

FOULKEWAYS AT GWYNEDD
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

**FOULKEWAYS AT GWYNEDD
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YEARS ENDED DECEMBER 31, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Foulkeways at Gwynedd
Gwynedd, Pennsylvania

We have audited the accompanying financial statements of Foulkeways at Gwynedd (a Pennsylvania nonprofit corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations and changes in net assets, 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.

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.

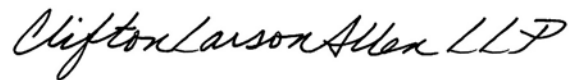
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foulkeways at Gwynedd as of December 31, 2016 and 2015, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Policies

As discussed in Note 1 to the financial statements, Foulkeways at Gwynedd adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective method over the life of the debt, and record amortization as component of interest expense. Our opinion is not modified with respect to these matters.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
April 5, 2017

**FOULKEWAYS AT GWYNEDD
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,226,762	\$ 2,288,169
Assets Limited as to Use, Externally Designated	648,007	588,369
Investments	19,715,804	16,881,620
Accounts Receivable:		
Residents	545,301	241,481
Notes Receivable from Residents	921,900	1,606,300
Other	257,614	258,663
Prepaid Expenses and Other	474,138	462,266
Total Current Assets	<u>24,789,526</u>	<u>22,326,868</u>
ASSETS LIMITED AS TO USE		
Externally Designated under Bond Indenture Agreement	14,966,223	602,514
Externally Designated by Donors	6,934,452	6,679,734
Statutory Liquid Reserve	2,712,304	2,262,890
Internally Designated by Board	1,327,063	977,045
Total Assets Limited as to Use	<u>25,940,042</u>	<u>10,522,183</u>
PROPERTY AND EQUIPMENT, NET	76,290,041	71,658,060
OTHER ASSETS	<u>221,987</u>	<u>221,987</u>
Total Assets	<u><u>\$ 127,241,596</u></u>	<u><u>\$ 104,729,098</u></u>

See accompanying Notes to Financial Statements.

	2016	2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,323,758	\$ 669,540
Accrued Salaries and Payroll Taxes	1,746,406	1,638,020
Accrued Interest Payable	133,006	58,368
Monthly Billings Paid in Advance	69,845	167,449
Refundable Deposits from Prospective Residents	317,300	354,000
Current Portion of Capital Lease Obligations	6,467	82,411
Current Portion of Long-Term Debt	1,180,624	1,178,656
Total Current Liabilities	4,777,406	4,148,444
LONG-TERM LIABILITIES		
Deferred Revenue from Resident Entry Fees	38,991,433	37,099,981
Long-Term Debt, Net of Current Portion	53,278,531	33,014,755
Liability for Pension Benefits	13,168,778	13,238,582
Other Liabilities	171,250	75,730
Total Long-Term Liabilities	105,609,992	83,429,048
Total Liabilities	110,387,398	87,577,492
NET ASSETS		
Unrestricted	9,919,746	10,471,872
Temporarily Restricted	5,992,227	5,787,609
Permanently Restricted	942,225	892,125
Total Net Assets	16,854,198	17,151,606
Total Liabilities and Net Assets	<u>\$ 127,241,596</u>	<u>\$ 104,729,098</u>

FOULKEWAYS AT GWYNEDD
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED REVENUES AND OTHER SUPPORT		
Revenue, Gains, and Other Support:		
Resident Care Fees	\$ 16,837,591	\$ 16,629,052
Amortization of Deferred Resident Entry Fees	4,984,828	4,122,275
Health Center Revenue	3,592,713	3,589,685
Unrestricted Contributions, Gifts, and Bequests	169,649	26,147
Investment Income	183,837	630,802
Other Revenue	1,062,068	1,091,281
Net Assets Released from Restrictions	<u>742,888</u>	<u>659,272</u>
Total Unrestricted Revenues and Other Support	27,573,574	26,748,514
OPERATING EXPENSES		
Health Services	6,493,314	6,592,866
Dining Services	4,244,715	4,086,848
General and Administrative	7,624,064	7,214,355
Maintenance	1,909,958	1,865,772
Housekeeping	1,597,128	1,570,324
Utilities	926,050	977,002
Real Estate Taxes	595,055	571,864
Depreciation	4,171,592	3,901,626
Interest Expense	<u>1,136,323</u>	<u>837,217</u>
Total Operating Expenses	28,698,199	27,617,874
OPERATING LOSS	(1,124,625)	(869,360)
NONOPERATING INCOME (LOSSES)		
Loss on Sale of Property and Equipment	(219,137)	(360,503)
Change in Unrealized Gains (Losses) on Trading Securities	217,952	(729,508)
Loss on Refinancing	<u>(270,106)</u>	<u>-</u>
DEFICIT OF REVENUES AND OTHER SUPPORT OVER EXPENSES AND LOSSES	(1,395,916)	(1,959,371)

See accompanying Notes to Financial Statements.

FOULKEWAYS AT GWYNEDD
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
DEFICIT OF REVENUES AND OTHER SUPPORT OVER EXPENSES AND LOSSES	\$ (1,395,916)	\$ (1,959,371)
CHANGE IN UNRESTRICTED NET ASSETS		
Net Assets Released from Restrictions - Purchase of Equipment	3,104	3,581
Contributions Received for Purchases of Equipment	165,770	182,087
Change in Pension Plan Assets and Benefit Obligations Other than Periodic Benefit Cost	<u>674,916</u>	<u>904,471</u>
Change in Unrestricted Net Assets	(552,126)	(869,232)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	776,511	842,780
Net Assets Released from Restrictions	(757,888)	(750,277)
Investment Income	213,352	187,915
Net Realized Losses on Investments	(108,614)	(2,022)
Net Unrealized Losses on Investments	<u>81,257</u>	<u>(244,675)</u>
Change in Temporarily Restricted Net Assets	204,618	33,721
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>50,100</u>	<u>100</u>
CHANGE IN NET ASSETS	(297,408)	(835,411)
Net Assets - Beginning of Year	<u>17,151,606</u>	<u>17,987,017</u>
NET ASSETS - END OF YEAR	<u><u>\$ 16,854,198</u></u>	<u><u>\$ 17,151,606</u></u>

See accompanying Notes to Financial Statements.

**FOULKEWAYS AT GWYNEDD
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (297,408)	\$ (835,411)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,171,592	3,901,626
Amortization of Deferred Financing Costs	32,936	29,564
Amortization of Bond (Premium) Discount	(59,826)	4,834
Net Realized and Unrealized Losses on Investments and Assets Limited as to Use	73,358	983,765
Restricted Contributions and Investment Income	(715,479)	(846,586)
Amortization of Deferred Resident Entry Fees	(4,984,828)	(4,122,275)
Proceeds from Deferred Resident Entry Fees	7,560,681	5,868,438
Net Refundable Deposits Paid	(36,700)	(94,700)
Amortization of Discount on Promissory Note	20,267	15,216
Loss from Refinancing of Long-Term Debt	270,106	-
Change in Liability for Pension Benefits	(674,916)	(904,471)
(Increase) Decrease in Assets:		
Accounts Receivable	(302,771)	232,265
Prepaid Expenses and Other	(11,872)	16,483
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	837,242	(288,258)
Advance Billings	(97,604)	(7,650)
Other Liabilities	<u>700,632</u>	<u>699,866</u>
Net Cash Provided by Operating Activities	6,485,410	4,652,706
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases) Sales of Investments, Net	(18,385,040)	2,037,937
Capital Expenditures	<u>(8,803,573)</u>	<u>(8,814,482)</u>
Net Cash Used by Investing Activities	(27,188,613)	(6,776,545)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Restricted Contributions and Investment Income	715,479	846,586
Repayment of Capital Lease Obligation	(75,944)	(72,268)
Repayment of Long-Term Debt	(12,143,656)	(1,137,441)
Proceeds from Issuance of Long-Term Debt	32,703,414	-
Financing Costs for Issuance of Long-Term Debt	<u>(557,497)</u>	<u>(41,213)</u>
Net Cash Provided (Used) by Financing Activities	20,641,796	(404,336)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(61,407)	(2,528,175)
Cash and Cash Equivalents - Beginning of Year	<u>2,288,169</u>	<u>4,816,344</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,226,762</u></u>	<u><u>\$ 2,288,169</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid, Net of Capitalized Interest of \$928,000 and \$0 at December 31, 2016 and 2015	<u><u>\$ 1,068,308</u></u>	<u><u>\$ 795,941</u></u>
Construction Expenditures within Accounts Payable and Accrued Expenses	<u><u>\$ 833,098</u></u>	<u><u>\$ 195,907</u></u>

**FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Foulkeways at Gwynedd (Foulkeways) was founded in 1967 as a nonprofit life care retirement community and is located in Gwynedd, Pennsylvania. Foulkeways houses approximately 419 residents living in 254 apartments, in addition to operating a Medicare-certified Health Center with 47 active beds and a personal care unit with 58 beds.

Use of 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 liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Foulkeways considers cash and cash equivalents to include investments in highly liquid investments with original maturity dates of three months or less, excluding amounts that are limited as to use, either internally or externally. Foulkeways deposits cash in financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in the bank may exceed FDIC insurable limits.

Escrow Deposits

Applicants for an independent living unit are required to make a refundable deposit when the application is filed. Any deposits in excess of 5% of the proposed entrance fees are maintained in an escrow account for entrance fees. As of December 31, 2016 and 2015, the account balance was \$33,653 and \$68,772, respectively.

Notes Receivable from Residents

Foulkeways offers incoming residents the ability to defer their entry fees for a range of four to six months with unsecured notes, renewable for additional periods, with interest rates ranging from 0% to the prime rate plus 1%, depending on market conditions.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income or loss (including realized gains and losses on investments, interest and dividends) is recorded as revenue, except for investment income or loss associated with contributions for resident assistance, capital additions and other purposes specified by donors.

Foulkeways has determined that the portion of its investment portfolio outsourced to third-party money managers, previously designated as "other than trading," should be designated as "trading" and these changes in unrealized gains and losses are reported within excess (deficit) of revenues and other support over expenses and losses.

**FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Land, land improvements, buildings and improvements, furniture and equipment, and vehicles are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, generally 3 to 45 years. Foulkeways capitalizes any asset costing \$1,000 or over and having an anticipated useful life of over one year.

	2016	2015
Land	\$ 8,457,131	\$ 8,107,131
Land Improvements	1,937,467	1,905,973
Buildings and Improvements	89,196,228	85,946,979
Furniture and Equipment	13,635,654	13,457,944
Vehicles	592,514	593,249
Construction in Progress	7,553,940	3,278,883
Total	121,372,934	113,290,159
Less: Accumulated Depreciation	(45,082,893)	(41,632,099)
Total Property and Equipment, Net	<u>\$ 76,290,041</u>	<u>\$ 71,658,060</u>

Other Assets

Foulkeways carries general and professional liability insurance with Peace Church Risk Retention Group, Inc. (PCRRG). Foulkeways is a subscriber and is a 2.226% and 2.229% owner of this group captive as of December 31, 2016 and 2015. The group captive is domiciled in Vermont and licensed by the Vermont Insurance Department. The investment in PCRRG totaling \$125,795 is recorded at cost as "other assets" in the accompanying balance sheets.

Deferred Financing Costs

Deferred financing costs, which represent bond issuance costs, are amortized on a straight-line basis over the term of the related debt, which approximates the effective-interest method. Amortization expense for the years ended December 31, 2016 and 2015 was \$32,936 and \$29,564, respectively. The amortization is recorded as a component of interest expense.

In conjunction with the issuance of the 2016 Bonds, Foulkeways recorded deferred financing costs totaling \$557,497 and expensed \$202,815 of unamortized financing costs related to the 2006A Bonds (See Note 3).

Deferred Revenue from Resident Entry Fees

Upon entry to Foulkeways at Gwynedd, Foulkeways and the resident sign a Residence and Care Agreement (the Agreement). The Agreement requires Foulkeways to provide facilities, services and medical care to the resident. Entry fees received are recorded as deferred revenue from resident entry fees in the accompanying balance sheets.

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue from Resident Entry Fees (Continued)

The resident entry fees are subject to the refund provisions of the Agreement. At December 31, 2016 and 2015, the portion of the deferred resident entry fees subject to such refund provisions amounted to \$13,380,610 and \$11,439,764, respectively. The refund periods expire ratably over 50 months from the respective dates of entrance. Refunds are payable upon reoccupancy of the vacated unit.

Amortization of deferred resident entry fees in the statements of operations and changes in net assets represents the current year's amortization of deferred revenue from resident entry fees. The amortization is based upon the actuarially determined remaining lives of each resident or resident couple (updated periodically using the historical experience of Foulkeways) at the end of the reporting year. However, only resident entry fee revenue up to the amount of deferred entry fees that is nonrefundable is recognized. Upon the death of a sole surviving resident, any remaining unamortized portion of the resident entry fee is recognized as revenue.

Refundable Deposits from Prospective Residents

Refundable deposits from prospective residents represent waiting list deposits and entry fees deposits of new residents. Waiting list deposits by prospective residents or resident couples are fully refundable and are credited toward the entry fee upon move-in. Deposits for entry fees are fully refundable if a prospective resident is denied occupancy and partially refundable if an accepted prospective resident opts not to sign a Residence and Care Agreement. Waiting list deposits amounted to \$284,000 and \$287,000 as of December 31, 2016 and 2015, respectively. Entry fees deposits amounted to \$33,300 and \$67,000 as of December 31, 2016 and 2015, respectively.

Obligation to Provide Future Services

Foulkeways calculates the present value of the cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from resident entry fees to determine if a liability and corresponding charge to income should be recorded. As of December 31, 2016 and 2015, the present value of the net cost of future services and use of facilities does not exceed the deferred revenue from resident entry fees and, as such, no liability for the obligation to provide future services was required to be recorded as of December 31, 2016 and 2015.

Temporarily Restricted Net Assets, Permanently Restricted Net Assets, and Donor-Restricted Gifts

Temporarily restricted net assets are net assets whose use has been restricted by donors to a specific purpose. These amounts are principally restricted to resident assistance and improvements to the buildings and grounds. Permanently restricted net assets have been restricted by a donor to be maintained by Foulkeways in perpetuity, with the income and gains available for certain restricted purposes.

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets, Permanently Restricted Net Assets, and Donor-Restricted Gifts (Continued)

Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Temporarily and permanently restricted net assets are restricted by donors for the following purposes:

	2016	2015
Temporarily Restricted Net Assets:		
Resident Assistance Funds	\$ 4,348,952	\$ 4,742,108
Capital Additions Funds	766,385	571,414
Other Funds	876,890	474,087
Total	<u>5,992,227</u>	<u>5,787,609</u>
Permanently Restricted Net Assets:		
Resident Assistance Funds	350,000	350,000
Capital Additions Funds	110,000	60,000
Other Funds	482,225	482,125
Total	<u>942,225</u>	<u>892,125</u>
Total Restricted Net Assets	<u><u>\$ 6,934,452</u></u>	<u><u>\$ 6,679,734</u></u>

During 2016 and 2015, net assets were released from donor restrictions for purchases of equipment and resident monthly fee assistance.

Excess (Deficit) of Revenues and Other Support over Expenses and Losses

The statements of operations and changes in net assets include the caption "excess (deficit) of revenues and other support over expenses and losses." Changes in unrestricted net assets, which are excluded from the excess (deficit) of revenues and other support over expenses and losses, include contributions of long-lived assets (including assets acquired using donor-restricted contributions specified to be used for the purpose of acquiring such assets) and changes in pension plan assets and benefit obligations other than periodic benefit cost.

Income Taxes

Foulkeways is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code. Foulkeways follows the provisions of the income tax standard regarding the recognition and measurement of uncertain tax positions. The application of these provisions has no impact on the Organization's financial statements.

Foulkeways' income tax returns are subject to review and examination by federal, state, and local authorities. Foulkeways is not aware of any activities that would jeopardize its tax-exempt status.

FOULKWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. Foulkeways emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that Foulkeways has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, Foulkeways may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles.

Resident Assistance

Foulkeways provides financial assistance on an as needed basis from various resident assistance funds in order to supplement monthly income, entry fees and fees for life enrichment. The financial assistance provided in 2016 and 2015 was \$643,415 and \$602,640, respectively.

Change in Accounting Policies

Foulkeways has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record amortization as a component of interest expense. The effect of adopting the new standard decreased liability by \$568,401 as of January 1, 2016. The adoption of the standard had no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 15, 2015. The ASU is retrospectively applied.

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Policies (Continued)

During the year ended December 31, 2016, Foulkeways early adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, Foulkeways has omitted this disclosure for the years ended December 31, 2016 and 2015. The early adoption of this provision did not have an impact on the entity's financial position or results of operations.

Reclassification

Certain items in the 2015 financial statements have been reclassified to conform with the 2016 financial statement presentation.

Change in Estimated Life Expectancy

During 2016, Foulkeways adopted using lower life expectancies for residents in personal care and skilled care for use in the measurement of amortization of deferred resident entry fees. The change had the effect of decreasing operating loss for 2016 by approximately \$862,500.

Subsequent Events

In preparing these financial statements, Foulkeways has evaluated events and transactions for potential recognition or disclosure through April 5, 2017, the date the financial statements were issued.

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE

The functional composition of assets limited as to use externally designated under the bond indenture agreement and by donors and internally designated by the board is set forth below:

	2016	2015
Externally Designated by Long-Term Debt Agreements		
Series 2006 Bond Indenture:		
Debt Service Reserve Fund	\$ 2,337,615	\$ 1,091,250
Project Fund	12,272,126	-
Capitalized Interest Fund	928,000	-
Debt Service Fund	76,489	99,633
Total	15,614,230	1,190,883
Less: Current Portion	(648,007)	(588,369)
Total	<u>\$ 14,966,223</u>	<u>\$ 602,514</u>
Externally Designated by Donors:		
Resident Assistance	\$ 4,698,952	\$ 5,092,108
Capital Additions	876,385	631,414
Other	1,359,115	956,212
Total	<u>\$ 6,934,452</u>	<u>\$ 6,679,734</u>
Internally Designated by the Board:		
Used at the Discretion of the Board	<u>\$ 1,327,063</u>	<u>\$ 977,045</u>

Assets limited as to use externally designated for donor purposes include a resident assistance fund for residents unable to pay the monthly service fee or entry fee due to circumstances beyond their control.

Under the provisions of the *Pennsylvania Continuing Care Provider Registration and Disclosure Act* (Act), Foulkeways must maintain a statutory minimum liquid reserve as of December 31, 2016, that is equal to the greater of 10% of the 2017 total projected operating expenses, exclusive of depreciation, or the 2017 debt service requirements. The calculation of the statutory minimum liquid reserve requirement as of December 31, 2016 and 2015 is shown in detail below. Under the provisions and related amendments of the Act, management believes that the liquid portion of the investment portfolio satisfies this requirement. Management believes that Foulkeways is in compliance with all other requirements of the Act as of December 31, 2016.

	2016	2015
Projected Annual Interest Expense	\$ 1,531,680	\$ 766,440
Principal Payments Due on Long-Term Debt	1,180,624	1,178,656
Liquid Reserve Requirement	2,712,304	1,945,096
Projected Annual Operating Expenses	23,110,630	22,628,896
Minimum Rate	10%	10%
Liquid Reserve Requirement	<u>2,311,063</u>	<u>2,262,890</u>
Statutory Liquid Reserve Requirement	<u>\$ 2,712,304</u>	<u>\$ 2,262,890</u>

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

The composition of investments and assets limited as to use is set forth in the following table. Investments are stated at fair value.

	2016	2015
Investments and Assets Limited as to Use:		
Cash and Equivalents	\$ 5,947,664	\$ 1,190,884
U.S. Government and Agency Securities	14,279,256	1,264,785
Mutual Funds	10,192,008	9,673,231
Corporate Bonds	12,237,661	10,337,091
Internationals	3,647,264	5,526,181
Total	<u>\$ 46,303,853</u>	<u>\$ 27,992,172</u>

Investment income and gains (losses) for investments and assets limited as to use and cash equivalents are comprised of the following:

	2016	2015
Unrestricted Investment Income:		
Dividends and Interest Income	\$ 573,626	\$ 640,384
Realized Losses on Sales of Securities	(389,789)	(9,582)
Subtotal	183,837	630,802
Change in Unrealized Gains (Losses) on Securities	217,952	(729,508)
Total	<u>\$ 401,789</u>	<u>\$ (98,706)</u>
Restricted Investment Income:		
Dividends and Interest Income	\$ 213,352	\$ 187,915
Realized Losses on Sales of Securities	(108,614)	(2,022)
Subtotal	104,738	185,893
Change in Unrealized Gains (Losses) on Securities	81,257	(244,675)
Total	<u>\$ 185,995</u>	<u>\$ (58,782)</u>

**FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 LONG-TERM DEBT

Long-term debt consists of:

	<u>2016</u>	<u>2015</u>
Montgomery County Industrial Development Authority Revenue Bonds, Series 2016, Fixed Rate Revenue Bonds, due December 1, 2046 with interest ranging from 3.00% to 5.00%, net of premium of \$3,806,089 and unamortized financing costs of \$548,515, at December 31, 2016	\$ 31,887,575	\$ -
Montgomery County Industrial Development Authority Revenue Bonds, Series 2006, net of unamortized financing costs of \$192,698 and \$412,956 at December 31, 2016 and 2015	11,712,301	22,882,255
Citizens Bank - bank qualified loan, net of unamortized financing costs of \$148,933 and \$155,445 at December 31, 2016 and 2015	9,985,716	10,157,860
Gwynedd Promissory Note, due through June 26, 2019, discounted at imputed interest rate of 2.02%, net of discount of \$26,437 and \$46,704 at December 31, 2016 and 2015, respectively, secured by the land	<u>873,563</u>	<u>1,153,296</u>
Total Long-Term Debt	54,459,155	34,193,411
Less: Current Portion	<u>(1,180,624)</u>	<u>(1,178,656)</u>
Long-Term Debt, Net of Current Portion	<u><u>\$ 53,278,531</u></u>	<u><u>\$ 33,014,755</u></u>

The 2006 Bonds, net of unamortized discount, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Series A:		
Serial Bonds, due through December 1, 2018 with interest ranging from 4.400% to 4.625%.		
Advance refunded in 2016	\$ -	\$ 1,449,657
5.0% Term Bonds, due 2019 - 2024, net of discount of \$69,789 at December 31, 2015. Advance Refunded in 2016	-	4,045,211
5.0% Term Bonds, due 2025 - 2030. Advance refunded in 2016	-	5,515,000
Series B:		
Variable Rate Bonds, due December 1, 2036	11,712,301	11,872,387
Total	<u><u>\$ 11,712,301</u></u>	<u><u>\$ 22,882,255</u></u>

**FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 LONG-TERM DEBT (CONTINUED)

On June 1, 2006, Foulkeways entered into a Loan and Trust Agreement with the Montgomery County Industrial Development Authority (the Authority), and U.S. Bank National Association (as Trustee), pursuant to which Foulkeways received tax-exempt bond proceeds (the 2006 Bonds). The 2006 Bonds consisted of \$15,315,000 fixed rate revenue bonds (Series 2006A Bonds) and \$13,390,000 variable rate revenue bonds (Series 2006B Bonds). The proceeds from the 2006 Bonds were used to advance refund Series 1999 Bonds, refinance the Construction Loan, finance the renovation and expansion of Foulkeways' community center and other miscellaneous capital expenditures, pay bond issuance costs, and to establish a debt service reserve fund for the Series 2006A Bonds.

On June 1, 2016, the 2006A Bonds were refunded with the proceeds from the Series 2016 Bonds (see below).

The 2006B Bonds are secured by a mortgage on certain property and the gross receipts of Foulkeways and require annual sinking fund principal payments ranging from \$175,000 in 2017 to \$1,595,000 in 2036. The average interest rate on the 2006B Bonds was 0.40% in 2016 and 0.04% in 2015.

The 2006B Bonds are secured by an irrevocable letter of credit (Letter of Credit) between Foulkeways and Citizens Bank (the Bank). The Letter of Credit is an obligation of the Bank to pay the Trustee amounts sufficient to pay the principal amount of and up to 51 days of accrued interest on the 2006B Bonds when due, whether at maturity, or upon acceleration or call for redemption, and amounts sufficient to pay the purchase price of any 2006B Bonds tendered for purchase and not remarketed. During 2015 Foulkeways secured an extension on this Letter of Credit through September 30, 2020. Any draw under the Letter of Credit creates a reimbursement obligation on the part of Foulkeways in favor of the Bank in the form of a term loan requiring repayment by Foulkeways based on a schedule consistent with the scheduled principal payments on the 2006B Bonds. The Letter of Credit secures the 2006B Bonds only.

On November 15, 2009, Foulkeways entered into a Loan and Security Agreement with the Authority and the Bank pursuant to which the Authority sold the Series 2009 bonds to the Bank. From the proceeds, Foulkeways may borrow up to \$11,000,000 of the Authority's Economic Development Revenue Note (Foulkeways at Gwynedd Project, Series of 2009), referred to as the Bank Qualified Loan. On October 13, 2015, a portion of the Series 2009 bonds were reissued in the principal amount of \$341,961 and designated as the Montgomery County Industrial Development Authority Revenue Bond, Series 2009-A (the Reissued 2009-A Bond). The remaining \$10,000,000 principal amount of the bond is not affected by the modifications contained in the Reissued 2009-A Bond. The Bank Qualified Loan bears interest at a variable rate of LIBOR plus the LIBOR rate margin multiplied by 0.68. Interest is due on a monthly basis, and the interest rate as of December 31, 2016 and 2015, was 1.64% and 1.52%, respectively.

**FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 LONG-TERM DEBT (CONTINUED)

The proceeds of the Bank Qualified Loan were used to finance the renovation and expansion of Foulkeways' community center and other miscellaneous capital expenditures, as well as payment of a portion of the costs and expenses of issuing the Bank Qualified Loan.

As of December 31, 2016 and 2015, the outstanding balance on the Bank Qualified Loan was \$10,134,649 and \$10,313,305, respectively.

On June 1, 2016, Foulkeways entered into a Loan and Trust Agreement with the Authority, and U.S. Bank National Association (as Trustee), pursuant to which Foulkeways received fixed rate revenue bond proceeds in the amount of \$28,835,000 and a premium in the amount of \$3,868,414 (the Series 2016 Bonds). The proceeds of the 2016 bonds were used to refund the outstanding Series 2006A bonds, advance funds to finance certain improvements to the facility, fund capitalized interest and a debt service reserve fund and to pay certain issuance costs of the 2016 Bonds. The average interest rate on the 2016 Bonds ranges from 3.00% to 5.00%. The Series 2016 Bonds require annual sinking fund principal payments ranging from \$515,000 in 2017 to \$2,660,000 in 2046.

Under its debt agreements, Foulkeways must comply with certain restrictive covenants relating to days cash on hand and debt service coverage computed annually. As defined, Foulkeways is required, among other things, to maintain a debt service coverage ratio of 1.20:1.00 and a days cash on hand (unrestricted cash and investments divided by the average daily operating expenses, net of depreciation and amortization) of 180 days. Management represents that Foulkeways was in compliance with all required financial covenants at December 31, 2016.

On June 26, 2012, Foulkeways purchased the land from Trustees of Gwynedd Monthly Meeting of Friends and entered into a loan agreement in the amount of \$2,100,000. As of December 31, 2016 and 2015, the remaining balance on this note was \$900,000, and \$1,200,000, respectively.

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 3 LONG-TERM DEBT (CONTINUED)

At December 31, 2016, principal payments on long-term debt during the next five years and thereafter are as follows:

Year Ending December 31,	Series B 2006 Bonds	Series 2016 Bonds	Bank Qualified	Gwynedd Note	Total
2017	\$ 175,000	\$ 515,000	\$ 190,624	\$ 300,000	\$ 1,180,624
2018	185,000	535,000	203,388	300,000	1,223,388
2019	190,000	550,000	217,010	300,000	1,257,010
2020	190,000	570,000	231,541	-	991,541
2021	200,000	595,000	247,850	-	1,042,850
Thereafter	10,965,000	25,865,000	9,044,236	-	45,874,236
Total	11,905,000	28,630,000	10,134,649	900,000	51,569,649
Less: Unamortized Financing Costs	(192,699)	(548,515)	(148,933)	-	(890,147)
Less: Bond Discount	-	-	-	(26,437)	(26,437)
Add: Bond Premium	-	3,806,090	-	-	3,806,090
Total Bonds Payable, Net	11,712,301	31,887,575	9,985,716	873,563	54,459,155
Less: Current Portion of Bonds Payable	175,000	515,000	190,624	300,000	1,180,624
Total Bonds Payable, Less Current Portion	<u>\$ 11,537,301</u>	<u>\$ 31,372,575</u>	<u>\$ 9,795,092</u>	<u>\$ 573,563</u>	<u>\$ 53,278,531</u>

Interest expense on long-term debt in 2016 and 2015 was \$1,134,209 and \$831,160, respectively.

NOTE 4 CAPITAL LEASE OBLIGATIONS

During 2012, the Company entered into a \$347,530 capital lease financing agreement and replaced the existing agreement made in 2008. The term of this lease is 60 months with an annual interest rate of 4.971%. The lease is secured by the underlying capital asset. The long-term capital lease obligations are included in "other liabilities" and the current portion is included in "current portion of capital lease obligations." The gross amount of equipment under the capital lease at December 31, 2016 and 2015, included in property and equipment was \$347,530. Accumulated depreciation on equipment under capital lease amounted to \$341,738 and \$272,232 at December 31, 2016 and 2015, respectively.

The minimum future obligations under the capital leases are as follows:

	Amount
Year Ending December 31, 2017	\$ 6,494
Less: Amounts Representing Interest	(27)
Present Value of Future Minimum Lease Payments	<u>\$ 6,467</u>

Interest expense on capital lease obligations in 2016 and 2015 was \$2,114 and \$6,057, respectively.

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 FUNCTIONAL EXPENSES

Foulkeways provides continuing and long-term care for the aging. Expenses related to providing these services are as follows:

	2016	2015
Program Activities	\$ 21,074,136	\$ 20,403,519
Fundraising Activities	104,461	103,137
General and Administrative	7,519,602	7,111,218
Total	<u>\$ 28,698,199</u>	<u>\$ 27,617,874</u>

NOTE 6 PENSION AND SAVINGS PLANS

Foulkeways sponsors a defined benefit pension plan exempt from the Employee Retirement Income Security Act of 1974 rules due to "church plan" status. The plan covers substantially all of its employees. Employers are required to recognize the over-funded or under-funded status of a defined benefit pension plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through unrestricted net assets.

The following is a summary of the key components and assumptions related to the pension plan:

	2016	2015
Change in Benefit Obligation:		
Projected Benefit Obligation - Beginning of Year	\$ 22,958,000	\$ 23,494,000
Service Cost	751,610	871,469
Interest Cost	923,240	878,935
Actuarial (Gain) Loss	(421,118)	(1,688,658)
Benefits Paid	<u>(635,732)</u>	<u>(597,746)</u>
Projected Benefit Obligation - End of Year	23,576,000	22,958,000
Change in Plan Assets:		
Fair Value of Plan Assets - Beginning of Year	9,719,418	10,005,805
Actual Return on Plan Assets	534,131	(563,641)
Employer Contributions	789,405	875,000
Benefits Paid	<u>(635,732)</u>	<u>(597,746)</u>
Fair Value of Plan Assets - End of Year	<u>10,407,222</u>	<u>9,719,418</u>
Net Amounts Recognized in the Balance Sheets		
Consist of Liability for Pension Benefits	<u>\$ 13,168,778</u>	<u>\$ 13,238,582</u>
Accumulated Benefit Obligation	<u>\$ 21,043,000</u>	<u>\$ 19,492,000</u>

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 PENSION AND SAVINGS PLANS (CONTINUED)

	2016	2015
Amounts Recognized in Unrestricted Net Assets		
Not Yet in Net Periodic Benefit Cost Consist of:		
Net Actuarial Loss	\$ 7,623,619	\$ 8,360,846
Prior Service Cost (Benefit)	(573,256)	(635,567)
Total	<u>\$ 7,050,363</u>	<u>\$ 7,725,279</u>
Components of Net Periodic Benefit Cost:		
Service Cost	\$ 751,610	\$ 871,469
Interest Cost	923,240	878,935
Expected Return on Plan Assets	(621,180)	(645,144)
Amortization of Prior Service Cost (Benefit)	(62,311)	(62,311)
Amortization of Net Actuarial Loss	403,158	486,909
Net Periodic Benefit Cost	<u>\$ 1,394,517</u>	<u>\$ 1,529,858</u>
	2016	2015
Weighted-Average Assumptions Used to		
Determine Benefit Obligation were:		
Discount Rate	4.02%	4.21%
Rate of Compensation Increase	3.00%	3.75%
Weighted-Average Assumptions Used to		
Determine Net Periodic Benefit Cost were:		
Discount Rate	4.21%	3.87%
Expected Long-Term Return on Plan Assets	6.50%	6.50%
Rate of Compensation Increase	3.00%	3.75%

To develop the expected long-term rate of return on assets assumption, Foulkeways considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 6.5% long-term rate of return on assets assumption. The estimated net deferred actuarial loss and prior service cost (benefit) that will be amortized into net periodic benefit cost for 2017 is approximately \$387,207 and (\$62,311), respectively, totaling \$324,896.

Plan Assets

The plan's actual weighted-average asset allocations and target asset allocations, by asset category, are as follows:

Asset Category	Target Allocation	2016	2015
Equity Securities	40-65%	55%	55%
Debt Securities and Other	25-50%	45%	45%
Total		<u>100%</u>	<u>100%</u>

The investment policy and strategy for the plan assets is to conserve and enhance the capital value of the funds in real terms, through asset appreciation and income generation.

**FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 PENSION AND SAVINGS PLANS (CONTINUED)

Cash Flows

Contributions

Foulkeways is currently evaluating contributions to the pension plan for 2017. In 2016 and 2015, Foulkeways contributed \$789,405, and \$875,000 to the plan, respectively.

Estimated Future Benefit Payments

The following benefit payments that expect to be paid by the plan during the next five years and five years thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 743,000
2018	770,000
2019	840,000
2020	925,000
2021	984,000
2022 - 2026	5,796,000

Savings Plan

Foulkeways offers a contributory 403(b) savings plan which is available to substantially all employees and provides a 50% match of employee contributions up to a maximum of 3% of annual compensation. Total expense related to this plan was \$195,549 and \$195,321 for the years ended December 31, 2016 and 2015, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Home and Care Committee

Foulkeways, under an agreement with the Trustees of Abington Quarterly Meeting of Friends and the Committee of the Abington Quarterly Meeting Home for Friends at Norristown (Home and Care Committee), and in consideration of cumulative contributions received or pledged, will provide entry fee credits to be used by the Home and Care Committee for financial aid to those persons the Home and Care Committee recommends as requiring assistance. The total amount of money available to the Home and Care Committee as entry fee credits is the sum resulting from multiplying the number 10 and the minimum entry fee charged by Foulkeways, with the right of replacement should any of the credits not be in use. For the years ended December 31, 2016 and 2015, this amount was \$690,000, and \$670,000, of which \$134,000 and \$131,000, respectively, is available for use as of December 31, 2016 and 2015.

Health Insurance Program

Foulkeways has set up a self-insured group health plan with Peace Church Health Insurance Program (PCHIP) effective July 15, 2013, replacing the previous premium-based plan. Foulkeways assumes the risk for paying the health care claim costs up to \$35,000 per participant per year. Additional claims are supported by PCHIP and the stop loss insurance of the Plan.

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal and Regulatory

There are various legal actions that can occur in the ordinary course of business, and management is not aware of any such matters that would have a material effect on the financial condition or results of operations of Foulkeways. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect to Foulkeways' financial position.

Laws and regulations governing the Medicare program are complex and subject to interpretation. Foulkeways believes it is in compliance with all other applicable laws and regulations and is not aware of any other current pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

NOTE 8 SELF-INSURANCE TRUST

During 1995, Foulkeways entered into an agreement with certain other community members of Friends Services for the Aging to form a self-insurance fund known as Friends Workers' Compensation Collaborative (the Collaborative). The Collaborative is an entity separate from all members of the Fund that enables the members to separate the legal and equitable rights to the assets and monies of the Collaborative. Foulkeways is responsible for paying an annual contribution to the Collaborative as determined by an independent actuary. Foulkeways' contributions to the Collaborative, net of distributions received, were \$221,793 and \$172,392 in 2016 and 2015, respectively.

NOTE 9 FAIR VALUE MEASUREMENTS

The following table presents Foulkeways' fair value hierarchy for those investments measured at fair value on a recurring basis as of December 31, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current Investments and Assets Limited as to Use	\$ 20,363,811	\$ -	\$ -	\$ 20,363,811
Noncurrent Assets Limited as to Use	25,940,042	-	-	25,940,042
Total	<u>\$ 46,303,853</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,303,853</u>

FOULKEWAYS AT GWYNEDD
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Foulkeways' fair value hierarchy for those investments measured at fair value on a recurring basis as of December 31, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current Investments and Assets Limited as to Use	\$ 17,469,989	\$ -	\$ -	\$ 17,469,989
Noncurrent Assets Limited as to Use	<u>10,522,183</u>	<u>-</u>	<u>-</u>	<u>10,522,183</u>
Total	<u><u>\$ 27,992,172</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,992,172</u></u>

When quoted market prices are available in the active market, securities are classified within Level 1 of the valuation hierarchy. Assets utilizing Level 1 inputs include equity securities and mutual funds, fixed income mutual funds, and real estate mutual funds.