



Lewisburg, Pennsylvania

**Financial Statements and Independent Auditor's Report
For the Years Ended June 30, 2021 and 2020**

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PAYNE, WHITE & SCHMUTZ

CERTIFIED PUBLIC ACCOUNTANTS, PA

114 West North 1st Street, Seneca, SC 29678 (864) 882-1937 (864) 882-0849

Independent Auditor's Report

Board of Directors
Anabaptist Financial
Lewisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Anabaptist Financial, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anabaptist Financial as of June 30, 2021 and 2020, 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.

Payne, White & Schmutz, CPA, PA

Payne, White & Schmutz, CPA, PA

September 23, 2021

Financial Statements

Anabaptist Financial

Statements of Financial Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Cash and cash equivalents	\$ 53,141,208	\$ 56,413,353
Accounts receivable	35,450	23,678
Interest receivable	1,776,434	1,794,083
Investments	10,363,473	10,358,829
Loans receivable, net of allowance for loan losses of \$1,661,731 and \$1,603,441	504,382,181	465,563,253
Capital assets, net of accumulated depreciation of \$208,819 and \$127,857	<u>3,444,695</u>	<u>3,495,533</u>
Total assets	<u>\$ 573,143,441</u>	<u>\$ 537,648,729</u>
Liabilities:		
Investment agreements payable	\$ 540,053,257	\$ 506,703,076
Accounts payable	27,891	9,769
Accrued expenses	42,922	58,679
Demand note payable - related organization	<u>19,000,000</u>	<u>19,000,000</u>
Total liabilities	<u>559,124,070</u>	<u>525,771,524</u>
Net Assets:		
Net assets without donor restrictions	<u>14,019,371</u>	<u>11,877,205</u>
Total Net Assets	<u>14,019,371</u>	<u>11,877,205</u>
Total liabilities and net assets	<u>\$ 573,143,441</u>	<u>\$ 537,648,729</u>

The notes to financial statements are an integral part of these statements.

Anabaptist Financial

Statements of Activities

For the Years Ended June 30, 2021 and 2020

	Without Donor Restrictions	
	2021	2020
Revenue:		
Interest income on loans	\$ 16,760,800	\$ 19,231,845
Investment income	504,710	806,893
Loan origination fees	508,860	442,808
Other income	253,725	119,168
Commitment fees	62,271	26,622
Contributions	350,694	-
Total revenue	<u>18,441,060</u>	<u>20,627,336</u>
Expenses:		
Program	15,151,544	17,481,887
General administration	1,084,551	1,006,162
Fund raising	62,799	49,777
Total expenses	<u>16,298,894</u>	<u>18,537,826</u>
Change in net assets	2,142,166	2,089,510
Net assets, beginning of year	<u>11,877,205</u>	<u>9,787,695</u>
Net assets, end of year	<u>\$ 14,019,371</u>	<u>\$ 11,877,205</u>

The notes to financial statements are an integral part of these statements.

Anabaptist Financial**Statements of Functional Expenses****For the Years Ended June 30, 2021 and 2020**

	2021			
	Program Expenses	General Administration	Fund Raising	Total
Interest expense	\$ 13,282,983	\$ -	\$ -	\$ 13,282,983
Provision for loan losses	58,290	-	-	58,290
Payroll and related expenses	816,220	674,690	5,456	1,496,366
Grants and assistance	492,694	-	-	492,694
Office and communications	243,688	195,505	6,284	445,477
Professional fees	959	146,145	-	147,104
Travel	13,128	19,207	-	32,335
Printing and promotions	44,593	8,523	51,059	104,175
Filing and search fees	158,508	-	-	158,508
Depreciation	40,481	40,481	-	80,962
Total	\$ 15,151,544	\$ 1,084,551	\$ 62,799	\$ 16,298,894

	2020			
	Program Expenses	General Administration	Fund Raising	Total
Interest expense	\$ 16,082,454	\$ -	\$ -	\$ 16,082,454
Provision for loan losses	89,631	-	-	89,631
Payroll and related expenses	771,217	619,424	5,610	1,396,251
Grants and assistance	142,000	-	-	142,000
Office and communications	269,122	182,850	6,322	458,294
Professional fees	8,723	143,708	-	152,431
Travel	12,743	24,746	-	37,489
Printing and promotions	29,024	1,941	37,845	68,810
Filing and search fees	43,480	-	-	43,480
Depreciation	33,493	33,493	-	66,986
Total	\$ 17,481,887	\$ 1,006,162	\$ 49,777	\$ 18,537,826

The notes to financial statements are an integral part of these statements.

Anabaptist Financial

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,142,166	\$ 2,089,510
Noncash expenses included in change in net assets:		
Interest expense added to investment agreements	10,966,054	13,394,838
Provision for loan losses	58,290	89,631
Depreciation	80,962	66,986
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	(11,772)	(695)
(Increase)/decrease in interest receivable	17,649	168,637
Increase/(decrease) in accounts payable and accrued expenses	2,365	(102,216)
Net cash provided (used) by operating activities	<u>13,255,714</u>	<u>15,706,691</u>
Cash flows from investing activities:		
Acquisition of capital assets	(30,124)	(1,246,428)
Purchase of investments	(4,644)	(160,546)
Principal repayments on loans	113,002,484	95,243,247
Loans proceeds disbursed	(151,879,703)	(145,166,151)
Net cash provided (used) by investing activities	<u>(38,911,987)</u>	<u>(51,329,878)</u>
Cash flows from financing activities:		
Sale of investment agreements	91,934,205	101,515,604
Redemption of investment agreements	(69,550,077)	(54,780,397)
Proceeds from demand note payable	-	3,000,000
Net cash provided (used) by financing activities	<u>22,384,128</u>	<u>49,735,207</u>
Net increase (decrease) in cash and cash equivalents	(3,272,145)	14,112,020
Cash and cash equivalents, beginning	<u>56,413,353</u>	<u>42,301,333</u>
Cash and cash equivalents, ending	<u>\$ 53,141,208</u>	<u>\$ 56,413,353</u>
Supplemental disclosure of cash flow information		
Cash payments for interest on investments agreements	<u>\$ 2,316,929</u>	<u>\$ 2,687,616</u>
Schedule of non-cash financing activities:		
Interest expense added to investment agreements	<u>\$ 10,966,054</u>	<u>\$ 13,394,838</u>

The notes to financial statements are an integral part of these statements.

Notes to Financial Statements

Anabaptist Financial

Notes to Financial Statements

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies:

Nature of Business

Anabaptist Financial (AF) was incorporated September 16, 2005, under the Pennsylvania Non-Profit Corporation Law. AF operates with a purpose to advance the religious beliefs, cultural traditions and lifestyles of the Anabaptist faith by providing loans for home mortgages, business real estate, and business operations to individuals, businesses, churches, and other charitable entities affiliated or associated with the Anabaptist faith. Consumer loans are not offered. The revenue of AF is generated primarily from the interest received on these loans.

Entity Status

AF is organized on a non-stock basis and does not contemplate pecuniary gain or profit, incidental or otherwise. No part of the net earnings of AF shall inure to the benefit of or be distributable to its directors, officers, or other private persons, except that AF shall be authorized to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth above. AF has no members and is governed by a ten member board. AF is recognized by the Internal Revenue Service as an exempt organization under Section 501(c) (3) of the Internal Revenue Code.

Basis of Accounting and Presentation

AF recognizes revenue and expenses on the accrual basis of accounting. The financial statement presentation follows the recommendation of the Financial Accounting Standards Board for exempt organizations. AF is required to report information regarding its financial practice and activities according to two classes of net assets consisting of net assets without donor restrictions and net assets with donor restrictions.

Cash Equivalents

Cash and cash equivalents consist of cash held in checking and savings accounts. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the time of purchase. It is AF's policy not to treat cash deposits and money market funds held in its investment account as cash and cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the change in net assets. Realized gains or losses on investments are determined by comparison of specific cost of acquisition to proceeds at the time of sale. Unrealized gains or losses are calculated by comparing cost to market values at the statement of financial position date.

Loans and Allowances for Loan Losses

Loans are stated at the unpaid principal balance. It is the policy of AF to collateralize its loans to the maximum extent possible and to maintain a loan-to-value ratio of not greater than 85%. Loans generally carry a variable interest rate, adjusted quarterly, based upon the six-month Treasury Bill rate plus a minimum of 2.50% with a minimum rate of 3.5% and 4.00% as of June 30, 2021 and 2020, respectively. Interest rates on loans cannot increase or decrease by more than .50% per calendar quarter. Loans require monthly principal and interest payments or monthly interest payments with balloon payments at loan maturity. Loan terms can extend up to 25 years.

Anabaptist Financial

Notes to Financial Statements

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies (continued):

Loans and Allowances for Loan Losses (continued)

Loans are made available to individuals who might not possess the credit history required to qualify for bank financing; accordingly, AF's credit policies may be riskier than those traditionally used by banks and other financial institutions. A higher than average rate of loan losses may result from AF's adherence to such credit policies. AF's management evaluates the collectibility of the loan portfolio to determine the level of allowance for loan losses required. This evaluation includes using a four-point rating system to assess each loan's probability of default. Based on this rating system, each loan is placed into categories of acceptable, substandard, or doubtful. An acceptable rating represents loans that are expected to be fully collectible and represent the highest quality. A substandard rating represents loans that exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan. A doubtful rating represents loans that exhibit similar weaknesses to a substandard rating. However, a doubtful rating has additional weaknesses in existing facts, conditions, and values that make collection in full highly questionable. Loans that receive a substandard or doubtful rating are further evaluated for impairment using additional qualitative and quantitative measures.

The credit risk rating methodology is a key component of AF's allowance for loan losses evaluation and is generally incorporated into AF's loan approval process. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of year-end. As the entire loan portfolio is with those affiliated or associated with the Anabaptist faith, AF believes that risk characteristics are consistent between portfolio segments. The allowance is increased by provisions charged to operating expense and decreased by charge-offs net of recoveries. A review of individual loans in AF's loan portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to AF has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. AF considers such factors as credit risk classification, collateral values, risk concentrations, economic conditions, and prior loan loss experience when determining the allowance for loan losses. Loans determined to be uncollectible are charged to the allowance during the period in which such determination is made. The allowance for loan losses was \$1,661,731 and \$1,603,441 at June 30, 2021 and 2020, respectively. AF recorded a provision for loan losses of \$58,290 for the current year and recorded a \$89,631 charge in the prior reporting period. Management believes the balance in the allowance for loan losses is sufficient to cover future loan losses. No loans were charged off for either audit year. Management considers that a loan is delinquent when a payment is ten days past due.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. A general allowance may also be established under FASB guidance on accounting for contingencies to reflect estimated probable and expected credit losses incurred in the remainder of the loan portfolio at the financial statement date which excludes loans included under the specific allowance. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other factors reflecting the current environment.

Loans are defined as impaired when, based on current information and events, it is probable that AF will be unable to collect all amounts due according to the contractual terms of the loan agreement. Management does not consider an insignificant delay or insignificant shortfall in amount of payments to impair loans. Also, management does not consider a loan impaired during a period of delay in payment if it expects to collect all amounts due including interest accrued at the contractual interest rate for the period of delay. Impaired loans are measured by the present value of expected future cash flows or the fair value of the collateral of the loan, if collateral dependent. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to fully meet the contractual interest obligation under the original loan agreement. Interest income is subsequently recognized only to the extent cash payments are received. If the financial condition of a borrower that has a loan on nonaccrual status significantly improves, management may decide to remove that loan from nonaccrual status. Management believes it had seventeen impaired loans as of June 30, 2021 and 2020, respectively.

Anabaptist Financial

Notes to Financial Statements

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies (continued):

Loans and Allowances for Loan Losses (continued)

In cases where a borrower experiences financial difficulties and AF makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties, AF grants a concession to the debtor that it would not otherwise consider. AF did not have any loans that met these conditions at June 30, 2021 and 2020.

Capital Assets

Property and equipment are recorded at cost for items purchased. It is AF's policy to capitalize equipment which costs at least \$5,000 per unit item. Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation is based on the following policy:

<u>Description</u>	<u>Useful Life</u>	<u>Method</u>
Buildings	40 years	Straight line
Equipment	3-5 years	Straight line

Fair Value Measurements

Fair value is defined under GAAP as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. AF uses market information or assumptions that participants would use in pricing the asset or liability. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tier include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market information exists, therefore requiring an entity to develop its own assumptions.

Interest Income on Loans

Interest income on loans is computed daily based on the principal amount of the loans outstanding.

Loan Origination Fees

Loan origination fees are recognized as revenue in the year earned. Unamortized loan origination fees are not recorded since management has concluded that any such fees are trivial to its financial statements.

Commitment Fees

Commitment fees are recognized as income in the year received. Deferred commitment fees are not recorded since management has determined that they are trivial to its financial statements.

Net Assets

The financial statements report amounts separately by class of net assets:

- a) Net assets without restrictions are those available at the discretion of the board for use in AF's programs and other functions, and those resources invested in land, buildings and equipment.
- b) Net assets with donor restrictions are those restricted by donors for specific operating purposes or for use in a future reporting period. Also included in this category are net assets subject to donor-imposed restrictions to be held in perpetuity such as endowments or irrevocable trusts.

Anabaptist Financial

Notes to Financial Statements

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies (continued):

Revenue and Support with or without Donor Restrictions

Contributions are recorded with or without donor restrictions depending on the expressed intentions of the donors. Support or revenue is recognized as it is received or as it is earned.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Anabaptist Financial is recognized as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. Accordingly, its income is not subject to federal or state income tax.

AF has adopted accounting principles related to accounting for uncertainty in income tax positions. AF's policy is to record a liability for any tax position taken that is beneficial to AF, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Penalties and interest related to underpayment of income taxes are not recorded as income taxes but as penalties and interest expense. Management has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2021 and 2020. Years ending on or after June 30, 2018 remain subject to examination by federal and state authorities.

Functional Allocation of Expenses

Natural expenses attributable to more than one functional expense category are allocated to the appropriate functional category based upon reasonable estimates made by management. Administrative expenses are supporting activities that are not directly identifiable with program activities. Fund raising expenses promote the solicitation of support from current and potential donors for its program and other functional activities. Administrative and fund raising expenses are funded from net assets without donor restrictions.

Subsequent Events Evaluation

Subsequent events have been evaluated through September 23, 2021, which is the date the financial statements were available to be issued.

Anabaptist Financial

Notes to Financial Statements

June 30, 2021 and 2020

Note 2 – Financial Assets and Liquidity Resources:

AF's operations are primarily funded by interest earned on loans made from funds received from investment agreements of qualified investors. AF must maintain adequate resources to meet its responsibilities to its investors and certain financial assets may not be available for general expenditure within one year. As part of its liquidity management, AF has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. AF is required to maintain a minimum of \$2,500,000 in liquid cash reserves. Two states prefer that AF maintain 6% to 8% of its outstanding investment agreements in liquid cash reserves. The governing board may consider authorizing the borrowing of funds should it be deemed necessary to do so.

AF maintains various deposit accounts with banks. At June 30, 2021 and 2020, \$54,616,835 and \$56,747,004, respectively, of AF's deposits were not covered by FDIC insurance. Management believes that any credit risk related to these uninsured deposits is minimal.

The following schedule reflects AF's financial assets as of its fiscal years ended in 2021 and 2020, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts that are not available also include board designated amounts, if any, that could be utilized if the board of directors approved their use.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 53,141,208	\$ 56,413,353
Accounts receivable	35,450	23,678
Interest receivable	1,776,434	1,794,083
Investments	10,363,473	10,358,829
Loans receivable, net of allowance for loan losses	<u>504,382,181</u>	<u>465,563,253</u>
Total financial assets	569,698,746	534,153,196
Less those unavailable for general expenditures within one year due to:		
Estimated loan receivable principal expected to be received after one year	<u>(431,057,359)</u>	<u>(399,211,741)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 138,641,387</u>	<u>\$ 134,941,455</u>

Note 3 – Investments:

Investments are recorded at fair value and consist of the following:

	<u>2021</u>	<u>2020</u>
Government money market fund	\$ 9,099,743	\$ 9,063,049
Certificates of deposit	1,263,730	1,295,780
Treasury bills	<u>-</u>	<u>-</u>
Total investments	<u>\$ 10,363,473</u>	<u>\$ 10,358,829</u>

Investment income consisted of the following:

Interest income	<u>\$ 504,710</u>	<u>\$ 806,893</u>
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Anabaptist Financial

Notes to Financial Statements

June 30, 2021 and 2020

Note 4 – Loans and Allowance for Loan Losses:

AF's loan portfolio has been segmented into the following types:

- Business Real Estate Loans – generally used to purchase rental property, farm real estate, and commercial real estate, or to refinance existing mortgages on such property. These loans may be made only in amounts up to 85 percent of the value of the property.
- Business Operating Loans – generally used to finance current business operations including inventory and cash flow. These loans generally require real estate or other collateral.
- Home Mortgage Loans – used to purchase a primary home residence. These loans may be made only in amounts up to 85 percent of the value of the property.
- Nonprofit Entity Loans – generally used to purchase real estate owned by exempt organizations. These loans may be made only in amounts up to 85 percent of the value of the property.

Loans at June 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Business real estate	\$ 395,706,755	\$ 359,437,569
Business operating	12,903,593	14,926,437
Home mortgages	78,283,570	73,952,244
Nonprofit entities	18,107,832	18,850,444
Community Assistance	1,042,162	-
Total	<u>\$ 506,043,912</u>	<u>\$ 467,166,694</u>

Business real estate, home mortgage, and nonprofit entity loans are secured primarily by first mortgages on the related real estate. Business operating loans are also secured primarily by first mortgages on real estate, and in some instances, security interests. Interest receivable represents the amount of accrued, but uncollected, interest on all loans at June 30, 2021 and 2020.

A significant source of AF's liquidity is the repayments and maturities of the loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2021 and 2020:

<u>2021</u>	<u>Due Less than 1 Year</u>	<u>Due 1 thru 5 Years</u>	<u>Due after 5 Years</u>	<u>Total</u>
Business real estate	\$ 58,007,707	\$ 118,009,730	\$ 219,689,358	\$ 395,706,795
Business operating	3,885,533	5,141,862	3,876,197	12,903,592
Home mortgages	8,366,563	17,402,410	52,514,597	78,283,570
Nonprofit entities	5,614,163	5,061,701	7,431,968	18,107,832
Community Assistance	12,440	55,813	1,873,683	1,941,936
Total	<u>\$ 75,886,406</u>	<u>\$ 145,671,516</u>	<u>\$ 285,385,803</u>	<u>\$ 506,943,725</u>
				Less discount on purchase of community assistance loans (899,813)
				<u>\$ 506,043,912</u>
<u>2020</u>	<u>Due Less than 1 Year</u>	<u>Due 1 thru 5 Years</u>	<u>Due after 5 Years</u>	<u>Total</u>
Business real estate	\$ 46,836,333	\$ 94,489,148	\$ 218,112,088	\$ 359,437,569
Business operating	5,258,029	6,039,820	3,628,588	14,926,437
Home mortgages	8,521,822	14,325,574	51,104,848	73,952,244
Nonprofit entities	7,338,769	4,607,716	6,903,959	18,850,444
Total	<u>\$ 67,954,953</u>	<u>\$ 119,462,258</u>	<u>\$ 279,749,483</u>	<u>\$ 467,166,694</u>

Anabaptist Financial

Notes to Financial Statements

June 30, 2021 and 2020

Note 4 – Loans and Allowance for Loan Losses (continued):

The above maturities indicate that approximately 14.97% and 14.55% of loans had maturities of one year or less for years ended June 30, 2021 and 2020, respectively.

The following table shows loans and related accrued interest according to AF's credit quality rating system as of June 30, 2021 and 2020:

2021	Acceptable	Substandard	Doubtful	Total
Business real estate	\$ 390,652,269	\$ 4,628,514	\$ 1,755,292	\$ 397,036,075
Business operating	10,950,692	870,545	1,309,389	13,130,626
Home mortgages	78,253,445	199,694	-	78,453,139
Nonprofit entities	18,158,344	-	-	18,158,344
Community Assistance	1,042,162	-	-	1,042,162
Total	\$ 499,056,912	\$ 5,698,753	\$ 3,064,681	\$ 507,820,346

2020	Acceptable	Substandard	Doubtful	Total
Business real estate	\$ 344,689,365	\$ 13,938,286	\$ 2,139,420	\$ 360,767,071
Business operating	12,805,033	1,052,944	1,293,313	15,151,290
Home mortgages	72,863,713	1,263,752	-	74,127,465
Nonprofit entities	18,914,951	-	-	18,914,951
Total	\$ 449,273,062	\$ 16,254,982	\$ 3,432,733	\$ 468,960,777

The following table provides an aging analysis of past due loans and the related accrued interest as of June 30, 2021 and 2020:

2021	60-89 Days Past Due	90-120 Days Past Due	More than 120 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Day and Accruing
Business real estate	\$ 500,306	\$ 772,921	\$ 7,650,711	\$ 8,923,938	\$ 388,112,137	\$ 397,036,075	\$ 7,329,062
Business operating	-	29,885	2,179,934	2,209,819	10,920,807	13,130,626	900,430
Home mortgages	276,408	218,143	142,540	637,091	77,816,048	78,453,139	360,683
Nonprofit entities	-	-	-	-	18,158,344	18,158,344	-
Community Assistance	-	-	-	-	1,941,975	1,941,975	-
Total	\$ 776,714	\$ 1,020,949	\$ 9,973,185	\$ 11,770,848	\$ 496,949,311	\$ 508,720,159	\$ 8,590,175
						(899,813)	
						<u>507,820,346</u>	

2020	60-89 Days Past Due	90-120 Days Past Due	More than 120 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Day and Accruing
Business real estate	\$ -	\$ 2,802,767	\$ 10,749,269	\$ 13,552,036	\$ 347,215,035	\$ 360,767,071	\$ 11,731,647
Business operating	-	-	1,752,411	1,752,411	13,398,879	15,151,290	459,098
Home mortgages	-	205,129	709,892	915,021	73,212,444	74,127,465	915,021
Nonprofit entities	-	141,830	-	141,830	18,773,121	18,914,951	-
Total	\$ -	\$ 3,149,726	\$ 13,211,572	\$ 16,361,298	\$ 452,599,479	\$ 468,960,777	\$ 13,105,766

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Notes to Financial Statements

June 30, 2021 and 2020

Note 4 – Loans and Allowance for Loan Losses (continued):

Nonperforming assets including accrued interest and related credit quality statistics are as follows:

<u>Nonaccrual Loans</u>	<u>2021</u>	<u>2020</u>
Business real estate	\$ 1,094,570	\$ 1,820,388
Business operating	1,309,389	1,293,313
Home Mortgage	57,154	-
Nonprofit entities	-	141,830
	<u> </u>	<u> </u>
Total nonaccrual loans	<u>\$ 2,461,113</u>	<u>\$ 3,255,531</u>
Nonaccrual loans as a % of total loans	0.49%	0.70%
Nonaccrual loans as a % of net assets	17.56%	27.41%

<u>Accruing Loans 90 Days or More Past Due</u>	<u>2021</u>	<u>2020</u>
Business real estate	\$ 7,829,368	\$ 11,731,647
Business operating	900,430	459,098
Home mortgage	579,937	915,021
Nonprofit entities	-	-
	<u> </u>	<u> </u>
Total accruing loans 90 days or more past due	<u>\$ 9,309,735</u>	<u>\$ 13,105,766</u>
Accruing loans as a % of total loans	1.84%	2.81%
Accruing loans as a % of net assets	66.41%	110.34%

The following table presents information relating to impaired loans including accrued interest as defined in Note 1:

<u>2021</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Number of Loans</u>
Business real estate	\$ 1,946,368	\$ 1,780,398	\$ 375,000	\$ 1,946,958	\$ 43,548	10
Business operating	1,292,027	1,123,786	525,000	1,208,550	-	5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 3,238,395</u>	<u>\$ 2,904,184</u>	<u>\$ 900,000</u>	<u>\$ 3,155,508</u>	<u>\$ 43,548</u>	<u>15</u>
<u>2020</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Number of Loans</u>
Business real estate	\$ 2,139,420	\$ 1,947,548	\$ 375,000	\$ 2,115,996	\$ 26,656	10
Business operating	1,293,313	1,125,072	525,000	1,209,193	5,845	5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 3,432,733</u>	<u>\$ 3,072,620</u>	<u>\$ 900,000</u>	<u>\$ 3,325,189</u>	<u>\$ 32,501</u>	<u>15</u>

Each of the impaired loans is 90 days or more past due in principal and interest payments.

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Notes to Financial Statements

June 30, 2021 and 2020

Note 4 – Loans and Allowance for Loan Losses (continued):

A summary of changes in the allowance for loan losses and the June 30, 2021, recorded investment in loans is as follows:

<u>2021</u>	<u>Business Real Estate</u>	<u>Business Operating</u>	<u>Home Mortgage</u>	<u>Nonprofit Entities</u>	<u>Total</u>
Allowance for credit losses:					
Balance at June 30, 2020	\$ 872,554	\$ 600,217	\$ 120,067	\$ 10,603	\$ 1,603,441
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for loan losses	45,667	1,510	9,024	2,089	58,290
Balance at June 30, 2021	<u>\$ 918,221</u>	<u>\$ 601,727</u>	<u>\$ 129,091</u>	<u>\$ 12,692</u>	<u>\$ 1,661,731</u>

June 30, 2021, allowance ending balance:

Loans individually evaluated for impairment	<u>\$ 375,000</u>	<u>\$ 525,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 900,000</u>
Loans collectively evaluated for impairment	<u>\$ 553,221</u>	<u>\$ 76,727</u>	<u>\$ 129,091</u>	<u>\$ 12,692</u>	<u>\$ 771,731</u>

Recorded investment in loans outstanding at June 30, 2021, is as follows:

<u>2021</u>	<u>Business Real Estate</u>	<u>Business Operating</u>	<u>Home Mortgage</u>	<u>Nonprofit Entities</u>	<u>Community Assistance</u>	<u>Total</u>
Balance at June 30, 2021	<u>\$ 397,036,075</u>	<u>\$ 13,130,626</u>	<u>\$ 78,453,139</u>	<u>\$ 18,158,344</u>	<u>\$ 1,042,162</u>	<u>\$ 507,820,346</u>
Loans individually evaluated for impairment	<u>\$ 6,383,806</u>	<u>\$ 2,179,934</u>	<u>\$ 199,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,763,434</u>
Loans collectively evaluated for impairment	<u>\$ 390,652,269</u>	<u>\$ 10,950,692</u>	<u>\$ 78,253,445</u>	<u>\$ 18,158,344</u>	<u>\$ 1,042,162</u>	<u>\$ 499,056,912</u>

Anabaptist Financial**Notes to Financial Statements****June 30, 2021 and 2020****Note 4 – Loans and Allowance for Loan Losses (continued):**

A summary of changes in the allowance for loan losses and the June 30, 2020, recorded investment in loans is as follows:

<u>2020</u>	<u>Business Real Estate</u>	<u>Business Operating</u>	<u>Home Mortgage</u>	<u>Nonprofit Entities</u>	<u>Total</u>
Allowance for credit losses:					
Balance at June 30, 2019	\$ 800,141	\$ 597,806	\$ 108,270	\$ 7,593	\$ 1,513,810
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for loan losses	72,413	2,411	11,797	3,010	89,631
Balance at June 30, 2020	<u>\$ 872,554</u>	<u>\$ 600,217</u>	<u>\$ 120,067</u>	<u>\$ 10,603</u>	<u>\$ 1,603,441</u>

June 30, 2020, allowance ending balance:

Loans individually evaluated for impairment	<u>\$ 375,000</u>	<u>\$ 525,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 900,000</u>
Loans collectively evaluated for impairment	<u>\$ 497,554</u>	<u>\$ 75,217</u>	<u>\$ 120,067</u>	<u>\$ 10,603</u>	<u>\$ 703,441</u>

Recorded investment in loans outstanding at June 30, 2020, is as follows:

<u>2020</u>	<u>Business Real Estate</u>	<u>Business Operating</u>	<u>Home Mortgage</u>	<u>Nonprofit Entities</u>	<u>Total</u>
Balance at June 30, 2020	<u>\$ 360,767,071</u>	<u>\$ 15,151,290</u>	<u>\$ 74,127,465</u>	<u>\$ 18,914,951</u>	<u>\$ 468,960,777</u>
Loans individually evaluated for impairment	<u>\$ 16,077,705</u>	<u>\$ 2,346,257</u>	<u>\$ 1,263,752</u>	<u>\$ -</u>	<u>\$ 19,687,714</u>
Loans collectively evaluated for impairment	<u>\$ 344,689,366</u>	<u>\$ 12,805,033</u>	<u>\$ 72,863,713</u>	<u>\$ 18,914,951</u>	<u>\$ 449,273,063</u>

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Notes to Financial Statements
June 30, 2021 and 2020

Note 5 – Capital Assets:

Property and equipment consisted of the following:

Description	2021	2020
Land	\$ 641,198	\$ 641,198
Buildings and improvements	2,885,362	2,885,362
Office equipment and software	126,954	96,830
Total	3,653,514	3,623,390
Less accumulated depreciation	(208,819)	(127,857)
Property and equipment, net	\$ 3,444,695	\$ 3,495,533

Note 6 – Fair Value Measurements:

The carrying amount of cash and cash equivalents, accounts and interest receivable approximate fair value because of the short-term maturities of those instruments. The fair value of investments is based on market prices obtained from financial institutions. Loans receivable are carried at the unpaid principal balance which approximates fair value since the loans re-price frequently with no significant change in credit risk.

The carrying amount of accounts and grants payable and accrued expenses approximates fair value because of the short-term maturities of those instruments. Investment agreements and demand notes payable are carried at the amount payable upon demand by the investors, which approximates fair value.

Prices for U. S. government agency instruments which are readily available in the active markets in which those securities are traded, are categorized as Level 1. Prices for non-U. S. government agency fixed income instruments are based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. Prices for privately held stocks are based on assumptions developed by management and are categorized as Level 3.

There were no changes during the year ended June 30, 2021 and 2020, to AF's valuation techniques used to measure asset and liability fair values on a recurring basis.

The following table sets forth by level within the fair value hierarchy AF's assets accounted for at fair value on a recurring basis as of June 30, 2021 and 2020. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. AF's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

As of June 30, 2021				
Description	Level 1	Level 2	Level 3	Total
Fixed income				
U. S. government money market	\$ 9,099,743	\$ -	\$ -	\$ 9,099,743
Certificates of deposit	-	1,263,730	-	1,263,730
Total	\$ 9,099,743	\$ 1,263,730	\$ -	\$ 10,363,473

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Notes to Financial Statements

June 30, 2021 and 2020

Note 6 – Fair Value Measurements (continued):

Description	As of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Fixed income				
U. S. government money market	\$ 9,063,049	\$ -	\$ -	\$ 9,063,049
Certificates of deposit	-	1,295,780	-	1,295,780
Total	\$ 9,063,049	\$ 1,295,780	\$ -	\$ 10,358,829

Cash and cash equivalents, money market deposit accounts, and certificates of deposit carried at cost are not defined within the levels as prescribed in ASC 820, *Fair Value Measurements and Disclosures*. At June 30, 2021 and 2020, \$53,141,208 and \$56,413,353, respectively, of cash and cash equivalents, money market account deposits, and certificates of deposit carried at cost are not included in the table.

Note 7 – Investment Agreements Payable:

AF has entered into issuing investment agreements to provide working capital and to fund its lending activities. These agreements are made available to qualified investors (members of the Anabaptist faith) whose bona fide principal residence is in Pennsylvania, Maryland, Ohio, New York and numerous other states. The minimum initial investment is \$2,500 (\$1,000 for minors) and each subsequent investment must be in the minimum amount of \$1,000 (\$500 for minors). The interest rate is based on the six-month Treasury Bill as of November 1, February 1, April 1, and August 1 plus 1.50%. The interest rate was 2.25% and 3.00% at June 30, 2021 and 2020, respectively. Rates are adjusted quarterly on January 1, April 1, July 1, and October 1. The interest rate cannot increase or decrease by more than .50% in any calendar quarter, unless the governing board determines otherwise. Interest is paid to investors on a quarterly basis with payments due on January 15, April 15, July 15, and October 15 of each calendar year. Except for South Carolina, a demand rate option exists. Interest is based upon the six-month Treasury Bill rate minus .50% adjusted quarterly in the same manner as mentioned previously. The demand rate was 0.5% and 1.25% at June 30, 2021 and 2020, respectively. Investors may elect to have their quarterly interest payments added to their outstanding investment in lieu of receiving cash payments. The majority of investors generally elect this option. The agreements are unsecured and will be due on demand plus 60 days and are redeemable by AF upon 30 days prior written notice, except for South Carolina where a 90 day maturity exists with an option to automatically renew. Requests by investors to have their securities redeemed will be handled on a first-come, first-serve basis, and AF provides no assurance to investors that sufficient funds will be available to redeem securities. Investment agreements payable totaled \$540,053,257 and \$506,703,076 at June 30, 2021 and 2020, respectively.

Note 8 – Demand Note Payable:

Anabaptist Financial owed Anabaptist Foundation, a related organization, \$19,000,000 as of June 30, 2021 and 2020. The loan is due on demand with an interest rate of 3.00% as of June 30, 2021 and 2020. Interest expense on this loan for the current year totaled \$569,215 and \$580,246 for the prior year.

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Notes to Financial Statements

June 30, 2021 and 2020

Note 9 – Related Party and Related Party Transactions:

Anabaptist Foundation and Stewardship Resources are related organizations due to common control, operating with the same Board of Directors as Anabaptist Financial. Anabaptist Foundation and Stewardship Resources paid Anabaptist Financial \$0 and \$585,225 for payroll and related expenses during fiscal years ended June 30, 2021 and 2020, respectively. Anabaptist Financial contributed \$142,000 to Stewardship Resources for operational purposes during the current and prior reporting periods, and also contributed \$350,694 to Anabaptist Foundation in the current year.

At June 30, 2021 and 2020, AF had made loans to officers, board members, and their close relatives. These loans had outstanding principal balances totaling \$8,194,669 and \$5,986,775, respectively. Normal lending policies were followed in the issuance of these loans. Related party interest income earned during the years ended June 30, 2021 and 2020, totaled \$215,541 and \$194,267 respectively.

At June 30, 2021 and 2020, AF owed to officers, board members, and their close relatives through investment agreements \$17,845,254 and \$15,668,853, respectively. Related party interest expense incurred for the years ended June 30, 2021 and 2020, totaled \$367,738 and \$465,669, respectively.

Note 10 – Commitments:

At June 30, 2021 and 2020, AF had loan commitments of \$58,095,923 and \$50,493,029, respectively.

Note 11 – Conditional Promises to Give:

Nine individuals made five year conditional promises to give AF a total of \$2,000,000 in the event of AF's dissolution and if AF was cash deficient to meet its financial obligations upon dissolution. These promises expired in fiscal year 2021.

Note 12 – Simple IRA Plan:

AF began offering its employees the opportunity to participate in a Simple IRA plan in a prior year. Employees qualify to participate whenever they have compensation of at least \$5,000 in a prior year and expect to earn \$5,000 in the current plan year. AF matches up to 3% of employee salary deferrals. During the fiscal years ended June 30, 2021 and 2020, AF made matching contributions totaling \$20,778 and \$18,381, respectively.