

Financial Statements

THE NORTH CAROLINA MASONIC
FOUNDATION COMMON FUNDS
Years Ended December 31, 2016 and 2015



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COMMON FUNDS
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Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
THE NORTH CAROLINA MASONIC FOUNDATION COMMON FUNDS

We have audited the accompanying financial statements of THE NORTH CAROLINA MASONIC FOUNDATION COMMON FUNDS (a partnership), which comprise the balance sheet as of December 31, 2016, and the related statements of operations and changes in partners' capital and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of THE NORTH CAROLINA MASONIC FOUNDATION COMMON FUNDS as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Prior Period Financial Statements

The financial statements of THE NORTH CAROLINA MASONIC FOUNDATION COMMON FUNDS as of December 31, 2015, were audited by other auditors whose report dated May 12, 2016, expressed an unmodified opinion on those statements.

A.T. ALLEN & COMPANY, LLP

Raleigh, North Carolina
July 11, 2017

THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS
Balance Sheets
December 31, 2016 and 2015

	2016	2015
<u>Assets</u>		
Cash	\$ 2,347,949	\$ 1,664,331
Investments	58,589,519	53,905,208
Accrued interest and dividends	145,051	138,904
Total assets	\$ 61,082,519	\$ 55,708,443
<u>Liabilities and Partners' Capital</u>		
Liabilities:		
Accrued expenses	\$ 2,832	\$ 3,787
Partners' capital	61,079,687	55,704,656
Total liabilities and partners' capital	\$ 61,082,519	\$ 55,708,443

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

THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS
Statements of Operations and Changes in Partners' Capital
Years Ended December 31, 2016 and 2015

	2016	2015
Investment income:		
Interest and dividends	\$ 1,284,098	\$ 1,184,761
Net realized and unrealized gain (loss) on investments	3,530,808	(549,757)
Bond amortization	(26,469)	(45,325)
	4,788,437	589,679
(Income) expenses:		
Professional fees	342,444	284,097
Other	(3,209)	(3,123)
Total (income) expenses	339,235	280,974
Net income	4,449,202	308,705
Partners' capital - beginning of year	55,704,656	53,629,259
Contributions	2,371,777	3,877,393
Withdrawals	(1,445,948)	(2,110,701)
Partners' capital - end of year	\$ 61,079,687	\$ 55,704,656

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

THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net income	\$ 4,449,202	\$ 308,705
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	(3,530,808)	549,757
Bond amortization	26,469	45,325
Proceeds from sale of investments	23,275,644	24,708,415
Purchase of investments	(24,455,616)	(26,970,996)
(Increase) decrease in:		
Accrued interest and dividends	(6,147)	(6,767)
Increase (decrease) in:		
Accrued expenses	(955)	148
Net cash provided (used) by operating activities	(242,211)	(1,365,413)
Cash flows from financing activities:		
Cash contributions from partners	2,371,777	3,877,393
Withdrawals by partners	(1,445,948)	(2,110,701)
Net cash provided (used) by financing activities	925,829	1,766,692
Net increase in cash	683,618	401,279
Cash at beginning of year	1,664,331	1,263,052
Cash at end of year	\$ 2,347,949	\$ 1,664,331

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

**THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS**

**Notes to Financial Statements
December 31, 2016 and 2015**

1. NATURE OF ACTIVITIES

The North Carolina Masonic Foundation Common Funds (Fund) is a private investment partnership and is not subject to regulation by the Security and Exchange Commission. Its purpose is to aggregate the investment funds of The Grand Lodge of A.F. & A.M. of North Carolina (Grand Lodge); the Masonic Home for Children of Oxford, Inc.; Masonic and Eastern Star Home of North Carolina, Incorporated d/b/a WhiteStone (WhiteStone); The North Carolina Masonic Foundation, Inc.; and certain other funds which are related to these Masonic entities, in order to provide better risk management, direction, and overall return on investment by pooling the funds of these entities to seek a high total return consisting of both current income and realized and unrealized gains from equity and debt securities. These entities are related parties because the Grand Lodge controls appointments to the Boards of Directors of the other entities and members of the Grand Lodge, but they are not consolidated because the Grand Lodge would not be the beneficiary of either income or assets if any of these entities were liquidated.

The common investment funds are currently comprised of an income fund and an equity fund. These funds are managed by the Board of Directors of the Fund, with advice and assistance from registered securities brokers, in accordance with the investment policies established for each fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Common Funds have been prepared on the accrual basis of accounting, whereby income is recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Investment Valuations

Investments include mutual funds, marketable equity and debt securities. The Fund reports investments in mutual funds and equity and debt securities at fair value on the balance sheet. Gains and losses are determined by using the specific identification method. Unrealized gains and losses are included in the changes in partners' capital.

Partnership Shares and Allocation of Income

Units (shares) of ownership are issued or redeemed based on the fair value of the assets being contributed or withdrawn. The value per unit for each fund was originally set at \$10.00. It is recalculated as necessary based on the current fair value of the net assets in that fund. The net income of each fund is allocated among partners each year according to their respective "annual equivalent shares," which is a weighted average of the number of shares by each partner on each day of the year.

Income Taxes

The Fund has elected to be excluded from income taxes under Subchapter K of the Internal Revenue Code.

Cash

Cash consists of deposits that are temporarily being held for investment.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS**

**Notes to Financial Statements
December 31, 2016 and 2015**

3. INVESTMENTS

A summary of the Fund's investments as of December 31, 2016 and 2015 is as follows:

	2016		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Income Fund	\$ 13,526,451	\$ 12,498,078	\$ (1,028,373)
Equity Fund	41,217,486	46,091,441	4,873,955
	<u>\$ 54,743,937</u>	<u>\$ 58,589,519</u>	<u>\$ 3,845,582</u>
	2015		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Income Fund	\$ 11,169,493	\$ 10,608,339	\$ (561,154)
Equity Fund	38,929,839	43,296,869	4,367,030
	<u>\$ 50,099,332</u>	<u>\$ 53,905,208</u>	<u>\$ 3,805,876</u>

4. FAIR VALUE MEASUREMENT

The Fund's investments are stated at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities (from highest to lowest priority). All investments have been valued using a market approach. The Fund uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. The Fund measures fair value using one of these levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 - inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs use observable inputs that include: quoted market prices for similar assets or liabilities in an active market not defined by Level 1; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - inputs include significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

There have been no changes in valuation techniques and related inputs during the year.

**THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS**

**Notes to Financial Statements
December 31, 2016 and 2015**

4. FAIR VALUE MEASUREMENT (continued)

Fair values of investments measured on a recurring basis at December 31, 2016 and 2015 are as follows:

	Fair Value Measurements Using:			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2016:				
Income Fund:				
Corporate Bonds	\$ -	\$ 4,229,883	\$ -	\$ 4,229,883
U.S. Government Securities	1,281,881	-	-	1,281,881
U.S. Agency Securities	742,579	-	-	742,579
Mutual Funds	5,255,555	-	-	5,255,555
Preferred Stocks	-	988,179	-	988,179
Equity Fund:				
Stock	41,775,486	-	-	41,775,486
Mutual Funds	4,315,956	-	-	4,315,956
	<u>\$ 53,371,457</u>	<u>\$ 5,218,062</u>	<u>\$ -</u>	<u>\$ 58,589,519</u>
December 31, 2015:				
Income Fund:				
Corporate Bonds	\$ -	\$ 4,034,400	\$ -	\$ 4,034,400
U.S. Government Securities	1,143,403	-	-	1,143,403
U.S. Agency Securities	716,282	-	-	716,282
Mutual Funds	3,664,908	-	-	3,664,908
Preferred Stocks	-	1,049,346	-	1,049,346
Equity Fund:				
Stocks	39,722,153	-	-	39,722,153
Mutual Funds	3,574,716	-	-	3,574,716
	<u>\$ 48,821,462</u>	<u>\$ 5,083,746</u>	<u>\$ -</u>	<u>\$ 53,905,208</u>

**THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS**

**Notes to Financial Statements
December 31, 2016 and 2015**

5. PARTNERS' CAPITAL

Partners' capital is comprised of the following:

	2016	2015
North Carolina Masonic Foundation, Inc.	\$ 17,711,598	\$ 16,988,078
Grand Lodge - Permanent Fund	2,091,670	1,950,453
Grand Lodge of NC	474,365	441,923
Doctor Grover C. Dale Charitable Fund	1,792,062	1,708,271
Thomas O. Eller Charitable Gift	56,374	57,392
The North Carolina Home for Children at Oxford	21,691,143	20,432,427
White Stone	6,483,541	4,558,738
White Stone Dept of Insurance Reserve	2,834,631	2,665,419
Drewry Memorial Fund	413,115	401,291
Camp Rainbow	353,247	341,168
New Bern Lodge	362,824	397,788
Life Endowment Fund (Raleigh)	287,325	271,573
Scottish Rite Thomas Eller Charitable Gift	147,788	142,382
Life Endowment Fund (New Bern)	120,964	111,232
Life Endowment Fund (Wilmington)	67,362	61,943
Wilmington Investment	101,745	122,067
New Bern Almoner	17,961	16,516
Scottish Rite Masonic Foundation	1,604,906	1,458,513
NC Masonic Foundation Loan Account	59,461	56,250
New Bern York Rite Holding Corp	58,195	53,513
E J Pugh Scholarship Fund	118,159	114,424
Unity Scholarship Fund	295,782	281,051
10th Masonic District Scholarship Fund	58,134	53,912
T. Bruce Boyette Scholarship Fund	66,042	60,623
John L. Watson Scholarship Fund	186,971	180,824
Woodrow Russ Scholarship Fund	17,418	16,841
St John's Lodge No. 1 Scholarship Fund	2,354	2,213
Mingo Lodge No. 206 Scholarship Fund	63,068	57,915
Knights of Templar of the USA	120,852	113,846
Royal Arch Masons	120,854	113,848
Will Jones Scholarship (Phoenix No. 8)	54,306	50,326
Greensboro Scottish Rite General	205,267	190,939
Greensboro Scottish Rite Endowment	139,289	134,808
Eureka Lodge No. 283	94,185	87,100
Oak Grove Lodge No. 750	63,008	57,939
University Lodge No. 408	26,190	24,290

**THE NORTH CAROLINA MASONIC FOUNDATION
COMMON FUNDS**

**Notes to Financial Statements
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5. PARTNERS' CAPITAL (continued)

	2016	2015
Green Level No. 277	\$ 42,784	\$ 39,906
Forest City Lodge No. 381	67,785	73,721
WhiteStone Entrance Fee Account	1,050,276	988,009
Rowan County Masonic Scholarship Fund	103,108	95,315
Nichols-West Asheville Lodge No. 650	27,070	25,170
Harold A. Talbert Charitable Fund	427,698	395,908
Unanimity Lodge No. 7	136,134	79,966
Wilmington Lodge No. 319	87,036	80,034
Masonic Home Foundation	454,673	148,791
WhiteStone Chapel Fund	124,919	-
Bula Lodge No. 409	26,720	-
Andrew Jackson Lodge No. 576	27,402	-
Masonic Building Company of High Point	34,560	-
Dunn's Rock Masonic Lodge No. 267	30,943	-
Numa F. Reid Lodge No. 344	25,008	-
Blemont Lodge No. 627	51,415	-
Total partners' capital	\$ 61,079,687	\$ 55,704,656

6. CONCENTRATIONS OF CREDIT RISKS

The Fund maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation. Deposit accounts, at times, may exceed insured limits.

Investment securities 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 values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the balance sheets.

7. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through July 11, 2017, the date which the financial statements were available to be issued.