and Variable Rate Notes with an initial maturity of 1 year or more, submitted prior to maturity are subject to an interest penalty, being the loss of 180 days interest. A 3-6 month Fixed Rate Note submitted prior to maturity is subject to an interest penalty of 45 days loss of interest; early redemption of a 6-12 month Fixed Rate Note is subject to 90 days loss of interest.

However, if after the initial (first) maturity date and presuming the Investment has been automatically renewed for a like period of time, the Investor may redeem the Investment without any penalty.

The Church Extension Fund is not required to redeem any Note or certificate prior to its maturity. However, as a matter of policy and practice, the Church Extension Fund may redeem without penalty, at its discretion, such Notes and certificates, regardless of maturity, at the request of the investor, upon the evidence of necessity or emergency.

### **Transferability And Early Redemption:**

The Notes to be issued hereby are not negotiable and are not transferable and are redeemable only upon endorsement, presentation, and surrender at the office of the Church Extension Fund of the Michigan District of the Lutheran Church–Missouri Synod. Notes may be assigned only upon the written consent of the Church Extension Fund.

Upon the death of one of the owners of the Note(s), CEF will redeem said Note(s) without penalty for early redemption and/or will transfer all or part of the proceeds into another investment under the rates and terms offered potential investors at that time and upon presentation of a properly completed application for investment.

The Church Extension Fund will also honor requests from holders of Notes issued in individual or joint ownership names to transfer ownership of Note(s) to a trust without altering the original interest rate, maturity or other terms of the Note(s).

### **Electronic Funds Transfer:**

The Church Extension Fund offers a no cost service to investors called “Automatic Cash Transfer.” Upon completing an application for ACT, the investor is given the convenience of one or all of the following services through the technology of electronic funds transfer between financial institutions: 1) The interest earnings from a Dedicated Savings Certificate (with a balance exceeding \$10,000) or a Fixed or Variable Rate Note may be electronically deposited to the investor’s local bank account; 2) The investor may establish an automatic investment program by authorizing the Church Extension Fund to regularly withdraw funds from the investor’s local bank account and electronically transfer to a CEF investment; 3) Funds in a predetermined amount may automatically be withdrawn from a Dedicated Savings Certificate and deposited directly into an account of the investor’s choice at another financial institution.

### **Acceptance Of Funds:**

The Church Extension Fund will accept payment for the purchase of its Notes and other investments in the form of cash, personal check, cashier’s check, money order, transfers by wire, or ACH transfer or other similar services utilized by financial institutions. The Church Extension Fund may also accept funds in the form of credit cards or debit cards.

### **Ranking And Priority:**

The securities issued hereunder are not subordinated to any other debt of the issuer. The amount of any senior secured indebtedness to which the Notes are or will be subordinated shall not exceed ten percent (10%) of the tangible assets of the Church Extension Fund. There will be subsequent issues of securities which, when issued, will have equal rank with securities heretofore issued and those issued hereunder. The Church Extension Fund has the authority and power to issue its Notes and evidences of indebtedness without any express limitation as to amount. The holders of all of its Notes and other instruments of indebtedness are “unsecured creditors” of the Church Extension Fund and, as such, they have such rights as are extended by the law to unsecured creditors in the event of any default. There is no “sinking fund” for repayment. Historically, the Church Extension Fund has been able to meet obligations from the principal and interest it receives on its outstanding loans and from available reserves. Cash and liquid assets equal to ten percent (10%) of the value of the total Notes outstanding is maintained as a reserve for the payment of interest and the redemption of Notes.

### **PLAN OF DISTRIBUTION**

The primary means for offering the Notes is through promotional brochures and Offering Circulars distributed to each congregation in the Michigan District and mailed directly to current investors. Promotional material is also published in regional church publications. In addition, promotional material is distributed at church conferences, conventions, retreats and seminars.

A representative of the Church Extension Fund also may discuss the nature and purpose of the work of the Church Extension Fund at District meetings or at congregational services or gatherings.

Advertising materials contain a toll-free telephone number (800-242-3944) which a prospective investor may use to call and request an Offering Circular. A second toll-free telephone number (800-232-7313) available 24 hours per day, seven days a week is provided for current or prospective investors with a recorded message of our current rates of interest offered on investments.



## **PLAN OF DISTRIBUTION**

(Continued)

A CEF homepage on the Internet containing its Offering Circular, Application Form and promotional information is available to existing and prospective Investors at [www.mi-cef.org](http://www.mi-cef.org). No offers to purchase will be accepted prior to the time that an investor has signed an application acknowledging receipt of an Offering Circular.

There are no underwriters participating and there are no selling agreements in the distribution of the securities offered. 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 Notes described within this Offering Circular.

## **TAX ASPECTS**

Investors will not receive a charitable deduction upon the purchase of a Note. The interest paid or payable on the Notes will be taxable as ordinary income to the holder in the year it is paid or accrued. Thus, as to interest accrued over the life of a Note, to be paid at the maturity date, all investors must report such interest as income on their Federal income tax returns and State income tax returns, if applicable, ratably over the life of the Note as interest accrues. Investors may also be liable for other state and local taxes in the state or locality in which they reside. Since the tax laws of each state and locality may differ, each investor should consult a tax advisor about the tax consequences.

Transferability of the Notes is limited and it is unlikely that there would be a sale or exchange of a Note. See “Transferability and Early Redemption” on page 16. Upon a transfer, however, the seller generally would report either short-term or long-term gain or loss, depending upon the length of time held, the gain or loss being equal to the difference between the purchase price and the amount received upon sale or exchange, less previously accrued interest. Purchasers who hold Notes until their maturity will not be taxed on the return of the principal purchase price or on the payment of previously accrued and taxed interest. Any excess will be interest income.

An individual investor (or a husband and wife together) who has (have) invested or loaned more than \$250,000 in aggregate with or to Synodical Corporations (District, District CEFs, colleges and seminaries, LCEF, and other Synodically controlled organizations) may be deemed to receive additional taxable interest under Section 7872 of the Internal Revenue Code. Such investors should consult their tax advisors to be informed of the special income tax rules applicable to loans and investments, in the aggregate, greater than \$250,000.

Federal law requires the Church Extension Fund to withhold the current backup withholding percentage from any interest payment paid by the Church Extension Fund if the Investor has not properly furnished a certified Taxpayer Identification Number (“TIN”) and has not certified that withholding does not apply. If the Internal Revenue Service (“IRS”) has notified the Church Extension Fund that the TIN listed on an Investor’s Account is incorrect according to its records, the Church Extension Fund is required by the IRS to withhold a certain percentage of any interest payment. Amounts withheld are applied to the Investor’s Federal tax liability, and a refund may be obtained from the IRS if withholding results in overpayment of taxes.

The Church Extension Fund will notify investors of interest earned (totaling \$10.00 or more) by sending them IRS Tax Form 1099 by January 31st of each year. Investors who choose to contribute their earnings for certain operating programs of the District or Synod also will receive IRS Tax Form 1099 which will report all earnings, including any amounts contributed for certain operating programs of the District or Synod. Contributed amounts would, however, constitute a charitable contribution for those

investors who are able to itemize deductions. CEF suggests investors consult their tax advisor for the proper reporting of interest earnings.

## **LEGAL MATTERS**

Corporate counsel for CEF is Mr. Dana A Dever, from the law firm of DeLoof, Hopper, Dever, Wright & Milliman, PLLC, 301 N. Main Street, Suite 250, Ann Arbor, MI 48104. He has opined that the Notes, when issued, will be valid obligations of CEF according to their terms & conditions.

## **LITIGATION & MATERIAL TRANSACTIONS**

To the best of its knowledge, the Church Extension Fund of the Michigan District of the Lutheran Church–Missouri Synod is not aware of any action, proceeding, inquiry, or investigation, either pending or threatened material legal proceedings, neither known or contemplated by governmental authorities, administrative bodies, or other administrative persons to which the Church Extension Fund may become a party. For the prior five years, there has been no material litigation involving any Church Extension Fund Trustee or Officer pertaining to his/her duties as a Trustee or Officer. There are no other transactions or other matters known that may materially affect the offering of investment Notes.

## **MANAGEMENT**

### *Structure*

The Church Extension Fund of the Michigan District of the Lutheran Church–Missouri Synod is incorporated under the laws of the State of Michigan as a Church Trustee Corporation. Powers relating to “property” are defined by Michigan law including:

“Trustees of Church Trustee Corporations may, in their corporate name, take and hold all property, real and personal, devised, bequeathed, transferred or conveyed to them for the use and benefit of the religious denomination by whose representative body they are appointed.” MCL 450.161

Further, State law permits a Church Trustee Corporation the following powers of “investment:”

“Trustees of Church Trustee Corporations may, in their corporate name, invest and reinvest the property in their hands and under their control as such trustees, collect the rents, issues and profits thereof, and out of the same pay the taxes, repairs, insurance and other expenses incident to the care thereof . . .” MCL 450.162

### *Purpose*

The purpose of the Church Extension Fund, as defined by its Bylaws, is to administer a fund and acquire assets to assist (by loans, grants, or otherwise) the Michigan District of the Lutheran Church–Missouri Synod, congregations of the Michigan District, individuals serving as professional church workers within the Michigan District, LCMS schools and colleges, entities and associations qualifying as Michigan District recognized service organizations, entities and associations qualifying as Lutheran Church–Missouri Synod recognized service organizations, and entities owned and/or operated by member congregations.

CEF may also assist other LCMS entities by participating in a loan, either in whole or in part, originated by another church extension fund located in another district of the LCMS, or by the Lutheran Church Extension Fund of the LCMS. The purpose for which funds and assistance may be provided shall include, but is not limited to, acquiring property, erecting buildings, purchasing equipment, acquiring housing, and supporting projects and the operations of the above. The primary purpose, however, of the Church Extension Fund shall be to contribute to the ministry and purposes of the Michigan District and its member congregations.

## MANAGEMENT

(Continued)

### *Board of Trustee Membership*

The Church Extension Board of Trustees shall consist of nine (9) elected trustees. The elected trustees shall consist of three (3) persons duly rostered in the LCMS through the Michigan District, and six (6) laypersons. They are elected by the Michigan District of the Lutheran Church–Missouri Synod at its regular convention held tri-annually.

Elections of trustees to fill the places of those whose terms of office expire take place at the last regular convention of the Michigan District of the Lutheran Church–Missouri Synod, occurring prior to the expiration of the terms of their predecessors. Approximately one-half of the trustees are elected at each convention of the Michigan District.

The trustees are elected for a term of six (6) years. They may be elected for two (2) consecutive terms, after which a period of three (3) years shall elapse before they are again eligible for election as trustees.

Vacancies caused by death, resignation, removal, declination to serve or otherwise, may be filled by the remaining trustees, subject to ratification by the Board of Directors of the Michigan District of the Lutheran Church–Missouri Synod.

All trustees elected at the convention are inducted into office in an installation ceremony at the convention and begin their terms of office on the first of October following induction.

### *Administration*

The Church Extension Fund executive officers includes a Chief Executive Officer, who is responsible for managing all CEF's activities; a President, who serves as the office operations manager and the chief financial officer; and a Vice-President for Marketing, who supervises the promotional activities and solicits investments from members and organizations of the Michigan District. A general office staff consisting of approximately ten other individuals are also employed.

Additional staff may be hired and paid at the discretion of the management as deemed necessary for the efficient operation of CEF. Employees participate in the defined benefit pension plan of the Lutheran Church–Missouri Synod, to which CEF contributes on their behalf. Employees are also provided health care insurance. CEF employees are given the option of receiving \$3,600 per year in additional compensation in lieu of health care coverage.

The three executive officers of the Church Extension Fund, in positions as the CEO, the President and the Vice President-Marketing, together with the former CEO of CEF who retired in November 2016, received direct and indirect remuneration in 2016 in the aggregate of \$594,442. Only the former CEO, President and Vice President/Marketing each received direct and indirect remuneration in 2016 in excess of \$150,000 as shown below:

	Aggregate	Former CEO	President	Vice Pres. Marketing
Salary	\$ 482,083	\$ 195,400	\$ 135,283	\$ 128,500
Compensation in lieu of health insurance	\$ 3,600	\$ 0	\$ 3,600	\$ 0
Health Insurance Retirement Plans Retirement Plan	\$ 33,696	\$ 16,848	\$ 0	\$ 16,848
Disability	\$ 50,063	\$ 27,565	\$ 11,536	\$ 10,962
Term Life Insurance	\$ 9,979	\$ 4,271	\$ 2,927	\$ 2,781
Personal Use of Company Owned Automobile	\$ 8,022	\$ 2,541	\$ 2,204	\$ 3,231
Total Direct & Indirect Remuneration	\$ 6,999	\$ 3,993	\$ 0	\$ 3,006
Total	\$ 594,442	\$ 250,618	\$ 155,550	\$ 165,328

Compensation of the officers is in no way related to or contingent upon the sale of securities.

### *Organization*

The trustees of the Church Extension Fund elect a Chairman, a Vice-Chairman, a Secretary, a Treasurer, and appoint such other officers and subcommittees as it considers necessary for the efficient conduct of its business.

Trustees serve without compensation. They do receive, however, reimbursement for travel expenses in connection with authorized Board business.

There are no material employment contracts, prerequisite of employment or conflicts of interest of the Church Extension Fund's officers, trustees, or other persons having authority over the administration of CEF.

No Trustee or Officer has been convicted of any criminal proceeding in the past ten years (other than for traffic violations or other minor misdemeanors), is the subject of any pending criminal proceedings, or was the subject of any order, judgement or decree of any court enjoining such person from any activities associated with the offer or sale of securities.

## **BOARD OF TRUSTEES**

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### *Chairman*

Rev. Robert B. Appold, born March 21, 1957, has been Senior Pastor of St. Matthew Lutheran Church, Ada, Michigan, since 2005. He is a graduate of Concordia Lutheran Junior College (AA), Concordia Teachers College - River Forest (BA), and Concordia Seminary - St. Louis (M. Div). He has been in active service since 1983. Rev. Appold joined the Board in 2009. His term expires in 2021.

### *Vice-Chairman*

Mr. Timothy H. Haberling, born July 2, 1966, is Vice President/ Credit Officer for Fifth Third Bank, Grand Rapids, Michigan, with whom he has been employed since 1990. He is a graduate of Central Michigan University (BBA), and Western Michigan University (MBA). He is a member of Immanuel Lutheran Church, Grand Rapids, Michigan. Mr. Haberling joined the Board in 2012. His term expires in 2018.

### *Treasurer*

Mr. Jeffery T. Roscoe, born August 18, 1956, is Vice President-Finance for the Jim White Group, Inc., a national building material distributor based in Saginaw, Michigan, with whom he has been employed since 1982. He is a graduate of Saginaw Valley State University (BBA). He is a member of Faith Lutheran Church, Bay City, Michigan. Mr. Roscoe joined the Board in 2012. His term expires in 2018.

### *Secretary*

Rev. Joel F. Hoyer, born July 16, 1959, has been Pastor of Grace Lutheran Church, Coopersville, Michigan, since 1994. He is a graduate of Concordia - Ann Arbor (BA), and Concordia Seminary - St. Louis (M. Div). He has been in active service since 1985. Rev. Hoyer joined the Board in 2006. His term expires in 2018.

### *Additional Board Members*

Mr. David C. C. Eberhard, born December 15, 1968, is a Partner with the law firm of Warner, Norcross & Judd LLP, Clinton Township, Michigan, with whom he has been employed since 2008. He has been a member of the Bar since 1995. He is a graduate of the University of Michigan (BGS), and the University of Detroit - Mercy School of Law (JD). He is a member of Historic Trinity Lutheran Church, Detroit, Michigan. Mr. Eberhard joined the Board in 2012. His term expires in 2018.

Ms. Julie C. Hoegeman, born June 16, 1967, is Chief Financial Officer of Lutheran High School Association-Greater Detroit, with whom she has been employed since 1991. She is a graduate of Wayne State University (BA and MBA). She is a member of St. Peter Lutheran Church, Macomb, Michigan. Ms. Hoegeman joined the Board in 2015. Her term expires in 2021.

Mr. Kurt C. Kuck, born March 28, 1957, is Vice-President-Chief Financial Officer of Kuka Assembly & Test Corporation, an auto parts manufacturer in Saginaw, Michigan, with whom he has been employed since 1985. He is a graduate of Western Michigan University (BBA). He is a member of Peace Lutheran Church in Saginaw. Mr. Kuck joined the Board in 2015. His term expires in 2021.

Mr. Julian Petzold, born January 13, 1971, is a member of Trinity Lutheran Church, Clinton Township, Michigan, where he has been Principal of Trinity Lutheran School since 2010. He is a graduate of Concordia University - Chicago (BA), and Oakland University (MA). He has been in active service since 1993. Mr. Petzold joined the Board in 2007. His term expires in 2021.

Mr. Eric Prisby, born November 17, 1970, is Sr. Vice President at Huntington Bank, Southfield, Michigan, with whom he has been employed since 2007. He has been employed in the banking and accounting industry since 1990. He is a graduate of Wayne State University (BS). He is a member of Immanuel Lutheran Church, Macomb, Michigan. Mr. Prisby joined the Board in 2015. His term expires in 2021.

## **EXECUTIVE OFFICERS**

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### *Chief Executive Officer*

Mr. James R. Saalfeld, born March 23, 1967, was appointed Chief Executive Officer effective December 1, 2016. Mr. Saalfeld was a member of the CEF Board of Trustees from 2003-2015, serving as its chairman for six years. Prior to his employment with CEF, Mr. Saalfeld was a corporate executive and attorney with 25 years of management and legal (in-house counsel and law firm) experience. Areas of expertise include business transactions, employment, real estate, securities, litigation management and risk assessment. He is a graduate of the University of Nebraska (BA) and Northwestern University (JD). Mr. Saalfeld is a member of Immanuel-Grand Rapids. His email address is jim.saalfeld@mi-cef.org.

### *President*

Mr. John H. Bates, born April 26, 1961, has been employed by CEF since 1984 and serves as the Office Manager and chief financial officer. Mr. Bates' career with the Church Extension Fund began when he was hired as an Accountant. He is a graduate of Valparaiso University (BS) and Eastern Michigan University (MBA). He is a member of St. Paul Lutheran Church, Ann Arbor, Michigan. His e-mail address is john.bates@mi-cef.org.

### *Vice-President - Marketing*

Mr. Paul R. Wills, born May 6, 1949, has served in the areas of promotion and marketing CEF since 2001. Previously, Mr. Wills was employed by the LCMS Foundation from 1993-2001 as a Gift Planning Counselor and as a Regional Vice President. Prior to that he taught in Lutheran High Schools for twenty-two years. He is a graduate of Concordia University - Seward (BS) and Indiana University (MS). He is a member of St. Paul Lutheran Church, Ann Arbor, Michigan. His e-mail address is paul.wills@mi-cef.org.

## **FINANCIAL STATEMENTS**

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The financial statements of the Church Extension Fund for the year ending December 31, 2016 have been audited by the firm of Crowe Horwath LLP, 225 W. Wacker Drive, Suite 2600, Chicago, Illinois 60606. Copies of the audited Financial Statements are provided to the Board of Directors of the Michigan District annually. Current audited financial statements will be made available by CEF to investors upon written request, and will be mailed to them within 120 days of the CEF's last year end. The audited financial statements for the years 2014 through 2016 follow on pages 20-46.

## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Church Extension Fund of the Michigan District  
of the Lutheran Church – Missouri Synod

**Report on the Financial Statements**

We have audited the accompanying financial statements of Church Extension Fund of the Michigan District of the Lutheran Church – Missouri Synod, which comprise the statements of financial position as of December 31, 2016, 2015 and 2014, and the related statements of financial activities, changes in net assets, 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 organization'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 organization'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 the Church Extension Fund of the Michigan District of the Lutheran Church – Missouri Synod as of December 31, 2016, 2015 and 2014, and the financial activities 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.



Crowe Horwath LLP

Chicago, Illinois  
March 15, 2017

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>			
Cash and cash equivalents			
Demand and savings deposits	\$ 5,292,553	\$ 942,525	\$ 2,139,626
Money market funds	<u>1,341,177</u>	<u>1,357,443</u>	<u>1,490,073</u>
Total cash and cash equivalents	6,633,730	2,299,968	3,629,699
Deposits and investments			
Certificates of deposit	8,816,700	8,017,282	8,197,292
U.S. government and agency securities	30,837,835	29,110,777	28,679,694
Corporate bonds	47,774,566	44,573,832	46,677,038
Municipal bonds	1,923,847	1,593,668	1,273,499
Mutual funds	5,633,434	5,416,606	5,233,937
Investment in the Lutheran Church Extension Fund - Missouri Synod	1,000,000	1,000,000	1,000,000
Investment in Lutheran Church - Missouri Synod Foundation - corporate bond pool	<u>1,540,828</u>	<u>1,490,223</u>	<u>4,313,748</u>
Total deposits and investments	97,527,210	91,202,388	95,375,208
Loans receivable			
Congregations	130,983,349	133,481,737	142,947,848
Michigan District of the Lutheran Church - Missouri Synod	2,492,427	3,562,770	3,361,079
Recognized service organizations and schools	23,687,007	26,766,307	21,720,048
Land contracts	<u>215,972</u>	<u>244,946</u>	<u>149,409</u>
	157,378,755	164,055,760	168,178,384
Less allowance for loan losses	<u>(1,550,000)</u>	<u>(1,450,000)</u>	<u>(1,900,000)</u>
Net loans receivable	155,828,755	162,605,760	166,278,384
Accrued interest receivable	1,131,724	1,131,696	1,177,608
Advance mission sites and real estate owned	5,698,577	5,812,577	5,757,577
Equipment and automobiles, net of accumulated depreciation	113,978	127,156	170,266
Beneficial interest in charitable remainder trust	1,589,897	1,522,741	1,645,776
Other assets	<u>15,401</u>	<u>16,837</u>	<u>43,810</u>
Total assets	<u>\$ 268,539,272</u>	<u>\$ 264,719,123</u>	<u>\$ 274,078,328</u>

(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities			
Notes payable:			
Fixed rate notes:			
Demand	\$ 58,323	\$ 60,714	\$ 63,474
Term	119,931,806	121,840,115	129,544,119
Variable rate notes:			
Demand	40,263,162	37,425,442	38,200,679
Term	50,828,856	48,475,041	49,764,080
Savings stamps	<u>114,732</u>	<u>117,076</u>	<u>125,897</u>
Total notes payable	211,196,879	207,918,388	217,698,249
Funds held for others	273,713	276,175	278,595
Accounts payable and accrued expenses	<u>287,177</u>	<u>379,698</u>	<u>73,522</u>
Total liabilities	211,757,769	208,574,261	218,050,366
Commitments and contingencies			
Net assets			
Unrestricted:			
Undesignated	47,953,771	47,793,558	47,361,621
Board designated - endowment fund	<u>7,237,835</u>	<u>6,828,563</u>	<u>7,020,565</u>
Total unrestricted	55,191,606	54,622,121	54,382,186
Temporarily restricted	<u>1,589,897</u>	<u>1,522,741</u>	<u>1,645,776</u>
Total net assets	<u>56,781,503</u>	<u>56,144,862</u>	<u>56,027,962</u>
Total liabilities and net assets	<u>\$ 268,539,272</u>	<u>\$ 264,719,123</u>	<u>\$ 274,078,328</u>

See accompanying notes to financial statements.

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
STATEMENTS OF FINANCIAL ACTIVITIES  
Years ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue and other income:			
Interest income:			
Loans receivable	\$ 4,962,765	\$ 5,223,749	\$ 5,933,917
Deposits and investments	<u>2,059,773</u>	<u>2,107,097</u>	<u>1,967,345</u>
Total interest income	7,022,538	7,330,846	7,901,262
Interest expense on notes payable	<u>(3,237,484)</u>	<u>(3,156,334)</u>	<u>(3,468,309)</u>
Net interest income	3,785,054	4,174,512	4,432,953
(Provision) recovery for loan losses	<u>(119,881)</u>	<u>107,739</u>	<u>(115,410)</u>
<b>Net interest income after (provision) recovery for loan losses</b>	3,665,173	4,282,251	4,317,543
Other operating income:			
Net realized gain on sale of investments	135,361	257,406	74,856
Net gain(loss) on disposal of equipment and automobiles and advance mission sites	2,352	-	(7,786)
Impairment on advance mission sites and real estate owned	(114,000)	(15,000)	(132,822)
Other	<u>103,278</u>	<u>106,616</u>	<u>93,901</u>
Total other operating income	<u>126,991</u>	<u>349,022</u>	<u>28,149</u>
<b>Total revenue other income</b>	3,792,164	4,631,273	4,345,692
Expenses			
Program expenses:			
Salaries and employee benefits	1,427,943	1,397,205	1,399,890
Promotion	308,198	331,495	328,980
Depreciation	43,048	43,110	39,479
Office	395,988	461,425	464,561
Carrying costs on advance mission sites and real estate owned	101,247	97,074	111,000
Other	<u>125,441</u>	<u>107,071</u>	<u>114,212</u>
Total program expenses	<u>2,401,865</u>	<u>2,437,380</u>	<u>2,458,122</u>
<b>Total operating income</b>	1,390,299	2,193,893	1,887,570
Other income (expense)			
Net unrealized gain (loss) on investments	(604,679)	(1,270,106)	736,293
Donations and bequests received	89,769	100,129	1,359,167
Grants disbursed	<u>(305,904)</u>	<u>(783,981)</u>	<u>(682,847)</u>
Total other income (expense)	<u>(820,814)</u>	<u>(1,953,958)</u>	<u>1,412,613</u>
<b>Increase in unrestricted net assets</b>	569,485	239,935	3,300,183
Net assets - unrestricted, beginning of year	<u>54,622,121</u>	<u>54,382,186</u>	<u>51,082,003</u>
<b>Net assets - unrestricted, end of year</b>	<u>\$ 55,191,606</u>	<u>\$ 54,622,121</u>	<u>\$ 54,382,186</u>

See accompanying notes to financial statements.

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
STATEMENTS OF CHANGES IN NET ASSETS  
Years ended December 31, 2016, 2015 and 2014

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Increase in unrestricted net assets	\$ 569,485	\$ 239,935	\$ 3,300,183
Temporarily restricted net assets			
Beneficial interest in charitable remainder trust	<u>67,156</u>	<u>(123,035)</u>	<u>93,574</u>
<b>Total change in net assets</b>	636,641	116,900	3,393,757
Net assets, beginning of year	<u>56,144,862</u>	<u>56,027,962</u>	<u>52,634,205</u>
<b>Net assets, end of year</b>	<u>\$ 56,781,503</u>	<u>\$ 56,144,862</u>	<u>\$ 56,027,962</u>

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See accompanying notes to financial statements.



CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating activities</b>			
Total change in net assets	\$ 636,641	\$ 116,900	\$ 3,393,757
Adjustments to reconcile total change in net assets to net cash from operating activities:			
Depreciation	43,048	43,110	39,479
Provision (recovery) for loan losses	119,881	(107,739)	115,410
Impairment on advance mission sites and real estate owned	114,000	15,000	132,822
Net realized and unrealized (gain) loss on investments	469,318	1,012,700	(811,149)
Net amortization (accretion) on investments	553,700	488,580	259,339
Net loss(gain) on disposal of equipment and automobiles and advance mission sites	(2,352)	-	7,786
Beneficial interest in charitable remainder trust	(67,156)	123,035	(93,574)
Decrease (increase) in accrued interest receivable	(28)	45,912	94,291
Decrease (increase) in other assets	1,436	26,973	(24,667)
Decrease in funds held for others	(2,462)	(2,420)	(6,577)
Increase (decrease) in accounts payable and accrued expenses	(92,521)	306,176	(10,679)
Net cash from operating activities	<u>1,773,505</u>	<u>2,068,227</u>	<u>3,096,238</u>
<b>Investing activities</b>			
Proceeds from sales, calls, maturities, and prepayments of investments	31,043,345	34,073,799	25,397,614
Purchases of investments	(38,391,185)	(31,402,259)	(33,884,871)
Proceeds from loan payments	17,150,772	22,111,556	18,042,241
Loan disbursements	(10,493,648)	(18,331,193)	(8,342,010)
Proceeds from sale of equipment and automobiles and advance mission sites	11,000	-	20,930
Purchases of equipment and automobiles and advance mission sites	(38,518)	(70,000)	(172,888)
Net cash (for) from investing activities	<u>(718,234)</u>	<u>6,381,903</u>	<u>1,061,016</u>
<b>Financing activities</b>			
Proceeds from sale of notes payable	28,997,789	22,786,409	24,819,026
Redemption of notes payable	(25,719,298)	(32,566,270)	(29,748,928)
Proceeds from draw on line of credit	-	2,500,000	-
Repayment of draw on line of credit	-	(2,500,000)	-
Net cash from (for) financing activities	<u>3,278,491</u>	<u>(9,779,861)</u>	<u>(4,929,902)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	4,333,762	(1,329,731)	(772,648)
Cash and cash equivalents, beginning of year	<u>2,299,968</u>	<u>3,629,699</u>	<u>4,402,347</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 6,633,730</u>	<u>\$ 2,299,968</u>	<u>\$ 3,629,699</u>
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	\$ 3,239,071	\$ 3,155,997	\$ 3,467,651
Supplemental noncash disclosures			
Transfers from loans to other real estate	\$ -	\$ -	\$ 832,823
Financing of advance mission sites and other real estate	\$ -	\$ -	\$ 165,377

See accompanying notes to financial statements.

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 1 - ORGANIZATION**

Church Extension Fund (CEF) is a not-for-profit corporation as described in Internal Revenue Code Section 501(c)(3), exempt from federal income taxes as part of a group tax exemption for the Lutheran Church - Missouri Synod, and is a subsidiary Church Trustee Corporation of the Michigan District of the Lutheran Church - Missouri Synod (Michigan District). The Michigan District elects members of the Board of Trustees of Church Extension Fund.

CEF's operations consist primarily of lending funds to Lutheran congregations and recognized service organizations in Michigan for construction and renovation of church and school facilities. CEF also makes housing loans to Lutheran congregations and recognized service organizations for the benefit of professional church workers. Funds for the loans are provided by borrowings from Lutheran congregations, individuals and organizations, generally in the form of unsecured notes payable with maturities ranging up to five years. Historically, these notes payable have been renewed at maturity.

CEF maintains an endowment fund with investments designated for use at the Board of Trustees discretion. The purpose of the endowment fund is to receive contributions and bequests and to use the proceeds to promote CEF's goals. See further discussion of the endowment fund in Note 10.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting: The financial statements of CEF have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation: Net assets of CEF and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets which are not subject to donor-imposed stipulations

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that should be met either by actions of CEF and/or the passage of time

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations requiring that they be maintained permanently by CEF

Revenues, program expenses, other income or expense and contributions are reported as follows:

- Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Program expenses are reported as decreases in unrestricted net assets. Other income or expense items are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Temporarily restricted contributions whose restrictions are satisfied in the same year in which the contribution revenue is recorded are reported as unrestricted contributions.
- Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Subsequent Events: Management has evaluated subsequent events through March 15, 2017, the date the financial statements were available to be issued. Based on management's evaluation, there were no matters identified that had a significant impact on the financial statements as presented.

Income Taxes: As discussed in Note 1, CEF is exempt from federal income taxes due to its status as a not-for-profit corporation under Internal Revenue Code Section 501(c)(3). The assertion that income is not subject to tax is considered a tax position that requires evaluation under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes. Management has completed the evaluation for the years ended December 31, 2016, 2015 and 2014 and has not identified any uncertain tax positions.

There were no income tax related interest or penalties recognized by CEF for the years ended December 31, 2016, 2015 and 2014. If necessary, CEF would recognize interest and penalties incurred related to unrecognized tax positions in income tax expense. CEF has not been examined by any tax jurisdiction. CEF does not have any unrecognized tax benefits and does not expect that position to significantly change in the next 12 months.

Cash and Cash Equivalents: Cash and cash equivalents consist of demand and savings deposits and money market funds. CEF considers all financial instruments with original maturity of 90 days or less to be cash equivalents except for such amounts held within the investment portfolio for future purchases of additional investments.

Concentrations of Credit Risk: CEF maintains its cash in various bank and brokerage accounts and does not consider there to be a significant credit risk arising from deposits in excess of federally insured limits.

Most of CEF's business activity is with customers located within the state of Michigan. Therefore, CEF's exposure to credit risk is significantly affected by changes in the economy of the state of Michigan.

The risk associated with making many large loans is managed by limiting the size of each loan to 20% of net assets. Where congregations request loans in excess of 20% of net assets, the Board of Trustees may obtain participation in the loan from other entities. As of December 31, 2016, 2015 and 2014, one loan relationship exceeding 20% of CEF's net assets was outstanding to a single borrower.

Certificates of Deposit: Deposits with other financial institutions are FDIC insured certificates of deposit that are recorded at cost and are held by CEF to the contractual maturity of the deposit.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
 OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2016, 2015 and 2014

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Contractual maturities of deposits with other financial institutions at December 31, 2016 were as follows:

<u>During Years Ending December 31</u>	<u>Amount Maturing</u>
2017	\$ 5,208,700
2018	2,198,000
2019	250,000
2020	510,000
2021	450,000
2022	-
2023	<u>200,000</u>
	<u>\$ 8,816,700</u>

Investments: Investments are carried at fair value. Gains and losses on sales are recorded on the trade date and determined using the specific identification method. Interest income includes amortization and accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted on the level yield method without anticipating prepayments.

Investment in the Lutheran Church Extension Fund – Missouri Synod: This investment represents a deposit account held at the Lutheran Church Extension Fund – Missouri Synod.

Investment in Lutheran Church – Missouri Synod Foundation: At December 31, 2016 and 2015, this investment is comprised of an ownership interest in a pooled investment fund administered by the Lutheran Church – Missouri Synod Foundation. The investment is in a pooled fund that holds corporate bonds and is recorded at fair value. At December 31, 2014, this investment was comprised of ownership interests in the pooled investment fund discussed above as well as an investment in a pooled fund that held mortgages and was recorded at historical cost.

Loans Receivable: Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at the principal balance outstanding, net of an allowance for loan losses.

The loan portfolio consists of one segment – commercial real estate loans with two classes of loans – standard loans and construction loans. Construction loans are loans in the construction stage and are not completed to the point where permanent occupancy is permitted. Some risk characteristics of construction loans are different from standard loans due to uncertainty inherent in the construction phase of projects including the potential for cost overruns or other circumstances detrimental to the collectability of the loan that are not present with standard loans. When there is a construction phase, both the construction and permanent financing phases of loans are underwritten and the resultant loan documentation is prepared in a single step and; therefore, CEF considers the underwriting risk factors for both classes of loans to be the same.

The accrual of interest on commercial real estate loans is discontinued at the time the loan is 180 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses. Management estimates the allowance for loan losses balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance for loan losses is available for any loan that, in management's judgment, should be charged off.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that CEF will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. The general component covers all other loans and is based on current factors that management has identified as additional areas of risk.

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.

If a loan is impaired, a portion of the allowance for loan losses is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, CEF determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

Loan Interest Recognition: Interest on loans is accrued and credited to operations based upon the principal amount outstanding. The accrual of interest is generally discontinued when loan principal and interest becomes 180 days past due based on the contractual terms of the loan, and the likelihood of collection may be in question. Interest accrued, but not collected, at the date a loan is placed on non-accrual status is reversed and charged against interest income. Interest received on such loans is accounted for on the cash-basis method until the loan is returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts due are no longer delinquent.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Advance Mission Sites: Advance mission sites are real estate property to be used as sites for the possible future construction of church or school facilities. Such advance sites are acquired in areas in which it is anticipated that there will be growth in the Lutheran population. These sites are carried at the lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to acquisition, a valuation allowance is recorded through impairment on advance mission sites and real estate owned on the Statements of Financial Activities. Operating costs after acquisition are expensed in carrying costs on advance mission sites and real estate owned on the Statements of Financial Activities.

Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through impairment on advance mission sites and real estate owned on the Statements of Financial Activities. Operating costs after acquisition are expensed in carrying costs on advance mission sites and real estate owned on the Statements of Financial Activities.

Equipment and Automobiles: Equipment and automobiles are stated at cost, less an allowance for depreciation (\$452,900, \$453,966 and \$413,907 at December 31, 2016, 2015 and 2014, respectively). The provision for depreciation is computed on the straight-line method based upon the estimated life of the assets (2 to 15 years). Expenditures for maintenance and repairs are charged to program expenses - office on the Statements of Financial Activities as incurred.

Beneficial Interest in Charitable Remainder Trust: CEF is the remainder beneficiary under one charitable remainder trust, the corpus of which is not controlled by CEF management. CEF recognized its beneficial interest in this trust as an asset and a temporarily restricted contribution. The interest in the trust was recognized at fair value based on the present value of the expected distributions using a discount rate of 2.43%, 2.82% and 3.03% for the years ended December 31, 2016, 2015 and 2014, respectively.

Long-Lived Assets: CEF reviews its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered impaired, the impairment recognized is equal to the amount by which the carrying amount of the assets exceeds the fair value of the assets, less estimated selling costs.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded

Advertising and Promotions: CEF expenses advertising and promotional costs as incurred. Advertising and promotional expenses amounted to \$308,192, \$331,495 and \$328,980 in 2016, 2015 and 2014, respectively.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Funds Held for Others: Funds received for the benefit of others outside of CEF are recorded on a gross basis with the funds received included in cash and cash equivalents or deposits and investments in the consolidated statements of financial position with a corresponding liability for the same amount.

Liquidity: CEF maintains liquid assets consisting of cash and cash equivalents and readily marketable securities consisting of certificates of deposit, U.S. government and agency securities, corporate bonds, municipal bonds, and mutual funds of at least 10% of total notes payable outstanding for the payment of interest and redemption of these notes payable which are due on demand. CEF was in compliance with this liquidity requirement as of December 31, 2016, 2015 and 2014.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates. CEF measures certain financial and nonfinancial assets and liabilities at fair value in accordance with the provisions of FASB ASC Topic 820, Fair Value Measurements and Disclosures. See Note 3 for further discussion of these fair value measurements.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications did not have any impact on prior years' total net assets or total change in net assets.

**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.

ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that CEF has the ability to access as of the measurement date.
- Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be derived from or corroborated by observable market data by correlation or other means.
- Level 3 Significant unobservable inputs that reflect CEF's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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(Continued)



CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

The following is a description of CEF's valuation methodologies used to measure and disclose the fair values of CEF's financial assets and liabilities on a recurring or nonrecurring basis:

*Investments:* The fair values of mutual funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). The fair values of other debt instruments (U.S. government and agencies, corporate bonds and municipal bonds) are determined by obtaining valuations from third parties based on matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The Investment in Lutheran Church – Missouri Synod Foundation ("the Foundation") corporate bond pool is based on unadjusted valuations provided by the Foundation. These valuations are based on the fair value of the underlying pool assets and CEF's overall ownership interest in the Foundation's corporate bond pool (Level 3 inputs).

Certificates of deposit are recorded at cost and held for the contractual maturity of the investment. The Investment in the Lutheran Church Extension Fund – Missouri Synod is a deposit account in which the outstanding balance of the deposit account represents the fair value of the deposit account. As a result, certificates of deposit and the Investment in the Lutheran Church Extension Fund – Missouri Synod are excluded from the assets measured at fair value on a recurring basis disclosure below.

*Impaired Loans:* The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and, further, adjustments to appraised values are made by management in response to market conditions and other factors. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

From time to time, the underlying collateral on certain impaired loans may be sold by the borrower to another third party under a sales agreement approved by CEF. The impaired loan is then recorded by management at fair value based on an observable market price obtained via the approved sales agreement resulting in a Level 2 classification of the inputs for determining fair value.

*Advance Mission Sites and Real Estate Owned:* CEF does not record its investment in these real estate properties at fair value on a recurring basis. However, from time to time, CEF records fair value adjustments to these real estate properties where recent appraised values are lower than CEF's carrying value. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and, further, adjustments to appraised values are made by management in response to market conditions and other factors. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Appraisals for impaired loans and advance mission sites and real estate owned are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by CEF. Management reviews the assumptions and approaches utilized in the appraisal. Management periodically evaluates the appraised values and will discount a property's appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property.

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(Continued)



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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

*Beneficial Interest in Charitable Remainder Trust:* The fair value of the beneficial interest in charitable remainder trust is obtained based on inputs from an independent third party (the trust administrator) that are unadjusted by management. The fair value is determined based upon CEF's proportional interest in the fair value of the underlying trust assets and the fair value of the expected distributions from the trust. The underlying trust assets are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets. This valuation method has been estimated to represent the present value of future distributed income. The liquidation of these assets is contingent upon circumstances that are out of CEF's control and cannot be liquidated on a periodic basis (Level 3 inputs).

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The balances of assets and liabilities measured at fair value on a recurring basis are as follows:

<u>December 31, 2016</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government and agency securities	\$ 30,837,835	\$ -	\$ 30,837,835	\$ -
Corporate bonds	47,774,566	-	47,774,566	-
Municipal bonds	1,923,847	-	1,923,847	-
Mutual funds	5,633,434	5,633,434	-	-
Investment in Lutheran Church - Missouri Synod				
Foundaton - corporate bond pool	<u>1,540,828</u>	<u>-</u>	<u>-</u>	<u>1,540,828</u>
Total investments at fair value	<u>\$ 87,710,510</u>	<u>\$ 5,633,434</u>	<u>\$ 80,536,248</u>	<u>\$ 1,540,828</u>
Beneficial interest in charitable remainder trust	<u>\$ 1,589,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,589,897</u>

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(Continued)

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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

<u>December 31, 2015</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government and agency securities	\$ 29,110,777	\$ -	\$ 29,110,777	\$ -
Corporate bonds	44,573,832	-	44,573,832	-
Municipal bonds	1,593,668	-	1,593,668	-
Mutual funds	5,416,606	5,416,606	-	-
Investment in Lutheran Church - Missouri Synod Foundaton - corporate bond pool	<u>1,490,223</u>	<u>-</u>	<u>-</u>	<u>1,490,223</u>
Total investments at fair value	<u>\$ 82,185,106</u>	<u>\$ 5,416,606</u>	<u>\$ 75,278,277</u>	<u>\$ 1,490,223</u>
Beneficial interest in charitable remainder trust	<u>\$ 1,522,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,522,741</u>
 <u>December 31, 2014</u>	 <u>Total</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>
U.S. government and agency securities	\$ 28,679,694	\$ -	\$ 28,679,694	\$ -
Corporate bonds	46,677,038	-	46,677,038	-
Municipal bonds	1,273,499	-	1,273,499	-
Mutual funds	5,233,937	5,233,937	-	-
Investment in Lutheran Church - Missouri Synod Foundaton - corporate bond pool	<u>1,489,448</u>	<u>-</u>	<u>-</u>	<u>1,489,448</u>
Total investments at fair value	<u>\$ 83,353,616</u>	<u>\$ 5,233,937</u>	<u>\$ 76,630,231</u>	<u>\$ 1,489,448</u>
Beneficial interest in charitable remainder trust	<u>\$ 1,645,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,645,776</u>

Investment related expenses for the years ended December 31, 2016, 2015 and 2014 totaled \$160,303, \$161,137 and \$136,385, respectively.

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CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

The following table presents additional information about the assets measured at fair value on a recurring basis for which CEF utilized Level 3 inputs to determine fair value:

	Beneficial Interest in Charitable <u>Remainder Trust</u>	Investment in Lutheran Church - Missouri Synod Foundation - corporate <u>bond pool</u>
Balance, beginning January 1, 2014	\$ 1,552,202	\$ 1,430,521
Purchases	-	41,687
Sales	-	(34,952)
Investment income	-	42,820
Expenses	-	(7,868)
Change in fair value	<u>93,574</u>	<u>17,240</u>
Balance, ending December 31, 2014	1,645,776	1,489,448
Purchases	-	28,269
Sales	-	(28,269)
Investment income	-	57,776
Expenses	-	(7,285)
Change in fair value	<u>(123,035)</u>	<u>(49,716)</u>
Balance, ending December 31, 2015	1,522,741	1,490,223
Investment income	-	57,360
Expenses	-	(7,906)
Change in fair value	<u>67,156</u>	<u>1,151</u>
Balance, ending December 31, 2016	<u>\$ 1,589,897</u>	<u>\$ 1,540,828</u>

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

The balances of assets and liabilities measured at fair value on a nonrecurring basis are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2016</u>				
Impaired loans - standard loans	\$ 3,673,077	\$ -	\$ 131,289	\$ 3,541,788
Advance mission sites and real estate owned	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
<b>Total</b>	<b><u>\$ 3,873,077</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 131,289</u></b>	<b><u>\$ 3,741,788</u></b>
 <u>December 31, 2015</u>				
Advance mission sites and real estate owned	<u>\$ 35,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,000</u>
 <u>December 31, 2014</u>				
Impaired loans - standard loans	\$ 74,414	\$ -	\$ 74,414	\$ -
Advance mission sites and real estate owned	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>
<b>Total</b>	<b><u>\$ 774,414</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 74,414</u></b>	<b><u>\$ 700,000</u></b>

Impaired loans as of December 31, 2016 measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$3,673,077, after a specific allowance allocation of \$352,500 resulting in an additional provision for loan losses of \$352,500 for the year ended December 31, 2016. There were no impaired loans carried at fair value as of December 31, 2015. Impaired loans as of December 31, 2014 measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$74,414, after a specific allowance allocation of \$105,000 resulting in an additional provision for loan losses of \$105,000 for the year ended December 31, 2014.

At December 31, 2016, advance mission sites and real estate owned measured at fair value less cost to sell, had a net carrying amount of \$200,000, which is made up of the outstanding balance of \$650,000 less a valuation allowance of \$450,000 at December 31, 2016, resulting in a write-down of \$114,000 for the year ended December 31, 2016. At December 31, 2015, advance mission sites and real estate owned measured at fair value less cost to sell, had a net carrying amount of \$35,000, which is made up of the outstanding balance of \$63,750 less a valuation allowance of \$28,750 at December 31, 2015, resulting in a write-down of \$15,000 for the year ended December 31, 2015. At December 31, 2014, advance mission sites and real estate owned measured at fair value less cost to sell, had a net carrying amount of \$700,000, which is made up of the outstanding balance of \$832,822 less a valuation allowance of \$132,822 at December 31, 2014, resulting in a write-down of \$132,822 for the year ended December 31, 2014.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
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**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

For level 3 fair value measurements related to impaired loans – standard loans as of December 31, 2016, the fair value of \$3,541,788 was determined based on management’s review of the underlying appraisals for the real estate properties using the sales comparison approach. Management considered unobservable inputs resulting in adjustments made by management for differences in the comparable sales included in the appraisals that amounted to a range of 13%-24% of the appraised value with a weighted average of 14%.

For level 2 fair value measurements related to impaired loans – standard loans as of December 31, 2016, the fair value of \$131,289 was determined based on an agreement for the sale of the underlying collateral securing the loan.

For level 3 fair value measurements related to advance mission sites and real estate owned as of December 31, 2016, the fair value of \$200,000 was determined based on management’s review of the underlying appraisal for the real estate property using the sales comparison approach. Management considered unobservable inputs resulting in adjustments made by management for differences in the comparable sales included in the appraisal that amounted to 11.5% of the appraised value.

For level 3 fair value measurements related to advance mission sites and real estate owned as of December 31, 2015, the fair value of \$35,000 was determined based on management’s review of the underlying appraisal for the real estate property using the sales comparison approach. Management considered unobservable inputs resulting in adjustments made by management for differences in the comparable sales included in the appraisal that amounted to 1.4% of the appraised value.

For level 2 fair value measurements related to impaired loans – standard loans as of December 31, 2014, the fair value of \$74,414 was determined based on an agreement for the sale of the underlying collateral securing the loan.

For level 3 fair value measurements related to advance mission sites and real estate owned as of December 31, 2014, the fair value of \$700,000 was determined based on management’s review of the underlying appraisal for the real estate property using the sales comparison approach. Management considered unobservable inputs resulting in adjustments made by management for differences in the comparable sales included in the appraisal that amounted to 8.5% of the appraised value.

**NOTE 4 – LOANS RECEIVABLE**

The outstanding loan balance by portfolio segment and by class for net loans receivable at December 31 are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Commercial real estate loans:</u>			
Construction loans	\$ 1,795,943	\$ 2,433,522	\$ 504,000
Standard loans	155,582,812	161,622,238	167,674,384
Allowance for loan losses	<u>(1,550,000)</u>	<u>(1,450,000)</u>	<u>(1,900,000)</u>
 Net loans receivable	 <u>\$ 155,828,755</u>	 <u>\$ 162,605,760</u>	 <u>\$ 166,278,384</u>

(Continued)

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**NOTE 4 - LOANS RECEIVABLE (Continued)**

**Allowance for loan losses and related loans**

A summary of the activity in the allowance for loan losses by portfolio segment and class of loan is as follows:

	Commercial Real Estate Loans		
	Construction Loans	Standard Loans	Total
<b>Allowance for Loan Losses</b>			
<b>Balance, January 1, 2014</b>	\$ 3,323	\$ 1,946,677	\$ 1,950,000
Charge-offs	-	(165,410)	(165,410)
Provision (recovery) for loan losses	(803)	116,213	115,410
<b>Balance, December 31, 2014</b>	2,520	1,897,480	1,900,000
Ending balance individually evaluated for impairment	-	532,734	532,734
Ending balance collectively evaluated for impairment	2,520	1,364,746	1,367,266
Total	2,520	1,897,480	1,900,000
Charge-offs	-	(454,112)	(454,112)
Recoveries	-	111,851	111,851
Provision (recovery) for loan losses	9,648	(117,387)	(107,739)
<b>Balance, December 31, 2015</b>	12,168	1,437,832	1,450,000
Ending balance individually evaluated for impairment	-	93,188	93,188
Ending balance collectively evaluated for impairment	12,168	1,344,644	1,356,812
Total	12,168	1,437,832	1,450,000
Charge-offs	-	(20,881)	(20,881)
Recoveries	-	1,000	1,000
Provision (recovery) for loan losses	(3,188)	123,069	119,881
<b>Balance, December 31, 2016</b>	\$ 8,980	\$ 1,541,020	\$ 1,550,000
Ending balance individually evaluated for impairment	-	443,489	443,489
Ending balance collectively evaluated for impairment	8,980	1,097,531	1,106,511
Total	8,980	1,541,020	1,550,000

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**NOTE 4 - LOANS RECEIVABLE (Continued)**

Loans	Commercial Real Estate Loans		
	Construction Loans	Standard Loans	Total
<b>Balance, December 31, 2014</b>	\$ 504,000	\$ 167,674,384	\$ 168,178,384
Accrued interest receivable	1,247	603,209	604,456
Recorded investment	505,247	168,277,593	168,782,840
Ending balance individually evaluated for impairment	-	20,557,771	20,557,771
Ending balance collectively evaluated for impairment	505,247	147,719,822	148,225,069
Total	505,247	168,277,593	168,782,840
 <b>Balance, December 31, 2015</b>	 \$ 2,433,522	 \$ 161,622,238	 \$ 164,055,760
Accrued interest receivable	5,913	575,349	581,262
Recorded investment	2,439,435	162,197,587	164,637,022
Ending balance individually evaluated for impairment	-	21,664,109	21,664,109
Ending balance collectively evaluated for impairment	2,439,435	140,533,478	142,972,913
Total	2,439,435	162,197,587	164,637,022
 <b>Balance, December 31, 2016</b>	 \$ 1,795,943	 \$ 155,582,812	 \$ 157,378,755
Accrued interest receivable	4,921	555,571	560,492
Recorded investment	1,800,864	156,138,383	157,939,247
Ending balance individually evaluated for impairment	-	21,263,680	21,263,680
Ending balance collectively evaluated for impairment	1,800,864	134,874,703	136,675,567
Total	1,800,864	156,138,383	157,939,247

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CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
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**NOTE 4 - LOANS RECEIVABLE (Continued)**

**Past due loans**

A summary of the recorded investment in past due loans at year-end is as follows:

<b>Past Due Loans</b>	Current (Accruing)	30-59 Days Past Due (Accruing)	60-89 Days Past Due (Accruing)	90-179 Days Past Due (Accruing)	180 Days and Over (Non-Accruing)	<u>Total</u>
<b>December 31, 2016</b>						
<u>Commercial Real Estate Loans</u>						
Construction loans	\$ 1,800,864	\$ -	\$ -	\$ -	\$ -	\$ 1,800,864
Standard loans	<u>142,943,255</u>	<u>10,943,593</u>	<u>89,618</u>	<u>-</u>	<u>2,161,917</u>	<u>156,138,383</u>
Total	<u>\$ 144,744,119</u>	<u>\$ 10,943,593</u>	<u>\$ 89,618</u>	<u>\$ -</u>	<u>\$ 2,161,917</u>	<u>\$ 157,939,247</u>
<b>December 31, 2015</b>						
<u>Commercial Real Estate Loans</u>						
Construction loans	\$ 2,439,435	\$ -	\$ -	\$ -	\$ -	\$ 2,439,435
Standard loans	<u>154,089,477</u>	<u>5,181,288</u>	<u>403,742</u>	<u>420,410</u>	<u>2,102,670</u>	<u>162,197,587</u>
Total	<u>\$ 156,528,912</u>	<u>\$ 5,181,288</u>	<u>\$ 403,742</u>	<u>\$ 420,410</u>	<u>\$ 2,102,670</u>	<u>\$ 164,637,022</u>
<b>December 31, 2014</b>						
<u>Commercial Real Estate Loans</u>						
Construction loans	\$ 505,247	\$ -	\$ -	\$ -	\$ -	\$ 505,247
Standard loans	<u>159,559,543</u>	<u>2,741,202</u>	<u>600,093</u>	<u>2,255,714</u>	<u>3,121,041</u>	<u>168,277,593</u>
Total	<u>\$ 160,064,790</u>	<u>\$ 2,741,202</u>	<u>\$ 600,093</u>	<u>\$ 2,255,714</u>	<u>\$ 3,121,041</u>	<u>\$ 168,782,840</u>

**Impaired loans and related allowances for loan losses**

CEF considers a loan impaired when based on current information and events, it is probable that CEF will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the original loan agreement. 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.

The recorded investment in impaired loans is periodically adjusted to reflect cash payments and revised estimates of future cash flows. Cash payments representing interest income are reported as such. Other cash payments are reported as reductions in the recorded investment. Increases or decreases due to changes in estimates of future payments are considered in relation to the overall adequacy of the allowance for loan losses.

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**NOTE 4 - LOANS RECEIVABLE (Continued)**

The following is a summary of information pertaining to the recorded investment in impaired standard loans (there are no impaired construction loans):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Impaired loans with a valuation allowance	\$ 4,252,420	\$ 93,188	\$ 607,149
Impaired loans without a valuation allowance	<u>17,011,260</u>	<u>21,570,921</u>	<u>19,950,622</u>
 Total impaired loans	 <u>\$ 21,263,680</u>	 <u>\$ 21,664,109</u>	 <u>\$ 20,557,771</u>
 Valuation allowance related to impaired loans	 <u>\$ 443,489</u>	 <u>\$ 93,188</u>	 <u>\$ 532,734</u>

<b>Impaired Loans</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Standard Loans</u>			
<u>With an allowance recorded</u>			
Recorded investment	\$ 4,252,420	\$ 93,188	\$ 607,149
Unpaid balance	\$ 4,252,420	\$ 93,188	607,149
Related allowance	\$ 443,489	\$ 93,188	532,734
 Average recorded investment during the year	 21,139,120	 20,752,398	 20,595,415
 Interest income recognized while impaired	 504,426	 715,909	 637,765
 Interest income recognized on a cash basis while impaired	 487,324	 609,851	 636,101

Construction Loans There are no impaired construction loans

**Troubled debt restructurings**

CEF has allocated \$398,489, \$93,188 and \$200,618 of the allowance for loan losses, relating to balances of \$20,892,344, \$21,469,038 and \$20,043,981, for customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2016, 2015 and 2014, respectively. During the years ended December 31, 2016, 2015 and 2014, there were 3, 4 and 8 loans that were restructured totaling \$1,807,341, \$3,405,018 and \$4,343,683, respectively. The balance of restructured loans remained consistent subsequent to the related restructuring. There were no defaults experienced on restructured loans during 2016 subsequent to restructuring. There was one default experienced on restructured loans during 2015 subsequent to the restructuring that resulted in no change to the allowance for loan losses and resulted in a charge-off of \$146,275. There were no defaults experienced on restructured loans during 2014 subsequent to restructuring. The concessions giving rise to the troubled debt restructurings were primarily in the form of temporary interest rate reductions and deferral of principal and interest payments. There are no troubled debt restructurings related to construction loans.

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(Continued)

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**NOTE 4 - LOANS RECEIVABLE (Continued)**

**Credit quality and non-accrual loans**

Each month CEF divides the loan portfolio into two credit quality categories based upon their payment records – performing loans and non-performing loans. Non-performing loans, or those that are in non-accrual status, are loans which are past due 180 days or more. Information regarding loans in non-accrual status is located in the past due loans section of this footnote.

**NOTE 5 - LOAN COMMITMENTS**

In the normal course of business, there are outstanding loan commitments (primarily secured by commercial real estate) which are not reflected in the financial statements. Such loan commitments approximated \$6,040,000, \$11,790,000 and \$9,600,000 at December 31, 2016, 2015 and 2014, respectively. Management does not anticipate any losses as a result of these loan commitments.

**NOTE 6 - NOTES PAYABLE**

The notes payable at December 31, by maturity, are shown below. CEF intends to pay these redemptions from repayments of loan principal expected to be received for the same periods and with proceeds from additional notes payable issued.

Future scheduled maturities of notes payable are as follows:

<u>Year Ending December 31</u>	
Demand	\$ 40,730,266
2017	59,040,460
2018	34,731,437
2019	16,410,790
2020	30,527,999
2021	25,015,577
2022 - 2026	3,679,266
2027 - 2031	1,055,607
2032 - 2036	<u>5,477</u>
Total	<u>\$ 211,196,879</u>

Interest rates on non-demand outstanding notes payable range from 0.35% to 7.50%.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 7 - LINE OF CREDIT**

CEF has an unsecured line of credit agreement with Ann Arbor State Bank which is renewed annually. The maximum amount available on the line of credit was \$3,500,000 as of December 31, 2016, 2015 and 2014. This line of credit bears interest at the prime rate (effectively 3.75% at December 31, 2016). The line of credit is available for general operating purposes. The line of credit had no balance outstanding at December 31, 2016, 2015 or 2014.

In addition, CEF has a line of credit with Morgan Stanley. Borrowings under the line of credit are collateralized by securities held at Morgan Stanley. The interest rate is negotiated at the time the line is accessed. The line of credit is available for general operating purposes. The line of credit had no balance outstanding at December 31, 2016, 2015 or 2014.

**NOTE 8 - PENSION PLAN**

Full-time employees of CEF are eligible to participate in a defined benefit pension plan of the Lutheran Church - Missouri Synod, a multi-employer plan. Pension expense is funded as amounts are earned and was approximately \$91,000, \$89,000 and \$81,000 in 2016, 2015 and 2014, respectively. The risks of participating in this multi-employer plan are different from a single-employer plan in the following respects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If CEF chooses to stop participating in the multi-employer plan, CEF may be required to pay the plan an amount based on CEF's proportionate share of unfunded vested plan benefits, referred to as a withdrawal liability.

The plan is a church-sponsored plan, thus the plan does not have an Employee Identification Number (EIN) and a three-digit plan number as the plan is not required to make plan documents publically available. The most recent available financial information for the plan is as of December 31, 2015. In the December 31, 2015 financial statements, net assets available for benefits reported were approximately \$3.1 billion while the total actuarial value of accumulated plan benefits was approximately \$3.6 billion. In the 2015 plan year, the plan received \$110.2 million in total contributions from all employers participating in the plan, of which approximately \$91,000 was contributed by CEF, which is less than 5% of the total contributions to the plan. There has been no financial improvement or rehabilitation plan implemented nor is there one pending. There have been no significant changes to the plan that affect the comparability of 2016, 2015 and 2014 contributions.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 9 – RELATED PARTY TRANSACTIONS**

CEF engages in certain transactions with related parties. The following is a summary of transactions entered into with related parties:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Outstanding loans to the Michigan District - subsidized interest rates	\$ 1,397,337	\$ 1,964,421	\$ 2,154,686
Outstanding loans to the Michigan District - published interest rates	1,095,090	1,598,349	1,206,394
Outstanding notes payable to the Michigan District	6,179,027	5,221,081	5,376,929
Annual payments to the Michigan District for space usage	44,000	44,000	44,000
Annual payments received from the Michigan District for computer support services	19,187	22,293	19,836
Annual payments to the Michigan District for District conferences and events	47,990	40,538	29,727
Outstanding notes payable to board members and CEF employees - published interest rates	559,127	583,786	679,310

During 2015, CEF agreed to pay up to \$350,000 of the program costs for the Michigan District's "Here we Stand" fundraising program. CEF paid \$66,516 and \$8,406 of program costs during 2016 and 2015, respectively, and established the remainder of the commitment to pay program costs as a liability recorded in accounts payable and accrued expenses on the Statements of Financial Position. CEF also agreed to match campaign donations received by the Michigan District at a ratio of 10%, paid in increments of \$100,000 up to a total contribution of \$1,000,000. Matching contributions of \$100,000 and \$0 were paid by CEF in 2016 and 2015, respectively.

In connection with a previous fundraising campaign of the Michigan District, CEF pledged to match campaign donations received by the Michigan District at a ratio of 10%, paid in increments of \$100,000 up to a total contribution of \$1,000,000. CEF paid a total of \$500,000 in matching contributions during this campaign with a \$100,000 matching contribution paid in 2014. The fundraising campaign ended during 2014. At December 31, 2016 and 2015, CEF had no future commitment to this fundraising campaign by the Michigan District.

CEF also pledged to pay \$150,000 toward the Michigan District's A2E Urban Initiative Program. The program ended during 2015. CEF paid \$25,000 and \$50,000 of that pledge in 2015 and 2014, respectively. CEF has no future commitment to this program as of December 31, 2016.

**NOTE 10 - ENDOWMENT FUND**

Topic ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC 958 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 10 - ENDOWMENT FUND** (Continued)

The State of Michigan has enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after the enactment date. CEF has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

CEF's endowment consists of approximately five individual funds. Its endowment includes funds designated by the Board of Trustees to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Investment Return Objectives, Risk Parameters and Strategies:* CEF has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.0%, while growing the funds if possible. Therefore, CEF expects its endowment assets, over time, to produce an average rate of return of approximately 6.0% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy:* CEF has a policy of appropriating for distribution each year 4.0% of its Board-designated endowment fund's previous year-end investment balance, and distributing only the interest earnings of the donor-restricted endowment funds. In establishing this policy, CEF considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, and the possible effects of inflation. CEF expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 2.0% annually. This is consistent with CEF's objective to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
<u>December 31, 2016</u>				
Board-designated endowment funds	\$ 7,237,835	\$ -	\$ -	\$ 7,237,835
<u>December 31, 2015</u>				
Board-designated endowment funds	\$ 6,828,563	\$ -	\$ -	\$ 6,828,563
<u>December 31, 2014</u>				
Board-designated endowment funds	\$ 7,020,565	\$ -	\$ -	\$ 7,020,565

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(Continued)

CHURCH EXTENSION FUND OF THE MICHIGAN DISTRICT  
OF THE LUTHERAN CHURCH – MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016, 2015 and 2014

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**NOTE 10 - ENDOWMENT FUND** (Continued)

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
<u>December 31, 2016</u>				
Endowment net assets, beginning of year	\$ 6,828,563	\$ -	\$ -	\$ 6,828,563
Contributions	89,769	-	-	89,769
Investment income	247,210	-	-	247,210
Net appreciation (depreciation)	233,131	-	-	233,131
Amounts appropriated for expenditure	<u>(160,838)</u>	<u>-</u>	<u>-</u>	<u>(160,838)</u>
Endowment net assets, end of year	<u>\$ 7,237,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,237,835</u>
<u>December 31, 2015</u>				
Endowment net assets, beginning of year	\$ 7,020,565	\$ -	\$ -	\$ 7,020,565
Contributions	100,129	-	-	100,129
Investment income	246,828	-	-	246,828
Net appreciation (depreciation)	(483,870)	-	-	(483,870)
Amounts appropriated for expenditure	<u>(55,089)</u>	<u>-</u>	<u>-</u>	<u>(55,089)</u>
Endowment net assets, end of year	<u>\$ 6,828,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,828,563</u>
<u>December 31, 2014</u>				
Endowment net assets, beginning of year	\$ 5,711,708	\$ -	\$ -	\$ 5,711,708
Contributions	1,359,167	-	-	1,359,167
Investment income	244,280	-	-	244,280
Net appreciation (depreciation)	(79,283)	-	-	(79,283)
Amounts appropriated for expenditure	<u>(215,307)</u>	<u>-</u>	<u>-</u>	<u>(215,307)</u>
Endowment net assets, end of year	<u>\$ 7,020,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,020,565</u>

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## **PRIVACY NOTICE**

Whether you are an investor in or borrower with the Church Extension Fund, please know that we sincerely value you as our customer and are sensitive to your right of privacy.

This notice describes the Privacy Policy of the Church Extension Fund. As long as our policies and procedures meet your expectations, there is nothing you need to do. This notice is for your information and in keeping with legislation enacted regarding this matter.

### **What You Should Know**

We recognize the importance of keeping information about you secure and confidential. It's important for you to know that, unlike many financial institutions, we do not sell or share any nonpublic personal information with outside marketers. You also need to know that we carefully manage information to give you better service and more convenience.

This document describes CEF's policy with respect to nonpublic personal information, which means personally identifiable information about a customer's current or former relationship with CEF.

### **Making the Security of Information a Priority**

Keeping financial information secure is important. We value your trust and handle information about you with care. We limit access to Customer Information to those persons who need to know that information to provide CEF's investment products and service to you. CEF personnel, and CEF's service providers, having access to Customer Information are required to maintain confidential treatment of information in our files.

We maintain physical, electronic and procedural safeguards that guard Customer Information. We periodically assess new technology for protecting information and upgrade our systems when appropriate.

### **Collecting Information**

We collect and use various types of information in order to serve you. This enables us to help you learn more about investment and other products and services that may be of interest to you.

We collect Customer Information from the following sources:

1. Information you provide to us on applications and through other means, such as your name, address, telephone number, and social security number.
2. Information about your transactions and account experience with us, such as account balance, loan payment history and account activity.
3. Information from a consumer reporting agency, such as information regarding your creditworthiness or credit history. (This currently applies only to ExtensionPlus investors who have applied for or have a check card.)
4. Information obtained from churches, such as congregation name and volunteer activity.
5. Other general information we obtain about you, such as demographic information.

## **Disclosure of Customer Information in Certain Circumstances**

Although we do not share Customer Information with outside marketers, we do share information in certain circumstances in an effort to provide our products and services with greater convenience and more choices, and also as permitted by law.

### ***Sharing information with companies that work with us***

We may disclose the Customer Information we collect, as described above, to companies that perform marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements. We may also disclose Customer Information to third party service providers as necessary to process, service and provide access to your investment and loan accounts with CEF in a manner that promotes a good customer experience.

The companies that work on our behalf are contractually obligated to CEF to keep the Customer Information we provide to them confidential, and to use the information only to provide the services we've asked them to perform for you and us.

### ***Disclosing information in other situations***

We may also disclose Customer Information to credit reporting agencies and similar organizations, and otherwise when permitted by law. For example, this may include:

- A court order such as a subpoena for information, garnishment, or similar legal process
- A fraud investigation
- Recording of deeds, mortgages and other legal documents in the normal course of lending which become a matter of public record
- An audit or examination

### **USA Patriot Act**

In order to comply with this or any other governmental regulation, CEF may require additional information to verify an investor's identity and disclose same to government agencies as required by law.

### **Making Sure Information is Accurate**

Keeping your account information accurate and up to date is very important. It is helpful to us if you keep us informed of any changes in your personal information, such as change of address, name change, etc. You may request access to and correction of your information by writing *Church Extension Fund, 3773 Geddes Road, Ann Arbor, MI 48105-3098*.

If you have questions, you may contact us by calling 800-242-3944 toll-free during normal business hours.





# Pay On Death Beneficiary Designation

- ◆ This Form is **OPTIONAL**, and need not be completed unless you desire that the proceeds of this Note be paid to others upon the death of the owner(s) of the Note.
- ◆ This “payable on death” feature is available only for individual and joint accounts: **NOT** for custodial accounts, trusts or corporations.
- ◆ If you are naming a beneficiary for an existing certificate, you must return the original certificate. Beneficiaries may be added only on Notes issued (or re-issued) after May 1, 1996.
- ◆ **Please review the instructions and information printed on the reverse side of this beneficiary form before proceeding.**

List the person(s) or organization(s) (such as the ministry of the Church Extension Fund, or a congregation) and related information to whom you want to transfer your Note at your death (or, if more than one owner, at the death of the last surviving owner). If you name an LCMS-related ministry, simply provide the name, city, state and percentage amount.

◆ TOTAL PERCENTAGE MUST EQUAL 100% ◆

Name: _____ Address: _____ _____ Telephone: _____ Date of Birth: _____ Relationship: _____ Social Security# _____ Percentage: _____%	Name: _____ Address: _____ _____ Telephone: _____ Date of Birth: _____ Relationship: _____ Social Security# _____ Percentage: _____%
Name: _____ Address: _____ _____ Telephone: _____ Date of Birth: _____ Relationship: _____ Social Security# _____ Percentage: _____%	Name: _____ Address: _____ _____ Telephone: _____ Date of Birth: _____ Relationship: _____ Social Security# _____ Percentage: _____%

I/we, being all of the owner(s) of the Church Extension Fund Note, acknowledge that we have read and fully understand the instructions on the reverse side of this form and hereby request Church Extension Fund to register the Note with a beneficiary or beneficiaries, as directed above. I/we understand that the beneficiaries shall receive the Note subject to all of the terms stated on the reverse side of this form. I/we also understand and agree that this form and the “Pay On Death” (POD) designation to be stated on the Note are binding upon my/our heirs, beneficiaries, and legal representatives at my/our death(s) and shall be construed and applied in accordance with the laws of the State of Michigan.

PRINT Name of Owner 1 \_\_\_\_\_ Date \_\_\_\_\_

PRINT Name of Owner 2 \_\_\_\_\_ Date \_\_\_\_\_

**X** \_\_\_\_\_  
SIGNATURE of Owner 1

**X** \_\_\_\_\_  
SIGNATURE of Owner 2

**Spousal Consent** (Complete only if Spouse is not an owner)

I am the spouse of the account holder named above, I give to the account holder any interest I have in the funds deposited in this account. Therefore, I agree to my spouse’s naming of a primary beneficiary other than myself. I also acknowledge that I shall have no claim whatsoever against the Church Extension Fund for any payment to my spouse’s named beneficiary(ies).

**X** \_\_\_\_\_ Spouse of: \_\_\_\_\_ Date \_\_\_\_\_  
SIGNATURE of Account Owner’s Spouse

## Pay On Death Beneficiary Designation

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### Information

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Completion of the form on the reverse side allows the owner(s) of a Note issued by the Church Extension Fund of the Michigan District of the Lutheran Church–Missouri Synod to name one or more beneficiaries (including individuals, congregations, ministries or any other charities) to whom the Note will be transferred at the death of the owner(s). The following information is offered to assist you in making a beneficiary designation for your Note.

- ◆ If only one beneficiary is named, the named beneficiary will be entitled to the Note on the death of the owner (or on the death of the last owner to die if the Note is jointly owned).
- ◆ If more than one beneficiary is named, the beneficiaries will, at the death of the owner(s), be entitled to that percentage of the Note designated by the owner(s).
- ◆ If a named beneficiary dies before the owner(s), the surviving beneficiaries will, at the death of the owner(s), be entitled to the deceased beneficiary's share of the Note in the proportion that the surviving beneficiaries' designated shares bear to each other.
- ◆ If all of the named beneficiaries die before the owner(s), then at the death of the owner(s), the Note will be transferred to the last surviving owner's estate.

### Instructions

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1. Individuals who hold Notes in their own names, as distinct from owning such in a Trust, may name one or more beneficiaries to receive the proceeds of the Note upon their death. This is unnecessary if the Note is held in the name of your Trust, as the Trust itself governs ownership upon death.
2. In order to make the designation, all owners of the Note must sign this form. If the spouse of any owner is not also an owner of the Note, that spouse must complete the Spousal Consent.
3. This beneficiary form will not be effective until it is properly completed and signed by all owners.
4. If you wish to name more than four beneficiaries, call the Church Extension office for assistance.
5. Beneficiaries may be changed or revoked in writing by the owner(s) at any time.
6. Naming beneficiaries does not affect the owner's right to interest payments or to redeem the Note at maturity.

For additional assistance, call the Church Extension office toll-free: **800-242-3944**

3773 Geddes Road  
Ann Arbor, Michigan 48105-3098

## 7 Account Provisions

By signing this application, I affirm that:

- I am of legal age and have received a current Offering Circular of the Church Extension Fund of the Michigan District of the Lutheran Church-Missouri Synod.
- Prior to receipt of the Offering Circular, I was a member of, contributor to or participant in The Lutheran Church-Missouri Synod or any district or other program, activity or organization which constitutes a part of the Synod or any of its districts or I was an ancestor, descendant or successor in interest to such person.
- I understand that the Electronic Feature(s) selected will remain in effect until revoked in writing. I authorize CEF to initiate any correcting debit or credit that may be necessary. I understand that the amount of interest from my account that is deposited into my checking account may vary due to a change in the interest rate, account balance, or number of days in the payment period.

### **Additional ExtensionPlus Account Provisions:**

- In authorizing either owner to sign Redemption Checks, I hereby authorize CEF to accept any order of redemption from any ExtensionPlus owner.
- If I selected the VISA® Check Card feature, (i) I hereby certify that the information provided below is correct, and (ii) I hereby authorize CEF to accept any such order of redemption from any ExtensionPlus Account owner.



## 8 ExtensionPlus Checkwriting Terms & Conditions

Each person signing in Section 6 above (an "Applicant") certifies that his or her signature thereon represents such Applicant's legal signature. Each Applicant guarantees the genuineness of any other Applicant's signature appearing in Section 6. The Church Extension Fund ("CEF"), from which Applicant's checks are to be paid, and UMB Bank, n.a. or its bank affiliates (collectively, the "Bank") and any of their successors are authorized to recognize such signature in the payment of checks, drafts and other instruments ("Checks") against Applicant's investment account ("Account"), **any (I) of the signatures in Section 6 above, standing alone, being sufficient.**

Each Applicant agrees to be bound by the Terms and Conditions for Checkwriting (the "Terms"), which may be forwarded to Applicant by Bank from time to time. The Terms may be amended by the Bank, and shall be binding on Applicant and the Account when an Applicant receives notice of any such changes. Each Applicant hereby appoints the Bank as Applicant's agent for purposes of this Checkwriting Account Agreement. The Bank is authorized, upon the presentment of Checks or other electronic debits drawn on the Account (collectively, "Debits"), to transmit such Debits to CEF or its Transfer Agent (as appropriate) as redemption requests to the Account in an amount sufficient to pay such Debits, and to effect their payment. Applicant agrees that Bank may honor electronic payments to or from the Account as authorized by Applicant, when such payments are processed in accordance with law and the applicable payment system rules. Applicant agrees that the Account is subject to the applicable terms and restrictions, including charges for checkwriting and payment processing services, as set forth in the current Offering Circular or in a separate fee schedule.

Applicant agrees that payments made from the Account under this Checkwriting Account Agreement are governed by the laws, including the Uniform Commercial Code, as enacted in the State of Missouri, as amended from time to time. Applicant consents to the jurisdiction of the state or federal courts in Missouri over any dispute or claim arising out of the provision of checkwriting or other payment services under this Agreement. Applicant agrees to examine the statement for the Account promptly. **Applicant agrees to report any claim that a Check or other payment made from the Account was forged, altered, or otherwise not authorized within thirty (30) days of receipt of the statement by any account holder. Failure to notify CEF or the Bank within that time will preclude any claim against CEF and the Bank by reason of any unauthorized or missing signature, alteration, or error of any kind.** In the event CEF or the Bank is deemed liable for any unauthorized payment or any failure to honor a stop payment order that has been properly given, such liability shall not exceed the face amount of the Check or other payment improperly made.

## 9 VISA® Check Card Agreement & Application

Each person signing this application (an "Applicant") for a VISA® Check Card (a "Card") applies to UMB Bank n.a. (the "Bank") for a Card as set forth below. Each Applicant understands that the application for a Card is subject to approval by Bank. By submitting this request for a Card, each Applicant authorizes Bank to obtain a credit report on Applicant in connection with this application and from time to time after Applicant receives a Card to verify that Applicant continues to qualify for the Card. Bank may inquire as to the credit, investments and employment history of each Applicant. If this request is approved by Bank and a Card is issued, each Applicant understands that the Card(s) will be mailed to Applicant accompanied by an agreement (the "Cardholder Agreement") setting forth the terms and conditions governing the Card. Applicant understands and agrees that the Card and use of the Card will be governed by the Cardholder Agreement, as amended by the Bank from time to time. Each time an Applicant uses a Card, Applicant authorizes liquidation of assets in the related investment account, so that transactions are settled and Bank receives the proceeds of such liquidations. Applicant understands that the Card is made available solely for the purpose of enabling Applicant to access the proceeds of the related investment assets, and does not involve any extension of credit. This authorization may be terminated by either Bank or by an Applicant by written notification. Applicant understands that Applicant will be responsible for the amount of any transactions authorized by an Applicant, whether or not the transactions have been debited from the related investment account as of the date of such termination.

Applicant understands and agrees that Bank may provide information about the Card and Applicant's use of Card to the company shown on this application, Church Extension Fund, or other service providers, in order to process Card transactions or otherwise provide Card services.

### **OPTIONAL – Application for VISA® Check Card: (please print)**

**Primary Owner:** \_\_\_\_\_  
Mother's Maiden Name: \_\_\_\_\_  
Employer: \_\_\_\_\_  
Length of Employment: \_\_\_\_\_  
Employer's Address: \_\_\_\_\_

**Joint Owner:** \_\_\_\_\_  
Mother's Maiden Name: \_\_\_\_\_  
Employer: \_\_\_\_\_  
Length of Employment: \_\_\_\_\_  
Employer's Address: \_\_\_\_\_

**Make checks payable to:**

**Church Extension Fund**  
3773 Geddes Road, Ann Arbor, MI 48105-3098

For more information, call 800-242-3944



[Applications for Individual Retirement Account investments require additional forms. Please call 800-242-3944 for information]

## 1 Account Ownership

(Choose A, B, or C)

### A. Sole or Joint

One or more owners with full rights of survivorship and not tenants in common; option to list beneficiaries on attached "Pay On Death" form on page A-4

1. \_\_\_\_\_  
First Initial Last

\_\_\_\_\_  
Social Security Number Date of Birth

2. \_\_\_\_\_  
First Initial Last

\_\_\_\_\_  
Social Security Number Date of Birth

3. \_\_\_\_\_  
First Initial Last

\_\_\_\_\_  
Social Security Number Date of Birth

### B. Trust Please complete the "Certificate of Existence of Trust and Authority to Act" (Page A-5)

\_\_\_\_\_  
Name of Trust

\_\_\_\_\_  
Social Security Number /TIN

### C. Michigan Uniform Transfers to Minors Act

Minor: First Initial Last

\_\_\_\_\_  
Minor: Social Security Number\* Minor: Date of Birth

Custodian: First Initial Last

\_\_\_\_\_  
Custodian: Social Security Number Custodian: Date of Birth

\*It is required by the IRS to report interest earnings under the Social Security Number of the minor

## 2 Type Of Transaction

(Select only ONE)

- New Investment \$ \_\_\_\_\_
- Name Change: Return original Note and complete "Account Ownership" section
- Exchange: Return original Note and
  - Reinvest ENTIRE proceeds as indicated in "Type Of Investment" section
  - Reinvest only \$ \_\_\_\_\_, as indicated in the "Type Of Investment" section and mail check for the difference.

## 3 Type Of Investment

(Select only ONE)

- Fixed Rate Note \_\_\_\_\_ (term in months, 3-60)
- Dedicated Savings
- Fixed Rate 2 + 2 Note (17-month term)
- ExtensionPlus
  - I/We apply for a VISA® Check Card in addition to receiving checks (Complete the optional Extension-Plus section on page A-2)
- Variable Rate Note (in years)
  - \_\_\_ 1-yr \_\_\_ 2 1/2-yr \_\_\_ 5-yr

## 4 Interest Payment Options

(Select only ONE)

- Accumulate in the account
- Pay by check quarterly or  Pay by check monthly
- Electronically transfer: I/We authorize CEF to electronically deposit the interest payments from my new investment to the bank account described on the attached voided check.
  - Send electronically monthly or  Send electronically quarterly

## 5 Investor Information

- I'm a present investor or  I'm a NEW investor
- I heard about Church Extension through:
  - CEF Congregation Representative
  - a Friend  a CEF Brochure/Ad  the CEF Website

## 6 Address & Signatures

**Agreement and Social Security Number/TIN Certification** ("I" refers to all applicants, whether one or more) By signing below, I hereby apply to open the type of account shown above, and certify that [1] all information provided is true and correct; [2] I have read and affirm each of the applicable Account Provisions in section 7; [3] If opening an ExtensionPlus Account, I understand and agree to the terms, conditions, and agreements found in Checkwriting Terms and Conditions section 8, and if selected, the VISA® Check Card Agreement in section 9 for any electronic feature. Further, under penalties of perjury, I certify that the Social Security or Tax ID number shown for me on this application is correct; and I am a U.S. person (including a U.S. resident alien); and I am not subject to backup withholding because [a] I am exempt from backup withholding, or [b] the IRS has not notified me that I am subject to backup withholding as a result of a failure to report all interest or dividends, or [c] the IRS has notified me that I am no longer subject to backup withholding. Please draw an "X" through the preceding sentence if you ARE currently subject to backup withholding. THE IRS DOES NOT REQUIRE YOUR CONSENT TO ANY PROVISION OF THIS APPLICATION OTHER THAN THE CERTIFICATIONS REQUIRED TO AVOID BACKUP WITHHOLDING.

\_\_\_\_\_  
Street

\_\_\_\_\_  
City State Zip Code

X \_\_\_\_\_  
SIGNATURE of Account Owner or Trustee

X \_\_\_\_\_  
SIGNATURE of Joint Owner or Trustee

Date: \_\_\_\_ / \_\_\_\_ / \_\_\_\_

I am a legal resident of the state of \_\_\_\_\_

Home (\_\_\_\_) \_\_\_\_\_ Work (\_\_\_\_) \_\_\_\_\_

My E-mail Address: \_\_\_\_\_

My Congregation Name/City: \_\_\_\_\_

**Note:** Due to IRS regulations we cannot issue your certificate until your Taxpayer Identification Number is provided and the certification above is signed.

If the primary owner is a minor, the application must be signed by a joint owner or court-designated person.

**EXTENSION PLUS:** If this is a joint account, ALL persons named in Box 1 above MUST sign this application.