

TEXAS METHODIST FOUNDATION

**Financial Statements as of and for the
Years Ended December 31, 2017 and 2016
and Independent Auditors' Report**



TEXAS METHODIST FOUNDATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTAL SCHEDULES:	
Supplemental Schedules of Financial Position by Fund	26
Supplemental Schedules of Activities by Fund	27
Notes to Supplemental Schedules	28
SCHEDULE OF SELECTED FINANCIAL DATA	29



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 303 East Main Street
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Texas Methodist Foundation:

We have audited the accompanying financial statements of Texas Methodist Foundation (a nonprofit organization) ("TMF") which comprise the statements of financial position as of December 31, 2017 and 2016, and 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.

Auditors' Responsibility

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 TMF as of December 31, 2017 and 2016, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of TMF taken as a whole. The accompanying supplemental schedules and selected financial data are presented for purposes of additional analysis and are 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 audit 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 or to 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.

Maxwell Locher : Ritter LLP

Austin, Texas
April 18, 2018

TEXAS METHODIST FOUNDATION

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 12,008,715	\$ 2,694,362
Accrued interest receivable	2,470,552	1,228,959
Consulting fees receivable	3,000	2,500
Pledges receivable, net	-	1,000
Prepaid expenses	587,094	599,863
Investments	194,281,431	157,737,826
Loans	356,735,137	359,417,473
Fixed assets, net	2,574,288	2,721,864
Intangible assets	464,348	530,535
TOTAL	<u>\$ 569,124,565</u>	<u>\$ 524,934,382</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Distributions, grants and accounts payable	\$ 1,676,122	\$ 3,460,906
Deferred revenue	95,450	131,405
Deferred grant revenue	1,210,000	400,000
Line of credit	-	12,965,000
Funds managed for investors	388,908,779	387,592,620
Funds held as agent	79,158,290	56,753,456
Note payable	23,750,000	-
Total liabilities	<u>494,798,641</u>	<u>461,303,387</u>
NET ASSETS:		
Unrestricted:		
Undesignated endowment	38,707,385	34,648,404
Designated endowment for Leadership Ministries	8,161,157	7,131,045
Unrealized and realized investment losses on restricted net assets (note 11)	(14,807)	(145,927)
Total unrestricted net assets	46,853,735	41,633,522
Temporarily restricted	11,430,207	7,560,815
Permanently restricted	16,041,982	14,436,658
Total net assets	<u>74,325,924</u>	<u>63,630,995</u>
TOTAL	<u>\$ 569,124,565</u>	<u>\$ 524,934,382</u>

See notes to financial statements.

TEXAS METHODIST FOUNDATION

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Interest	\$ 14,237,126	176,541	-	14,413,667
Unrealized and realized gains on investments	2,725,411	2,090,246	1,292,084	6,107,741
Contributions and bequests	311,111	2,256,136	313,240	2,880,487
Administrative income	525,000	-	-	525,000
Unrealized and realized gains on investments on permanently restricted funds	131,120	-	-	131,120
Dividends	120,742	-	-	120,742
Oil and gas royalties	1,315	38,057	-	39,372
Consulting fees income	21,000	-	-	21,000
Other	690,372	25,570	-	715,942
Change in actuarial liability	-	(817)	-	(817)
Net assets released from restrictions- expiration of time restrictions	716,341	(716,341)	-	-
Total revenues, gains and other support	<u>19,479,538</u>	<u>3,869,392</u>	<u>1,605,324</u>	<u>24,954,254</u>
Expenses:				
Programs:				
Loan and investor services	6,975,794	-	-	6,975,794
Leadership services	2,763,337	-	-	2,763,337
Charitable services	2,709,446	-	-	2,709,446
General and administrative	1,475,693	-	-	1,475,693
Depreciation and amortization	335,055	-	-	335,055
Total expenses	<u>14,259,325</u>	<u>-</u>	<u>-</u>	<u>14,259,325</u>
Change in net assets	5,220,213	3,869,392	1,605,324	10,694,929
Net assets at beginning of year	<u>41,633,522</u>	<u>7,560,815</u>	<u>14,436,658</u>	<u>63,630,995</u>
Net assets at end of year	<u>\$ 46,853,735</u>	<u>11,430,207</u>	<u>16,041,982</u>	<u>74,325,924</u>

See notes to financial statements.

TEXAS METHODIST FOUNDATION

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Interest	\$ 13,176,945	204,103	-	13,381,048
Unrealized and realized gains on investments	1,990,265	1,759,075	406,868	4,156,208
Contributions and bequests	166,770	1,387,399	1,356,556	2,910,725
Unrealized and realized gains on investments on permanently restricted funds	100,110	-	-	100,110
Dividends	105,773	78	-	105,851
Oil and gas royalties	30,211	30,705	-	60,916
Consulting fees income	23,000	-	-	23,000
Change in actuarial liability	604,276	(9,141)	-	595,135
Net assets released from restrictions- expiration of time restrictions	1,879,089	(1,879,089)	-	-
Total revenues, gains and other support	<u>18,076,439</u>	<u>1,493,130</u>	<u>1,763,424</u>	<u>21,332,993</u>
Expenses:				
Programs:				
Loan and investor services	6,143,338	-	-	6,143,338
Charitable services	3,361,277	-	-	3,361,277
Leadership services	2,643,340	-	-	2,643,340
General and administrative	1,313,066	-	-	1,313,066
Depreciation and amortization	353,087	-	-	353,087
Total expenses	<u>13,814,108</u>	<u>-</u>	<u>-</u>	<u>13,814,108</u>
Change in net assets	4,262,331	1,493,130	1,763,424	7,518,885
Net assets at beginning of year	<u>37,371,191</u>	<u>6,067,685</u>	<u>12,673,234</u>	<u>56,112,110</u>
Net assets at end of year	<u>\$ 41,633,522</u>	<u>7,560,815</u>	<u>14,436,658</u>	<u>63,630,995</u>

See notes to financial statements.

TEXAS METHODIST FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 10,694,929	\$ 7,518,885
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	335,055	353,087
Loss (gain) on actuarial liability	817	(595,135)
Unrealized gains on investments	(2,634,979)	(3,977,586)
Gain on disposal of fixed assets	(3,660)	(1,978)
Contributions, bequests, interest and dividends restricted for long-term investments	(1,605,324)	(1,763,424)
Changes in assets and liabilities that provided (used) cash:		
Accrued interest receivable	(1,241,593)	33,971
Consulting fees receivable	(500)	1,000
Pledges receivable, net	1,000	162,155
Prepaid expenses	12,769	(10,089)
Investments	(33,908,626)	8,630,372
Loans	2,682,336	(34,720,908)
Distributions, grants and accounts payable	(1,784,784)	(414,578)
Deferred revenue	(35,955)	55,955
Deferred grant revenue	810,000	(200,000)
Funds managed for investors	1,316,159	(1,419,730)
Funds held as agent	22,404,017	1,971,698
Net cash used in operating activities	(2,958,339)	(24,376,305)
Cash flows from investing activities:		
Purchases of fixed assets	(153,132)	(531,106)
Proceeds from sales of fixed assets	35,500	58,850
Net cash used in investing activities	(117,632)	(472,256)
Cash flows from financing activities:		
Contributions and bequests	313,240	1,356,556
Unrealized gains restricted for investment	1,292,084	406,868
Proceeds from line of credit	-	69,160,000
Payments on line of credit	(12,965,000)	(56,195,000)
Proceeds from note payable	25,000,000	-
Payments on note payable	(1,250,000)	-
Net cash provided by financing activities	12,390,324	14,728,424
Change in cash and cash equivalents	9,314,353	(10,120,137)
Cash and cash equivalents, beginning of year	2,694,362	12,814,499
Cash and cash equivalents, end of year	\$ 12,008,715	\$ 2,694,362
Supplemental disclosures of cash flow information:		
Interest paid on line of credit	\$ 477,939	\$ 139,582
Interest paid on note payable	\$ 209,229	\$ -

See notes to financial statements.

TEXAS METHODIST FOUNDATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 - ORGANIZATION

Texas Methodist Foundation (“TMF”), a not-for-profit corporation, provides services for affiliates of the United Methodist Church, including the annual conferences of Central Texas, North Texas, Northwest Texas, Rio Texas, and New Mexico, local churches, other institutions, agencies, boards and individuals. TMF assists churches in the establishment of planned-giving programs, accepts and administers funds as donee and manager for gifts and endowments, provides loans and stewardship services to local churches and other institutions. TMF also provides leadership, self-care and spiritual formation resources for United Methodist clergy, laity, and judicatory leaders in Texas and New Mexico through the Leadership Ministry. All of these services are interrelated and are provided using common resources; therefore, they are treated as a single program and are presented on the statements of activities on a functional basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of TMF and changes therein are classified and reported as follows:

Unrestricted - Net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Examples of unrestricted net assets include assets owned by TMF which may be used for any purpose at the discretion of management. TMF has designated a portion of the unrestricted net assets for the Leadership Ministry. The statements of activities include the activity of funds managed for investors. These funds represent funds invested by third parties for a temporary or indefinite period and are reflected on the statements of financial position as “funds managed for investors” liabilities. These funds are invested under two different arrangements: (1) Foundation-designated investment fund for which TMF makes all investment decisions related to these investments and pays interest at rates established on a monthly basis and (2) the owner-designated investment funds for which TMF manages specific securities and other investments under a separate agreement with the investor and remits the actual income to the investor.

Temporarily restricted - Net assets resulting (a) from contributions and other inflows of assets whose use by TMF is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of TMF pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) forty-five percent (45%) of donor-restricted endowments of perpetual duration which have no explicit donor stipulations, as determined by TMF's Board of Directors (the "Board"). Examples of temporarily restricted net assets include annuities and certain endowments which require distributions upon the passage of time such as a monthly, quarterly or annual payment.

Permanently restricted - These types of net assets result (a) from contributions and other inflows of assets whose use by TMF is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of TMF, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, or (c) fifty-five percent (55%) of donor-restricted endowments of perpetual duration which have no explicit donor stipulations, as determined by TMF's Board. Examples of permanently restricted net assets include endowments and the portion of earnings of endowments which are reinvested into the corpus and held in perpetuity.

The statements of activities reflect changes in each of the classes of net assets. Earnings on permanently restricted balances are presented as changes in the temporarily restricted class until such time as the stipulations which allow distributions are satisfied. For all stipulations on temporarily restricted net assets which have been satisfied, the net assets are released from restrictions and the required distributions or uses are paid or payable from the unrestricted net asset balance.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 - Inputs based on quoted market prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 - Unobservable inputs that reflect TMF's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Fair Value of Financial Instruments - The following methods and assumptions were made to estimate the fair value of each class of financial instruments for which it is practicable to estimate values:

Cash and cash equivalents, accrued interest receivable, consulting fees receivable, prepaid expenses, distributions, grants and accounts payable, deferred revenues, deferred grant revenue and funds managed for investors are reflected in the financial statements at cost, which approximates fair value because of the short-term maturity of those instruments.

Pledges receivable are reflected in the financial statements at fair value (see Note 5).

Investments are reflected in the financial statements at fair value (see Note 6).

Loans are valued at cost as interest rates on these loans approximate market rates (see Note 7).

Funds held as agent (endowments and annuities payable) are reflected in the financial statements at fair value.

TMF's financial instruments are non-derivative financial instruments and are held or issued for operating purposes.

Cash and Cash Equivalents - TMF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Pledges Receivable and Pledges Payable - Pledges receivable are recorded at the amount TMF expects to receive from donors. Unconditional promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. These designations do not represent income to TMF and were recorded as a liability within distributions, grants and accounts payable at year-end. No allowance for uncollectible pledges receivable has been recorded as, historically, TMF has not experienced material uncollectible amounts.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Donated investments are recorded at fair value as of the date of the gift or bequest. TMF maintains investments of various funds in pooled accounts to obtain investment flexibility. The assets, liabilities and earnings of the pooled resources are allocated to investors based on their percentages of participation. Realized gains or losses on the sale of securities are based on specific identification of the cost of securities sold and are presented together with unrealized gain or loss on investments in the statements of activities.

Loans - Loans are valued at cost as interest rates on these loans approximate market rates. TMF extends loans primarily to Texas and New Mexico Methodist Churches and other organizations and may participate in loans with other United Methodist Foundations outside of Texas and New Mexico. These loans generally are for terms of one to twenty years, are secured by first mortgages on land and buildings and bear interest at various rates. Interest income is recorded as earned and is based on the outstanding balance. Loans with payments past due over thirty days are considered delinquent, at which time management begins monitoring these loans and restructures loans as considered necessary. Per Board approved policy, any loans deemed impaired by TMF staff would be purchased with and become assets of TMF's undesignated endowment thereby removing the risk of loss to the Methodist Loan Portfolio. As of December 31, 2017 and 2016, there were no impaired loans. Allowances for loan losses are not considered necessary as of December 31, 2017 and 2016.

Fixed Assets - TMF capitalizes all acquisitions in excess of \$5,000. Fixed assets are stated at cost, net of accumulated depreciation. Donated property and equipment are stated at the estimated fair market value as of the date of the gift or bequest. Expenditures for maintenance and minor repairs are charged to expense as incurred. Major repairs and betterments are capitalized. Interest was capitalized in connection with the construction of the building. The capitalized interest was recorded as part of the asset to which it relates and is amortized over the building's useful life. Depreciation is computed using straight-line and accelerated methods. The annual depreciation rates are based on the following ranges of useful lives:

Building	37.5 years
Tenant improvements	2-7 years
Office furniture and equipment	5-7 years
Automobiles	4 years

Intangible Assets - Intangible assets have been determined to have finite lives and as such are being amortized over their respective useful lives. The fair value of the customer relationships derived from the purchase of selected assets and liabilities from The United Methodist Foundation of the Central Texas Annual Conference ("CTMF") on February 16, 2012, is being amortized under the accelerated amortization method over 22 years. TMF reviews intangible assets for impairment at least annually.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable.

Deferred Revenue - Included in deferred revenue are fees that have been received in advance for the Ministry group registration and consulting fees. Revenue will be recognized when the events take place and the services are rendered.

Charitable Gift Annuities, Charitable Remainder Trusts, Charitable Remainder Unitrusts and Charitable Remainder Annuity Trusts - TMF is the trustee of various charitable gift annuities, charitable remainder trusts, charitable remainder unitrusts and charitable remainder annuity trusts. These agreements have been established by its settlors for their benefit and for the benefit of third parties. In some instances, settlors have designated TMF as a beneficiary.

Upon establishment of third party agreements, TMF records the underlying assets and a corresponding liability for the same amount. The liability is included in the “Funds Held as Agent” liability in the statements of financial position.

If TMF has been designated by the settlor as a beneficiary or if TMF has variance power, TMF calculates the present value of the periodic payments to be made to the settlors and its third party beneficiaries and classifies this amount as a payable. TMF records the excess of the assets received over the present value of the estimated liability, as a contribution upon the establishment of the agreement at TMF. Any changes in the present value of the liability are recorded annually as an actuarial gain or loss presented as change in actuarial liability in the statements of activities. TMF uses the Internal Revenue Service (“IRS”) life-expectancy tables to compute the estimates of present value of the life expectancy of the settlor and its beneficiaries. The discount rate used in determining the fair value of the liabilities at December 31, 2017 and 2016 was 2.7% and 1.8%, respectively.

Charitable gift annuities, charitable remainder trusts, charitable remainder unitrusts and charitable remainder annuity trusts measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows at December 31:

	2017	2016
Beginning of year	\$ 16,305,986	\$ 16,867,578
Additions	255,979	201,251
Transfers/terminations	(285,156)	(445,394)
Actuarial adjustment	1,106,229	(317,449)
End of year	\$ 17,383,038	\$ 16,305,986

TMF is required by the State of Texas to maintain a reserve of at least \$100,000 to make payments if the assets of the charitable gift annuities are depleted. This is held in the Undesignated Endowment. The liability related to charitable gift annuities is recorded within funds held as agent in the statements of financial position.

Split Interest Agreements - Split interest agreements consist of charitable gift annuities, charitable remainder trusts, charitable remainder unitrusts and charitable remainder annuity trusts TMF has been named a beneficiary or if TMF has variance power. Assets held in these agreements are included in investments and are recorded at their fair value when received. Contribution revenues are recognized at the dates the trusts are established net of the liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the agreements for changes in the value of the assets, accretion of the discount and other changes in the estimates of future benefits. The liability for the present value of deferred gifts is based upon actuarial estimates and assumptions regarding the duration of the agreements and the rates to discount the liability. Circumstances affecting these assumptions can change the estimate of this liability in future periods. Changes in the present value of the liability are recorded annually as an actuarial gain or loss presented as change in actuarial liability in the statements of activities.

At December 31, 2017 the assets and liabilities of the split-interest agreements were \$268,040 and \$333,389, respectively. At December 31, 2016 the assets and liabilities of the split-interest agreements were \$132,008 and \$335,000 respectively.

The liability under split-interest agreements measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows at December 31:

	2017	2016
Beginning of year	\$ 132,858	\$ 133,790
Actuarial adjustment	(850)	(931)
End of year	\$ 132,008	\$ 132,858

Funds Held as Agent - TMF receives funds pursuant to life-income and endowment agreements. The present value portion of the life-income agreements that will be paid out over the life of the agreement is included in the “Funds Held as Agent” liability. The portion of endowment agreements for which TMF has no variance power is also included in this liability.

Contributions - Contributions received (including unconditional promises to give) are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period received depending on the existence and/or nature of any donor restrictions. If TMF accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or transfer those assets, return on investment of those assets, or both to a specified beneficiary, the fair value of those assets are recorded as a liability to the specified beneficiary concurrent with recognition of the assets received from the donor. However, if the donor explicitly grants the recipient organization variance power or if the recipient organization and the specified beneficiary are financially interrelated organizations, the fair value of the assets received is recorded as a contribution. Conditional promises to give are recognized when the conditions on which they are dependent are substantially met.

Income Taxes - TMF is exempt from federal income taxes, except with respect to any unrelated business income, under Section 501(c)(3) of the Internal Revenue Code, except for any unrelated business activities. TMF did not incur any tax liabilities due to unrelated business income during the years ended December 31, 2017 or 2016. Due to the IRS designation as an association of a church, TMF is exempt from filing an annual Form 990 tax return in the U.S. federal jurisdiction.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Updates (“ASU”) No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. TMF is currently evaluating the impact the standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. TMF is currently evaluating the impact the standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statement of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method. Entities will be required to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. TMF is currently evaluating the impact the standard will have on its financial statements.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject TMF to credit risk consist of cash and cash equivalents, investments, loans and other receivables. TMF places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Investments, other than loans, do not represent a significant concentration of credit risk due to the diversification of TMF's portfolio among instruments and issues. However, investment securities, including money market funds, are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statement of financial position. TMF approves loans to Methodist churches and other organizations throughout the states of Texas and New Mexico. Although TMF has a diversified portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon United Methodist Churches.

NOTE 4 - RELATED PARTY TRANSACTIONS

TMF received \$2,226 and \$1,192 in Board contributions for the years ended December 31, 2017 and 2016, respectively.

NOTE 5 - PLEDGES RECEIVABLE

As of December 31, 2016, \$1,000 in pledges receivable was designated by donors to benefit other beneficiaries. These designations do not represent income to TMF and have been recorded as pledges payable as part of distribution, grants and accounts payable on the statement of financial position.

There were no pledges receivable as of December 31, 2017.

NOTE 6 - INVESTMENTS

Investments consisted of the following at December 31, 2017:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks	\$ 184,734,167	\$ 184,734,167	\$ -	\$ -
Certificates of Deposit	4,993,752	-	4,993,752	-
Corporate Bonds, Bond Funds and Government Securities	3,222,756	-	3,222,756	-
Land and Buildings	751,817	-	-	751,817
Oil and Gas Interests	524,271	-	-	524,271
Cash Surrender Value of Life Insurance Policies	54,668	-	54,668	-
Total Investments	<u>\$ 194,281,431</u>	<u>\$ 184,734,167</u>	<u>\$ 8,271,176</u>	<u>\$ 1,276,088</u>

Investments consisted of the following at December 31, 2016:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks	\$ 147,530,831	\$ 147,530,831	\$ -	\$ -
Certificates of Deposit	5,003,463	-	5,003,463	-
Corporate Bonds, Bond Funds and Government Securities	3,238,188	-	3,238,188	-
Land and Buildings	1,346,241	-	-	1,346,241
Oil and Gas Interests	561,357	-	-	561,357
Cash Surrender Value of Life Insurance Policies	57,746	-	57,746	-
Total Investments	<u>\$ 157,737,826</u>	<u>\$ 147,530,831</u>	<u>\$ 8,299,397</u>	<u>\$ 1,907,598</u>

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2017	2016
Beginning of year	\$ 1,907,598	\$ 2,667,319
Sales of land	(594,424)	(722,635)
Depletion on oil and gas interests	(37,086)	(37,086)
End of year	<u>\$ 1,276,088</u>	<u>\$ 1,907,598</u>

All Level 1 and Level 2 investments have been valued using a market approach. Level 3 investments have been valued using an income approach. The fair value of investments at December 31, 2017 and 2016 were based on the following:

Stocks - Stocks are valued based upon market quotations published by a securities exchange registered with the Securities and Exchange Commission as listed in various online investment services.

Corporate Bonds, Bond Funds and Government Securities - Corporate bonds, bond funds and government securities are valued based upon quotations as listed in various online investment services for comparable instruments.

Certificates of Deposit - Certificates of deposit are presented at cost, which approximates fair value, and bear interest at rates ranging from 0.66% to 1.70% in 2017 and 2016. These certificates are purchased with a maximum of one-year terms. All of these amounts are fully insured through the Federal Deposit Insurance Corporation.

Oil and Gas Interests - Oil and gas interests are reflected in these financial statements at estimated fair values based upon cash flow generation and property tax appraisals.

Land and Buildings - The value of the land and buildings was based on appraised value.

Cash Surrender Value of Life Insurance Policies - Cash surrender value of life insurance policies is presented at cost, which approximates fair value, based upon policy statement values.

NOTE 7 - LOANS

Loans are generally divided into two major groups, designated and Foundation-originated loans (“Foundation loans”). Amounts outstanding in each category at December 31 were as follows:

	2017	2016
Designated loans	\$ 15,315,173	\$ 16,778,529
Foundation loans	347,188,343	348,808,611
Participations	(5,768,379)	(6,169,667)
Total	\$ 356,735,137	\$ 359,417,473

Designated loans are managed by TMF according to the conditions specified by investors of TMF. These loans are assets of the investors fund and the underwriting as well as any potential loss is the responsibility of the investors. Foundation loans are loans that TMF has made with the pool of funds invested in the Methodist Loan Fund. TMF approves these loans based on specific Board approved criteria. In order for TMF to generate cash to fund other loans, TMF, under terms and limits established by the Board, may sell portions of loans to other lending institutions in the form of participations. Foundation loans can generally be divided into two groups. The two distinctions are: 1) construction loans that are typically tied to three-year capital campaigns, and 2) term real estate loans. Fixed rate loans typically are established for one to three-year terms. Variable rate loans are subject to change on a monthly basis. Interest rates on loans originated by TMF are established at the time of closing based on the prime lending rate.

Foundation loans consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Construction/campaign loans	\$ 203,021,304	\$ 185,004,117
Term loans	<u>144,167,039</u>	<u>163,804,494</u>
Total	<u>\$ 347,188,343</u>	<u>\$ 348,808,611</u>
Fixed rate	\$ 213,113,593	\$ 189,215,506
Variable rate	<u>134,074,750</u>	<u>159,593,105</u>
Total	<u>\$ 347,188,343</u>	<u>\$ 348,808,611</u>

Fixed rate loans include amounts which will be re-priced within their respective following twelve-month period. These amounts include \$57,899,980 and \$29,573,445 at December 31, 2017 and 2016, respectively.

NOTE 8 - FIXED ASSETS

Fixed assets consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Building and tenant improvements	\$ 3,879,773	\$ 3,859,723
Office furniture and equipment	508,545	500,550
Automobiles	544,133	525,842
Land	<u>245,826</u>	<u>245,826</u>
Total	5,178,277	5,131,941
Less accumulated depreciation	<u>(2,603,989)</u>	<u>(2,410,077)</u>
Fixed assets, net	<u>\$ 2,574,288</u>	<u>\$ 2,721,864</u>

Depreciation expense was \$268,868 and \$258,238 for the years ended December 31, 2017 and 2016, respectively.

NOTE 9 - INTANGIBLE ASSETS

Intangible assets consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Customer relationships from assets and liabilities purchased from CTMF	\$ 1,265,000	\$ 1,265,000
Less accumulated amortization	<u>(800,652)</u>	<u>(734,465)</u>
Intangible assets, net	<u>\$ 464,348</u>	<u>\$ 530,535</u>

Amortization expense was \$66,187 and \$94,849 for the years ended December 31, 2017 and 2016, respectively. Estimated aggregate future amortization expense at December 31, 2017 is as follows:

2018	\$ 60,454
2019	54,947
2020	49,712
2021	44,776
2022	40,154
Thereafter	<u>214,305</u>
Total	<u>\$ 464,348</u>

NOTE 10 - BORROWING ARRANGEMENTS

During the year ended December 31, 2016, TMF obtained a \$30,000,000 revolving line of credit which bore interest at the LIBOR rate plus 2.50%, (3.12% at December 31, 2016). During the year ended December 31, 2017, the line of credit was decreased to \$20,000,000 and bore interest at the LIBOR rate plus 2.50% (3.87% at December 31, 2017). There were \$0 and \$12,965,000 in outstanding advances at December 31, 2017 and 2016, respectively.

During the year ended December 31, 2017, TMF obtained a \$25,000,000 promissory note which bears interest at the LIBOR rate plus 1.5% (2.87% at December 31, 2017) and requires quarterly principal payments and monthly interest payments through September 5, 2022. Both of these notes are secured by all TMF's investments and loans receivable and require TMF to meet certain financial covenants. TMF is in compliance with all of these financial covenants at December 31, 2017.

NOTE 11 - ENDOWMENTS

The Board of TMF has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (“TUPMIFA”) as requiring that a portion of a donor restricted endowment of perpetual duration be classified as permanently restricted assets. The amount of the endowment that must be retained permanently in accordance with explicit donor stipulations or, in the absence of such stipulations, the amount to be permanently restricted, shall be determined by TMF’s Board. TMF’s Board determined that in the absence of explicit donor stipulations, TMF shall classify donor-restricted endowment assets as fifty-five percent (55%) permanently restricted and forty-five percent (45%) temporarily restricted.

The primary objective of these donor-restricted endowments is to provide a balance between capital appreciation, preservation of capital and current income. This is a long-term goal designed to maximize returns without undue risk. The Finance Committee establishes the annual distribution rate. The annual distribution rate at December 31, 2017 and 2016 was 3.5%.

Unless otherwise stated in the donor agreement, the Finance Committee shall select the investment portfolio where the endowments will be invested as described in the Account Management Policy of TMF. TMF’s Investment Policy Statement outlines the asset allocations, permissible investments and objectives of the portfolios.

The aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at reporting date is less than the level required by donor stipulation was \$14,807 and \$145,927 at December 31, 2017 and 2016, respectively.

Endowment net asset composition by type of fund as of December 31, 2017 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 11,294,175	\$ 16,041,982	\$ 27,336,157
Undesignated endowment	38,707,385	-	-	38,707,385
Board-designated endowment funds	8,161,157	-	-	8,161,157
Net unrealized and realized investment losses on restricted net assets	(14,807)	-	-	(14,807)
Total funds	<u>\$ 46,853,735</u>	<u>\$ 11,294,175</u>	<u>\$ 16,041,982</u>	<u>\$ 74,189,892</u>

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 41,633,522	\$ 7,360,283	\$ 14,436,658	\$ 63,430,463
Interest and dividends	14,357,868	173,541	-	14,531,409
Unrealized and realized gain	2,725,411	2,051,921	1,292,084	6,069,416
Other investment income	1,237,687	63,627	-	1,301,314
Contributions and bequests	311,111	2,342,267	313,240	2,966,618
Grants and distributions	(1,318,082)	(15,903)	-	(1,333,985)
Other expenses	(12,224,902)	(681,561)	-	(12,906,463)
Gains on donor restricted permanent endowments	131,120	-	-	131,120
Endowment net assets, end of year	<u>\$ 46,853,735</u>	<u>\$ 11,294,175</u>	<u>\$ 16,041,982</u>	<u>\$ 74,189,892</u>

A description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of December 31, 2017 was as follows:

Permanently Restricted Net Assets-

The portion of donor perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA	<u>\$ 16,041,982</u>
Total donor-restricted endowment funds classified as permanently restricted net assets	<u>\$ 16,041,982</u>

Temporarily Restricted Net Assets-

The portion of donor perpetual endowment funds subject to a time restriction under TUPMIFA:	
Without purpose restrictions	\$ 8,368,153
With donor imposed purpose restrictions	<u>2,926,022</u>
Total donor-restricted endowment funds classified as temporarily restricted net assets	<u>\$ 11,294,175</u>

Endowment net asset composition by type of fund as of December 31, 2016 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 7,360,283	\$ 14,436,658	\$ 21,796,941
Undesignated endowment	34,648,404	-	-	34,648,404
Board-designated endowment funds	7,131,045	-	-	7,131,045
Unrealized and realized investment losses on restricted net assets	(145,927)	-	-	(145,927)
Total funds	<u>\$ 41,633,522</u>	<u>\$ 7,360,283</u>	<u>\$ 14,436,658</u>	<u>\$ 63,430,463</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 37,371,191	\$ 5,866,475	\$ 12,673,234	\$ 55,910,900
Interest and dividends	13,282,718	189,134	-	13,471,852
Unrealized and realized gain	1,990,265	1,666,105	406,868	4,063,238
Other investment income	657,487	30,705	-	688,192
Contributions and bequests	166,770	1,387,399	1,356,556	2,910,725
Grants and distributions	(2,008,620)	(81,242)	-	(2,089,862)
Other expenses	(9,926,399)	(1,698,293)	-	(11,624,692)
Gains on donor restricted permanent endowments	100,110	-	-	100,110
Endowment net assets, end of year	<u>\$ 41,633,522</u>	<u>\$ 7,360,283</u>	<u>\$ 14,436,658</u>	<u>\$ 63,430,463</u>

A description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of December 31, 2016 was as follows:

Permanently Restricted Net Assets-	
The portion of donor perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA	\$ 14,436,658
Total donor-restricted endowment funds classified as permanently restricted net assets	<u>\$ 14,436,658</u>
Temporarily Restricted Net Assets-	
The portion of donor perpetual endowment funds subject to a time restriction under TUPMIFA:	
Without purpose restrictions	\$ 6,213,533
With donor imposed purpose restrictions	<u>1,146,750</u>
Total donor-restricted endowment funds classified as temporarily restricted net assets	<u>\$ 7,360,283</u>

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets composition at December 31 was as follows:

	<u>2017</u>	<u>2016</u>
Undistributed earnings on donor restricted endowments	\$ 11,294,175	\$ 7,360,283
Charitable gift annuities and charitable remainder trust agreements	<u>136,032</u>	<u>200,532</u>
Total temporarily restricted net assets	<u>\$ 11,430,207</u>	<u>\$ 7,560,815</u>

NOTE 13 - AGREEMENT PROVIDING FOR TRANSFER OF THE UNITED METHODIST DEVELOPMENT FUND OPERATIONS AND GOVERNANCE TO TMF

In 2016 the Boards of Directors of the Texas Methodist Foundation (“TMF”) the United Methodist Development Fund (“UMDF”), the General Board of Global Ministries (“GBGM”), unanimously agreed to enter into an agreement providing for the transfer of operations and governance of UMDF from GBGM to TMF. Following a due diligence and transition period (known as “Period 1”) from approximately April 1, 2016 through December 31, 2016, GBGM and UMDF appointed TMF to be its sole and exclusive agent to manage and administer all operations of UMDF.

TMF began this role (known as “Period 2”) effective January 1, 2017. With the commencement of Period 2 and TMF’s management of UMDF, UMDF transferred \$12.5 million to TMF to be held and administered by TMF as the fiduciary for an endowment for the benefit of GBGM. The stream of income provided by the new endowment would be in lieu of the annual distributions previously made by UMDF to GBGM that were based on the annual change in net assets of UMDF.

The agreement further stipulated that Period 2 would end no later than July 1, 2020 when TMF will assume the governance of UMDF and determine its corporate structure (known as “Period 3”).

On November 19, 2017 the UMDF Board, on the recommendation of the GBGM cabinet, advanced the end of the Period 2 date to January 1, 2019. For Period 3 to be made effective, the Board of Directors of GBGM will be required to approve revised Bylaws of UMDF which will be presented by the fall of 2018. Upon such approval, an additional \$12.5 million funding will be transferred to TMF at the beginning of Period 3 for the above-mentioned endowment to benefit GBGM.

NOTE 14 - LEASES

TMF owns an office building that serves as its headquarters. TMF occupies a portion of the building and leases a portion of the remainder of the building to a third party, under a non-cancelable lease agreement expiring on December 31, 2018. Rent income under the lease agreement totaled \$138,759 for each of the years ended December 31, 2017 and 2016. Minimum future rental revenue under this lease agreement as of December 31, 2017 is \$138,759.

TMF leases office space, office equipment, and vehicles under operating leases that expire at various dates through March 2020. Future minimum rental payments due under leases which have initial or remaining terms in excess of one year are as follows:

Year	Amount
2018	\$ 55,917
2019	51,709
2020	1,356
Total	<u>\$ 108,982</u>

Rent expense totaled \$76,230 and \$76,122 for the years ended December 31, 2017 and 2016, respectively.

NOTE 15 - PENSION PLAN

TMF participates in a defined contribution pension plan which covers substantially all employees of TMF. Contributions are 9% of each employee's salary and totaled approximately \$335,669 and \$367,822 for the years ended December 31, 2017 and 2016, respectively.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

TMF had unfunded loan commitments outstanding to certain United Methodist Churches of \$30,344,596 and \$46,372,404 at December 31, 2017 and 2016, respectively. These unfunded loan commitments consisted of the following at December 31, 2017: \$14,311,734 in revolving lines of credit TMF has made available to churches and \$16,032,862 in non-revolving construction loans which may take up to 36 months to fund. In addition, there were \$4,397,600 in loans that were approved but not closed at December 31, 2017.

NOTE 17 - SUBSEQUENT EVENTS

TMF has evaluated subsequent events through April 18, 2018 (the date the financial statements were available to be issued) and no events have occurred from the statement of financial position date through that date that would impact the financial statements.

SUPPLEMENTAL SCHEDULES

TEXAS METHODIST FOUNDATION

SUPPLEMENTAL SCHEDULES OF FINANCIAL POSITION BY FUND

DECEMBER 31, 2017 AND 2016 (Total Only)

	Funds Owned	Life Income Fund	Endowment Fund	Funds Managed for Investors	Total 2017	Total 2016
ASSETS						
Cash and cash equivalents	\$ 801,335	94,571	525,644	10,587,165	12,008,715	2,694,362
Accrued interest receivable	287,483	104,448	661,176	1,417,445	2,470,552	1,228,959
Consulting fees receivable	3,000	-	-	-	3,000	2,500
Pledges receivable	-	-	-	-	-	1,000
Loans	23,045,813	2,694,073	15,073,172	315,922,079	356,735,137	359,417,473
Bond Funds	2,227	38,161	119,703	3,062,665	3,222,756	3,238,188
Stocks	22,431,424	13,848,354	73,889,888	74,564,501	184,734,167	147,530,831
Certificates of deposit	17,191	58,969	184,976	4,732,616	4,993,752	5,003,463
Land and buildings	751,718	1	98	-	751,817	1,346,241
Oil and gas interests	100	519,304	1,867	3,000	524,271	561,357
Other investments	-	-	54,668	-	54,668	57,746
Fixed assets, net	2,574,288	-	-	-	2,574,288	2,721,864
Intangible assets	464,348	-	-	-	464,348	530,535
Prepaid expenses	198,383	388,711	-	-	587,094	599,863
TOTAL	\$ 50,577,310	17,746,592	90,511,192	410,289,471	569,124,565	524,934,382
LIABILITIES AND NET ASSETS						
LIABILITIES:						
Distributions, grants and accounts payable	\$ 846,352	41,992	368,728	419,050	1,676,122	3,460,906
Deferred revenue	95,450	-	-	-	95,450	131,405
Deferred grant revenue	1,210,000	-	-	-	1,210,000	400,000
Line of credit	-	-	-	-	-	12,965,000
Note payable	1,556,967	185,529	1,045,862	20,961,642	23,750,000	-
Funds managed for investors	-	-	-	388,908,779	388,908,779	387,592,620
Funds held as agent	-	17,383,039	61,775,251	-	79,158,290	56,753,456
Total liabilities	3,708,769	17,610,560	63,189,841	410,289,471	494,798,641	461,303,387
NET ASSETS	46,868,541	136,032	27,321,351	-	74,325,924	63,630,995
TOTAL	\$ 50,577,310	17,746,592	90,511,192	410,289,471	569,124,565	524,934,382

TEXAS METHODIST FOUNDATION

SUPPLEMENTAL SCHEDULES OF ACTIVITIES BY FUND YEARS ENDED DECEMBER 31, 2017 AND 2016 (Total Only)

	Funds Owned	Life Income Fund	Endowment Fund	Funds Managed for Investors	Eliminations	Total 2017	Total 2016
Revenues, gains and other support:							
Interest	\$ 1,740,674	2,999	173,542	12,496,452	-	14,413,667	13,381,048
Unrealized and realized gains on Foundation investments	2,725,411	38,325	3,475,125	-	-	6,238,861	4,256,318
Contributions and bequests	224,981	-	2,655,506	-	-	2,880,487	2,910,725
Administrative income	525,000	-	-	-	-	525,000	-
Dividends	120,742	-	-	48	(48)	120,742	105,851
Oil and gas royalties	1,315	-	38,057	37,615	(37,615)	39,372	60,916
Consulting fees income	21,000	-	-	-	-	21,000	23,000
Other	690,372	-	25,570	-	-	715,942	-
Unrealized and realized gains on funds managed for investors	-	-	-	12,185,699	(12,185,699)	-	-
Directed income	7,984,436	-	-	-	(7,984,436)	-	-
Transfers in (out) between funds	86,130	(86,130)	-	-	-	-	-
Change in actuarial liability	-	(817)	-	-	-	(817)	595,135
Investment management fees	613,071	-	-	-	(613,071)	-	-
Total revenues, gains and other support	<u>14,733,132</u>	<u>(45,623)</u>	<u>6,367,800</u>	<u>24,719,814</u>	<u>(20,820,869)</u>	<u>24,954,254</u>	<u>21,332,993</u>
Expenses:							
General and administrative	7,615,276	6	19,694	60,020	-	7,694,996	7,404,850
Interest expense	36,222	59	8,182	17,074,188	(12,223,362)	4,895,289	4,047,551
Grants and distributions	1,008,824	15,903	309,258	-	-	1,333,985	2,008,620
Depreciation and amortization	335,055	-	-	-	-	335,055	353,087
Directed expenses	648,665	779	112,446	7,222,546	(7,984,436)	-	-
Investment management fees	-	2,130	247,881	363,060	(613,071)	-	-
Total expenses	<u>9,644,042</u>	<u>18,877</u>	<u>697,461</u>	<u>24,719,814</u>	<u>(20,820,869)</u>	<u>14,259,325</u>	<u>13,814,108</u>
Change in net assets	5,089,090	(64,500)	5,670,339	-	-	10,694,929	7,518,885
Net assets at beginning of year	41,779,451	200,532	21,651,012	-	-	63,630,995	56,112,110
Net assets at end of year	<u>\$ 46,868,541</u>	<u>136,032</u>	<u>27,321,351</u>	<u>-</u>	<u>-</u>	<u>74,325,924</u>	<u>63,630,995</u>

TEXAS METHODIST FOUNDATION

NOTES TO SUPPLEMENTAL SCHEDULES YEARS ENDED DECEMBER 31, 2017 AND 2016

A brief description of the various fund groups maintained by TMF and their nature and purpose is as follows:

Funds managed for investors - Represent funds invested for a temporary or indefinite period for the benefit of the investors. These funds are invested under two different arrangements: (1) Foundation-designated investment fund for which TMF makes all investment decisions related to these investments and pays interest at rates established on a monthly basis and (2) the owner-designated investment fund for which TMF manages specific securities and other investments under a separate agreement with the investor and remits the actual income to the investor.

Funds owned - Represent expendable Operating and Memorial funds that are available for support of TMF's operations and expendable funds accumulated from gifts or bequests which provided for no specific utilization. The funds owned column includes the Leadership Ministry.

Life income fund - Represents funds received that are various types of split-interest agreements including charitable gift annuities and charitable remainder trusts. Under charitable gift annuities, TMF receives gift annuities for its benefit and for the benefit of third parties which stipulate that periodic payments be made from the gifts to designated parties for the life of those parties. Upon receipt of the gift, TMF calculates the present value of the periodic payment and classifies this amount as annuities payable. If the remaining amount of the gift will be paid to a third party upon the death of the annuitant, the remaining portion also is included in annuities payable. TMF records the excess of the annuity gift over the present value of the estimated liability as a contribution if the funds will remain at TMF upon the death of the annuitant and if TMF has variance power. Any change in the value of the annuity payable is charged or credited to income in the period. Under charitable remainder trust agreements, donors establish trust funds from which specified distributions are made from the earnings of the fund to one or more designated beneficiaries over a specified term or for life. TMF records the assets at fair value at the time of receipt and records a liability for the present value of any expected future cash disbursements to the beneficiaries in excess of the earnings of the fund. At the end of the trust term, or upon the death of the beneficiary, any remaining balances are retained by TMF and recorded as a contribution if TMF has variance power.

Endowment fund - Represents funds that are subject to restriction of gift instruments which require that the principal be invested in perpetuity and specify the use of income. Amounts distributed from the endowment fund are classified as grants and distributions.

TEXAS METHODIST FOUNDATION

SCHEDULE OF SELECTED FINANCIAL DATA

FOR EACH OF THE SEVEN YEARS IN THE PERIOD ENDED DECEMBER 31, 2017 (all amounts presented in \$)

	2011	2012	2013	2014	2015	2016	2017
FOR THE YEAR ENDED:							
Contributions and bequests, net	627,604	894,213	3,218,057	3,001,450	631,573	2,743,995	2,569,376
Other contributed capital	591,593	50,715	381,775	904,413	1,292,592	166,770	311,111
Net change in funds managed for investors	2,226,308	24,751,952	(6,394,389)	73,473,977	(4,441,714)	(1,419,730)	1,316,159
AT YEAR END:							
Cash	1,294,446	1,869,196	726,316	17,303,033	12,814,499	2,694,362	12,008,715
Loans	310,396,734	325,359,350	327,256,864	332,804,892	324,696,565	359,417,473	356,735,137
Other securities	67,356,467	86,024,802	92,080,540	153,758,360	159,664,643	155,772,482	192,950,676
Operating and memorial net assets	20,183,904	23,531,390	27,451,359	29,928,607	32,008,453	34,648,404	38,707,385
TMF's Leadership Ministry	4,026,196	4,197,890	4,687,298	5,652,360	5,819,173	7,131,045	8,161,157
Permanent gifts (Foundation, trustee)	64,635,125	71,918,876	81,824,737	92,574,608	94,420,215	103,877,933	135,965,143
Total assets	383,922,117	419,390,976	425,941,318	510,478,159	505,052,287	524,934,382	569,124,565