

CONVERGE CORNERSTONE FUND

Financial Statements
With Independent Auditors' Report

December 31, 2020, 2019 and 2018

CONVERGE CORNERSTONE FUND

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Converge Cornerstone Fund
Arlington Heights, Illinois

We have audited the accompanying financial statements of Converge Cornerstone Fund, which comprise the statements of financial position as of December 31, 2020, 2019 and 2018, and the related statements of activities and cash flows for the three 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.

Auditors' 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 audits 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 Converge Cornerstone Fund as of December 31, 2020, 2019 and 2018, and the changes in its net assets and cash flows for each of the three years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Capin Crouse LLP".

Naperville, Illinois
February 24, 2021

CONVERGE CORNERSTONE FUND

Statements of Financial Position

	December 31,		
	2020	2019	2018
ASSETS:			
Cash	\$ 1,185,787	\$ 1,074,302	\$ 3,362,886
Investments	53,712,088	41,431,313	45,480,322
Loans receivable, net of allowance for doubtful loans	237,110,203	219,485,998	200,176,225
Accrued interest receivable	1,156,066	782,480	618,889
Other assets	35,965	63,572	17,731
Investments held for endowment	169,316	169,316	169,316
Total Assets	\$ 293,369,425	\$ 263,006,981	\$ 249,825,369
LIABILITIES AND NET ASSETS:			
Other payables	\$ 929,477	\$ 935,165	\$ 540,778
Gift annuity liability	-	-	294,464
Interest payable	1,140	14,846	7,814
Investment certificates	248,647,507	222,488,019	213,933,990
	249,578,124	223,438,030	214,777,046
Net assets:			
Net assets without donor restrictions:			
Undesignated	17,433,072	17,326,764	15,981,841
Board designated reserve	19,891,801	17,783,034	17,114,783
Cumulative unrealized gain on investments	6,297,112	4,289,837	1,782,383
	43,621,985	39,399,635	34,879,007
Net assets with donor restrictions	169,316	169,316	169,316
	43,791,301	39,568,951	35,048,323
Total Liabilities and Net Assets	\$ 293,369,425	\$ 263,006,981	\$ 249,825,369

See notes to financial statements

CONVERGE CORNERSTONE FUND

Statements of Activities

	Year Ended December 31,		
	2020	2019	2018
CHANGES IN NET ASSETS			
WITHOUT DONOR RESTRICTIONS:			
Interest and fees on loans receivable	\$ 11,430,258	\$ 10,255,170	\$ 9,472,803
Interest and dividends on investments	608,723	963,431	1,220,787
Total interest and dividend income	12,038,981	11,218,601	10,693,590
Less interest expense on investment certificates	(6,103,673)	(5,896,740)	(5,742,018)
Net interest income	5,935,308	5,321,861	4,951,572
Other operating income and expenses:			
Other income	6,426	87,282	4,163
Provision for doubtful loans	(352,338)	(172,487)	(86,178)
Administrative expense	(1,169,815)	(1,146,523)	(1,102,158)
Professional services	(165,756)	(109,916)	(167,747)
Other operating expense	(243,865)	(238,882)	(231,794)
	(1,925,348)	(1,580,526)	(1,583,714)
Net operating income	4,009,960	3,741,335	3,367,858
Contribution to the Church	(1,800,000)	(1,800,000)	(1,700,000)
Change in value of annuities	-	1,991	(3,322)
Net realized gains / (losses) on investments	5,115	113,355	(1,952,067)
Net unrealized gains / (losses) on investments	2,007,275	2,463,947	(31,004)
	4,222,350	4,520,628	(318,535)
Change in net assets without donor restrictions			
Net Assets, Beginning of Year	39,568,951	35,048,323	35,366,858
Net Assets, End of Year	\$ 43,791,301	\$ 39,568,951	\$ 35,048,323

See notes to financial statements

CONVERGE CORNERSTONE FUND

Statements of Cash Flows

	Year Ended December 31,		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from mortgage loan interest	\$ 10,778,923	\$ 9,900,386	\$ 8,920,351
Interest and dividends received on investments	612,341	963,359	1,228,277
Contributions and miscellaneous income received	160,321	94,976	15,365
Cash paid to vendors and the Church	(1,561,412)	(1,084,957)	(1,302,379)
Interest paid to investors	(1,271,772)	(1,262,625)	(1,481,388)
Reinvested interest on certificates payable	(4,845,607)	(4,627,083)	(4,267,293)
Contribution to the Church	(1,800,000)	(1,800,000)	(1,700,000)
Net Cash Provided by Operating Activities	2,072,794	2,184,056	1,412,933
CASH FLOWS FROM INVESTING ACTIVITIES:			
Principal payments received on loans	19,685,800	13,815,762	13,530,526
Loans made	(37,538,212)	(33,106,758)	(23,997,423)
Proceeds from sales and maturities of investments	14,777,789	7,101,340	24,877,784
Purchase of investments	(25,046,174)	(428,754)	(11,607,381)
Proceeds from sale of assets held for sale	-	-	22,766
Purchase of enterprise software	-	(69,512)	-
Net Cash (Used) Provided by Investing Activities	(28,120,797)	(12,687,922)	2,826,272
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds received from issuance of investment certificates	60,860,569	33,942,020	38,130,496
Reinvested interest on certificates payable	4,845,607	4,627,083	4,267,293
Payments made to redeem investment certificates	(39,546,688)	(30,015,074)	(44,635,882)
Payments on annuity agreements	-	(59,142)	(63,460)
Transfer of annuity assets to related entity	-	(279,605)	-
Net Cash Provided (Used) by Financing Activities	26,159,488	8,215,282	(2,301,553)
Change in Cash	111,485	(2,288,584)	1,937,652
Cash, Beginning of Year	1,074,302	3,362,886	1,425,234
Cash, End of Year	\$ 1,185,787	\$ 1,074,302	\$ 3,362,886
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Matured investment certificates reinvested	\$ 48,717,911	\$ 52,283,188	\$ 24,506,784

See notes to financial statements

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

1. NATURE OF ORGANIZATION:

On November 27, 1989, Converge Cornerstone Fund (the Fund) was incorporated as an Illinois not-for-profit corporation and assumed all of the assets and liabilities of its predecessor, The Home Missions Revolving Building Trust. The Fund is affiliated with Converge (the Church) in Arlington Heights, Illinois.

The purpose of the Fund is to make loans to the member churches, regional districts and other affiliated entities of the Church. Loans may be obtained for land purchases for future expansion and for the purchase, construction or remodeling of churches and related facilities. Churches make application for loans that include ministry and financial information for management of the Fund to evaluate the merits of the project. Management then provides information to the Board of Directors for final approval or denial of the application. The Fund's Board of Directors consists of two bankers, a pastor, a contractor, the President of the Fund and an employee of the Church. The Fund has 174 loans with an average balance of \$1,381,820 as of December 31, 2020.

Funding is provided by issuance of investment certificates to individuals and organizations associated with the Church. The Fund has 3,206 investors as of December 31, 2020. Certificates, which may be payable upon demand or for a specified term, are interest bearing obligations of the Fund and have interest rates at December 31, 2020, from 1% to 6.00%, with a weighted average rate of 2.32%. Term certificates mature within one to five years. Interest rates are established based upon comparison with bank certificate of deposit interest rates as well as U.S. Government Treasury certificate rates.

The Fund is governed by a Board of Directors. The Fund reimburses the Church for office and occupancy related expenses. The Fund is exempt from federal and state income taxes under the provisions of the Internal Revenue Code Section (IRC) 501(c)(3) and applicable state statutes and is not a private foundation under IRC Section 509(a)(1).

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

The financial statements of the Fund have been prepared using the accrual basis of accounting, which gives recognition to income and related assets when earned and expenses and related liabilities when incurred. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. The significant accounting policies followed are described below.

CASH

Cash consists of a checking account. The Fund's cash balance is maintained with one financial institution. At December 31, 2020, 2019 and 2018, the Fund's cash balances exceeded federally insured limits by \$1,619,954, \$1,259,803, and \$3,452,168, respectively. The Fund has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments are recorded at fair value except for five interest bearing deposits recorded at cost plus accrued interest. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The Fund invests cash in excess of its immediate needs in money market funds, which are reported as investments in the statements of financial position. The money market funds are managed to maintain a net asset value per share of \$1.00, and are reported at the net asset value, which closely approximates fair value. Realized and unrealized gains and losses are included in the statements of activities as increases or decreases in unrestricted net assets.

LOANS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL LOANS

Loans receivable are stated at their principal amount outstanding less the related allowance for doubtful loans and are collateralized by church buildings and land. Generally, interest rates on loans are subject to review and adjustment every three to five years. Loans are typically amortized over a period of fifteen or twenty years.

The Fund may sell participation interests in our loans to third parties from time to time, including a pro-rata interest in the collateral securing the loan. When the Fund does so, it continues to service the loans and remit a portion of each loan payment it receives from the borrowers to the buyers of the participation interest. The participations are non-recourse, which means that the Fund will have no obligation to repurchase the portion of the loan it sold, and that the purchaser will assume the risk of loss on that portion of the loan. Accordingly, the portions of the loans it sells are not included in the outstanding loans receivable.

The Fund may also purchase participation interests in individual loans from third party lenders. Under these loan participation agreements, the third-party lenders maintain all records, collect all payments and remit monthly the appropriate pro rata share of both interest and principal collected on the loans. These agreements typically provide that the Fund will share ratably with the third-party lenders in the event of any extraordinary expenses required to preserve the collateral or enforce the lender's rights with respect to the loan. Similarly, the Fund shares ratably in the costs and proceeds in the event of any foreclosure, sale of collateral or other collection action. The Fund's right to take any enforcement action with respect to the borrower or collateral of any of these loans is subject to the cooperation of the third-party lender who originated the loan. These purchased participation interests are included in loans receivable in the statements of financial position.

The Fund charges loan origination and loan refinancing fees of up to 1%, 1.5% and 1.5% of the loan amount for the years ended December 31, 2020, 2019, and 2018, respectively. The Fund analyzes fees received in relation to direct expenses for underwriting new loans. Loan fees charged by the Fund approximate actual costs incurred for loan processing. Accordingly, such fees are recognized on the statements of activities as a component of interest income in the year of loan origination.

The allowance for doubtful loans is maintained at a level that, in management's judgment, is adequate to absorb probable loan losses. In evaluating the adequacy of the reserve, management will analyze historical loan losses and the quality of the current loan portfolio. To determine the balance of the allowance account, loans are pooled together and losses are modeled using historical experience as well as quantitative analysis.

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

LOANS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL LOANS, continued

The Fund reviews the total loan portfolio looking at three areas of risk, Construction Risk (is the loan a construction loan), Credit Risk (what is the payment history and how seasoned is the loan) and Concentration Risk (what is the total balance from all loans in a given state and what is the total amount to a given borrower). In addition, the net realizable value of property serving as collateral for delinquent loans will be assessed on an annual basis. Due to the nature of the relationship with its borrowers, the Fund is willing to make accommodations with borrowers whose payments are not current, so long as such accommodations do not jeopardize the interests of the Fund's investors.

A loan is considered impaired when, based upon current information and events, it is probable that the Fund will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments are 90 days overdue. Loans will continue to accrue interest when a loan is 180 days delinquent; however, all accrued interest may be included in the allowance for doubtful loans. Payments for delinquent or impaired loans are treated as a payment of interest due until all accrued interest has been paid. Interest income on delinquent loans is recognized according to the original amortization schedule (accrual method).

The accrual of interest income is discontinued when, in management's judgment, the scheduled interest may not be collectible within the stated term of the loan. Interest income is recognized on a cash basis for loans classified as nonaccrual loans, with subsequent payments applied first to interest and fees, if any, and then to principal. Loans classified as nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

FUNCTIONAL ALLOCATION OF EXPENSES

All expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities have been allocated on a functional basis, determined by estimated staff time, level of support effort, and relative program benefited.

ANNUITY AGREEMENTS

The Fund has established a gift annuity plan whereby donors may contribute assets to the Fund in exchange for the right to receive a fixed dollar annual return during their lifetimes. This transaction provides for a portion of the transfer to be considered a charitable contribution for income tax purposes. The difference between the amount provided for the annuity contract and the discounted liability for future payments, determined on an actuarial basis, is recognized as donation income at the date of the gift if the Fund is the ultimate beneficiary or as a liability if another charity is the beneficiary. Upon the death of the annuitant, income distributions cease. The actuarial liability for annuities payable is calculated annually using published mortality rate tables adopted by the Internal Revenue Service at an assumed rate of return of 7%. Resulting actuarial gain or loss is recorded as a component of the change in value of annuities. Amounts due other beneficiaries are included in liabilities under annuity agreements. Administration and control of annuity agreements was transferred to the Church, a related entity of the Fund, as of December 31, 2019.

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

BOARD DESIGNATED RESERVE

This portion of net assets without donor restrictions is designated by Board action to provide a measure of protection against loss for the Fund's investors. Designated net assets are an amount equal to eight percent of the total investment certificates payable.

NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of endowment fund investments to be held in perpetuity, the income from which is to be paid to a member church. The disclosures required by the Reporting Endowment Funds topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) have not been included in these financial statements due to immateriality.

3. INVESTMENTS:

Investments consist of the following:

	2020	2019	2018
At fair value:			
Mutual funds	\$ 38,272,869	\$ 12,332,199	\$ 9,588,276
Money market instruments	11,402,272	26,026,997	32,913,618
Corporate bonds	-	147,536	148,855
Mortgage backed securities	168	353	607
	49,675,309	38,507,085	42,651,356
At cost:			
Other term investments	4,206,095	3,093,544	2,998,282
	53,881,404	41,600,629	45,649,638
Less: Investments held for endowment	(169,316)	(169,316)	(169,316)
	\$ 53,712,088	\$ 41,431,313	\$ 45,480,322

At December 31, 2020, corporate bonds, mortgage backed securities and other term investments mature as follows:

Within one year	\$ 4,206,095
After one year through ten years	168
	\$ 4,206,263

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

3. INVESTMENTS, continued:

The Fund uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Fund measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available. The valuations for each of these levels are determined as follows:

Level 1 - Quoted prices for identical instruments traded in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets or model-based valuations where significant assumptions are observable.

Level 3 - Model-based techniques using significant assumptions that are not observable. These unobservable assumptions reflect estimates of assumptions that market participants would use.

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2020, 2019, and 2018:

	Total	Level 1	Level 2	Level 3
December 31, 2020:				
Mutual funds:				
US equity funds	\$ 14,022,865	\$ 14,022,865	\$ -	\$ -
Bond funds	24,250,004	24,250,004	-	-
Total mutual funds	38,272,869	38,272,869	-	-
Money market instruments	\$ 11,402,272	11,402,272	-	-
Corporate bonds and mortgage backed securities	168	-	168	-
	<u>\$ 49,675,309</u>	<u>\$ 49,675,141</u>	<u>\$ 168</u>	<u>\$ -</u>
December 31, 2019:				
Mutual funds:				
US equity funds	\$ 11,720,047	\$ 11,720,047	\$ -	\$ -
Exchange traded funds	612,152	612,152	-	-
Total mutual funds	12,332,199	12,332,199	-	-
Money market instruments	26,026,997	26,026,997	-	-
Corporate bonds and mortgage backed securities	147,889	-	147,889	-
	<u>\$ 38,507,085</u>	<u>\$ 38,359,196</u>	<u>\$ 147,889</u>	<u>\$ -</u>

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

3. INVESTMENTS, continued:

	Total	Level 1	Level 2	Level 3
December 31, 2018:				
Mutual funds:				
US equity funds	\$ 8,839,283	\$ 8,839,283	\$ -	\$ -
International equity funds	578,369	578,369	-	-
Exchange traded funds	170,624	170,624	-	-
Total mutual funds	9,588,276	9,588,276	-	-
Money market instruments	32,913,618	32,913,618	-	-
Corporate bonds and mortgage backed securities	149,462	-	149,462	-
	\$ 42,651,356	\$ 42,501,894	\$ 149,462	\$ -

Valuation techniques: Fair values for mutual funds, money market instruments, corporate bonds and mortgage backed securities are determined by reference to quoted market prices and other relevant information generated by market transactions.

Changes in valuation techniques: None.

4. LOANS RECEIVABLE, NET:

Loans receivable are summarized as follows:

	2020	2019	2018
Less than 3.75%	\$ 3,320,022	\$ 3,770,103	\$ 2,381,106
3.75% - 4.625%	54,695,209	52,442,027	72,348,767
4.75% - 5.625%	174,263,794	159,026,098	120,850,232
5.75% - 6.625%	5,067,609	4,356,009	4,430,687
6.75% - 7.00%	3,089,960	3,139,655	3,240,840
	240,436,594	222,733,892	203,251,632
Allowance for doubtful loans	(3,326,391)	(3,247,894)	(3,075,407)
	\$ 237,110,203	\$ 219,485,998	\$ 200,176,225
Average interest rate of loans	4.82%	4.82%	4.74%

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

4. LOANS RECEIVABLE, NET, continued:

An analysis of the allowance for doubtful loans is as follows:

	2020	2019	2018
Balance, beginning of year	\$ 3,247,894	\$ 3,075,407	\$ 2,989,229
Less: loan write off	(273,842)	-	-
Provision for doubtful loans	352,339	172,487	86,178
Balance, end of year	\$ 3,326,391	\$ 3,247,894	\$ 3,075,407

The Fund evaluates loans for impairment on an individual basis if the loan is more than 90 days delinquent. These loans are then given a specific allowance based on the estimated net realizable value of property serving as collateral. All other loans are evaluated for a loan allowance on a collective basis. At December 31, 2020, loans receivable totaling \$5,977,424, with allowances totaling \$481,267, were evaluated individually for impairment. All other loans were collectively evaluated and no impairment was noted.

The following table presents credit exposure by performance status for the years ended December 31, 2020, 2019 and 2018. Status for performing and nonperforming real estate loans is based on payment activity for the years ended December 31, 2020, 2019 and 2018. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when days past due is greater than 60 days in the previous months.

	2020	2019	2018
Performing	\$ 228,079,611	\$ 220,355,581	\$ 170,898,726
Nonperforming	12,356,983	2,378,311	32,352,906
	\$ 240,436,594	\$ 222,733,892	\$ 203,251,632

An aging analysis of the principal of past due loans receivable is as follows:

	2020	2019	2018
Past due:			
31-60 days	\$ 18,824,036	\$ 5,432,712	\$ 3,748,174
61-90 days	6,379,559	-	10,790,751
Greater than 90 days	5,977,424	2,378,311	21,562,155
	31,181,019	7,811,023	36,101,080
Current	209,255,575	214,922,869	167,150,552
	\$ 240,436,594	\$ 222,733,892	\$ 203,251,632

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

4. LOANS RECEIVABLE, NET, continued:

At December 31, 2020, there was one loan classified as impaired with a principal balance of \$1,872,642. The amount of interest and principal payments owing on the impaired loan was \$409,475. A higher reserve was booked against this loan in order to factor in these circumstances. Included in the allowance for loan losses was \$411,981 that was attributed to this impaired loan. Interest income recognized on this loan during 2020 was \$112,358, all of which was recognized subsequent to the loan being deemed impaired.

At December 31, 2020, the Fund had seven delinquent loans with a principal balance of \$4,104,782. The amount of interest and principal payments owing on delinquent loans was \$239,782. Interest income recognized on delinquent loans during 2020 was \$203,971. The Fund believes that the collateral related to the delinquent loans will be sufficient to repay the loan balance.

Impaired and delinquent loans totaling \$5,977,424 were 2.49% of the Fund's aggregate principal balance of total loans outstanding at December 31, 2020.

At December 31, 2019, there were two loans classified as impaired with a principal balance of \$1,980,318. The amount of interest and principal payments owing on the impaired loans was \$352,690. A higher reserve was booked against these loans in order to factor in these circumstances. Included in the allowance for loan losses was \$433,517 that was attributed to the impaired loans. Interest income recognized on these loans during 2019 was \$112,358, all of which was recognized subsequent to the loans being deemed impaired.

At December 31, 2019, the Fund had two delinquent loans with a principal balance of \$397,992. The amount of interest and principal payments owing on delinquent loans was \$33,596. Interest income recognized on delinquent loans during 2019 was \$18,350. The Fund believes that the collateral related to the delinquent loans will be sufficient to repay the loan balance.

Impaired and delinquent loans totaling \$2,378,311 were 1.1% of the Fund's aggregate principal balance of total loans outstanding at December 31, 2019.

At December 31, 2018, there were three loans classified as impaired with a principal balance of \$4,380,507. The amount of interest and principal payments owing on the impaired loans was \$390,265. A higher reserve was booked against these loans in order to factor in these circumstances. Included in the allowance for loan losses was \$487,521 that was attributed to the impaired loans. Interest income recognized on these loans during 2018 was \$502,016 all of which was recognized subsequent to the loans being deemed impaired.

At December 31, 2018, the Fund had four delinquent loans with a principal balance of \$17,181,647. The amount of interest and principal payments owing on delinquent loans was \$4,231,718. Interest income recognized on delinquent loans during 2018 was \$1,390,388. The Fund believes that the collateral related to the delinquent loans will be sufficient to repay the loan balance.

Impaired and delinquent loans totaling \$21,562,155 were 10.48% of the Fund's aggregate principal balance of total loans outstanding at December 31, 2018.

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

4. LOANS RECEIVABLE, NET, continued:

Loans at December 31, 2020, are estimated to mature as follows:

2021		\$ 4,652,328
2022		12,155,241
2023		12,083,105
2024		12,623,209
2025		13,041,006
Thereafter		<u>185,881,705</u>
		<u><u>\$ 240,436,594</u></u>

The Fund had 174 mortgage loans at December 31, 2020. Although the Fund has no geographic restrictions on where the loans are made other than where member churches are located, aggregate loans in excess of five percent of total balances are concentrated in the following states:

State	Number of Loans	Amount	Percentage of Portfolio
Arizona	12	\$ 62,570,492	26%
Colorado	11	27,730,209	12%
Illinois	18	25,866,344	11%
Minnesota	23	23,740,141	10%
California	17	15,235,665	6%
Washington	12	13,992,635	6%
Maryland	11	12,585,534	5%
	<u>104</u>	<u>\$ 181,721,020</u>	<u>76%</u>

Loans receivable are distributed by size of loan as follows:

Balance	Number	Average Balance	Total Balance	Percentage of Portfolio
\$ 3,000,000 or more	22	\$ 5,871,192	\$ 129,166,228	54%
\$ 1,000,000 - 2,999,999	37	1,789,062	66,195,298	28%
\$ 500,000 - 999,999	39	694,246	27,075,585	10%
\$ 250,000 - 499,999	34	377,019	12,818,639	5%
\$ 100,000 - 249,999	24	173,456	4,162,937	2%
Less than \$100,000	18	56,550	1,017,907	1%
	<u>174</u>		<u>\$ 240,436,594</u>	<u>100%</u>

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

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4. LOANS RECEIVABLE, NET, continued:

Although the Fund has a geographically diverse portfolio of loans to member churches, concentrations of credit risk exist with respect to the amount of delinquent loans and with respect to individually significant loans, which are defined as those exceeding five percent of the total loan portfolio. At December 31, 2020, 2019 and 2018, these individually significant loans totaled \$48,026,338, \$27,097,951 and \$26,395,760, respectively.

As a result of the impact of COVID-19, certain borrowers experienced financial stress. In response, the Fund allowed 23 borrowers (28 loans) to make reduced payments for up to 6 months. As of December 31, 2020, of 174 total loans outstanding, the Fund had seventeen (17) loans with thirteen (13) different borrowers that were still modified for reduced payments due to the impact of COVID-19. The loan modifications made related to COVID-19, as described above, did not meet the definition of troubled debt restructurings.

5. INVESTMENT CERTIFICATES:

At December 31, 2020, the Fund was indebted on certificates as summarized below:

Type	Fixed Rate and Demand Certificates	IRA Certificates	Total Certificates
Demand	\$ 47,876,071	\$ 35,321,907	\$ 83,197,978
Six-month	43,144	-	\$ 43,144
One year	20,863,397	-	\$ 20,863,397
Two year	28,987,633	-	\$ 28,987,633
Three year	33,576,997	-	\$ 33,576,997
Four year	36,365,724	-	\$ 36,365,724
Five year	45,612,634	-	\$ 45,612,634
	\$ 213,325,600	\$ 35,321,907	\$ 248,647,507

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5. INVESTMENT CERTIFICATES, continued:

Investment certificates, which bear interest at rates of 1% to 6%, mature as follows:

Year of Maturity	Fixed Rate and Demand Certificates	IRA Certificates	Total Certificates
2021	\$ 119,248,333	\$ 35,321,907	\$ 154,570,240
2022	31,752,948	-	31,752,948
2023	25,339,368	-	25,339,368
2024	16,170,691	-	16,170,691
2025	20,814,260	-	20,814,260
	\$ 213,325,600	\$ 35,321,907	\$ 248,647,507

Approximately 62% of all outstanding certificates are concentrated in six states as follows:

State	Number	Amount	Percentage of Portfolio
Minnesota	1,846	\$ 49,900,514	20%
Illinois (including related parties, Note 6)	874	35,647,704	14%
California	830	26,847,662	11%
Wisconsin	824	17,219,269	7%
Florida	270	13,223,908	5%
Connecticut	141	12,952,796	5%
	4,785	\$ 155,791,853	62%

Large investors, who are defined as customers with certificate balances of \$100,000 or more, are as follows:

Investor Size	Number of Investors	Total Balance	Percentage of Portfolio
Related parties (Note 6)	3	\$ 8,371,904	3%
Greater than \$500,000	71	79,227,104	32%
\$200,001-500,000	188	57,305,267	23%
\$100,000-200,000	335	46,308,586	19%
	597	\$ 191,212,861	77%

CONVERGE CORNERSTONE FUND

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6. RELATED PARTY TRANSACTIONS:

Administrative expenses on the statements of activities include administrative charges of \$324,750, \$321,240 and \$306,354 for the years ended December 31, 2020, 2019 and 2018, respectively, allocated to the Fund by the Church.

In addition, investment certificates have been issued to related parties. Certificate balances and interest paid to related parties are as follows:

	2020	2019	2018
The Church:			
Investment certificates	\$ 4,721,393	\$ 947,228	\$ 1,246,571
Interest paid	\$ 148,246	\$ 20,489	\$ 298,034
Converge Foundation:			
Investment certificates	\$ 443,508	\$ 453,379	\$ 502,506
Interest paid	\$ 13,850	\$ 14,877	\$ 15,163
Converge Retirement Plan:			
Investment certificates	\$ 3,207,003	\$ 1,749,623	\$ 1,028,048
Interest paid	\$ 73,795	\$ 42,345	\$ 28,735

The Board of Directors has established a policy to contribute a portion of the Fund's net income to the Church. This policy is reviewed annually in light of current circumstances. The objective of this contribution is to promote the health of borrowing churches and the growth of future churches as potential borrowers. For the years ended December 31, 2020, 2019 and 2018, respectively, \$1,800,000, \$1,800,000 and \$1,700,000 was paid to the Church. Distribution of these gifts were made in monthly installments to the Church.

7. COMMITMENTS:

In the normal course of business, the Fund makes commitments to extend mortgage loans to meet the financing needs of member churches. Outstanding commitments are letters that outline the terms and conditions of the loan to be granted. The commitments represent expected disbursements based on estimated construction costs and may vary based on actual costs of construction. The Fund's exposure to credit loss, in the event of nonperformance by the churches to which it has extended commitments, is limited to the amount of the commitment. The Fund controls the credit risk of its commitments through credit approvals, limits and monitoring procedures. At December 31, 2020, the Fund had extended loan commitments of \$30,539,762.

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8. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities and loans receivable. At December 31, 2020 \$11,402,272 of the Fund's marketable securities was invested in money market mutual funds. The Fund has not experienced any losses on these accounts and does not believe it is exposed to any significant risk of loss related to these money market investments.

Concentrations of credit risk with respect to loans receivable are limited by the secured position of the Fund in most instruments, the number of organizations comprising the Fund's loans receivable base and their dispersion across geographic areas, and the Fund's general policy of limiting the maximum loan amount to any one borrower to 30% of total net assets. However, the Fund may make exceptions to this policy upon such determinations as the borrower's exceptionally strong financial position and growth potential. At December 31, 2020, the Fund had three churches with loans totaling 30% or more of total net assets. Loans made by the Fund are typically secured by first mortgages and are normally limited to 75% of the aggregate cost or value of the property securing the loan. While the Fund may be exposed to credit losses in the event of nonperformance by the above contracting parties, management has established an allowance for potential loan losses, which it believes is adequate to cover any such losses.

A substantial portion of the investment certificates issued by the Fund are demand instruments or will be maturing within the next two years. In addition, all demand investment certificates are payable upon 30 days written notice subject to availability of funds. The Fund has insufficient liquid assets to satisfy repayment of this amount. Management anticipates that a substantial portion of these certificates will be reinvested or rolled over into new certificates with the Fund, as has been the Fund's historical experience.

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

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9. FUNCTIONAL ALLOCATION OF EXPENSES:

The following table presents the functional allocation of expenses for the year ended December 31, 2020:

	Program Services	General and Administrative	Total
Salaries and benefits	\$ 629,327	\$ 215,738	\$ 845,065
Contribution to Converge	1,800,000	-	1,800,000
Occupancy	243,562	81,188	324,750
Office expenses	58,010	50,014	108,024
Promotional supplies	4,065	-	4,065
Travel	7,210	1,003	8,213
Registration and loan fees	20,736	-	20,736
Professional fees	125,917	39,839	165,756
Insurance	-	56,316	56,316
Provision for loan loss	352,338	-	352,338
Miscellaneous	-	46,511	46,511
	<u>\$ 3,241,165</u>	<u>\$ 490,609</u>	<u>\$ 3,731,774</u>

The following table presents the functional allocation of expenses for the year ended December 31, 2019:

	Program Services	General and Administrative	Total
Salaries and benefits	\$ 615,973	\$ 209,310	\$ 825,283
Contribution to Converge	1,800,000	-	1,800,000
Occupancy	239,766	81,474	321,240
Office expenses	66,528	24,474	91,002
Promotional supplies	16,140	-	16,140
Travel	23,591	1,605	25,196
Registration and loan fees	22,291	-	22,291
Professional fees	50,381	59,535	109,916
Insurance	-	52,692	52,692
Provision for loan loss	172,487	-	172,487
Miscellaneous	-	31,561	31,561
	<u>\$ 3,007,157</u>	<u>\$ 460,651</u>	<u>\$ 3,467,808</u>

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

December 31, 2020, 2019, 2018

9. FUNCTIONAL ALLOCATION OF EXPENSES, continued:

The following table presents the functional allocation of expenses for the year ended December 31, 2018:

	Program Services	General and Administrative	Total
Salaries and benefits	\$ 592,911	\$ 202,893	\$ 795,804
Contribution to Converge	1,700,000	-	1,700,000
Occupancy	228,248	78,106	306,354
Office expenses	38,666	22,631	61,297
Promotional supplies	15,379	-	15,379
Travel	21,314	2,222	23,536
Registration and loan fees	33,374	-	33,374
Professional fees	41,479	126,268	167,747
Insurance	-	58,757	58,757
Provision for loan loss	86,178	-	86,178
Miscellaneous	4,086	35,365	39,451
	<u>\$ 2,761,635</u>	<u>\$ 526,242</u>	<u>\$ 3,287,877</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and benefits and certain occupancy expenses are allocated on the basis of estimates of time and effort. Not included in the tables above is interest expense totaling \$ 6,103,673 and \$5,896,740, \$5,742,018 for the years ended December 31, 2020, 2019 and 2018, respectively, which is reported as a reduction from interest and dividend income in the statements of activities.

CONVERGE CORNERSTONE FUND

Notes to Financial Statements

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10. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Fund's financial assets as of December 31, 2020, 2019, and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, or liquidity reserve limits required for church extension funds. The Fund considers general expenditures to be all expenditures related to its ongoing activities to provide loans to member church and Church-affiliated entities, as well as the conduct of services undertaken to support those activities.

	December 31,		
	2020	2019	2018
Financial assets:			
Cash	\$ 1,185,787	\$ 1,074,302	\$ 3,362,886
Investments	53,712,088	41,431,313	45,480,322
Investments held for endowment	169,316	169,316	169,316
Loans receivable, net	237,110,203	219,485,998	200,176,225
Accrued interest receivable	1,156,066	782,480	618,889
Financial assets, at year-end	293,333,460	262,943,409	249,807,638
Less those unavailable for general expenditure within one year, due to:			
Loans receivable collectible beyond one year	(235,784,266)	(212,812,691)	(194,356,853)
Church extension fund required liquidity reserves *	(19,891,801)	(17,783,034)	(17,114,783)
Net assets with donor restrictions	(169,316)	(169,316)	(169,316)
Financial assets available to meet cash needs for general expenditures within one year	\$ 37,488,077	\$ 32,178,368	\$ 38,166,686

The Fund structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of the Fund's liquidity management, the Fund invests any cash in excess of daily funding requirements in a short-term investment account. The funds are immediately available to fund operating and funding requirements.

In addition to the cash and short-term investment account, the Fund has invested assets available to meet future funding and operational needs. The funds are immediately available in the financial markets. The Fund adjusts the values of those investments monthly to reflect fluctuations in the financial markets.

* The North American Securities Administrators Association's statement of policy regarding church extension fund securities states that at the end of its fiscal year, the church extension fund's cash, cash equivalents, readily marketable securities and available lines of credit shall have a value of at least 8% of the principal balance of its total outstanding certificates (excluding certificates held by affiliated organizations).

CONVERGE CORNERSTONE FUND

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11. RISKS AND UNCERTAINTIES:

In March of 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Fund for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

12. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through February 24, 2021, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.