

Oklahoma United Methodist Circle of Care, Inc.

Financial Statements and  
Independent Auditor's Report

**December 31, 2017 and 2016**

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## Independent Auditor's Report

Board of Directors  
Oklahoma United Methodist Circle of Care, Inc.

We have audited the accompanying financial statements of Oklahoma United Methodist Circle of Care, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma United Methodist Circle of Care, Inc. as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Stanfield + O'Dell, P.C.*

Tulsa, Oklahoma  
May 25, 2018

Oklahoma United Methodist Circle of Care, Inc.

**Statements of Financial Position**

December 31,

	2017	2016
<b>Assets</b>		
Cash	\$ 311,224	\$ 168,900
Accounts and grants receivable	295,666	253,110
Prepaid expenses and other assets	115,784	139,872
Investments	25,947,345	19,255,019
Property and equipment, net	1,223,052	1,216,386
	<u>27,893,071</u>	<u>21,033,287</u>
Total assets	<u>\$ 27,893,071</u>	<u>\$ 21,033,287</u>
<b>Liabilities</b>		
Accounts payable	\$ 133,998	\$ 94,492
Accrued vacation	94,202	97,346
	<u>228,200</u>	<u>191,838</u>
Total liabilities	<u>228,200</u>	<u>191,838</u>
Net assets		
Unrestricted	3,695,327	2,731,533
Temporarily restricted	2,294,383	1,993,228
Permanently restricted	21,675,161	16,116,688
Total net assets	<u>27,664,871</u>	<u>20,841,449</u>
	<u>\$ 27,893,071</u>	<u>\$ 21,033,287</u>
Total net assets and liabilities	<u>\$ 27,893,071</u>	<u>\$ 21,033,287</u>

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

Oklahoma United Methodist Circle of Care, Inc.

**Statements of Activities**

Years Ended December 31,

	2017	2016
<b>Change in unrestricted net assets</b>		
Revenues		
Contributions	\$ 1,658,317	\$ 2,185,532
Apportionment receipts	508,101	593,262
Grants and contracts	1,460,999	1,146,918
Investment return	905,638	412,016
Other	90,790	80,527
Total revenues	<u>4,623,845</u>	<u>4,418,255</u>
Net assets released from restrictions	<u>473,745</u>	<u>229,767</u>
Total revenues and other support	<u>5,097,590</u>	<u>4,648,022</u>
Expenses		
Program services:		
Boy's Ranch	445,683	568,409
Frances E. Willard Ministry Center	686,581	677,560
Children's Home	704,532	634,403
Holsinger Home	41,004	40,560
Child Share	1,060,181	942,950
Total program services	<u>2,937,981</u>	<u>2,863,882</u>
Administrative services:		
Management and general	1,028,444	843,587
Fundraising	167,371	131,155
Total administrative services	<u>1,195,815</u>	<u>974,742</u>
Total expenses	<u>4,133,796</u>	<u>3,838,624</u>
<b>Increase in unrestricted net assets</b>	<u>963,794</u>	<u>809,398</u>
<b>Change in temporarily restricted net assets</b>		
Revenues		
Contributions	756,916	988,664
Investment return	17,984	6,917
Total revenues	<u>774,900</u>	<u>995,581</u>
Net assets released from restrictions	<u>(473,745)</u>	<u>(229,767)</u>
<b>Increase in temporarily restricted net assets</b>	<u>301,155</u>	<u>765,814</u>
<b>Change in permanently restricted net assets</b>		
Revenues		
Contributions	4,176,926	2,862,629
Investment return	1,381,547	(428,956)
<b>Increase in permanently restricted net assets</b>	<u>5,558,473</u>	<u>2,433,673</u>
<b>Increase in net assets</b>	6,823,422	4,008,885
<b>Net assets, beginning of year</b>	<u>20,841,449</u>	<u>16,832,564</u>
<b>Net assets, end of year</b>	<u>\$ 27,664,871</u>	<u>\$ 20,841,449</u>

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

Oklahoma United Methodist Circle of Care, Inc.

**Statements of Functional Expenses**

Years Ended December 31,

Functional Expense	Boy's Ranch	Frances E. Willard Ministry Center	Children's Home	Holsinger Home	Child Share	Program Service Total	Management and General	Fundraising	Administrative Service Total	Total
<b>2017</b>										
Salaries	\$ 132,765	\$ 299,294	\$ 208,992	\$ -	\$ 443,593	\$ 1,084,644	\$ 511,378	88,695	\$ 600,073	\$ 1,684,717
Employee benefits	22,782	71,122	40,907	-	78,533	213,344	79,714	13,826	93,540	306,884
Payroll taxes	10,069	21,580	15,049	-	32,923	79,621	37,975	6,586	44,561	124,182
Occupancy	133,791	96,020	211,145	13,282	48,299	502,537	6,375	-	6,375	508,912
Depreciation	26,615	45,165	24,689	4,909	39,762	141,140	5,823	-	5,823	146,963
Supplies	9,529	12,272	44,884	1,881	12,306	80,872	9,532	-	9,532	90,404
Professional fees	1,620	8,789	1,458	578	229,028	241,473	135,738	-	135,738	377,211
Auto and travel	14,389	41,238	13,988	339	27,676	97,630	25,844	-	25,844	123,474
Telephone	6,605	8,876	14,728	1,025	11,827	43,061	3,222	-	3,222	46,283
Specific assistance	19,278	10,444	58,233	11,051	64,579	163,585	-	-	-	163,585
Insurance	38,312	34,319	43,155	2,974	20,850	139,610	13,153	-	13,153	152,763
Other	29,928	37,462	27,304	4,965	50,805	150,464	199,690	58,264	257,954	408,418
	<u>\$ 445,683</u>	<u>\$ 686,581</u>	<u>\$ 704,532</u>	<u>\$ 41,004</u>	<u>\$ 1,060,181</u>	<u>\$ 2,937,981</u>	<u>\$ 1,028,444</u>	<u>\$ 167,371</u>	<u>\$ 1,195,815</u>	<u>\$ 4,133,796</u>
<b>2016</b>										
Salaries	\$ 207,698	\$ 295,627	\$ 179,157	\$ 3,548	\$ 399,229	\$ 1,085,259	\$ 477,883	\$ 79,846	\$ 557,729	\$ 1,642,988
Employee benefits	40,080	65,603	35,040	513	65,788	207,024	81,787	13,665	95,452	302,476
Payroll taxes	15,765	21,159	13,226	411	29,739	80,300	34,298	5,730	40,028	120,328
Occupancy	104,221	70,341	177,722	20,381	29,727	402,392	932	-	932	403,324
Depreciation	30,290	44,066	26,196	3,867	24,660	129,079	5,073	-	5,073	134,152
Supplies	7,662	15,782	31,148	-	9,982	64,574	4,696	-	4,696	69,270
Professional fees	10,714	6,281	16,183	-	251,952	285,130	114,999	-	114,999	400,129
Auto and travel	24,600	36,595	16,155	216	28,456	106,022	16,059	-	16,059	122,081
Telephone	12,594	13,807	18,560	2,737	12,524	60,222	2,702	-	2,702	62,924
Specific assistance	11,648	14,108	54,053	5,307	28,136	113,252	-	-	-	113,252
Insurance	37,755	31,414	42,824	2,843	15,258	130,094	7,792	-	7,792	137,886
Other	65,382	62,777	24,139	737	47,499	200,534	97,366	31,914	129,280	329,814
	<u>\$ 568,409</u>	<u>\$ 677,560</u>	<u>\$ 634,403</u>	<u>\$ 40,560</u>	<u>\$ 942,950</u>	<u>\$ 2,863,882</u>	<u>\$ 843,587</u>	<u>\$ 131,155</u>	<u>\$ 974,742</u>	<u>\$ 3,838,624</u>

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

Oklahoma United Methodist Circle of Care, Inc.

**Statements of Cash Flows**

Years Ended December 31,

	2017	2016
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 6,823,422	\$ 4,008,885
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	146,963	134,151
Contributions restricted for long-term purposes	(4,443,754)	(3,676,569)
Non-cash donation of property	-	(505,000)
Investment earnings from:		
Foundation held investments	(1,064,624)	144,806
Investments at Foundation held for benefit of Circle of Care	(1,289,958)	(203,999)
Investments held at bank	49,413	(10,282)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(42,556)	(1,346)
Prepaid expenses	24,088	(50,380)
Pledges receivable	-	14,176
(Decrease) increase in:		
Accounts payable	39,506	3,857
Accrued vacation	(3,144)	40,857
Net cash provided by (used in) operating activities	<u>239,356</u>	<u>(100,844)</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	(153,629)	(92,477)
Purchase of investments held at financial institutions	(4,445,503)	-
Proceeds from sale of investments held at financial institutions	274,316	-
Purchase of investments held by Foundation	(981,589)	(4,321,588)
Distributions from investments held by Foundation	765,619	816,673
Net cash used in investing activities	<u>(4,540,786)</u>	<u>(3,597,392)</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term purposes	<u>4,443,754</u>	<u>3,676,569</u>
<b>Net increase (decrease) in cash</b>	142,324	(21,667)
<b>Cash at beginning of year</b>	<u>168,900</u>	<u>190,567</u>
<b>Cash at end of year</b>	<u>\$ 311,224</u>	<u>\$ 168,900</u>

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

## Notes to Financial Statements

December 31, 2017 and 2016

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### Note A - Summary of Accounting Policies

#### 1. *Organization and Activities*

The Oklahoma United Methodist Circle of Care, Inc. (the Circle of Care), is an Oklahoma not-for-profit corporation with no capital stock. Affiliated with the Oklahoma Conference of the United Methodist Church, the Circle of Care ministers proactively to the changing physical, emotional and spiritual needs of persons in a hurting society by providing highly specialized services, which strengthen and seek to restore wholeness to individuals and families. The Circle of Care services individuals and families by providing children and adolescents with opportunities for residential living and foster care through its various programs.

The Circle of Care was formed to consolidate services offered by agencies formerly under the Children, Youth and Family Services division of the Oklahoma Conference of the United Methodist Church. These agencies were United Methodist Boy's Ranch, Inc. and United Methodist Children's Home, Inc.

The Circle of Care is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986; therefore, no provision for income taxes is reflected in the financial statements.

#### 2. *Basis of Accounting*

The Circle of Care prepares its financial statements on the accrual basis of accounting. The accounting presentation is used to reflect the activities of the Circle of Care in carrying out the specific programs for which public support has been obtained.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate the Circle of Care to utilize funds in furtherance of its mission. Temporarily restricted net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the Circle of Care which fulfill the restrictions. Permanently restricted net assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently. Donor-restricted gifts are reported as temporarily or permanently restricted revenue.

#### 3. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



## Notes to Financial Statements

December 31, 2017 and 2016

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### Note A - Summary of Accounting Policies - Continued

#### 4. *Pledges Receivable*

Contributions, including unconditional promises to give, are recognized as revenues in the period received or promised. Pledges are recorded at their fair value at the time the promise is made. Circle of Care evaluated its outstanding pledges at December 31, 2017 and 2016, and determined an allowance for uncollectible pledges was not considered necessary.

#### 5. *Investments*

Investments consist of both marketable and non-marketable investment assets as follows:

##### Marketable Securities:

Marketable securities are reported at fair value calculated in accordance with *Accounting Standards Codification* Topic 820, "Fair Value Measurement and Disclosures" (ASC 820). Such investments include pooled investments at "General Board of Pension and Health Benefits" of the United Methodist Church (GBOPHB), alternative investments, U.S. government obligations, equity securities, municipal bonds, corporate debt obligations, and other investments. Fair value is determined based on quoted market prices, observable inputs, or unobservable inputs. Realized gains and losses on sales of marketable securities are computed by utilizing either the first-in, first-out basis or the average cost.

Alternative investments are investments in limited partnerships, limited liability companies, and real estate investment trusts which do not have readily determinable fair value and have attributes of an investment company. Such investments are reported at fair value measured using the net asset value per share practical expedient and are determined by the respective investment managers. In accordance with subtopic ASC 820, such investments have not been classified in the fair value hierarchy.

##### Non-marketable Securities:

Non-marketable securities are reported at management's estimated fair value using unobservable inputs in accordance with ASC 820. Such investments include notes receivable, real estate, mineral interests and other investments. The estimated fair values are based on management's analysis of the underlying assets and other factors deemed relevant to the valuation. Realized gains and losses are computed using the specific identification method.

Notes receivable represent loans advanced to churches and Methodist agencies primarily within the Oklahoma Annual Conference. The loans are typically collateralized by a first mortgage on the property or other suitable collateral. Loans are made at market interest rates with maturities up to 18 years. All loans are paying on terms; therefore, provision for loan loss was not considered necessary by management at December 31, 2017 and 2016.

**Notes to Financial Statements**

December 31, 2017 and 2016

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**Note A - Summary of Accounting Policies - Continued**

*5. Investments - Continued*

The estimated fair values of mineral interests are based on the oil and gas income from the trailing 12 months and a multiple of 7 for gas and 4 for oil, which is an industry standard if reserve studies are not obtained. Non-producing properties are valued at a multiple of 1 to 1.5 times the average lease bonus rate. The cost basis of real estate is the estimated fair value at the date of receipt, and the estimated fair value is based on subsequent appraisals.

*6. Property and Equipment*

Property and equipment is stated at cost. The Circle of Care capitalizes all assets over \$500. Donated assets are recorded at their estimated fair market value at the date of donation. The Circle of Care depreciates its property and equipment using the straight-line method over the following estimated useful lives of the respective assets:

Buildings	20 - 30 Years
Equipment	3 - 7 Years
Furniture and fixtures	5 - 10 Years
Improvements	10 - 15 Years
Automobiles	5 Years

The Circle of Care evaluates the recoverability of the carrying value of fixed assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a fixed asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a fixed asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2017 and 2016.

*7. Statement of Functional Expenses*

Expenses have been directly classified by specific functions where practicable in the statement of functional expenses.

*8. Statement of Cash Flows*

For purposes of the statement of cash flows, the Circle of Care considers cash on hand and amounts on deposit in banks, including cash held under sweep arrangements (repurchase agreements for daily investments in U.S. Treasury funds) as cash equivalents.

**Notes to Financial Statements**

December 31, 2017 and 2016

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**Note A - Summary of Accounting Policies - Continued**

*8. Statement of Cash Flows - Continued*

Cash held on deposit at financial institutions may occasionally exceed federal deposit insurance limits. Such amounts are transferred daily pursuant to the sweep arrangement. Cash held under sweep arrangements is not covered by federal deposit insurance, but is held in the Circle of Care's name and subject to the risks of investing in the noted securities.

*9. Contributed Services and Assets*

The Circle of Care does not recognize any support, revenue or expense from services contributed by volunteers since no objective basis is available to measure its value. Certain contributed assets are recorded as revenue based upon the fair value as of the contribution date.

*10. Retirement Plan*

The Circle of Care participates in the defined contribution plan of the General Board of Pension and Health Benefits of the United Methodist Church, (GBOPHB). The plan covers substantially all employees. The Circle of Care contributes 6 percent of an employee's salary into the plan. The contributions for 2017 and 2016 amounted to \$51,625 and \$55,363, respectively.

*11. Related Party Activity*

Apportionment receipts are passed through the Oklahoma Conference of the United Methodist Church, (an affiliated organization) to the Circle of Care on a periodic basis. Apportionment receipts totaled \$508,101 and \$593,262 (including \$118,190 and \$110,412 in receivables) at December 31, 2017 and 2016, respectively.

*12. Subsequent Events*

The Circle of Care has evaluated subsequent events through May 25, 2018, the date which the financial statements were available to be issued.

**Notes to Financial Statements**

December 31, 2017 and 2016

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**Note B - Accounts and Grants Receivable**

Accounts and grants receivable consist of the following at December 31:

	2017	2016
Accounts receivable		
Oklahoma Conference, The United Methodist Church	\$ 118,190	\$ 110,412
DHS Home Study & Foster Care contract	177,476	99,911
Other	-	42,787
Total accounts receivable	\$ 295,666	\$ 253,110

**Note C – Investments**

*Investments held at Financial Institutions*

The Circle of Care investments held at financial institutions consists of cash and cash equivalents in an interest-bearing account, equities and fixed income mutual funds. In accordance with ASC Topic 820, management determined the fair value of investments using Level 1 inputs which consist of quoted prices in active markets for identical investments as of the reporting date. Circle of Care investments at financial institutions totaled \$4,791,906 and \$670,132 for December 31, 2017 and 2016, respectively.

*Investments held at the Oklahoma United Methodist Foundation, Inc.*

The Circle of Care has designated the Oklahoma United Methodist Foundation, Inc. (the Foundation), as "Trustee" for their investments. Circle of Care investments at the Oklahoma United Methodist Foundation, Inc. totaled of \$21,155,439 and \$14,463,113 for December 31, 2017 and 2016, respectively. The Foundation was organized to accept and administer funds for the Oklahoma Conference of the United Methodist Church, local churches and other institutions, agencies and boards of the United Methodist Church. The Foundation pools certain cash and investment accounts to obtain more favorable rates of return and investment flexibility. Earnings of the pooled resources are allocated based on the number of units held by each trust fund. All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets specifically identifiable to a particular fund are accounted for in the fund that owned the asset. The Foundation investment information disclosed within these financial statements was obtained from the Foundation's audit report dated March 28, 2018, which was audited by a firm other than our Auditor.

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note C – Investments - Continued**

Foundation investments are recorded at market and consist of the following at year-end:

	December 31, 2017	
	Cost	Value
Marketable securities:		
Pooled investments at Wespath:		
Wespath multiple assets fund	\$ 136,782,581	\$ 249,345,146
Wespath U.S. equity fund	3,080,203	4,076,733
Wespath international equity fund	1,627,809	1,970,477
Wespath fixed income fund	2,267,655	2,629,233
Wespath inflation protection fund	88,791	111,516
Total pooled investments at Wespath	<u>143,847,039</u>	<u>258,133,105</u>
Other securities:		
Alternative investments	1,487,199	1,944,110
U.S. government obligations	280,309	277,609
Equity securities	164,290	184,789
Mutual funds	75,476	74,889
Municipal bonds	79,402	82,705
Other	66,211	121,666
Total other investments	<u>2,152,887</u>	<u>2,685,768</u>
Total marketable securities	<u>145,999,926</u>	<u>260,818,873</u>
Non-marketable securities:		
Notes receivable	7,079,372	7,079,372
Real estate	1,838,979	1,838,979
Mineral interests	3,197,894	9,590,947
Other	1,900,000	1,961,146
Total non-marketable securities	<u>14,016,245</u>	<u>20,470,444</u>
	<u>\$ 160,016,171</u>	<u>\$ 281,289,317</u>

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note C - Investments - Continued**

	December 31, 2016	
	Cost	Value
Marketable securities:		
Pooled investments at Wespath:		
Wespath multiple assets fund	\$ 132,697,833	\$ 208,304,551
Wespath U.S. equity fund	3,350,690	3,746,720
Wespath international equity fund	1,797,878	1,676,631
Wespath fixed income fund	2,312,394	2,612,173
Wespath inflation protection fund	103,491	127,180
Total pooled investments at Wespath	<u>140,262,286</u>	<u>216,467,255</u>
Other securities:		
Alternative investments	2,071,271	2,446,527
U.S. government obligations	278,624	277,621
Equity securities	134,698	155,370
Mutual funds	25,000	25,000
Municipal bonds	79,874	85,058
Other	373,085	427,726
Total other investments	<u>2,962,552</u>	<u>3,417,302</u>
Total marketable securities	<u>143,224,838</u>	<u>219,884,557</u>
Non-marketable securities:		
Notes receivable	6,040,414	6,040,414
Real estate	1,158,260	1,158,260
Mineral interests	3,197,893	9,455,495
Other	1,900,000	2,262,468
Total non-marketable securities	<u>12,296,567</u>	<u>18,916,637</u>
	<u>\$ 155,521,405</u>	<u>\$ 238,801,194</u>

Alternative investments represent investments in limited partnerships, limited liability companies, and real estate investment trusts. For more detailed information regarding alternative investments, see the Foundation's audited financial statements.

The Foundation utilized four and five independent investment managers or mutual funds at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, \$260,818,873 and \$219,884,557, respectively, was under their management. As remaining alternative investments are liquidated, proceeds will be placed with Wespath for investment management. The Foundation paid approximately \$1,600,000 and \$1,336,000 to Wespath in management fees during 2017 and 2016, respectively. Such fees were reflected as a reduction in investment income in the accompanying financial statements.

**Notes to Financial Statements**

December 31, 2017 and 2016

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**Note C - Investments - Continued**

As of December 31, 2017 and 2016, the Circle of Care's portion of these investments totaled \$21,155,440 and \$18,584,887, including \$13,736,587 and \$12,325,732 held for the benefit of Circle of Care, respectively.

Investments at December 31, 2017 and 2016 also included \$4,791,906 and \$670,132 of money market, equities, bonds, and mutual funds held in trust at banks for the benefit of the Circle of Care, respectively.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2017</u>				
Investment income	\$ 446,292	\$ 7,124	\$ (30,683)	\$ 422,733
Unrealized gain	459,346	10,860	1,412,230	1,882,436
Total investment return	<u>\$ 905,638</u>	<u>\$ 17,984</u>	<u>\$ 1,381,547</u>	<u>\$ 2,305,169</u>
<u>2016</u>				
Investment income	\$ 318,131	\$ 4,940	\$ (674,553)	\$ (351,482)
Unrealized gain	93,885	1,977	245,597	341,459
Total investment return	<u>\$ 412,016</u>	<u>\$ 6,917</u>	<u>\$ (428,956)</u>	<u>\$ (10,023)</u>

Investment Policy:

The Circle of Care has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Circle of Care classifies as permanently restricted net assets 1) original value of endowed gifts, 2) any subsequent gifts, and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

The Circle of Care has approved an endowment distribution or spending policy whereby distributions are limited to 5 percent of the fair value of the individual endowment funds. Actual endowment returns earned in excess of 5 percent are retained as part of the corpus to offset inflation.

## Notes to Financial Statements

December 31, 2017 and 2016

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### Note C - Investments - Continued

The Circle of Care's investment objective is to achieve superior, long-term performance, while at the same time maximizing current income. Investment goals are formulated to earn returns over the long-term that equal or exceed the spending policy rates plus the impact of inflation. Funds are invested in a highly diversified portfolio to mitigate downturns in a single sector.

#### Fair Value:

The fair values reported below for financial instruments were based on a variety of factors. In some cases, fair values have been estimated based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of December 31, 2017 and 2016, or that will be realized in the future.

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of these instruments. The carrying value of investments, which is fair value, is based upon quoted market prices, if available. If quoted market prices are not available, fair value is estimated using quoted prices for similar securities.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 consists of unobservable inputs, which are used where observable inputs are unavailable, and have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities.

#### Investment Risk:

Investment risk is the risk that Circle of Care's investments will not perform in accordance with their expected outcomes, and encompasses, but is not limited to, risks such as credit risk (the risk that an issuer or other counterparty to an investment will not fulfill its obligations), interest rate risk (the risk that changes in interest rates will adversely affect the fair value of investment), and market risk (the risk that the value of a portfolio will decrease due to the change of various market conditions; market risk also represents risk that cannot be reduced through diversification). Investment risk is subject to the investment policy of the Circle of Care.



**Notes to Financial Statements**

December 31, 2017 and 2016

**Note C - Investments - Continued**

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

	Fair Value Measurements at Reporting Date Using			
	Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2017</u>				
Marketable securities:				
Pooled investments at Wespath	\$ 258,133,105	\$ -	\$ -	\$ 258,133,105
U.S. government obligations	277,609	-	277,609	-
Equity securities	184,789	35,156	-	149,633
Mutual funds	74,889	49,889	-	25,000
Municipal bonds	82,705	-	82,705	-
Other	121,666	-	-	121,666
	<u>258,874,763</u>	<u>85,045</u>	<u>360,314</u>	<u>258,429,404</u>
Alternative investments				
measured at net asset value	1,944,110	-	-	-
Total marketable securities	<u>260,818,873</u>	<u>85,045</u>	<u>360,314</u>	<u>258,429,404</u>
Non-marketable securities:				
Notes receivable	7,079,372	-	-	7,079,372
Real estate	1,838,979	-	-	1,838,979
Mineral interests	9,590,947	-	-	9,590,947
Other	1,961,146	-	-	1,961,146
Total non-marketable securities	<u>20,470,444</u>	<u>-</u>	<u>-</u>	<u>20,470,444</u>
	<u>\$ 281,289,317</u>	<u>\$ 85,045</u>	<u>\$ 360,314</u>	<u>\$ 278,899,848</u>

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note C - Investments - Continued**

<u>2016</u>	Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities:				
Pooled investments at Wespath	\$ 216,467,255	\$ -	\$ -	\$ 216,467,255
U.S. government obligations	277,621	-	277,621	-
Equity securities	155,370	5,737	-	149,633
Mutual funds	25,000	-	-	25,000
Municipal bonds	85,058	-	85,058	-
Other	427,726	-	306,874	120,852
	<u>217,438,030</u>	<u>5,737</u>	<u>669,553</u>	<u>216,762,740</u>
Alternative investments				
measured at net asset value	2,446,527	-	-	-
Total marketable securities	<u>219,884,557</u>	<u>5,737</u>	<u>669,553</u>	<u>216,762,740</u>
Non-marketable securities:				
Notes receivable	6,040,414	-	-	6,040,414
Real estate	1,158,260	-	-	1,158,260
Mineral interests	9,455,495	-	-	9,455,495
Other	2,262,468	-	-	2,262,468
Total non-marketable securities	<u>18,916,637</u>	<u>-</u>	<u>-</u>	<u>18,916,637</u>
	<u>\$ 238,801,194</u>	<u>\$ 5,737</u>	<u>\$ 669,553</u>	<u>\$ 235,679,377</u>

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note C - Investments - Continued**

The following is a reconciliation of the activity of those financial instruments whose fair values were determined using Level 3 inputs:

	Fair Value January 1, 2017	Purchases	(Sales)	Investment Gains (Losses)	Fair Value December 31, 2017
Marketable securities:					
Pooled investments at Wespeth	\$ 216,467,255	\$ 5,374,000	\$ (2,723,000)	\$ 39,014,850	\$ 258,133,105
Equity securities	149,633	-	-	-	149,633
Mutual funds	25,000	-	-	-	25,000
Other	120,852	-	-	814	121,666
Total marketable securities	<u>216,762,740</u>	<u>5,374,000</u>	<u>(2,723,000)</u>	<u>39,015,664</u>	<u>258,429,404</u>
Non-marketable securities:					
Notes receivable	6,040,414	1,544,732	(505,774)	-	7,079,372
Real estate	1,158,260	1,033,219	(225,191)	(127,309)	1,838,979
Mineral interests	9,455,495	-	-	135,452	9,590,947
Other	2,262,468	-	-	(301,322)	1,961,146
Total non-marketable securities	<u>18,916,637</u>	<u>2,577,951</u>	<u>(730,965)</u>	<u>(293,179)</u>	<u>20,470,444</u>
Total securities	<u>\$ 235,679,377</u>	<u>\$ 7,951,951</u>	<u>\$ (3,453,965)</u>	<u>\$ 38,722,485</u>	<u>\$ 278,899,848</u>

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note C - Investments - Continued**

	Fair Value January 1, 2016	Purchases	(Sales)	Investment Gains (Losses)	Fair Value December 31, 2016
<b>Marketable securities:</b>					
Pooled investments					
at Wespeth	\$ 198,315,057	\$ 2,100,000	\$ (706,000)	\$ 16,758,198	\$ 216,467,255
Equity securities	177,350	-	-	(27,717)	149,633
Mutual funds	25,000	-	-	-	25,000
Other	116,427	-	-	4,425	120,852
Total marketable securities	<u>198,633,834</u>	<u>2,100,000</u>	<u>(706,000)</u>	<u>16,734,906</u>	<u>216,762,740</u>
<b>Non-marketable securities:</b>					
Notes receivable	7,238,310	413,931	(1,611,827)	-	6,040,414
Real estate	1,155,139	3,121	-	-	1,158,260
Mineral interests	8,441,118	-	-	1,014,377	9,455,495
Other	2,581,534	-	-	(319,066)	2,262,468
Total non-marketable securities	<u>19,416,101</u>	<u>417,052</u>	<u>(1,611,827)</u>	<u>695,311</u>	<u>18,916,637</u>
Total securities	<u>\$ 218,049,935</u>	<u>\$ 2,517,052</u>	<u>\$ (2,317,827)</u>	<u>\$ 17,430,217</u>	<u>\$ 235,679,377</u>

**Note D - Property and Equipment**

Property and equipment consisted of the following at December 31:

	2017	2016
Buildings and improvements	\$ 7,528,540	\$ 7,449,523
Furniture and equipment	708,973	683,772
Automobiles	455,278	406,866
Land	127,903	127,903
Construction in process	1,000	-
Total	<u>8,821,694</u>	<u>8,668,064</u>
Less accumulated depreciation	<u>(7,598,642)</u>	<u>(7,451,678)</u>
Net property and equipment	<u>\$ 1,223,052</u>	<u>\$ 1,216,386</u>

**Notes to Financial Statements**

December 31, 2017 and 2016

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**Note E - Net Assets**

Net assets consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
<b>Unrestricted</b>	\$ 3,695,327	\$ 2,731,533
<b>Temporarily Restricted</b>		
Capital improvements	1,845,133	1,609,180
Program service	449,250	384,048
Total temporarily restricted	<u>2,294,383</u>	<u>1,993,228</u>
<b>Permanently Restricted</b>		
Endowment fund	<u>21,675,161</u>	<u>16,116,688</u>
	<u>\$ 27,664,871</u>	<u>\$ 20,841,449</u>

Net assets were released from donor restrictions by incurring general expenses or by occurrence of other events specified by donors satisfying the restricted purposes. There are six endowment funds, five funds are for the benefit both capital improvements and program services and one fund benefits program services.