Financial Statements
December 31, 2016 and 2015

Rocky Mountain Community Reinvestment Corporation

Independent Auditor's Report

The Board of Trustees
Rocky Mountain Community Reinvestment Corporation
Salt Lake City, Utah

Report on the Financial Statements
We have audited the accompanying financial statements of Rocky Mountain Community Reinvestment Corporation (a nonprofit corporation) which comprise the statements of financial position as of December 31, 2016 and 2015, 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.

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rocky Mountain Community Reinvestment Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Salt Lake City, Utah
May 4, 2017

	2016	2015
Assets		
Cash and cash equivalents	$ 344,175	$ 2,567,353
Restricted cash	1,457,352	1,457,352
Loan administration fees receivable	13,094	14,404
Loans receivable		
Mortgage loans receivable	109,844,905	107,788,952
Loan funding advances	6,546,023	2,387,168
Direct loan costs - net of deferred loan origination fees	1,415,448	1,178,260
Net loans receivable	117,806,376	111,354,380
Servicing assets, net	87,211	61,491
Property and equipment, net	73,618	63,589
Prepaid expenses and other assets	5,819	6,140
Total assets	$ 119,787,645	$ 115,524,709
Liabilities and Net Assets		
Checks written in excess of bank balance	$ 388,743	$ -
Accounts payable and accrued liabilities	180,508	131,172
Borrower fees on loans in process	484,810	462,365
Interest payable - member banks	361,995	439,151
Line of credit	1,590,614	-
Notes payable - loans - member banks	107,838,842	105,972,964
Notes payable to members - capitalization	-	192,565
Total liabilities	110,845,512	107,198,217
Net Assets		
Unrestricted net assets		
Designated	309,075	309,075
Undesignated	7,256,539	6,640,898
Member bank contributions	228,242	228,242
Total unrestricted net assets	7,793,856	7,178,215
Temporarily restricted net assets	1,148,277	1,148,277
Total net assets	8,942,133	8,326,492
Total liabilities and net assets	$ 119,787,645	$ 115,524,709

Rocky Mountain Community Reinvestment Corporation
Statement of Activities
Year Ended December 31, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Loan Revenues			
Interest income - loans	$ 5,894,147	$ -	$ 5,894,147
Loan administration fees	594,337	-	594,337
Other loan revenue	77,341	-	77,341
Net servicing revenue	110,714	-	110,714
Total loan revenues	6,676,539	-	6,676,539
Direct Loan Costs			
Interest expense - loans	4,680,981	-	4,680,981
Loan administration costs	125,427	-	125,427
Servicing and agent fees	19,448	-	19,448
Total direct loan costs	4,825,856	-	4,825,856
Net loan revenues	1,850,683	-	1,850,683
Program Expenses			
Salaries and employee benefits	994,442	-	994,442
Rent and other office expenses	174,901	-	174,901
Professional fees	105,784	-	105,784
Interest - member capitalization notes	4,586	-	4,586
General Administrative Expenses	82,047	-	82,047
Total expenses	1,361,760	-	1,361,760
Operating Revenue	488,923	-	488,923
Other Revenue			
Interest income - deposits	4,360	-	4,360
In-kind contributions	122,358	-	122,358
Total other revenue	126,718	-	126,718
Change in Net Assets	615,641	-	615,641
Net Assets, Beginning of Year	7,178,215	1,148,277	8,326,492
Net Assets, End of Year	$ 7,793,856	$ 1,148,277	$ 8,942,133

	2015		
	Unrestricted	Temporarily Restricted	Total
Loan Revenues			
Interest income - loans	$ 6,476,018	$ -	$ 6,476,018
Loan administration fees	642,106	-	642,106
Asset management fees - related party	-	-	-
Other loan revenue	27,089	-	27,089
Net servicing revenue	7,135	-	7,135
Total loan revenues	7,152,348	-	7,152,348
Direct Loan Costs			
Interest expense - loans	5,475,826	-	5,475,826
Loan administration costs	158,245	-	158,245
Servicing and agent fees	7,745	-	7,745
Total direct loan costs	5,641,816	-	5,641,816
Net loan revenues	1,510,532	-	1,510,532
Program Expenses			
Salaries and employee benefits	717,431	-	717,431
Rent and other office expenses	370,189	-	370,189
Professional fees	87,126	-	87,126
Interest - member capitalization notes	10,206	-	10,206
General Administrative Expenses	73,892	-	73,892
Total expenses	1,258,844	-	1,258,844
Operating Revenue	251,688	-	251,688
Other Revenue			
Interest income - deposits	10,497	-	10,497
Total other revenue	10,497	-	10,497
Change in Net Assets	262,185	-	262,185
Net Assets, Beginning of Year	6,916,030	1,148,277	8,064,307
Net Assets, End of Year	$ 7,178,215	$ 1,148,277	$ 8,326,492

	2016	2015
Operating Activities		
Change in net assets	$ 615,641	$ 262,185
Adjustments to reconcile change in net assets to net cash from (used by) operating activities:		
Change in fair value of servicing assets	(25,720)	109,146
Depreciation	20,523	17,378
Changes in operating assets and liabilities:		
Loan administration fees receivable	1,310	18,024
Direct loan costs - net of deferred loan fees	(237,188)	(500,505)
Prepaid expenses and other assets	321	(2,278)
Checks written in excess of bank balance	388,743	-
Accounts payable and accrued liabilities	49,336	(4,673)
Borrower fees on loans in process	22,445	101,372
Interest payable - member banks	(77,156)	(18,207)
Net Cash from (used by) Operating Activities	758,255	(17,558)
Investing Activities		
Issuance of mortgage and interim loans	(13,620,202)	(17,410,000)
Loan funding advances	(18,880,539)	(8,439,433)
Principal payments received on mortgage and interim loans	11,564,249	17,748,463
Principal payments received on loan funding advances	14,721,684	8,528,024
Purchase of property and equipment	(30,552)	(26,075)
Net Cash from (used by) Investing Activities	(6,245,360)	400,979
Financing Activities		
Net borrowings under line of credit	1,590,614	-
Issuance of notes payable - loans - member banks	13,620,202	17,091,580
Principal payments made on notes payable - loans - member banks	(11,946,889)	(17,568,749)
Net Cash from (used by) Financing Activities	3,263,927	(477,169)
Net Change in Cash and Cash Equivalents	(2,223,178)	(93,748)
Cash and Cash Equivalents, Beginning of Year	4,024,705	4,118,453
Cash and Cash Equivalents, End of Year	$ 1,801,527	$ 4,024,705
Cash per Statement of Financial Position		
Cash and cash equivalents	$ 344,175	$ 2,567,353
Restricted cash	1,457,352	1,457,352
Cash and Cash Equivalents, End of Year	$ 1,801,527	$ 4,024,705
Supplemental Cash Flow Information:		
Cash paid for interest	$ 4,737,452	$ 5,504,239

See Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Rocky Mountain Community Reinvestment Corporation ("RMCRC") was formed on March 19, 1999 and began granting loans in 2000. RMCRC is a nonprofit, financial company working in cooperation with its member banks ("Members") serving as a catalyst for community development by offering flexible financing for affordable, quality housing to assist Utah's low and moderate-income residents, working with government agencies to maximize leverage of public and private dollars, and providing technical assistance to project sponsors. RMCRC uses a pool of funds provided by its Members under the Intercreditor Agreement ("Agreement") along with the sale of direct loan participations to fund loans to mortgagors.

Accounting Policy and Revenue Recognition

Revenues and expenses are recognized on the accrual basis in accordance with generally accepted accounting principles. Loan origination fee revenues and corresponding expenses are deferred and recognized over the life of the corresponding loan. Deferred loan origination fees are reported in direct loan costs – net of deferred loan origination fees on the accompanying statements of financial position. Other loan administrative fee revenues are recognized at the time the loan is funded. Revenue from loan sales is recognized when ownership of the loan passes from RMCRC to the purchaser and the gain or loss is represented by the difference between the selling price and the loan basis.

Financial Statement Presentation

RMCRC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

Use of Estimates

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

Contributions

Contributions that are restricted by the donor (Members) are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donated materials and equipment are reflected as contributions at their estimated values at date of receipt.

Cash and Cash Equivalents

Cash equivalents include highly liquid short-term investments with original maturities of three months or less, which are readily convertible to known amounts of cash. Cash and cash equivalents are held in insured depository institutions in accordance with Board of Trustees (Board) approved investment policy, which limits accounts to 250% of the account's insured limit excepting the account established to hold temporarily restricted and designated amounts received by RMCRC, which is not limited by Board policy (see Note 10). At December 31, 2016 and 2015, an aggregate of $2,415,363 and $4,289,107, respectively, was not insured by the FDIC depository insurance program.

Temporarily Restricted and Board Designated Net Assets

By providing the primary source of funding for RMCRC operations, the Members are considered RMCRC's benefactors, and the Agreement is the source for determining any restrictions of net assets. In accordance with the Agreement, RMCRC is required to restrict any gains on sales of loans to cover potential future losses on the sales of loans or as a result of default by borrowers. Gains from the sale of loans are reported at temporally restricted net assets in the accompanying statements of financial position (see Note 10). Additionally, the Board has designated proceeds from borrowers for rate ceiling and rate lock margin fees to be restricted for the same purposes. Cash resulting from temporary restrictions and board designations is included in the accompanying statements of financial position as restricted cash.

Custodial Accounts

RMCRC is custodian of certain funds of the borrowers associated with loans that RMCRC services. These funds are held in various accounts including reserve accounts as well as tax and insurance impound accounts. These funds are the property of the respective borrowers. RMCRC administers these funds pursuant to terms of the respective loan agreements, holds fiduciary responsibility set forth in the loan agreements and receives a benefit for assuming such responsibility. The balance in these accounts at December 31, 2016 and 2015 was $14,334,915 and $11,784,041, respectively; such amounts are not reflected on RMCRC's statements of financial position.

Mortgage Loans Receivable

The entire loan portfolio outstanding as of December 31, 2016 and 2015 is represented by mortgage, construction, and bridge loans on properties in Utah, Idaho, Wyoming, Nevada, and Arizona. These financed receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances. Deferred loan origination fees, net of direct origination costs are amortized into income over the expected or contractual life of the loan using the straight-line method, which does not differ materially from the interest method.

Loans receivable are considered past due if loan payments are not made according to the mortgage loan agreement. RMCRC does not currently maintain an allowance for mortgage loan losses; however, RMCRC does maintain restricted and designated net assets to cover loan losses pursuant to the Agreement. The Agreement requires the net gain on the sale of loans to be restricted to cover potential future losses on the sales of loans or as a result of default by borrowers. Additionally, the Board has designated proceeds from borrowers for rate ceiling and rate lock margin fees and may establish additional funds at its discretion from net operating revenue to be restricted for the same purposes (see Note 10). Pursuant to the Agreement and the notes issued thereunder, each loan payable to Members is secured by an assignment of a corresponding RMCRC mortgage loan receivable and recourse is limited to such assigned receivable. While recourse is limited to the assigned collateral underlying the related mortgage loan receivable, the designated and temporarily restricted net assets provide a means to entice continued participation of Members in the Agreement. Under the terms of the Agreement, any losses on mortgage loans receivable beyond those amounts covered by the designated and temporarily restricted net asset balances are to be absorbed by the Members in proportion to their relative funding percentage of the mortgage loan. The individual Members determine their own loan loss allowance in relation to their funding percentage.

Loan Sales and Servicing Assets

When RMCRC sells loans it may retain servicing rights which are initially measured at fair value. Gains or losses on the sale of the loans depends in part on both (a) the previous carrying amount of the loans involved in the transfer, allocated between the assets sold and the servicing rights that continue to be held based on their relative fair value at the date of transfer, and (b) the proceeds received. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for servicing rights that continue to be held, so RMCRC generally estimates fair value using the present value of future expected cash flows based on management's best estimates of the key assumptions—credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved (see Note 8).

Fair Value of Financial Instruments

RMCRC has a number of financial instruments, none of which are held for sale or trading purposes, which include loans receivable and notes payable. RMCRC estimates that the fair value of portfolio mortgage loans receivable at December 31, 2016 and 2015 is $1,442,769 and $2,742,419 greater than the outstanding loan balances, respectively. RMCRC estimates that the fair value of all other financial instruments at December 31, 2016 and 2015, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements based on applicable interest rates.

Property and Equipment

Property and equipment are recorded at cost. A capitalization threshold of $1,000 is used by RMCRC. Maintenance, repairs and minor replacements are charged to expense as incurred. Property is depreciated over the estimated useful life of each class of depreciable asset and is computed on the straight-line method.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. At December 31, 2016, management reviewed its long-lived assets as disclosed above and determined no impairment was necessary.

Salaries Expense

During the years ended December 31, 2016 and 2015, certain components of salaries and related taxes and benefits expense were classified as direct loan costs. These costs are netted against deferred loan fees on the statement of financial position. The amount of salaries and related taxes and benefits expense so classified in 2016 and 2015 was $603,567 and $782,212, respectively. Gross salaries, related taxes and employee benefits expense for the years ended December 31, 2016 and 2015 was $1,260,876 and $1,499,643, respectively.

Income Tax Status

RMCRC is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and qualifies for the charitable contribution deduction under Sections 170(b)(1)(A)(vi) and (viii). RMCRC is required to file an annual Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, RMCRC is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. RMCRC has determined that it is not subject to unrelated business income tax.

RMCRC has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. RMCRC will recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Concentration

RMCRC provides financing primarily to multifamily rental apartment properties in a limited regional service area encompassing the Rocky Mountain region with an emphasis on Utah.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued ASU 2016-14 (the ASU) *Presentation of Financial Statements for Not-for-Profit Entities* during August 2016. The ASU is the first in a two-phase FASB project that will change the way not-for-profit (NFP) entities present their financial statements and related disclosures. It seeks to improve NFP financial reporting by simplifying net asset classifications and enhancing presentation and disclosure requirements regarding liquidity, financial performance, and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017. The most significant changes resulting from the ASU are summarized as follows:

- The three existing classes of net assets will become two. The new categories of Net Assets without Donor Restrictions, which is not substantively different than current Unrestricted Net Assets, and Net Assets with Donor Restrictions, which includes all net assets subject to a donor restriction, will replace unrestricted, temporarily restricted, and permanently restricted net assets.

- Quantitative and qualitative information about liquidity will be required to provide financial statement users with an understanding of a NFP's exposure to risk, management of liquidity risks, and availability of assets to meet cash needs for general expenditures.

- NFP's presenting an intermediate measure of operations will need to provide additional information about items included or excluded from the operating measure.
- Investment returns presented in the statement of activities will be recorded net of both external and direct internal investment expenses.
- NFP's will be required to report expenses both by function and natural classification in a single location (this can be accomplished in several different ways).
- NFP's presenting a direct method statement of cash flows no longer need to present or disclose a reconciliation to the indirect method.

The second phase of the FASB's financial reporting project will consider additional operating measure and cash flow considerations that were not addressed in the first phase. There is no estimated timeframe for the completion of the second phase.

Subsequent Events

RMCRC has evaluated subsequent events through May 4, 2017, the date these financial statements were available to be issued.

Note 2 - Property and Equipment

A summary of property and equipment at December 31, 2016 and 2015 is as follows:

	2016	2015
Office equipment	$ 193,525	$ 162,973
Leasehold improvements	4,554	4,554
Total property and equipment	198,079	167,527
Accumulated depreciation	(124,461)	(103,938)
Property and equipment, net	$ 73,618	$ 63,589

Depreciation expense for the years ended December 31, 2016 and 2015 was $20,523 and $17,378, respectively.

Note 3 - Notes Payable to Members - Capitalization

The notes payable to Members represents the amount of capitalizing contributions made by the Members under the Agreement, not classified as member bank contributions in unrestricted net assets. Under the terms of the Agreement, interest on the notes is accrued and paid annually at 5.3%. The principal balance of the notes were paid in full during the year ended December 31, 2016.

Note 4 - Member Contributions

As new member banks become RMCRC Members, they are required to make an initial contribution that is reported as member contributions in the unrestricted net assets in the accompanying statements of financial position. Under the Agreement, the Board of Trustees determines the amount of the initial contribution fee for new Members. RMCRC did not receive any contributions from new Members during the years ended December 31, 2016 and 2015, respectively.

Note 5 - Notes Payable – Loans – Member Banks

RMCRC uses a revolving line of credit provided by Members to fund loans to its mortgagors. The line of credit limit at December 31, 2016 and 2015 was $230,650,000 and $170,702,030, respectively. At December 31, 2016 and 2015, the balance of funds available on the line of credit, taking into account the outstanding loan commitments issued by RMCRC which thus obligate funds of the line of credit (see Note 12), was $82,769,318 and $72,386,285, respectively. With respect to the line of credit, the loans payable to Members have various stated interest rates between 3.19% and 6.475%. The mortgage loans receivable from RMCRC borrowers have various stated interest rates between 3.75% and 8.35%. The payment terms for both loans payable and loans receivable vary by loan.

The revolving line of credit is available to RMCRC only for the origination of loans. As monthly or periodic payments as well as prepayments are made on the loans receivable, the corresponding loans payable are paid down as required by the Agreement.

In management’s opinion, RMCRC’s credit risk relating to granting loans is mitigated by the diversity of borrowers, the types of projects, the underlying value of the mortgaged property, and establishing a reasonable loan to value ratio.

The balance of Notes Payable – Loans – Member Banks as of December 31, 2016 and 2015 of $107,838,842 and $105,972,964, respectively, includes participation amounts due to former Members that no longer participate in the revolving line of credit and amounts due to Members whose revolving line of credit has adjusted causing some amounts to not represent potential regeneration of the line of credit.

The scheduled principal payments on the line of credit based on each loan's respective amortization schedule are as follows:

Year ended December 31,		
2017	$	2,197,482
2018		3,451,910
2019		8,961,227
2020		2,832,256
2021		4,470,195
Thereafter		85,925,772
	$	107,838,842

Note 6 - Retirement Plan

RMCRC contributes to a 403(b) thrift plan for the benefit of its employees. All full-time employees are eligible to contribute to the 403(b) thrift plan. RMCRC's contribution on behalf of its employees to the retirement plans for the years ended December 31, 2016 and 2015 was $82,560 and $60,601, respectively.

Note 7 - Operating Lease

In April 2012, RMCRC entered into an operating lease agreement for office space. In April 2015, RMCRC moved locations and entered into a new lease agreement. The new lease expires July 31, 2020. RMCRC paid rent under both leases for three months and was required to pay an early termination fee under the old lease. Rent expense, including early termination fees, for the years ended December 31, 2016 and 2015 was $82,316 and $252,301, respectively. Minimum lease payments due under the lease are as follows:

Year ended December 31,		
2017	$	84,778
2018		87,316
2019		89,940
2020		53,369
	$	315,403

Note 8 - Servicing Assets

The following table presents the changes in the fair value of servicing assets during the years ended December 31, 2016 and 2015:

	2016	2015
Beginning balance	$ 61,491	$ 170,637
Changes in fair value of servicing asset	25,720	(109,146)
Ending balance	$ 87,211	$ 61,491

Net servicing revenue for the years ended December 31, 2016 and 2015 is comprised of the following:

	2016	2015
Contractually specified servicing revenue	$ 84,994	$ 116,281
Changes in fair value of servicing asset	25,720	(109,146)
Net servicing revenue	$ 110,714	$ 7,135

Management's estimates of fair value of servicing assets are determined using the net discounted present value of future cash flows, which consists of projecting future servicing cash flows and discounting such cash flows using an appropriate risk-adjusted discount rate. These valuations require various assumptions, including future servicing fees, servicing costs, credit losses, discount rates and prepayments. Due to subsequent changes in economic and market conditions, these assumptions can, and generally will, change from year to year.

The following table presents RMCRC's key assumptions used in measuring the fair value of servicing assets at December 31, 2016 and the sensitivity of fair values to an immediate 10% and 20% adverse change in these assumptions:

Fair value of capitalized servicing assets	$ 87,211
Weighted average prepayment speeds	35.54%
Impact on fair value of 10% adverse change	$ 3,353
Impact on fair value of 20% adverse change	$ 7,109
Weighted average discount rate	6.74%
Impact on fair value of 10% adverse change	$ 1,889
Impact on fair value of 20% adverse change	$ 4,152

The sensitivity analysis above is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of servicing assets is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another factor, which may magnify or counteract the sensitivities. Further changes in fair value based on a single assumption to the change in fair value may not be linear.

The principal balance of this servicing portfolio, which is not shown on the statement of financial position, as of December 31, 2016 and 2015 was $22,955,695 and $30,149,475, respectively.

RMCRC's loan servicing contracts to third parties permit termination of the contracts without compensation of the base servicing fees, though with compensation of servicing premiums negotiated in certain contracts, with or without cause, and therefore such contracts are at risks not within RMCRC's control. However, historical practice within the industry supports the reasonable expectation that such servicing contracts will run their full term.

Note 9 - Fair Value Measurements

Generally accepted accounting principles (GAAP) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that RMCRC can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets; or

c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

RMCRC utilizes internal valuation models as described in Note 8 to determine fair value of its servicing assets.

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities by their classification in the statement of financial position at December 31, 2016.

Assets	Level 1	Level 2	Level 3
Servicing Assets	-	-	$ 87,211

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities by their classification in the statement of financial position at December 31, 2015.

Assets	Level 1	Level 2	Level 3
Servicing Assets	-	-	$ 61,491

A summary of changes in the statement of financial position line item for servicing assets measured using level 3 inputs is presented in Note 8.

Fair Value of Financial Instruments Not Required To Be Reported at Fair Value

The carrying amounts of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, and notes payable approximate fair value due to the short-term nature of the items, and are considered to fall within Level 1 of the fair value hierarchy. The carrying amount of loans receivable is based on the discounted net present value of the expected future cash receipts, and approximate fair value. The fair values of notes payable is based on a combination of the stated or implied interest rates and the unsecured borrowing rate available to us at the measurement dates, and approximate their carrying amount. These estimates are considered to fall within Level 2 of the fair value hierarchy.

Note 10 - Net Asset Restrictions

Under the Agreement with Members, the gain on the sale of loans, less an amount to compensate RMCRC for time spent in preparation of the loan sale and out-of-pocket expenses, must be restricted for use in protecting Members in the event loans are sold at a discount, or other potential loan loss. RMCRC sold a package of ten loans in 2005 and a package of nineteen loans in 2011. The amount of gain restricted from the 2011 and 2005 sales was $832,842 and $315,435, respectively. Restrictions from these gains comprise temporarily restricted nets assets of $1,148,277 as of December 31, 2016 and 2015, and the related cash is included in restricted cash on the statement of financial position.

In addition, proceeds received from borrowers for rate ceiling and rate lock margin fees are designated for use in meeting payment obligations to Members in the event of a loan loss either from sale of loans at a discount or payment default by a borrower. As of December 31, 2016 and 2015, RMCRC has received a total of $309,075 in rate ceiling and rate lock margin fees, which comprises designated net assets. This is included in restricted cash at December 31, 2016 and 2015.

Note 11 - Line of Credit

In December 2015, the RMCRC entered into a revolving credit agreement with a bank. The agreement allows RMCRC to take up to $5 million in advances on a line of credit. The line of credit matures in December 2017 and is secured by RMCRC loans receivable and associated cash flows. Interest accrues on the line of credit at the three month LIBOR rate plus two percent per annum. The interest rate at December 31, 2016 was 4.25%. At December 31, 2016 and 2015, the balance due on the line of credit was $1,590,614 and $0, respectively.

Note 12 - Commitments

In the normal course of business, RMCRC has various outstanding commitments to originate loans. These commitments obligate RMCRC and in turn its Members to close and fund loans in the future (up to 30 months in some instances) if prospective borrowers satisfy all closing conditions including completion of improvements on, rent up, and stabilization of collateral properties. These commitments are not reflected in the financial statements. At December 31, 2016 and 2015 the total commitment for loans in process was $33,805,000 and $32,400,000, respectively. None of the prospective borrowers under these commitments had satisfied the closing conditions with respect to these commitments as of December 31, 2016 and 2015, respectively.