

**The United Methodist Foundation
of Western North Carolina, Inc.**

Financial Report
December 31, 2016

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RSM US LLP

Independent Auditor's Report

To the Financial Practices Committee
The United Methodist Foundation
of Western North Carolina, Inc.
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The United Methodist Foundation of Western North Carolina, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, the related statements of activities 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 the Foundation as of December 31, 2016 and 2015, 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.

RSM US LLP

Charlotte, North Carolina
June 7, 2017

**The United Methodist Foundation
of Western North Carolina, Inc.**

**Statements of Financial Position
December 31, 2016 and 2015**

	2016	2015
Assets		
Cash and cash equivalents	\$ 3,724,038	\$ 2,268,813
Accounts receivable	256,506	236,232
Accrued income receivable	89,674	49,283
Prepaid expenses	14,247	14,913
Investments	160,915,570	145,809,579
Receivable for reinsured gift annuity payments	1,413,555	1,428,803
Loans receivable – clergy debt reduction loan program	1,721,630	-
Loans receivable – development fund	10,211,474	11,036,671
Property and equipment, net	1,395,995	1,266,806
Cash surrender value of life insurance policies	136,917	137,378
	<u>179,879,606</u>	<u>162,248,478</u>
Total assets	\$ 179,879,606	\$ 162,248,478
Liabilities and Net Assets		
Liabilities:		
Accounts payable and deferred revenue	\$ 120,241	\$ 13,728
Liability for amounts held for others	147,188,560	131,696,200
Participation interests in the Development Fund	16,984,197	15,045,261
Charitable remainder unitrusts and gift annuities payable	4,212,585	4,583,711
Deferred charitable benefits	2,024,475	1,972,258
	<u>170,530,058</u>	<u>153,311,158</u>
Total liabilities	170,530,058	153,311,158
Net assets:		
Unrestricted	905,890	1,025,701
Unrestricted – Board designated	2,074,331	1,906,820
	<u>2,980,221</u>	<u>2,932,521</u>
Total unrestricted	2,980,221	2,932,521
Temporarily restricted	2,485,226	2,124,011
Permanently restricted	3,884,101	3,880,788
	<u>9,349,548</u>	<u>8,937,320</u>
Total net assets	9,349,548	8,937,320
	<u>179,879,606</u>	<u>162,248,478</u>
Total liabilities and net assets	\$ 179,879,606	\$ 162,248,478

See notes to financial statements.

The United Methodist Foundation
of Western North Carolina, Inc.

Statements of Activities
Years Ended December 31, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support:				
Contributions	\$ 24,756	\$ 1,158,800	\$ 3,313	\$ 1,186,869
Fees for investment administration and other services	1,150,372	-	-	1,150,372
Interest and dividends	102,391	124,761	-	227,152
Net unrealized and realized gains (losses) on investments	117,867	347,308	-	465,175
Interest income on loans	355,139	-	-	355,139
Change in value of split-interest agreements	-	39,461	-	39,461
Net assets released from restrictions	1,309,115	(1,309,115)	-	-
Total revenues, gains and other support	3,059,640	361,215	3,313	3,424,168
Expenses:				
Beneficiary payments	705,221	-	-	705,221
Program disbursements	573,731	-	-	573,731
Interest expense	260,642	-	-	260,642
Management and general	1,472,346	-	-	1,472,346
Total expenses	3,011,940	-	-	3,011,940
Change in endowment classification	-	-	-	-
Change in net assets	47,700	361,215	3,313	412,228
Beginning net assets	2,932,521	2,124,011	3,880,788	8,937,320
Ending net assets	\$ 2,980,221	\$ 2,485,226	\$ 3,884,101	\$ 9,349,548

See notes to financial statements.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 25,774	\$ 1,164,439	\$ 3,003	\$ 1,193,216
1,139,721	-	-	1,139,721
78,509	112,952	-	191,461
(90,460)	(126,674)	-	(217,134)
387,743	-	-	387,743
(5,966)	(10,594)	(92,676)	(109,236)
1,347,384	(1,347,384)	-	-
2,882,705	(207,261)	(89,673)	2,585,771
624,383	-	-	624,383
690,480	-	-	690,480
256,443	-	-	256,443
1,361,951	-	-	1,361,951
2,933,257	-	-	2,933,257
-	23,704	120,624	144,328
(50,552)	(183,557)	30,951	(203,158)
2,983,073	2,307,568	3,849,837	9,140,478
\$ 2,932,521	\$ 2,124,011	\$ 3,880,788	\$ 8,937,320

**The United Methodist Foundation
of Western North Carolina, Inc.**

**Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 412,228	\$ (203,158)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	44,596	45,999
Net realized and unrealized (gains) losses on investments	(465,175)	217,134
Change in value of split-interest agreements	(39,461)	109,236
Contributions and income restricted for investment in endowments	(3,313)	(3,003)
Changes in operating assets and liabilities:		
Accounts receivable	(20,274)	(34,602)
Accrued income receivable	(40,391)	18,198
Prepaid expenses	666	682
Cash surrender value of life insurance policies	461	(2,583)
Accounts payable and deferred revenue	106,513	(4,111)
Net cash (used in) provided by operating activities	(4,150)	143,792
Cash flows from investing activities:		
Issuance of loans receivable – clergy debt reduction loans	(1,760,379)	-
Payments received on loans receivable – clergy debt reduction loans	38,749	-
Issuance of loans receivable – development fund	(1,149,416)	(891,603)
Payments received on loans receivable – development fund	1,974,613	1,884,538
Purchases and sales of investments, net	(14,640,816)	(4,218,763)
Purchases of property and equipment	(173,785)	(29,369)
Change in liability for amounts held for others	15,492,360	2,244,974
Change in participation interests in the Development Fund, charitable remainder unitrusts and gift annuities payable, and deferred charitable benefits	1,674,736	(1,756,775)
Net cash provided by (used in) investing activities	1,456,062	(2,766,998)
Cash flows provided by financing activities:		
Contributions and income restricted for investment in endowment	3,313	3,003
Net increase (decrease) in cash and cash equivalents	1,455,225	(2,620,203)
Cash and cash equivalents:		
Beginning	2,268,813	4,889,016
Ending	\$ 3,724,038	\$ 2,268,813

See notes to financial statements.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: The United Methodist Foundation of Western North Carolina, Inc. (the Foundation) is a religious, not-for-profit organization providing various investment management services for its clients, which consist of United Methodist churches, institutions and agencies in Western North Carolina. The primary purpose of the Foundation is to act as an agent to provide socially responsible professional investment management services to its clients. The Foundation also accepts participation interests in a Development Fund, the proceeds of which are loaned to clergy, and to United Methodist churches, institutions and agencies in North Carolina and South Carolina for capital projects.

A summary of the significant accounting policies follows:

Accrual basis: The accounts of the Foundation are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation: The financial statements report amounts separately by net asset classification. A summary of these classifications follows.

Unrestricted net assets: Net assets that are both undesignated and designated in nature. Undesignated, unrestricted net assets are those that are not subject to donor-imposed restrictions and are currently available for use in the day-to-day operation of the Foundation and those resources invested in property and equipment.

Temporarily restricted net assets: Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all of, or part of, the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises, are recognized as revenues in the period made. Conditional promises 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.

Receivable for reinsured gift annuity payments: Several gift annuities have been reinsured by a third-party who makes payments to the Foundation in amounts equal to the calculated payments to be distributed to the gift annuity donors. The receivable for reinsured gift annuity payments is equivalent to the estimated present value of the liability which is included within charitable remainder unitrusts and gift annuities payable on the statements of financial position.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

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

Donated services and furniture: The Foundation records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

A number of unpaid volunteers, including those serving in the capacity of Board members, have made significant contributions of their time in the furtherance of the Foundation's programs. The value of this contributed time is not reflected in these financial statements as it does not meet the above recognition criteria.

Income taxes: The Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Cash and cash equivalents: Cash and cash equivalents include highly liquid investments purchased with a maturity of three months or less except money market funds included in the investment portfolio, which are included in investments.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued in the statement of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Investment assets held by other organizations are carried at fair values based upon the net asset value (NAV) of each investment fund as provided by the external investment partners. Because these holdings are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for the investments existed.

Loans receivable: Loans are valued at cost as interest rates on the loans approximate market rates. Through the Development Fund, the Foundation extends loans to organizations in North and South Carolina affiliated with The United Methodist Church for building programs and other capital investments based on specific Board-approved criteria. These loans are generally secured by first mortgages on the land and buildings and bear interest at various rates. Interest rates are adjusted quarterly based in part on market interest rates and changes in the financial markets. Through the Clergy Debt Reduction Loan Program, the Foundation extends loans to clergy in Western NC who have exhibited need based on specific approved criteria. Interest rates are set at 1.5% simple interest for all loans under this program.

Interest on loans is recognized over the term of the loan and is calculated using the interest method on principal amounts outstanding. The recognition of income on a loan is discontinued and previously accrued interest is reversed when interest or principal payments become 90 days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Interest is subsequently recognized only as received until the loan is returned to accrual status. A loan is restored to accrual status when all interest and principal payments are current and the borrower has demonstrated to management the ability to make payments of principal and interest as scheduled.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

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

The Foundation's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral or for other reasons.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. There were no significant amounts of past due loan receivables as of December 31, 2016 and 2015. An allowance for loan losses is not considered necessary as of December 31, 2016 and 2015, as all loans outstanding are deemed current and collectible by management. Additionally, all loans are collateralized by certain types of real property.

Property and equipment: Property and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. The useful lives of furniture, fixtures and equipment range from three to seven years and the useful life of the building is 39 years. The costs of maintenance and repairs, which do not improve or extend the life of the respective asset, are expensed. The cost and any accumulated depreciation are removed from the accounts for items sold or retired, and any resulting gain or loss is included in the determination of the change in net assets.

Cash surrender value of life insurance policies: The Foundation is the owner of whole life insurance policies, donated by the insured. Total face value of these policies is approximately \$646,000 at both December 31, 2016 and 2015. These policies are recorded in the statements of financial position at their estimated cash surrender value, net of outstanding loan balances, if any.

Liability for amounts held for others: The Foundation holds and manages investments, which belong to United Methodist churches, institutions, and agencies. These investments have been reported as a liability for amounts held for others.

Participation interests in the Development Fund: The Foundation offers eligible participants the opportunity to purchase an interest in this Fund (The Offering). The Offering is only made to residents of North and South Carolina, with a minimum investment of \$1,000 and maximum aggregate amount offered at \$100,000,000. In exchange for their investment, investors receive a variable rate of interest funded by the interest paid by borrowers under the loans and through the earnings of short-term investments of unloaned funds. Although investment in the Fund is intended to be for a period of one year or more, investments are redeemable by investors upon written request.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

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

Charitable remainder trusts and gift annuities: The Foundation manages gifts of future interest through charitable remainder trusts and gift annuities. Charitable remainder trusts are planned giving vehicles where a donor establishes a trust with specified distributions to be made to a non-charitable beneficiary, usually the donor, over a specified period of time not to exceed the lives of the beneficiaries. The distributions are derived one of two ways, depending upon the type of charitable remainder trust. If the trust is a charitable remainder annuity trust, the distribution is based upon a stated percentage of the initial value of the trust. The distributions for a charitable remainder unitrust are a specified percentage of the trust's fair market value as determined annually. In certain circumstances, the distribution is based upon the actual income earned by the trust. Upon termination of the trust, a donor specified not-for-profit organization receives the assets remaining in the trust. Amounts due to other specified not-for-profit organizations other than the Foundation are presented as deferred charitable benefits in the accompanying statements of financial position.

A charitable gift annuity is a contract between a donor and the Foundation, where, in exchange for a charitable gift, the donor receives a fixed stream of income for life from the Foundation. Upon the death of the donor, the remaining assets of the annuity are distributed to donor specified not-for-profit organizations. As with charitable remainder trusts, amounts due to other specified not-for-profit organizations other than the Foundation are presented as deferred charitable benefits in the accompanying statements of financial position. The Foundation has voluntarily elected the fair value option for valuing all liabilities associated with the irrevocable trust agreements and annuity agreements.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could significantly differ from these estimates.

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

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

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes Topic 840, *Leases*. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less for which there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities and should recognize lease expense for such leases generally on a straight-line basis over the lease term. Certain qualitative disclosures along with specific quantitative disclosures will be required, so that users are able to understand more about the nature of an entity's leasing activities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. At transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients related to the identification and classification of leases that commenced before the effective date of ASU 2016-02. An entity that elects to use the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The Foundation is currently evaluating the effect the adoption of this standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Foundation for fiscal years beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The adoption of ASU 2016-18 is not expected to have a material impact on the financial statements.

Subsequent events: The Foundation has evaluated its subsequent events (events occurring after December 31, 2016) through June 7, 2017, which represents the date the financial statements were available to be issued.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 2. Concentrations

The Foundation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) insures all depository accounts to a limit of \$250,000 per depositor, per insured bank. During the year, the Foundation from time to time may have amounts on deposit in excess of the insured limits. The Foundation believes that such deposits pose no significant credit risk.

The Foundation receives funds to manage from organizations in the western North Carolina area. The limited geographic area increases the Foundation's exposure to certain business concentrations. Loans receivable are also financial instruments that are exposed to concentrations of credit risk. Loans receivable are with churches and other related United Methodist organizations within North and South Carolina. Realization of these items is dependent on various individual economic conditions. The Foundation performs ongoing credit evaluations of the financial condition of these churches and requires collateral from them. Loans receivable are carried at estimated net realizable values.

Note 3. Investments

Investments at December 31, 2016 and 2015, are summarized below:

	2016	2015
Money market funds	\$ 9,091,238	\$ 8,176,024
Certificates of deposit	50,265	82,455
International equity publicly traded mutual funds	32,646,442	28,848,584
Publicly traded bonds and other debt securities	25,555,880	22,005,280
Short-term bond funds	1,888,922	388,075
Corporate stocks:		
Large cap	52,074,502	44,389,516
Small cap	14,244,166	10,920,642
Assets held by other organizations:		
Funds at Wespath:		
Fixed Income Fund	13,775,691	19,156,524
Inflation Protection Fund	8,242,923	8,522,078
Methodist Loan Fund at the Texas Methodist Foundation (TMF)	419,475	416,134
Duke Energy Premier Notes	2,926,066	2,904,267
Total investments	\$ 160,915,570	\$ 145,809,579

The statements of activities exclude the investment return of the assets held for charitable remainder unitrust and gift annuity obligations and the benefit of others.

The Foundation invests in a variety of investments, which are subject to fluctuations in market values and expose the Foundation to a certain degree of interest and credit risk.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 4. Investment Funds

The Foundation offers a variety of common investment funds and specialized portfolios, each managed by one or more professional investment managers. The following is a summary of the primary funds in which participants have invested through the Foundation.

The Conservative Fund: Asset allocation for this fund is 30% U.S. Large Cap equities and 70% fixed income securities. For the equity portion of this fund, the evaluation benchmark is the S&P 500. For fixed income, the evaluation benchmark consists of 30% Barclays Aggregate Bond Index, 5% Barclays U.S. Treasury Inflation Protected Securities Index, and 35% three-month Treasury Bills. The investment objective of this fund focuses on current income and capital preservation with limited opportunity for capital appreciation.

The Balanced Fund: Asset allocation for this fund is 50% equity and 50% fixed income securities. Evaluation benchmarks are comprised of 32% Russell 3000 and 18% MSCI All Country World Index ex-U.S. for equity. For fixed income, the evaluation benchmark consists of 41% Barclays Aggregate Bond Index, 8% Barclays U.S. Treasury Inflation Protected Securities Index and 1% three-month Treasury Bills. The investment objective of this fund seeks income and conservation of capital with the opportunity for long-term growth of income and capital appreciation.

The Diversified Fund: Asset allocation for this fund is 70% equity and 30% fixed income securities. Evaluation benchmarks are comprised of 45% Russell 3000 and 25% MSCI All Country World Index ex-U.S. for equity. For fixed income, the evaluation benchmark consists of 24% Barclays Aggregate Bond Index, 5% Barclays U.S. Treasury Inflation Protected Securities Index, and 1% three-month Treasury Bills. The investment objective of this fund seeks income, long-term capital appreciation and the protection of real purchasing power by investing in a broad mix of different types of investments with a long-term horizon. Investors should be willing to experience some fluctuations in the value of the fund, though not as much as from holding a fund comprised exclusively of equity stocks.

The All Equity Fund: Asset allocation for this fund is 50% U.S. Large Cap equity, 14% U.S. Small Cap equity, and 36% Non-U.S. equity. Evaluation benchmarks include 64% Russell 3000 and 36% MSCI All Country World Index ex-U.S. The primary objective of this fund is to attain long-term capital appreciation and income from a broadly diversified portfolio that includes both U.S. and International equity stocks. It is designed for investors who seek long-term investment growth through exposure to the broad U.S. stock market as well as regulated International stock exchanges and who are willing to accept the risk of possible wide fluctuations in the unit price of the fund.

The Development Fund: The offering is available to individuals and church institutions that reside in North Carolina or South Carolina. The Development Fund is the funding source of the Loan Program providing loans to United Methodist Churches and United Methodist institutions throughout North Carolina and South Carolina. Investment particulars include a minimum investment of \$1,000, which is intended to be for a period of one year or more; however, investments are redeemable by the investor upon written request. The Development Fund's rate of interest is expected to be at least 2% below the rate of interest charged for the Loan Program which is adjusted quarterly, based in part, on market interest rates, changes in financial markets, and the Foundation's intention to keep interest rates lower than rates available from commercial lenders.

The Income Only Fund: The offering is available to donor advised or institutional clients who desire a conservative investment that allows for immediate cash withdrawal. The Income Only Fund's rate of interest is variable and reflects current money market rates.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 5. Property and Equipment

Property and equipment consist of the following at December 31, 2016 and 2015:

	2016	2015
Land	\$ 542,798	\$ 542,798
Building	852,413	820,474
Automobiles and trucks	122,799	-
Equipment and fixtures	190,044	170,997
Total property and equipment	1,708,054	1,534,269
Less accumulated depreciation	312,059	267,463
Property and equipment, net	<u>\$ 1,395,995</u>	<u>\$ 1,266,806</u>

Note 6. Line of Credit

The Foundation has an uncollateralized line of credit available with a financial institution totaling \$750,000, which originally expired on August 25, 2016. The agreement was amended on July 13, 2016 to increase the availability to \$1,000,000 and extend the expiration date to July 25, 2018. Interest is payable at the greater of a variable rate equal to the one-month London Interbank Offered Rate (LIBOR) or a fixed rate of 3.54% through maturity. There were no borrowings under the line during the years ended December 31, 2016 and 2015.

Note 7. Board Designated Net Assets

Board designated net assets consist of the following at December 31, 2016 and 2015:

	2016	2015
Ministry fund	\$ 1,389,007	\$ 1,418,846
Gift annuity reserve	423,973	487,974
Operating reserve	148,082	-
Building fund	113,269	-
	<u>\$ 2,074,331</u>	<u>\$ 1,906,820</u>

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Endowment gains and unexpended income restricted by the donor	\$ 1,644,578	\$ 1,427,378
Restricted for specific program disbursements	540,859	436,305
Split interest agreements	299,789	260,328
	<u>\$ 2,485,226</u>	<u>\$ 2,124,011</u>

Net assets were released from donor restrictions by incurring distributions satisfying the restricted purposes. Purpose restrictions were accomplished by the distribution of \$1,278,942 and \$1,314,863 to supplement the retirement income of retired ministers and grants awarded to qualified organizations and \$30,173 and \$32,521 for payment of administrative fees for the years ended December 31, 2016 and 2015, respectively.

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Irrevocable endowment funds	\$ 3,884,101	\$ 3,880,788

Note 10. Related Party Transactions

The Foundation is an institution that relates to, and receives support from the Western North Carolina Conference of the United Methodist Church (the Conference). The Foundation received a net contribution from the Conference of \$12,670 during 2015. No such contribution was received in 2016. The Conference has funds invested at the Foundation that had a fair market value of approximately \$74,310,000 and \$66,334,000, at December 31, 2016 and 2015, respectively.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 11. Operating Leases

The Foundation leases office equipment under non-cancellable lease agreements with monthly payments of \$874. Lease expense for the years ended December 31, 2016 and 2015, was \$11,233 and \$24,302, respectively.

The future minimum lease payments are as follows:

Years ending December 31:

2017	\$	10,803
2018		11,127
2019		11,461
2020		11,804
	\$	<u>45,195</u>

Note 12. Endowment Funds

The Foundation's endowment consists of approximately 53 individual funds established for a variety of purposes, as well as permanently restricted donor gifts as part of irrevocable trust and annuity gifts. The endowment includes both donor-restricted endowment funds and a fund designated by the Board of Directors, the Ministry Fund, to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Based upon its interpretation of the current state laws governing endowments, the Foundation classifies the original fair value of donor-restricted endowed gifts as of the gift date as permanently restricted net assets. The remaining portion of donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure under the annual spending policy.

The Foundation has adopted investment and spending policies for its endowed assets whose objectives are the conservation of principal for the effective maintenance of purchasing power, regular income, and growth to offset increases in the cost of living. Endowed assets are invested in the Foundation's Diversified Fund investment strategy, which currently invests 70% in equities and 30% in fixed income assets.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 12. Endowment Funds (Continued)

Expenditures from the fund are based upon a 4% annual spending policy using a trailing three-year average of fund assets as of December 31. Accordingly, the Foundation expects the current spending policy to allow its endowment to grow over the long term. Expenditures from the donor-restricted endowed funds are monitored by the Foundations Grants Committee.

Endowment net asset composition by type of fund as of December 31, 2016 and 2015:

	2016					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Recorded in Net Assets	Amounts Held for Others	Total
Board-designated endowment funds	\$ 1,389,007	\$ -	\$ -	\$ 1,389,007	\$ 3,830,057	\$ 5,219,064
Donor-restricted endowment funds	-	1,644,578	3,884,101	5,528,679	3,613,366	9,142,045
	<u>\$ 1,389,007</u>	<u>\$ 1,644,578</u>	<u>\$ 3,884,101</u>	<u>\$ 6,917,686</u>	<u>\$ 7,443,423</u>	<u>\$ 14,361,109</u>

	2015					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Recorded in Net Assets	Amounts Held for Others	Total
Board-designated endowment funds	\$ 1,418,846	\$ -	\$ -	\$ 1,418,846	\$ 3,386,103	\$ 4,804,949
Donor-restricted endowment funds	(30,363)	1,427,378	3,880,788	5,277,803	3,025,969	8,303,772
	<u>\$ 1,388,483</u>	<u>\$ 1,427,378</u>	<u>\$ 3,880,788</u>	<u>\$ 6,696,649</u>	<u>\$ 6,412,072</u>	<u>\$ 13,108,721</u>

Changes in endowment net assets for the year ended December 31, 2016:

	2016					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Recorded in Net Assets	Amounts Held for Others	Total
Endowment net assets, beginning of year	\$ 1,388,483	\$ 1,427,378	\$ 3,880,788	\$ 6,696,649	\$ 6,412,072	\$ 13,108,721
Investment return:						
Investment income	27,071	124,742	-	151,813	136,487	288,300
Realized and unrealized gains	109,313	347,308	-	456,621	511,805	968,426
Total investment return	136,384	472,050	-	608,434	648,292	1,256,726
Contributions	12,454	-	3,313	15,767	631,722	647,489
Amounts appropriated for expenditure	(148,314)	(254,850)	-	(403,164)	(248,663)	(651,827)
Endowment net assets, end of year	<u>\$ 1,389,007</u>	<u>\$ 1,644,578</u>	<u>\$ 3,884,101</u>	<u>\$ 6,917,686</u>	<u>\$ 7,443,423</u>	<u>\$ 14,361,109</u>

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 12. Endowment Funds (Continued)

Changes in endowment net assets for the year ended December 31, 2015:

	2015					Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Recorded in Net Assets	Amounts Held for Others	
Endowment net assets, beginning of year	\$ 1,441,889	\$ 1,636,572	\$ 3,849,837	\$ 6,928,298	\$ 6,343,893	\$ 13,272,191
Investment return:						
Investment income	23,962	112,877	-	136,839	137,573	274,412
Realized and unrealized losses	(77,621)	(126,674)	-	(204,295)	(201,674)	(405,969)
Total investment return	(53,659)	(13,797)	-	(67,456)	(64,101)	(131,557)
Contributions	253	-	3,003	3,256	391,408	394,664
Amounts appropriated for expenditure	-	(219,101)	-	(219,101)	(259,128)	(478,229)
Net change in permanently restricted annuities and irrevocable trusts	-	-	(92,676)	(92,676)	-	(92,676)
Change in endowment classification	-	23,704	120,624	144,328	-	144,328
Endowment net assets, end of year	\$ 1,388,483	\$ 1,427,378	\$ 3,880,788	\$ 6,696,649	\$ 6,412,072	\$ 13,108,721

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$30,363 as of December 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Directors. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Note 13. Fair Value Measurements of Assets and Liabilities

The Foundation follows the provisions of the Fair Value Measurement Topic of the FASB ASC for financial assets and liabilities. This Topic applies to all financial assets and liabilities that are being measured and reported on a fair value basis, establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. The Fair Value Measurement Topic of the FASB ASC requires that fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges for identical investments as of the reporting date.

Level 2: Financial instruments valued using pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Fair value is determined through use of models or other valuation methodologies.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 13. Fair Value Measurements of Assets and Liabilities (Continued)

Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation. The Foundation's Level 3 financial instruments include planned giving liabilities.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic of the FASB ASC. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

The Foundation has established valuation processes and procedures for Level 3 investments to ensure proper reporting within the fair value hierarchy and in accordance with GAAP. The Foundation's management is responsible for the valuation processes and procedures of the Level 3 investments, including the development of written valuation policies and procedures, conducting periodic reviews of the valuation policies, and determining the proper and consistent application of the valuation policies.

A description of the valuation techniques applied to the Foundation's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Money market funds, certificates of deposit, participation notes, and Duke energy premier notes:

Money market funds, certificates of deposit and participation notes are in active markets and classified within Level 1 of the valuation hierarchy.

International equity publicly traded mutual funds: Investments in mutual funds represent international equity mutual funds which are listed on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Short-term bond funds: Short-term bond funds are listed on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Corporate stocks: Equity securities listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 13. Fair Value Measurements of Assets and Liabilities (Continued)

Publically traded bonds and other debt securities: Investments in bonds and other debt securities are listed on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Planned giving liabilities: Planned giving liabilities consist of payments due to beneficiaries under charitable gift annuities and charitable remainder trusts. The fair value of the payments due to beneficiaries is estimated using investment returns and life expectancies, discounted to present values. These liabilities are classified in Level 3 of the valuation hierarchy.

The following tables summarize the valuation of the Foundation's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015, based on the level of input utilized to measure fair value:

	Fair Value Measurements at Reporting Date Using			
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market funds	\$ 9,091,238	\$ 9,091,238	\$ -	\$ -
Certificates of deposit	50,265	50,265	-	-
Duke Energy premier notes	2,926,066	2,926,066	-	-
International equity publicly traded mutual funds	32,646,442	32,646,442	-	-
Short-term bond funds	1,888,922	1,888,922	-	-
Corporate stocks:				
Technology	15,981,790	15,981,790	-	-
Industrials	8,436,509	8,436,509	-	-
Health care	9,622,385	9,622,385	-	-
Consumer staples	13,989,662	13,989,662	-	-
Financial	8,872,450	8,872,450	-	-
Energy	4,565,021	4,565,021	-	-
Materials and services	1,422,791	1,422,791	-	-
Utilities	1,136,042	1,136,042	-	-
Real Estate	2,292,018	2,292,018	-	-
Publicly traded bonds and other debt securities	25,555,880	25,555,880	-	-
	138,477,481	\$ 138,477,481	\$ -	\$ -
Assets held by other organizations measured at NAV (a):				
Funds at Wespath:				
Fixed Income Fund	13,775,691			
Inflation Protection Fund	8,242,923			
Methodist Loan Fund at TMF	419,475			
Total investments	\$ 160,915,570			
Planned giving liabilities	\$ 4,212,585	\$ -	\$ -	\$ 4,212,585

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 13. Fair Value Measurements of Assets and Liabilities (Continued)

	Fair Value Measurements at Reporting Date Using			
	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market funds	\$ 8,176,024	\$ 8,176,024	\$ -	\$ -
Certificates of deposit	82,455	82,455	-	-
Duke Energy premier notes	2,904,267	2,904,267	-	-
International equity publicly traded mutual funds	28,848,584	28,848,584	-	-
Short-term bond funds	388,075	388,075	-	-
Corporate stocks:				
Technology	12,845,698	12,845,698	-	-
Industrials	6,940,807	6,940,807	-	-
Health care	8,836,752	8,836,752	-	-
Consumer staples	12,198,410	12,198,410	-	-
Financial	7,917,184	7,917,184	-	-
Energy	3,713,526	3,713,526	-	-
Materials and services	1,744,040	1,744,040	-	-
Utilities	1,113,741	1,113,741	-	-
Publicly traded bonds and other debt securities	22,005,280	22,005,280	-	-
	<u>117,714,843</u>	<u>\$ 117,714,843</u>	<u>\$ -</u>	<u>\$ -</u>
Assets held by other organizations measured at NAV (a):				
Funds at Wespath:				
Fixed Income Fund	19,156,524			
Inflation Protection Fund	8,522,078			
Methodist Loan Fund at TMF	416,134			
Total investments	<u>\$ 145,809,579</u>			
Planned giving liabilities	<u>\$ 4,583,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,583,711</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value (NAV) per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 13. Fair Value Measurements of Assets and Liabilities (Continued)

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, the following table provides a reconciliation of beginning and ending balances for the years ended December 31, 2016 and 2015:

	<u>Planned Giving Liabilities</u>
Balance, December 31, 2014	\$ 5,093,748
Payments to beneficiaries	(431,900)
Matured agreements	(438,385)
Actuarial adjustments	360,248
Balance, December 31, 2015	<u>4,583,711</u>
Payments to beneficiaries	(354,602)
Matured agreements	(245,771)
Actuarial adjustments	229,247
Balance, December 31, 2016	<u><u>\$ 4,212,585</u></u>

The Foundation uses an industry standard valuation model to estimate the fair value of the charitable gift annuities. This valuation technique converts the future payments to be made to beneficiaries to a single present value amount. Assumptions used in the valuation model for charitable gift annuities include the following: (a) annual distribution amount specified in donor agreement, (b) life expectancy of the beneficiaries and (c) rate of return which approximates rate of return on similar trust assets. The primary significant unobservable input used within the valuation model is the rate of return. The Foundation used a rate of return of 3.25% at both December 31, 2016 and 2015. This rate of return is based on the actuarial assumptions used by the American Council on Gift Annuities (ACGA) in their publication of suggested charitable gift annuity rates. Life expectancy rates used within the valuation model will vary depending on the age of the beneficiaries. Management reviews these inputs on an annual basis in order to take into consideration changes in fair value measurements from period to period.

A similar valuation model is used to estimate the fair value of the charitable remainder trusts. The Foundation uses third-party planned giving software to estimate the fair value of the charitable remainder trusts. Assumptions used in the valuation model include the following: (a) distribution percentage specified in the trust agreement, (b) life expectancy of the beneficiaries and (c) a remainder factor. The primary significant unobservable input used within the valuation model is the remainder factor. This factor will vary depending on the age of the beneficiaries. During 2015 and 2016, the third-party planned giving software utilized by the Foundation used table remainder factors provided by the 2012 Individual Annuity Reserving table. Life expectancy rates used within the valuation model will vary depending on the age of the beneficiaries. Management reviews these inputs on an annual basis in order to take into consideration changes in fair value measurements from period to period.

**The United Methodist Foundation
of Western North Carolina, Inc.**

Notes to the Financial Statements

Note 14. Net Asset Value

The following tables for December 31, 2016 and 2015, set forth a summary of the Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) practical expedient:

Fair Value Estimated Using Net Asset Value Per Share					
December 31, 2016					
Investment	Fair Value*	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Assets held by other organizations:					
Fixed Income Fund at Wespath (a)	\$ 13,775,691	None	Daily	None	Daily
Inflation Protection Fund at Wespath (b)	8,242,923	None	Daily	None	Daily
Methodist Loan Fund at TMF (c)	419,475	None	Daily	None	Daily
Total	<u>\$ 22,438,089</u>				

Fair Value Estimated Using Net Asset Value Per Share					
December 31, 2015					
Investment	Fair Value*	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Assets held by other organizations:					
Fixed Income Fund at Wespath (a)	\$ 19,156,524	None	Daily	None	Daily
Inflation Protection Fund at Wespath (b)	8,522,078	None	Daily	None	Daily
Methodist Loan Fund at TMF (c)	416,134	None	Daily	None	Daily
Total	<u>\$ 28,094,736</u>				

* The fair values of the investments have been estimated using the NAV or equivalent of the investment.

- (a) Seeks to earn current income by investing in a broadly diversified portfolio of fixed-income instruments through publicly traded U.S. fixed-income securities, and fixed-income securities denominated in currencies other than the U.S. dollar.
- (b) Seeks to provide investors with current income and to protect principal from loss of purchasing power due to inflation through investment in government-issued, inflation-protected securities, inflation-sensitive commodities, futures contracts, as well as cash and cash equivalents.
- (c) Seeks to offer returns that are consistently higher than bank certificates of deposit and money market rates while providing loans to United Methodist churches in Texas.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Financial Practices Committee
The United Methodist Foundation
of Western North Carolina, Inc.
Charlotte, North Carolina

We have audited the financial statements of The United Methodist Foundation of Western North Carolina, Inc. (the Foundation) as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon, which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Charlotte, North Carolina
June 7, 2017

**The United Methodist Foundation
of Western North Carolina, Inc.**

**Investment Funds Pricing
December 31, 2016**

	Estimated Fair Values	Number of Shares	Calculated Price Per Share
The Conservative Fund	\$ 9,258,972	677,609	\$ 13.66
The Balanced Fund	22,724,835	1,323,081	17.18
The Diversified Fund	116,396,876	6,782,673	17.16
The All Equity Fund	908,624	53,579	16.96

The Development Fund estimated fair values are based on the invested balance plus accrued interest (1.5% as of December 31, 2016).

The Income Only Fund estimated fair values are based on the invested balance plus accrued interest (0.5% as of December 31, 2016).