Grand Rapids Community Foundation

Financial Report

June 30, 2018

GRAND RAPIDS COMMUNITY FOUNDATION

OFFICERS AND BOARD OF TRUSTEES

June 30, 2018

Officers

Board of Trustees

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plante moran

Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Grand Rapids Community Foundation

We have audited the accompanying financial statements of Grand Rapids Community Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grand Rapids Community Foundation as of June 30, 2018 and 2017 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Notes 3 and 10 to the financial statements, the financial statements include alternative investments valued at $123,489,678 (38 percent of net assets) and $119,207,181 (39 percent of net assets) at June 30, 2018 and 2017, respectively, whose fair values have been estimated at net asset value by management based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

September 18, 2018

Statement of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 16,866,333	$ 13,225,073
Investments (Notes 3 and 10)	316,162,841	302,143,962
Receivables:		
Split-interest agreements receivable	4,168,647	4,047,179
Gifts and pledges receivable	642,845	1,335,069
Notes receivable (Note 4)	3,007,354	2,716,675
Other assets:		
Beneficial interest in perpetual trusts	2,125,025	2,198,396
Prepaid expenses	346	1,776
Reinsurance contracts	1,540,861	1,609,648
Cash surrender value life insurance	713,124	679,852
Property and equipment - Net (Note 5)	3,584,379	3,804,711
Total assets	**$ 348,811,755**	**$ 331,762,341**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 63,667	$ -
Grants and scholarships payable (Note 6)	4,621,974	5,141,271
Charitable gift annuities payable	2,153,835	2,319,440
Funds held on behalf of nonprofit endowments (Note 7)	17,869,102	16,615,418
Total liabilities	24,708,578	24,076,129
Net Assets		
Unrestricted:		
Undesignated	26,915,987	22,875,285
Board designated (Note 9)	276,582,233	263,904,316
Temporarily restricted (Note 8)	14,011,718	14,240,001
Permanently restricted (Note 8)	6,593,239	6,666,610
Total net assets	324,103,177	307,686,212
Total liabilities and net assets	**$ 348,811,755**	**$ 331,762,341**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Investment income - Net of investment expenses of $1,385,480 in 2018 and 1,141,433 in 2017	$ 5,095,577	$ 222,788	$ -	$ 5,318,365	$ 3,425,341	$ 163,867	$ -	$ 3,589,208
Realized gains on sale of investments	3,843,250	875,230	-	4,718,480	4,158,535	811,448	-	4,969,983
Change in fair value of investments	11,299,896	716,585	(73,371)	11,943,110	26,791,561	1,019,509	47,617	27,858,687
Bequests and gifts	12,795,929	147,355	-	12,943,284	6,574,397	186,322	-	6,760,719
Change in fair value of charitable gift annuities and reinsurance contracts	(22,195)	-	-	(22,195)	(150,396)	-	-	(150,396)
Change in fair value of split-interest agreements	-	221,407	-	221,407	-	568,243	-	568,243
Less net revenue, gains, and other support associated with nonprofit activity (Note 7)	(1,812,577)	-	-	(1,812,577)	(2,562,479)	-	-	(2,562,479)
Total revenue, gains, and other support	31,199,880	2,183,365	(73,371)	33,309,874	38,236,959	2,749,389	47,617	41,033,965
Expenses								
Program:								
Grants and scholarships authorized	12,454,868	-	-	12,454,868	13,397,096	-	-	13,397,096
Charitable and philanthropic	1,210,289	-	-	1,210,289	1,340,045	-	-	1,340,045
Community initiatives and program expenses	876,582	-	-	876,582	1,031,009	-	-	1,031,009
Support services:								
Management and general	1,134,668	-	-	1,134,668	1,147,717	-	-	1,147,717
Development and marketing	1,595,152	-	-	1,595,152	1,447,013	-	-	1,447,013
Fund management	180,243	-	-	180,243	225,847	-	-	225,847
Less grants and fees related to nonprofit activity (Note 7)	(558,893)	-	-	(558,893)	(644,854)	-	-	(644,854)
Total expenses	16,892,909	-	-	16,892,909	17,943,873	-	-	17,943,873
Increase (Decrease) in Net Assets Before Assets Released from Restrictions	14,306,971	2,183,365	(73,371)	16,416,965	20,293,086	2,749,389	47,617	23,090,092
Assets Released from Restrictions	2,411,648	(2,411,648)	-	-	3,677,751	(3,677,751)	-	-
Increase (Decrease) in Net Assets	16,718,619	(228,283)	(73,371)	16,416,965	23,970,837	(928,362)	47,617	23,090,092
Net Assets - Beginning of year	286,779,601	14,240,001	6,666,610	307,686,212	262,808,764	15,168,363	6,618,993	284,596,120
Net Assets - End of year	**$ 303,498,220**	**$ 14,011,718**	**$ 6,593,239**	**$ 324,103,177**	**$ 286,779,601**	**$ 14,240,001**	**$ 6,666,610**	**$ 307,686,212**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services				Support Services				
	Grants and Scholarships	Charitable and Philanthropic	Community Initiatives and Program Expenses	Total Program Services	Management and General	Development and Marketing	Fund Management	Total Support Services	Total
Salaries and wages	$ -	$ 658,025	$ -	$ 658,025	$ 565,863	$ 753,398	$ 102,376	$ 1,421,637	$ 2,079,662
Payroll taxes	-	53,554	-	53,554	46,053	61,316	8,332	115,701	169,255
Recruitment and benefits	-	161,424	-	161,424	138,815	184,820	25,114	348,749	510,173
Total salaries and related expenses	-	873,003	-	873,003	750,731	999,534	135,822	1,886,087	2,759,090
Grants and scholarships	12,454,868	-	-	12,454,868	-	-	-	-	12,454,868
Component fund program expenses	-	-	136,178	136,178	-	-	-	-	136,178
Education project initiatives	-	-	740,404	740,404	-	-	-	-	740,404
Conferences	-	18,238	-	18,238	15,683	20,881	2,837	39,401	57,639
Office expenses	-	42,692	-	42,692	36,712	48,879	6,642	92,233	134,925
Occupancy	-	27,554	-	27,554	23,694	31,547	4,287	59,528	87,082
Insurance and dues/subscriptions	-	8,438	-	8,438	23,367	9,660	1,313	34,340	42,778
Equipment maintenance and depreciation	-	85,155	-	85,155	73,228	97,497	13,248	183,973	269,128
Board of trustees expenses	-	-	-	-	18,303	-	-	18,303	18,303
Other professional fees	-	18,364	-	18,364	15,792	75,363	2,857	94,012	112,376
Audit, tax, and accounting	-	-	-	-	41,433	-	-	41,433	41,433
Legal	-	1,669	-	1,669	1,435	1,911	260	3,606	5,275
Scholarship program administration	-	20,090	-	20,090	-	-	-	-	20,090
Grantmaking expenses	-	26,454	-	26,454	-	-	-	-	26,454
Community outreach	-	5,230	-	5,230	-	-	-	-	5,230
Fund development activities	-	-	-	-	-	151,821	-	151,821	151,821
Publications - Annual report, newsletters, and brochures	-	4,830	-	4,830	66,719	68,095	751	135,565	140,395
General public relations	-	78,572	-	78,572	67,571	89,964	12,226	169,761	248,333
Total functional expenses	**$ 12,454,868**	**$ 1,210,289**	**$ 876,582**	**$ 14,541,739**	**$ 1,134,668**	**$ 1,595,152**	**$ 180,243**	**$ 2,910,063**	**$ 17,451,802**

See notes to financial statements.

Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services				Support Services				
	Grants and Scholarships	Charitable and Philanthropic	Community Initiatives and Program Expenses	Total Program Services	Management and General	Development and Marketing	Fund Management	Total Support Services	Total
Salaries and wages	$ -	$ 689,199	$ -	$ 689,199	$ 541,921	$ 664,761	$ 120,423	$ 1,327,105	$ 2,016,304
Payroll taxes	-	56,419	-	56,419	44,363	54,418	9,858	108,639	165,058
Recruitment and benefits	-	188,419	-	188,419	148,155	181,738	32,922	362,815	551,234
Total salaries and related expenses	-	934,037	-	934,037	734,439	900,917	163,203	1,798,559	2,732,596
Grants and scholarships	13,397,096	-	-	13,397,096	-	-	-	-	13,397,096
Component fund program expenses	-	-	189,061	189,061	-	-	-	-	189,061
Education project initiatives	-	-	841,948	841,948	-	-	-	-	841,948
Conferences	-	16,447	-	16,447	12,933	15,864	2,874	31,671	48,118
Office expenses	-	32,542	-	32,542	25,588	31,389	5,686	62,663	95,205
Occupancy	-	30,712	-	30,712	24,149	29,623	5,366	59,138	89,850
Insurance and dues/subscriptions	-	6,385	-	6,385	20,908	6,159	1,116	28,183	34,568
Equipment maintenance and depreciation	-	91,337	-	91,337	71,819	88,098	15,959	175,876	267,213
Board of trustees expenses	-	-	-	-	16,329	-	-	16,329	16,329
Other professional fees	-	65,739	-	65,739	51,691	66,132	11,487	129,310	195,049
Audit, tax, and accounting	-	-	-	-	39,998	-	-	39,998	39,998
Legal	-	2,394	-	2,394	2,482	13,205	418	16,105	18,499
Scholarship program administration	-	27,359	-	27,359	-	-	-	-	27,359
Grantmaking expenses	-	13,854	-	13,854	-	-	-	-	13,854
Community outreach	-	6,276	-	6,276	-	-	-	-	6,276
Fund development activities	-	-	-	-	-	128,109	-	128,109	128,109
Publications - Annual report, newsletters, and brochures	-	3,885	-	3,885	61,614	62,307	679	124,600	128,485
General public relations	-	109,078	-	109,078	85,767	105,210	19,059	210,036	319,114
Total functional expenses	**$ 13,397,096**	**$ 1,340,045**	**$ 1,031,009**	**$ 15,768,150**	**$ 1,147,717**	**$ 1,447,013**	**$ 225,847**	**$ 2,820,577**	**$ 18,588,727**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 16,416,965	$ 23,090,092
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	235,857	239,029
Change in fair value of split-interest agreement receivable	(221,407)	(568,243)
Change in fair value of charitable gift annuities payable and reinsurance contracts	22,195	150,396
Change in fair value of investments	(12,016,481)	(27,811,070)
Realized gain on sale of investments	(4,718,480)	(4,969,983)
Change in fair value of beneficial interest in perpetual trusts	73,371	(47,617)
Change in cash surrender value of life insurance	(33,272)	(44,025)
Conversion of notes receivable to grants	91,160	150,000
Changes in operating assets and liabilities which provided (used) cash and cash equivalents:		
Gifts and pledges receivable	692,224	1,384,118
Prepaid expenses	1,430	8,354
Funds held as nonprofit endowments	1,253,684	1,917,626
Other payables	63,667	(53,732)
Grants and scholarships payable	(519,297)	(34,787)
Net cash and cash equivalents provided by (used in) operating activities	1,341,616	(6,589,842)
Cash Flows from Investing Activities		
Net proceeds from investments	2,716,082	10,867,213
Additions to furniture and equipment	(15,525)	(8,693)
Proceeds from reinsurance contracts	251,806	251,806
Repayment on notes receivable	484,161	263,530
Advances of notes receivable	(866,000)	(663,000)
Proceeds from split-interest agreements	625,335	452,630
Net cash and cash equivalents provided by investing activities	3,195,859	11,163,486
Cash Flows from Financing Activities		
Payments on gift annuities	(373,000)	(407,040)
Proceeds from gift annuities	2,181	421
Contributions subject to split-interest agreements	(525,396)	(95,888)
Net cash and cash equivalents used in financing activities	(896,215)	(502,507)
Net Increase in Cash and Cash Equivalents	3,641,260	4,071,137
Cash and Cash Equivalents - Beginning of year	13,225,073	9,153,936
Cash and Cash Equivalents - End of year	**$ 16,866,333**	**$ 13,225,073**

See notes to financial statements.

Note 1 - Nature of Business

Grand Rapids Community Foundation (the "Foundation") was established in October 1922, upon recommendation of a committee appointed by the Association of Commerce (now the Grand Rapids Area Chamber of Commerce) by a resolution adopted jointly by the Michigan Trust Company (now Fifth Third Bank) and Grand Rapids Trust Company (now Bank of America). The purpose of Grand Rapids Community Foundation is to accept gifts and bequests and administer the resulting earnings for charitable and educational uses that, in the opinion of the board of trustees, promote the welfare of persons residing in, or institutions situated in, the City of Grand Rapids, Michigan and surrounding communities.

Effective April 12, 1989, Grand Rapids Community Foundation was incorporated.

Since November 1930, when funds first became available, grants totaling $202,025,137 and scholarships (in addition to scholarship loans) totaling $16,940,024 have been awarded by the Foundation.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accounting policies of the Foundation confirm to accounting principles generally accepted in the United States of America as applicable to nonprofit organizations.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Beneficial Interest in Perpetual Trust

A beneficial interest in a perpetual trust is an arrangement in which a donor establishes and funds a perpetual trust for the benefit of one or more nonprofit beneficiaries. The assets are administered and managed by an independent third party. Under the terms of these arrangements, the Foundation has the irrevocable right to receive the investment income earned on the trust assets in perpetuity. The value of the Foundation's interest in the trust is based on the fair value of the underlying assets of the trust. The value of these perpetual trusts was $2,125,025 and $2,198,396 at June 30, 2018 and 2017, respectively.

Split-interest Agreements Receivable

The Foundation is the sole or partial beneficiary of 14 charitable remainder trusts whereby the Foundation does not act as trustee. The Foundation has recorded an asset at the estimated present value of the revenue to be received from the trusts. Revenue to be received from the trusts is based on the Foundation's ownership percentage in the underlying trust investments, which are valued at fair value. Subsequent adjustments in the estimated present value of the revenue to be received from the trusts are recorded in the current year as revenue.

Charitable Gift Annuities Payable

Charitable gift annuities represent gifts that are given to the Foundation with the condition that a specified payment be made to the donor over his or her life. A liability is established based on the present value of the payments to be made. This liability is recalculated annually, based on changes in the interest rate, life expectancy assumptions, and payments made. Changes in the liability are recorded in the current year as revenue. The Foundation acquires annuities (reinsurance contracts) to fund certain of these arrangements.

Note 2 - Significant Accounting Policies (Continued)

Cash Equivalents

The Foundation considers all highly liquid investments purchased with a maturity date of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

The Foundation maintains cash balances at one bank. Throughout the year, the balances exceeded amounts insured by the Federal Deposit Insurance Corporation. The Foundation evaluates the financial institutions with which it deposits funds; however, it may not be practical to insure all cash deposits.

Investments

Investments in marketable equity securities and debt securities are valued at their fair values in the statement of financial position. Alternative investments (hedge funds, timber, real estate, and private equity funds) and certain international equities and fixed-income investments are carried at fair value, which is estimated based on the net asset value per share (or its equivalent) of the investment company. Unrealized gains and losses are included in the statement of activities and changes in net assets. Realized gain or loss on the sale of investments is the difference between the proceeds received and the original cost of the specific investment sold.

Risks and Uncertainties

The Foundation invests in various investment securities. 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 in the statement of financial position.

Gifts and Pledges Receivable

Unconditional gifts and pledges made as of June 30, 2018 are mostly due by June 30, 2019 and have been deemed to be fully collectible by management.

Notes Receivable

The Foundation records notes receivable that are related to the Foundation's mission at face value and meets regularly with organizations to ensure payment terms are being met. Management reviews all the Foundation's notes as of June 30 and determines if an allowance for doubtful accounts, based on specific assessment of each account, is necessary. All amounts deemed uncollectible are charged against grant expense for that year. There was no allowance for doubtful accounts at June 30, 2018 and 2017.

Property and Equipment

Property and equipment are stated at their estimated fair values at the date donated or at cost if purchased. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives range from 3 to 40 years.

Classification of Net Assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation and financial statement presentation are maintained in accordance with the requirements of the Financial Accounting Standards Board. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Gifts and bequests received by the Foundation are held in various funds, which are classified as described below.

Note 2 - Significant Accounting Policies (Continued)

Unrestricted net assets consist of resources that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. This category consists of discretionary, donor-advised, nonprofit endowment, field of interest, designated, and scholarship net assets.

Temporarily restricted net assets consist of resources of which the use by the Foundation is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. This category consists of long-term noncapital campaign pledges receivable; split-interest agreements, such as charitable remainder trusts and charitable lead trusts; undistributed earnings on permanently restricted endowment funds; and special community projects administered by the Foundation.

Permanently restricted net assets consist of beneficial interests in perpetual trusts and funds created by donors, of which the Foundation is the owner. The Foundation has an irrevocable right to the original contribution that established these trusts and funds. The Foundation's earnings on permanently restricted net assets are classified as temporarily restricted until appropriated for expenditure based on the terms of the original gift agreement.

Community Foundation Classification of Unrestricted Net Assets

The bylaws of the Foundation include a variance provision and powers of modification, giving the board of trustees the power to vary the use of funds. Based on these provisions, some contributions received by the Foundation are reported as unrestricted support.

Federal Tax Status

The Internal Revenue Service has ruled that the Foundation and its supporting organization are public charities, as described in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code. Consequently, the Foundation is exempt from federal income tax and certain excise taxes imposed on private foundations.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that, as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions.

Grants and Scholarships

Grants and scholarships are charged to operations and recognized as liabilities when authorized by the board of trustees, regardless of the year in which they are paid. It is generally a present practice for the board to authorize grants to the extent of income earned on investments, subject to the limitation of a spending rule calculation.

Retirement Plan

The Foundation has a simplified employee benefit plan that covers substantially all employees. The Foundation contributes a discretionary amount each year, as determined by the board of trustees. Contributions are allocated to employee accounts based on compensation.

The Foundation's contributions for the years ended June 30, 2018 and 2017 were $175,495 and $164,110, respectively.

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The Foundation classifies its expenses based on the following categories:

Grants and Scholarships

See policy above.

Charitable and Philanthropic Expenses

Operating expenses associated with processing the Foundation's grant applications, philanthropic services (services to various nonprofit or community organizations, foundations, or the field of philanthropy), and special project expenses.

Community Initiatives and Program Expenses

Those expenses that cover activities that could be carried out by a grantee, but that the Foundation chooses to conduct as a program with its own or others' resources. Currently, these initiatives are focused on K-12 education in the city of Grand Rapids and the Encore National movement, which focuses on inspiring individuals in their 50s and beyond to engage in meaningful work and service. These are expenses for services or program materials that are paid to persons/organizations that are not not-for-profits. These include items such as consulting fees for a project or general operating expenses of a fund.

Management and General Expenses

The expenses that benefit the Foundation as a whole and which cannot be directly assigned to any other category.

Development and Marketing Expenses

Those expenses associated with acquiring and marketing foundation assets through endowment, donor-related, or other foundation activity.

Fund Management Expenses

Those expenses associated with managing the assets of the Foundation. This category includes all financial management (staff time), legal expenses, or other related expenses that are directly attributable to managing the funds of the Foundation.

The costs of providing services are reported on a functional basis. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although the methods of allocation used are considered appropriate, other methods could be used that would provide different amounts.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including September 18, 2018, which is the date the financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation will be impacted by the change in net asset classifications and the new disclosures on liquidity and availability of resources and will expand disclosures related to allocations of expenses in connection with the schedule of functional expenditures.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending June 30, 2021 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition for grants and contributions received, but it does anticipate an impact on the timing of recognition of grants and contributions made. The Foundation is currently gathering the appropriate information to determine the impact of this new standard.

Note 3 - Investments

Investments consist of the following, stated at fair value:

	2018	2017
Bonds and fixed-income mutual funds	$ 31,699,320	$ 31,262,510
U.S. equities stock and mutual funds	97,375,832	90,885,752
International stock and mutual funds	63,598,011	60,788,519
Alternative investments	123,489,678	119,207,181
Total investments	$ 316,162,841	$ 302,143,962

Note 4 - Notes Receivable

Notes receivable at June 30 consist of the following program-related notes:

	2018	2017
Note maturing in December 2022 with quarterly installments of $15,000, paying interest at a fixed rate of 1.00 percent, through December 2022. A total of $91,160 was converted to grant expense during the year ended June 30, 2018. The majority of note payments were deferred for 2018	$ 150,947	$ 242,975
Note maturing in July 2017 with no annual installments, paying interest quarterly at a fixed rate of 3.00 percent, through July 2017. The note was paid in full during October 2017	-	400,000
Note maturing in January 2024 with quarterly installments of $21,319, paying interest at a fixed rate of 4.00 percent, through January 2024	437,590	503,700
Note maturing in December 2019 with interest payable quarterly at a fixed rate of 3.00 percent, through December 2019. The total remaining amount available to borrower is $218,000 at June 30, 2018	582,000	-
Note originally maturing in April 2018 with no annual installments, paying interest quarterly of 3.50 percent. Note was extended with amended maturity date of April 2019	1,070,000	1,070,000
Note maturing in November 2023 with quarterly installments of $7,125, paying interest at a fixed rate of 3.00 percent, through November 2023. The total remaining amount available to borrower is $0 and $284,000 at June 30, 2018 and 2017, respectively	766,817	500,000
Total	$ 3,007,354	$ 2,716,675

Note 5 - Property and Equipment

Cost of land, buildings, and equipment consists of the following:

	2018	2017
Land	$ 200,000	$ 200,000
Buildings	4,309,986	4,309,986
Furniture and fixtures	776,746	766,242
Software	496,362	496,362
Total cost	5,783,094	5,772,590
Less accumulated depreciation	2,198,715	1,967,879
Net land, buildings, and equipment	$ 3,584,379	$ 3,804,711

Depreciation expense for the years ended June 30, 2018 and 2017 was $235,857 and $239,029, respectively.

Note 6 - Grants and Scholarships Payable

As of June 30, 2018, the board of trustees authorized the payment of certain grants in future periods as follows:

2019	$ 4,298,674
2020	251,800
2021	37,000
2022	34,500
Total	$ 4,621,974

Note 7 - Funds Held on Behalf of Nonprofit Endowments

The Foundation has adopted the accounting standard, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*. This statement establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. This statement specifically requires that if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as nonprofit endowments.

The Foundation maintains variance power and legal ownership of nonprofit endowment funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with the statement, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

At June 30, 2018 and 2017, the Foundation was the owner of nonprofit endowment funds, of which $17,869,102 and $16,615,418, respectively, is reported as a liability in the accompanying financial statements. The following table summarizes activity during the year in those funds for which there is a corresponding liability:

	2018	2017
Nonprofit endowment fund balances at July 1	$ 16,615,418	$ 14,697,792
Amounts raised	583,896	572,154
Investment income	350,066	239,827
Unrealized and realized investment gains	878,615	1,750,499
Grants	(486,806)	(585,578)
Fees	(72,087)	(59,276)
Nonprofit endowment fund balances at June 30	$ 17,869,102	$ 16,615,418

Note 8 - Restricted Net Assets

Temporarily restricted net assets are restricted based upon time or purpose restrictions as follows:

	2018	2017
Scholarships	$ 149,959	$ 142,626
Split-interest agreements receivable	4,168,647	4,047,179
Endowed and other program funds including earnings	8,845,323	8,469,443
Special projects	204,944	245,684
Pledges receivable	642,845	1,335,069
Total temporarily restricted net assets	$ 14,011,718	$ 14,240,001

Note 8 - Restricted Net Assets (Continued)

The temporarily restricted net assets restricted for future fiscal year operations are generated from the annual giving campaign.

Permanently restricted net assets are invested in perpetuity. The income on such investments, as specified by the donor, is to be used for the following purposes:

	2018	2017
Community welfare and programs	$ 4,354,699	$ 4,354,699
Beneficial interests in perpetual trusts	2,125,025	2,198,396
Scholarships	113,515	113,515
Total permanently restricted net assets	$ 6,593,239	$ 6,666,610

Note 9 - Board-designated and Donor-restricted Endowments

The Foundation's endowment funds consist of a donor-restricted endowment as well as board-designated net assets. The board-designated net assets consist of designated endowments that would be classified as donor-restricted endowments except that the Foundation has variance power of these assets. Therefore, the board of trustees treats these funds as designated endowments. The net assets associated with the donor-restricted and board-designated endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions, as well as variance power.

Interpretation of Relevant Law

The board of trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Note 9 - Board-designated and Donor-restricted Endowments (Continued)

The Foundation's accounting policy complies with accounting standards for endowments subject to UPMIFA. The accounting standards require investment earnings on permanently restricted net assets subject to UPMIFA to be classified as temporarily restricted until they are appropriated for expenditure by the Foundation. In addition, due to the variance power and powers of modification available to the board of trustees, the Foundation's board of trustees adopted a resolution to designate those endowment funds considered unrestricted.

	Endowment Net Asset Composition by Type of Fund as of June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,777,718	$ 4,468,214	$ 7,245,932
Board-designated endowment funds	276,582,233	-	-	276,582,233
Total	$ 276,582,233	$ 2,777,718	$ 4,468,214	$ 283,828,165

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 263,904,316	$ 2,346,116	$ 4,468,214	$ 270,718,646
Investment return:				
Investment income	5,578,892	334,861	-	5,913,753
Net appreciation (realized and unrealized)	14,120,694	747,876	-	14,868,570
Total investment return	19,699,586	1,082,737	-	20,782,323
Appropriation of endowment assets for expenditure	(7,021,669)	(651,135)	-	(7,672,804)
Endowment net assets - End of year	$ 276,582,233	$ 2,777,718	$ 4,468,214	$ 283,828,165

	Endowment Net Asset Composition by Type of Fund as of June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,346,116	$ 4,468,214	$ 6,814,330
Board-designated endowment funds	263,904,316	-	-	263,904,316
Total	$ 263,904,316	$ 2,346,116	$ 4,468,214	$ 270,718,646

Note 9 - Board-designated and Donor-restricted Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 242,161,211	$ 1,530,494	$ 4,468,214	$ 248,159,919
Investment return:				
Investment income	3,923,916	244,039	-	4,167,955
Net appreciation (realized and unrealized)	27,776,854	1,545,213	-	29,322,067
Total investment return	31,700,770	1,789,252	-	33,490,022
Appropriation of endowment assets for expenditure	(9,957,665)	(973,630)	-	(10,931,295)
Endowment net assets - End of year	$ 263,904,316	$ 2,346,116	$ 4,468,214	$ 270,718,646

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for the donor-specified period.

Under this policy, as approved by the board of trustees, the Foundation has three objectives: (1) to preserve and grow the assets of the Foundation by focusing on total investment returns from a diversified portfolio of investments; (2) balance long-term growth with appropriate risk and liquidity; and (3) comply with applicable laws, rules, and regulations.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation of domestic equity, foreign equity, fixed-income funds, and alternative investments, with performance benchmarks based on each asset class.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 5.0 percent of its endowment fund's average fair value over the prior 16 quarters through the fiscal year end preceding the fiscal year in which the distribution is planned. The expendable amount will never be less than a floor amount of 4.0 percent of the current fair value or more than a ceiling amount of 5.75 percent of current fair value. In establishing this policy, the Foundation considered the long-term expected return on its endowment. By limiting its spending policy over the long term, the Foundation expects the current spending policy to allow its net assets to grow annually. This is consistent with the Foundation's objective to maintain the purchasing power of the investment portfolio and net assets, as well as to provide additional real growth through new gifts and investment return.

Note 10 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Note 10 - Fair Value Measurements (Continued)

The following tables present information about the Foundation’s assets measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Foundation applies guidance that allows for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above.

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2018 and 2017, there were no transfers between levels of the fair value hierarchy.

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value (NAV)	Balance at June 30, 2018
Investments:					
Fixed income	$ 31,699,320	$ -	$ -	$ -	$ 31,699,320
U.S. equities	97,375,832	-	-	-	97,375,832
International equities	43,344,822	-	-	-	43,344,822
International equities (measured at NAV)	-	-	-	20,253,189	20,253,189
Alternatives (measured at NAV)	-	-	-	123,489,678	123,489,678
Subtotal investments	172,419,974	-	-	143,742,867	316,162,841
Level 3 assets:					
Beneficial interests in perpetual trusts	-	-	2,125,025	-	2,125,025
Split-interest agreements receivable	-	-	4,168,647	-	4,168,647
Subtotal Level 3 assets	-	-	6,293,672	-	6,293,672
Total assets	$ 172,419,974	$ -	$ 6,293,672	$ 143,742,867	$ 322,456,513

Note 10 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value (NAV)	Balance at June 30, 2017
Investments:					
Fixed income	$ 31,262,510	$ -	$ -	$ -	$ 31,262,510
U.S. equities	90,885,752	-	-	-	90,885,752
International equities	41,244,326	-	-	-	41,244,326
International equities (measured at NAV)	-	-	-	19,544,193	19,544,193
Alternatives (measured at NAV)	-	-	-	119,207,181	119,207,181
Subtotal investments	163,392,588	-	-	138,751,374	302,143,962
Level 3 assets:					
Beneficial interests in perpetual trusts	-	-	2,198,396	-	2,198,396
Split-interest agreements receivable	-	-	4,047,179	-	4,047,179
Subtotal Level 3 assets	-	-	6,245,575	-	6,245,575
Total assets	$ 163,392,588	$ -	$ 6,245,575	$ 138,751,374	$ 308,389,537

Beneficial interests in perpetual trusts and split-interest agreement receivables are categorized as Level 3 assets. The fair value is based on the percentage of the trust designated to the Foundation applied to the total fair value of the trust, which is based on quoted market prices unless the facts and circumstances indicate that the fair value would be different from the present value of estimated future distributions. Changes in the fair value of the underlying trust asset, as determined by the trustees that hold and manage these assets, are recognized in the statement of activities and changes in net assets in the period in which they occur. Significant increases (or decreases) in any of those inputs in isolation would result in a significantly lower (or higher) fair value measurement.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2018 and 2017 are as follows:

	Beneficial Interest in Perpetual Trusts	Split-interest Agreements Receivable
Balance at July 1, 2017	$ 2,198,396	$ 4,047,179
Purchases	41,952	-
Settlements	(178,232)	-
Total unrealized gains	62,909	121,468
Balance at June 30, 2018	$ 2,125,025	$ 4,168,647

	Beneficial Interest in Perpetual Trusts	Split-interest Agreements Receivable
Balance at July 1, 2016	$ 2,150,779	$ 3,835,678
Purchases	16,398	-
Settlements	(85,023)	-
Total unrealized gains	116,242	211,501
Balance at June 30, 2017	$ 2,198,396	$ 4,047,179

Note 10 - Fair Value Measurements (Continued)

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The following table summarizes the valuation methods and inputs used to determine fair value at June 30, 2018 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at June 30, 2018	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets:				
Beneficial interest in perpetual trusts	$ 2,125,025	Trust investment statement	Market value of trust assets	$91,243-$1,249,472
			Discount rate	3%
			Life expectancy of beneficiaries	3-41 years
Split-interest agreements receivable	4,168,647	Discounted cash flow	Market value of trust assets	$82,563-$1,098,360
			Expected investment return	0%-6%

	Fair Value at June 30, 2017	Valuation Technique	Unobservable Inputs	Range of Inputs
Assets:				
Beneficial interest in perpetual trusts	$ 2,198,396	Trust investment statement	Market value of trust assets	$101,006-$1,262,905
			Discount rate	3%
			Life expectancy of beneficiaries	3-42 years
Split-interest agreements receivable	4,047,179	Discounted cash flow	Market value of trust assets	$106,953-$1,059,666
			Expected investment return	0%-6%

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2018	June 30, 2017	June 30, 2018		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Long/Short equity (a)	$ 33,410,594	$ 27,999,308	$ -	Quarterly	Quarterly
Commodities (b)	11,591,850	10,777,621	-	Monthly/Daily	5 days
Multistrategy (c)	51,584,434	52,616,074	-	Annually on December 31	100 days
Timber (d)	3,419,896	3,405,917	-	N/A	N/A
Private equity (e)	7,320,160	7,983,017	2,843,406	N/A	N/A
Real estate (f)	2,658,010	2,972,304	-	N/A	N/A
International equity (g)	20,253,189	19,544,193	-	Monthly	2-10 days
Capital appreciation (h)	13,504,734	13,452,940	-	Monthly	5 days
Total	$ 143,742,867	$ 138,751,374	$ 2,843,406		

(a) Long/Short Equity: The investment approach whereby investment managers combine buying positions in stocks that are expected to increase in value with selling positions in stocks that are expected to decrease in value. Although most managers maintain net long positions, market exposure can vary widely among managers and through time depending on the level of long and short exposures. Managers attempt to reduce volatility by either diversifying or hedging positions across various regions, industries, and sectors.

Note 10 - Fair Value Measurements (Continued)

(b) Commodities: An approach that invests in commodities, which include sources of energy such as oil or natural gas, metals such as gold, and agricultural products such as wheat. Investments are generally made in the form of futures contracts or mutual funds, and they do not involve actual holding of the physical commodities themselves. Commodity investing is basically a hedge against inflation whereby rises in prices are benefited. Commodity investing as we define it here differs in that it is predominantly based on assuming long positions and does not involve short selling.

(c) Multistrategy: An investment approach that attempts to profit regardless of the overall direction of the stock or bond market. This is accomplished by using highly flexible investment strategies that permit the use of short selling and margin. While these techniques are widely perceived as risky, many managers have successfully used them to achieve solid returns with relatively low volatility. For example, while short selling is certainly risky on its own, when paired with traditional long equity positions, the result can be a relatively low-risk portfolio. Multistrategies can also be described with names such as absolute return, market neutral, convertible arbitrage, and merger arbitrage.

(d) Timber: An approach that invests in timberland, which entails forests and the land on which they are grown. The returns are generated through timber sales, forest management, and land appreciation. Timber managers typically invest in forests globally, but the geographic focus is often in the U.S. South, Northwest, and Northeast, along with forests in South America, New Zealand, and Australia. Timberland generally requires a long-term investment, making it a suitable investment for institutional investors' time horizons of perpetuity. Timber offers additional diversification and strong returns with moderate risk.

(e) Private Equity: Private equity covers a broad class of investments, which generally involve taking an equity position in a privately held company or privatizing a publicly traded company. Private equity managers can be broadly classified into three groups: buyouts, venture capital, and special situations. Buyout transactions usually involve acquiring relatively mature businesses, while venture capital transactions involve providing capital to newer businesses. Special situations refer to investments in equity or debt securities of financially stressed companies. This could include various forms of investment, such as mezzanine debt and distressed investments.

(f) Real Estate: This strategy involves generating returns predominately through the identification of undervalued or mispriced real estate assets or real estate-related companies. Investments would be expected to be made through either public or private equity securities, convertible notes or warrants, or other acquired or originated debt securities. The exposure within this asset class would be expected to be predominately long-only exposure and will generally be maintaining a long exposure to direct real estate assets or real estate-related companies and securities.

(g) International Equity: This strategy is similar to long/short equity except that managers use international securities.

(h) Capital Appreciation: This strategy's objective seeks to create capital appreciation by investing all of its investable assets in the Master Fund. The Master Fund seeks to achieve its investment objective principally by (i) investing in undervalued publicly listed companies and (ii) adding value to the companies in which it invests by affecting change.

Approximately $13,398,000 is invested in illiquid funds as of June 30, 2018. The illiquid funds are made up of timber, real estate, and private equity. The availability of funds is based on when the underlying direct funds believe there is an attractive exit point in the investment. Based on the percentage of ownership in each fund, the Foundation will receive distributions when deals are closed. Generally speaking, it takes about two to four years for the private equity funds to deploy capital, and then roughly five to nine years to return it to investors. For timber and real estate, it takes upwards of 10 to 15 years after the capital is deployed to return it to investors as a result of the nature of the investment/business.

Note 11 - Commitments

The Foundation provided a limited guarantee not to exceed $333,333 for a bank loan of a nonprofit organization. As of January 29, 2018, the Foundation made a payment of $150,000 in full satisfaction and was released from its limited guarantee.