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# Ann Arbor Area Community Foundation

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**Financial Report  
December 31, 2019**

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## Independent Auditor's Report

To the Board of Trustees  
Ann Arbor Area Community Foundation

We have audited the accompanying financial statements of the Ann Arbor Area Community Foundation (the "Community Foundation"), which comprise the statement of financial position as of December 31, 2019 and 2018 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ann Arbor Area Community Foundation as of December 31, 2019 and 2018 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 explained in Note 12, the financial statements include investments valued at \$59,790,629 (42 percent of net assets) at December 31, 2019 and \$51,062,984 (42 percent of net assets) at December 31, 2018, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

April 22, 2020

## Ann Arbor Area Community Foundation

### Statement of Financial Position

December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 2,827,912	\$ 2,869,040
Investments (Note 3)	141,723,108	119,159,843
Accounts receivable	17,299	18,399
Bequests and other deferred gifts receivable	129,870	2,731,377
Pledges receivable - Net (Note 4)	359,854	264,662
Receivable from trusts (Note 5)	127,444	185,393
Charitable remainder unitrust (Note 8)	1,188,434	1,031,574
Property and equipment - Net (Note 6)	1,104,283	1,107,010
Total assets	<b>\$ 147,478,204</b>	<b>\$ 127,367,298</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 47,446	\$ 25,218
Grants payable (Note 7)	629,361	1,196,496
Liability to life beneficiaries of planned gifts (Note 8)	583,089	530,137
Annuity payable (Note 13)	125,932	130,767
Other liabilities	34,474	33,122
Assets held for others:		
Endowed	3,641,257	3,066,482
Nonendowed (Note 2)	5,867	18,142
Total liabilities	5,067,426	5,000,364
<b>Net Assets</b>		
Without donor restrictions	141,188,265	118,684,065
With donor restrictions (Note 9)	1,222,513	3,682,869
Total net assets	142,410,778	122,366,934
Total liabilities and net assets	<b>\$ 147,478,204</b>	<b>\$ 127,367,298</b>

## Ann Arbor Area Community Foundation

# Statement of Activities and Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains, and Other Support</b>						
Gifts, grants, and pledges (Note 2)	\$ 5,585,365	\$ 452,848	\$ 6,038,213	\$ 6,130,950	\$ 110,093	\$ 6,241,043
In-kind donations	227	-	227	9,500	-	9,500
Change in value of deferred gifts receivable	-	129,267	129,267	-	(101,041)	(101,041)
Net realized and unrealized gains (losses) on investments (Note 3)	18,934,055	-	18,934,055	(7,958,636)	-	(7,958,636)
Interest and dividends (Note 3)	2,662,176	-	2,662,176	2,011,308	-	2,011,308
Change in value of charitable remainder trust (Note 8)	-	(112,196)	(112,196)	-	(101,242)	(101,242)
Net assets released from restrictions	2,930,275	(2,930,275)	-	652,689	(652,689)	-
<b>Total revenue, gains, and other support</b>	<b>30,112,098</b>	<b>(2,460,356)</b>	<b>27,651,742</b>	<b>845,811</b>	<b>(744,879)</b>	<b>100,932</b>
<b>Expenses</b>						
Program services:						
Grants (Note 7)	5,866,602	-	5,866,602	7,363,284	-	7,363,284
Programs and grants administration	501,581	-	501,581	753,827	-	753,827
<b>Total program services</b>	<b>6,368,183</b>	<b>-</b>	<b>6,368,183</b>	<b>8,117,111</b>	<b>-</b>	<b>8,117,111</b>
Support services:						
Management and general	728,985	-	728,985	657,697	-	657,697
Development	510,730	-	510,730	479,145	-	479,145
<b>Total support services</b>	<b>1,239,715</b>	<b>-</b>	<b>1,239,715</b>	<b>1,136,842</b>	<b>-</b>	<b>1,136,842</b>
<b>Total expenses</b>	<b>7,607,898</b>	<b>-</b>	<b>7,607,898</b>	<b>9,253,953</b>	<b>-</b>	<b>9,253,953</b>
<b>Increase (Decrease) in Net Assets</b>	<b>22,504,200</b>	<b>(2,460,356)</b>	<b>20,043,844</b>	<b>(8,408,142)</b>	<b>(744,879)</b>	<b>(9,153,021)</b>
<b>Net Assets - Beginning of year</b>	<b>118,684,065</b>	<b>3,682,869</b>	<b>122,366,934</b>	<b>127,092,207</b>	<b>4,427,748</b>	<b>131,519,955</b>
<b>Net Assets - End of year</b>	<b>\$ 141,188,265</b>	<b>\$ 1,222,513</b>	<b>\$ 142,410,778</b>	<b>\$ 118,684,065</b>	<b>\$ 3,682,869</b>	<b>\$ 122,366,934</b>

## Ann Arbor Area Community Foundation

### Statement of Functional Expenses

Year Ended December 31, 2019

	Program	Support Services		Total
	Services	Management	Development	
	Community	and General		
	Services			
Salaries and wages	\$ 247,919	\$ 412,408	\$ 267,412	\$ 927,739
Payroll taxes and fringe benefits	43,494	72,351	46,913	162,758
<b>Total salaries and related expenses</b>	<b>291,413</b>	<b>484,759</b>	<b>314,325</b>	<b>1,090,497</b>
Advertising	1,354	1,955	8,154	11,463
Annual report	-	-	3,276	3,276
Bad debt expense	-	-	4,377	4,377
Community leadership	55,552	-	-	55,552
Conferences and meetings	21,090	22,035	13,878	57,003
Depreciation	14,571	25,691	14,070	54,332
Donor services	24,761	2,596	62,727	90,084
Dues and subscriptions	439	6,632	3,043	10,114
Events	11,242	40	25,636	36,918
Tech licenses and fees	36,853	41,636	22,803	101,292
Insurance	-	11,666	-	11,666
Miscellaneous	(482)	(10,808)	11	(11,279)
Occupancy	8,730	15,393	8,430	32,553
Postage	144	2,283	2,761	5,188
Professional fees	24,782	106,032	11,716	142,530
Supplies	8,329	14,064	8,097	30,490
Telephone	2,773	4,890	2,678	10,341
Website	30	121	4,521	4,672
In-kind expense	-	-	227	227
Grants	5,866,602	-	-	5,866,602
<b>Total functional expenses</b>	<b>\$ 6,368,183</b>	<b>\$ 728,985</b>	<b>\$ 510,730</b>	<b>\$ 7,607,898</b>

## Ann Arbor Area Community Foundation

### Statement of Functional Expenses

Year Ended December 31, 2018

	Program	Support Services		Total
	Services	Management	Development	
	Community	and General		
	Services			
Salaries and wages	\$ 329,182	\$ 377,698	\$ 190,578	\$ 897,458
Payroll taxes and fringe benefits	57,167	65,592	33,096	155,855
<b>Total salaries and related expenses</b>	<b>386,349</b>	<b>443,290</b>	<b>223,674</b>	<b>1,053,313</b>
Advertising	150	559	30,529	31,238
Annual report	-	-	3,164	3,164
Bad debt expense	-	-	80,372	80,372
Community leadership	152,806	(1,367)	-	151,439
Conferences and meetings	7,265	19,213	10,098	36,576
Depreciation	21,243	24,526	10,234	56,003
Donor services	37,635	3,300	33,791	74,726
Dues and subscriptions	1,012	2,925	1,578	5,515
Events	2,646	3,044	29,975	35,665
Tech licenses and fees	40,039	43,316	23,577	106,932
Insurance	-	8,097	-	8,097
Miscellaneous	-	(8,762)	1,496	(7,266)
Occupancy	14,012	16,178	6,751	36,941
Postage	50	2,555	3,451	6,056
Professional fees	73,161	75,680	-	148,841
Supplies	9,174	10,078	4,713	23,965
Telephone	4,293	4,957	2,069	11,319
Website	3,992	4,608	9,673	18,273
In-kind expense	-	5,500	4,000	9,500
Grants	7,363,284	-	-	7,363,284
<b>Total functional expenses</b>	<b>\$ 8,117,111</b>	<b>\$ 657,697</b>	<b>\$ 479,145</b>	<b>\$ 9,253,953</b>

## Ann Arbor Area Community Foundation

### Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 20,043,844	\$ (9,153,021)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	54,332	56,003
Amortization of discount on pledges receivable	3,279	(4,318)
Noncash charitable remainder unitrust	(156,860)	148,827
Net unrealized (gain) loss on investment	(18,549,709)	8,481,369
Net realized gain on investments	(960,213)	(949,481)
Donated investments	(2,137,841)	(1,300,890)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Receivables	1,100	17,081
Pledges and trusts receivable	(40,522)	76,373
Bequests and other deferred gifts receivable	2,601,507	535,265
Accounts payable and other liabilities	23,580	18,744
Grants payable	(567,135)	979,674
Annuity payable	(4,835)	(4,647)
Assets held for others - Endowed	574,775	712,797
Assets held for others - Nonendowed	(12,275)	(126,709)
Liability to life beneficiaries of planned gifts	52,952	34,423
Net cash and cash equivalents provided by (used in) operating activities	925,979	(478,510)
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(51,605)	(15,419)
Purchases of investments	(24,591,646)	(32,656,449)
Proceeds from sales and maturities of investments	23,676,144	31,368,479
Net cash and cash equivalents used in investing activities	(967,107)	(1,303,389)
<b>Net Decrease in Cash and Cash Equivalents</b>	(41,128)	(1,781,899)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,869,040	4,650,939
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,827,912</b>	<b>\$ 2,869,040</b>

**Note 1 - Nature of Activities**

The Ann Arbor Area Community Foundation (the "Community Foundation") enriches the quality of life in its region through its knowledgeable leadership, engaged grantmaking, and creative partnerships with donors to make philanthropic investments and build endowment.

**Note 2 - Significant Accounting Policies**

***Financial Statement Presentation***

The financial statements are prepared on the accrual basis of accounting. The Community Foundation has determined that the use of fund accounting to segregate assets, liabilities, net assets, income, and expenses, although not required by accounting standards, is a meaningful practice to continue. The Community Foundation utilizes eight fund types to segregate activities as follows:

- General unrestricted - Totally unrestricted resources
- Field of interest - Resources used to support specific areas, such as community development, the performing arts, health care, environmental preservation, education, services for the elderly, or programs for youth
- Scholarship - Resources used to help area students complete their education
- Donor advised - Resources for which the donors are active participants in the giving process, sharing their insights and preferences with the Community Foundation's trustees as fund distributions are made
- Designated - Resources for which the donors specify certain charities as recipients of their gifts. Funds received directly from not-for-profit organizations for their own endowment fund are shown as a liability.
- Special - This fund is used to account for agency transactions entered into by the Community Foundation. The agreement between the Community Foundation and the interested party allows for distributions of both income and principal. The resources received under these agreements are not considered contributions to the Community Foundation and, therefore, have been classified as a liability.
- Trust - This fund type includes a charitable remainder unitrust gift and a charitable gift annuity.
- Administrative - Resources used to provide financial support for day-to-day programs and operations

The Community Foundation is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Due to variance power, the Community Foundation has no net assets with donor restrictions that are required to be maintained in perpetuity.

***Contributions Received***

The Community Foundation recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Contributions received are recorded as with donor restrictions or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

A transfer of assets to the Community Foundation shall be accounted for as a liability if one or more of the following conditions are present:

- a. The transfer is subject to the resource provider's unilateral right to redirect the use of the assets to another beneficiary.

**Note 2 - Significant Accounting Policies (Continued)**

- b. The transfer is accompanied by the resource provider's conditional promise to give or is otherwise revocable or repayable.
- c. The resource provider controls the recipient organization and specifies an unaffiliated beneficiary.
- d. The resource provider specifies itself or its affiliate as the beneficiary, and the transfer is not an equity transaction.

It is the board of trustees' (the "Board") interpretation of accounting standards that all gifts and grants received by the Community Foundation constitute net assets without donor restrictions, other than those with time restrictions on the use of the contributions, such as pledges, bequests receivable, and trusts. The bylaws of the Community Foundation, under variance power, give the Board the authority to modify any restriction or condition on distribution of resources for any charitable purposes or to specific organizations if, in its sole judgment, such restrictions or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.

***Agency Transactions***

The Community Foundation has adopted established standards for transactions in which the Community Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on the investment of those assets, or both to another entity that is specified by the donor. The Community Foundation refers to these types of resources as designated, agency endowment, or special funds and has accounted for these three types of funds in the designated and/or special fund categories. The statement of financial position refers to agency endowment funds held within the designated fund category as "endowed" assets held for others. The statement of financial position also refers to "nonendowed" assets held for others. These assets represent temporary special funds that have an impact on the community and facilitate the individual donors' support of time-limited initiatives.

The designated fund agreements between the Community Foundation and the organizations allow for distributions per the spending policy of the Community Foundation. The special fund agreements between the Community Foundation and the organizations or individuals allow for distribution of both income and principal. The resources received under these agreements are not considered contributions to the Community Foundation and, therefore, have been classified as a liability.

In 2019 and 2018, funds of \$156,693 and \$993,329, respectively, were received under agency endowment fund agreements and were recorded directly to assets held for others in the statement of financial position liability account.

***Accounting Treatment for Each Type of Fund***

***Designated Funds***

Designated funds are typically established with gifts from a donor with a request to distribute the transferred assets, the return on the investment of those assets, or both to a specified unaffiliated beneficiary. Additionally, the donor has granted the Community Foundation variance power, which allows the Community Foundation the flexibility to ensure that the donor's charitable interest will be served in perpetuity. When accounting for additions to designated funds, the Community Foundation records the assets received or promised as contributed revenue.

***Agency Endowment Funds***

If a not-for-profit organization (NPO) establishes, with its own funds, a fund at the Community Foundation for its own benefit, the transfer of assets to the Community Foundation is not contribution revenue and is accounted for as a liability. The Community Foundation continues to report the fund as an asset of the Community Foundation; however, a liability for the market value is also recorded, representing the present value of the future payments expected to be made to the NPO.

**Note 2 - Significant Accounting Policies (Continued)**

***Cash Equivalents***

The Community Foundation considers all unrestricted, highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

***Concentration of Credit Risk Arising from Deposit Accounts***

The Community Foundation maintains cash balances at one institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation in accordance with the program limit. In addition, the Community Foundation uses a cash management product through its primary depository institution to ensure that any deposits over \$250,000 are insured with other banking institutions. At times, the balances held in the primary deposit account may exceed federally insured amounts.

***Investments***

Money market investment funds held under the custody of fund managers represent temporarily uninvested monies and are considered short-term investments. Investments in common and preferred stocks, bonds, U.S. Treasury bills, and mutual funds are carried at quoted fair value. The Community Foundation's investments in nonmarketable limited partnerships are generally carried at fair value, which is estimated based on net asset value per share (or its equivalent) by the investment manager. Audited information is only available annually, typically six months or more after the end of the partnership's year. Management of the Community Foundation reviews monthly and/or quarterly valuations provided by the general partner or manager of the funds and assesses the reasonableness of the fair values provided at the interim dates and included in the Community Foundation's financial statements. Because of the inherent uncertainty of valuations, the fair values used may differ from values that would have been used had a ready market existed. Realized gains and losses on sales of investments represent the difference between the net sales price and the cost of the securities sold. Unrealized gains or losses on investments represent the net change for the reported year in unrealized appreciation between the balances at the beginning and the end of the year.

***Risks and Uncertainties***

The Community 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.

***Bequests Receivable and Other Deferred Gifts Receivable***

Bequests receivable consist of gifts made by means of wills and trusts for which the donor is deceased and are otherwise considered irrevocable. Other deferred gifts receivable consist of other gifts for which payment is expected in the future. Deferred gifts are recorded at the present value of the revenue to be received using discount rates appropriate for the time frame and risk level of the asset. Payment on these receivables is expected in the next year. The bequests receivable totaled \$17,000 and \$2,702,377 as of December 31, 2019 and 2018, respectively, and are deemed fully collectible.

***Pledges Receivable***

Pledges receivable consist of contributions that donors intend to contribute over time. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

**Note 2 - Significant Accounting Policies (Continued)**

***In-kind Donations***

In-kind donations consist of materials and services given without remuneration. In 2019 and 2018, this consisted of artwork, professional services, catering services, and construction-related materials and services.

***Property and Equipment***

Property and equipment are recorded at cost when purchased and at estimated fair value when donated. Depreciation on property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 40 years.

***Tax Status***

The Internal Revenue Service has ruled that the Community Foundation is a public charity, as described in Section 509(a)(1) of the Internal Revenue Code (IRC). Consequently, the Community Foundation is exempt from federal income tax and certain excise taxes imposed on private foundations under Section 501(c)(3) of the United States IRC.

***Functional Allocation of Expenses***

The Community Foundation allocates expenses on a functional basis to program and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Wages, payroll taxes, and benefits are allocated based on an estimate of the time each staff member spends related to each of the functional categories. Other expenses, such as certain administration and occupancy expenses, are allocated based on estimates of overall staff time allocated to each functional category. Although allocation methods used are considered reasonable, other methods could be used that would produce different results. Management and general and development costs are shown as administrative costs under support services on the statement of activities and changes in net assets.

***Grants***

Grants are recorded as expense in the year they are approved for payment by the authorized community foundation personnel, as empowered by the Board.

***Fair Value Disclosures***

The estimated fair value amounts have been determined by the Community Foundation using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Community Foundation could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Community Foundation adopted a standard permitting it to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument, is irrevocable, and is applied only to entire instruments and not to a portion of instruments. The Community Foundation has elected the fair value option election with respect to the liability to life beneficiaries of planned gifts related to the charitable remainder unitrust.

***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.

**December 31, 2019 and 2018**

**Note 2 - Significant Accounting Policies (Continued)**

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including April 22, 2020, which is the date the financial statements were available to be issued.

The large-scale COVID-19 pandemic may have a material adverse effect on the Community Foundation's operations over an extended period of time. While it is not yet possible to estimate the financial impact, a large-scale pandemic could have a material adverse effect on the Community Foundation's revenue, liquidity, and operating results. The Community Foundation calculates funds available for grant programs and operating expenses for a given year using a 16-quarter rolling average ending with the third quarter of the prior year. Because of this, as of the date of the financial statements, funds available for grant programs and operating expenses for 2020 will not be affected by the market decline.

Furthermore, the Community Foundation's investment portfolio has incurred a decline in fair value, consistent with the general decline in financial markets resulting from COVID-19, a global pandemic. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

**Note 3 - Investments**

Investments are composed of the following fair values at December 31:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 2,140,304	\$ 4,466,135
Fixed income	18,027,663	19,664,345
Equity securities	61,764,512	43,966,379
Alternative investments	<u>59,790,629</u>	<u>51,062,984</u>
Total	<u>\$ 141,723,108</u>	<u>\$ 119,159,843</u>

Investment income and expenses are composed of the following at December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 2,662,176	\$ 2,011,308
Net realized gains	960,213	949,481
Net unrealized gains (losses)	18,549,709	(8,481,369)
Investment fees	<u>(575,867)</u>	<u>(426,748)</u>
Total	<u>\$ 21,596,231</u>	<u>\$ (5,947,328)</u>

**Note 4 - Pledges Receivable**

Pledges are recognized as revenue in the period the pledges are received. No allowance was deemed necessary for uncollectible pledges at December 31, 2019 and 2018. The Community Foundation receives contributions from related parties, such as board members. For the years ended December 31, 2019 and 2018, such contributions were \$659,271 and \$203,000, respectively.

December 31, 2019 and 2018

**Note 4 - Pledges Receivable (Continued)**

Pledges outstanding at December 31, 2019 and 2018 are expected to be collected as follows:

	2019	2018
Pledges receivable in less than one year	\$ 197,057	\$ 126,570
Pledges receivable in one to five years	170,157	145,173
Pledge receivable in more than five years	3,000	-
Gross unconditional promises to give	370,214	271,743
Less unamortized discount on pledges due in greater than one year	(10,360)	(7,081)
Unconditional promises to give	<u>\$ 359,854</u>	<u>\$ 264,662</u>

Pledges receivable activity for 2019 and 2018 is detailed below:

	2019	2018
Balance - January 1	\$ 264,662	\$ 320,798
Add new pledges	219,618	98,631
Less collections	(120,049)	(90,313)
Less uncollectible pledges written off	(4,377)	(64,454)
Balance - December 31	<u>\$ 359,854</u>	<u>\$ 264,662</u>

**Note 5 - Receivable from Trusts**

The Community Foundation is the beneficiary of a charitable lead trust. The receivable from the trust is reduced annually by the principal portion of the distribution, and interest income is also recognized. The trust began making annual distributions in 2001. The annual distribution continues through 2020, the date of the trust termination. At the inception of the trust, a receivable from the trust and contribution revenue of \$771,295 were recognized by the Community Foundation. The receivable represents the discounted value (at 6.25 percent) of the future stream of annual distributions of \$70,000 through 2020. At December 31, 2019 and 2018, the net present value of the receivable was \$127,444 and \$185,393, respectively.

**Note 6 - Property and Equipment**

The cost of property and equipment is summarized as follows:

	2019	2018
Buildings	\$ 1,357,551	\$ 1,357,551
Furniture and fixtures	118,243	124,014
Computer equipment and software	126,475	211,306
Construction in progress	31,011	-
Total cost	1,633,280	1,692,871
Accumulated depreciation	528,997	585,861
Net property and equipment	<u>\$ 1,104,283</u>	<u>\$ 1,107,010</u>

Depreciation expense for 2019 and 2018 was \$54,332 and \$56,003, respectively.

**December 31, 2019 and 2018**

**Note 7 - Grants/Grants Payable**

Grants are recognized as liabilities at the time the authorized community foundation personnel, as empowered by the Board, authorize the expenditures, regardless of the year in which the grant is paid. Grants are authorized subject to the spending policy limitations. The following summarizes grants approved, paid, and those committed for future payments for 2019 and 2018:

	2019	2018
Grants payable - Beginning of year	\$ 1,196,496	\$ 216,822
Unconditional grants expensed	5,995,987	7,558,226
Payments made	(6,563,122)	(6,578,552)
Grants payable - End of year	\$ 629,361	\$ 1,196,496

**Note 8 - Charitable Remainder Unitrust**

During the year ended December 31, 1999, the Community Foundation began to administer a planned gift under a charitable remainder unitrust. A charitable remainder unitrust provides for the payment of a fixed percentage of the net fair value of the trust's assets, as determined each year. Upon termination of the income beneficiary's interest, the assets of the trust are to be transferred in the following amounts: (1) \$50,000 to an unrelated charity and (2) the balance of the trust to the Community Foundation for donor-designated purposes.

The portion of the planned gift attributable to the present value of the future benefits to be received by the Community Foundation, \$422,107, was recorded in the statement of activities and changes in net assets as a contribution in the period in which the planned gift was established. The balance of the charitable remainder unitrust assets was \$1,188,434 and \$1,031,574 at December 31, 2019 and 2018, respectively.

The present value of the estimated future payments to the beneficiary was redetermined in 2019 and 2018 using a discount rate of 5.0 percent and the applicable mortality tables, adjusting the liability and recognizing loss by \$112,196 and \$101,242, respectively. The liability to life beneficiaries of planned gifts was \$583,089 and \$530,137 for 2019 and 2018, respectively.

**Note 9 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are those assets resulting from contributions whose use by the Community Foundation is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Community Foundation pursuant to those stipulations.

Net assets with donor restrictions consist of the following:

	2019	2018
Pledges receivable (Note 4)	\$ 359,854	\$ 264,662
Receivable from trusts (Note 5)	127,444	185,393
Bequests and other deferred gifts receivable	129,870	2,731,377
Charitable remainder unitrust - Net (Note 8)	605,345	501,437
Total net assets with donor restrictions	\$ 1,222,513	\$ 3,682,869

**Note 10 - Defined Contribution Plan**

Effective January 1, 2018, the Community Foundation implemented a tax-sheltered retirement plan under Internal Revenue Code Section 403(b). Under this plan, the Community Foundation made a discretionary profit-sharing contribution (2 percent of eligible wages for the years ended December 31, 2019 and 2018) in addition to a match of 100 percent of each participant's contribution, up to a maximum of 3 percent and 2 percent of eligible wages for the years ended December 31, 2019 and 2018, respectively. The Community Foundation incurred retirement plan expenses of \$52,025 and \$33,071 during 2019 and 2018, respectively.

**Note 11 - Board-designated Endowments**

The Community Foundation's net assets without donor restrictions include board-designated endowments that would be classified as donor-restricted endowments, except that the Community Foundation has variance power over those assets. Therefore, the Board treats these funds as board-designated endowments, and they are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The board of trustees of the Community Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which is designed to help ensure the long-term preservation of the corpus of endowed funds. As a result of this law and variance power provision rights, the Community Foundation classifies within unrestricted net assets (a) the original value of gifts donated to the designated endowment, (b) the original value of subsequent gifts to the designated endowment, and (c) accumulations to the designated endowment. In accordance with following UPMIFA, the Community Foundation considers the following factors in making a determination to appropriate or accumulate board-designated endowment funds:

- The duration and preservation of the fund
- The purpose of the Community Foundation and the board-designated 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 Community Foundation
- The investment policies of the Community Foundation

**Changes in Endowment Net Assets for the Year Ended December 31, 2019**

	Without Donor Restrictions
Board-designated endowment net assets - Beginning of year	\$ 118,684,065
Investment return:	
Investment income	2,662,176
Net appreciation (realized and unrealized)	18,934,055
Total investment return	21,596,231
Contributions and other support	8,515,867
Appropriation for distributions and administrative fees	(7,607,898)
Board-designated endowment net assets - End of year	\$ 141,188,265

**Note 11 - Board-designated Endowments (Continued)**

***Changes in Endowment Net Assets for the Year Ended December 31, 2018***

	<u>Without Donor Restrictions</u>
Board-designated endowment net assets - Beginning of year	\$ 127,092,207
Investment return:	
Investment income	2,011,308
Net depreciation (realized and unrealized)	<u>(7,958,636)</u>
Total investment return	(5,947,328)
Contributions and other support	6,793,139
Appropriation for distributions and administrative fees	<u>(9,253,953)</u>
Board-designated endowment net assets - End of year	<u><u>\$ 118,684,065</u></u>

***Return Objectives and Risk Parameters***

The Community Foundation has adopted investment and spending policies for its net assets that attempt to provide a predictable stream of funding to programs supported by its net assets while seeking to maintain its purchasing power. Under this policy, as approved by the board of trustees, the Community Foundation has four objectives: (1) preserve and grow the assets of the Community Foundation, (2) balance long-term growth with appropriate risk and liquidity, (3) achieve market returns, and (4) comply with applicable laws, rules, and regulations.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Community 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 Community Foundation targets a broadly diversified asset allocation model with performance benchmarks based on each asset class.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The Community Foundation has a policy of appropriating for distributions and administrative fees each year up to 5 percent of its endowed investment pool's average fair value over the prior 16 quarters through September 30 of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Community Foundation considered the long-term expected return on its investment portfolio. By limiting its spending policy, over the long term, the Community Foundation expects the current spending policy to allow its net assets to grow annually. This is consistent with the Community Foundation's objective to maintain the purchasing power of the investment portfolio and net assets, as well as to provide real growth through new gifts and investment returns.

The annual spending amount, as defined above, is used for both amounts available to grant from each fund, as well as administrative fees charged to each fund. The administrative fee is calculated based on the fund fee schedule approved by the board of trustees and in effect at the time the calculation is made. Amounts available to grant are calculated by subtracting the administrative fee from the total calculated spending amount. Endowed funds can make grants after they had been at the Community Foundation for two consecutive quarters. Pass-through and donor-advised funds do not have the two-quarter restriction. Administrative fees will be charged to funds from the date that the fund is established, as prescribed by the fund fee schedule in effect at the time. The annual spending amount is determined and recommended by the finance committee and approved by the board of trustees. In 2019 and 2018, the Community Foundation used 5 percent as the spending policy.

**Note 12 - 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.

The following tables present information about the Community Foundation’s assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Community Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Community 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 and liabilities 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 or liability. 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 or liability.

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 Community Foundation’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at  
December 31, 2019

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at Net Asset Value	Balance at December 31, 2019
<b>Assets</b>					
Investments:					
Money market funds - Short-term investment	\$ 2,140,304	\$ -	\$ -	\$ -	\$ 2,140,304
Mutual funds - Fixed income	18,027,663	-	-	-	18,027,663
Mutual funds - Domestic equity	36,665,214	-	-	-	36,665,214
Mutual funds - Foreign equity	25,099,298	-	-	-	25,099,298
Alternative investments	-	-	-	59,790,629	59,790,629
Subtotal	81,932,479	-	-	59,790,629	141,723,108
Charitable remainder unitrust	-	-	1,188,434	-	1,188,434
Total assets	<u>\$ 81,932,479</u>	<u>\$ -</u>	<u>\$ 1,188,434</u>	<u>\$ 59,790,629</u>	<u>\$ 142,911,542</u>
<b>Liabilities - Liability to life beneficiaries of planned gifts</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 583,089</u>	<u>\$ -</u>	<u>\$ 583,089</u>

December 31, 2019 and 2018

Note 12 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at  
December 31, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at Net Asset Value	Balance at December 31, 2018
<b>Assets</b>					
Investments:					
Money market funds - Short-term investment	\$ 4,466,135	\$ -	\$ -	\$ -	\$ 4,466,135
Mutual funds - Fixed income	19,664,345	-	-	-	19,664,345
Mutual funds - Domestic equity	24,535,326	-	-	-	24,535,326
Mutual funds - Foreign equity	19,431,053	-	-	-	19,431,053
Alternative investments	-	-	-	51,062,984	51,062,984
Subtotal	68,096,859	-	-	51,062,984	119,159,843
Charitable remainder unitrust	-	-	1,031,574	-	1,031,574
Total assets	<u>\$ 68,096,859</u>	<u>\$ -</u>	<u>\$ 1,031,574</u>	<u>\$ 51,062,984</u>	<u>\$ 120,191,417</u>
<b>Liabilities - Liability to life</b>					
beneficiaries of planned gifts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 530,137</u>	<u>\$ -</u>	<u>\$ 530,137</u>

Charitable remainder unitrust assets are categorized as Level 3 assets. The Community Foundation estimates the fair value of these assets based upon the fair value of the assets in the trust unless the facts and circumstances indicate that the fair value would be different from the present value of estimated future distributions:

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Inputs	Range Weighted Average
Assets - Charitable remainder unitrust	\$ 1,188,434	Fair value of trust investments	Underlying investments in the trust	N/A
Liabilities - Liability to life beneficiaries of planned gifts	(583,089)	Present value of future cash outflows	Life expectancy of beneficiary, discount rate, growth rate	12.6 years 5.0 percent 5.0 percent
	Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Range Weighted Average
Assets - Charitable remainder unitrust	\$ 1,031,574	Fair value of trust investments	Underlying investments in the trust	N/A
Liabilities - Liability to life beneficiaries of planned gifts	(530,137)	Present value of future cash outflows	Life expectancy of beneficiary, discount rate, growth rate	13 years 5.0 percent 5.0 percent

December 31, 2019 and 2018

**Note 12 - Fair Value Measurements (Continued)**

The Community Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes are described in Note 2.

**Investments in Entities that Calculate Net Asset Value per Share**

The Community Foundation holds shares or interests in investments at year end whereby the fair value of the investment held is estimated based on net asset value per share (or equivalent) of the investment. For assets totaling \$37,627,146 and \$30,846,826 at December 31, 2019 and 2018, respectively, the underlying assets held by these investment managers are primarily publicly traded equities and bonds for which net asset value is readily determined on a daily basis. For the remaining investments in this category, the underlying assets are primarily investments in privately owned assets for which current net asset value is based on the best estimates of the management of those funds; realizable values for these assets may vary from these estimates.

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

	Investments Held at December 31, 2019 and 2018						
	Fair Value at December 31, 2019	Unfunded Commitments at December 31, 2019	Fair Value at December 31, 2018	Unfunded Commitments at December 31, 2018	Redemption Frequency, if Eligible	Redemption Notice Period	Redemption Restrictions and Lock-up Period
Real estate REIT fund	\$ 4,689,428	\$ -	\$ 3,840,051	\$ -	Monthly	15 days	
Global fixed-income fund	2,892,938	-	2,706,619	-	Illiquid	N/A	N/A
Equity funds - Foreign	5,375,528	-	4,330,026	-	Various	Various	Various
Equity funds - Domestic	14,734,179	-	11,000,106	-	Quarterly	60 days	N/A
Equity - Long only - Global	6,611,699	-	5,073,128	-	Monthly	6 days	N/A
Equity long/short hedge funds	3,323,374	-	3,896,896	-	50 percent Semiannually (6/30 and 12/31)	March 15	N/A
Multistrategy hedge funds	2,972,441	-	3,961,618	-	Semiannually (6/30 and 12/31)	107 days	N/A
Distressed opportunities hedge funds	284,000	63,750	319,709	90,601	Illiquid	N/A	N/A
Natural resources funds	28,327	118,041	18,403	152,503	Illiquid	N/A	N/A
Private equity funds	18,878,715	20,615,953	15,916,428	15,419,733	Various	Various	Various
<b>Total</b>	<b>\$ 59,790,629</b>	<b>\$ 20,797,744</b>	<b>\$ 51,062,984</b>	<b>\$ 15,662,837</b>			

The real estate REIT fund category invests in a manager that focuses on long-only investments in publicly traded real estate investment trusts (REITs).

The global fixed-income fund category invests in a manager that pursues investments in global sovereign debt instruments.

**Note 12 - Fair Value Measurements (Continued)**

Equity mutual funds, foreign and domestic, are held indirectly through investments in limited partnerships. These equities are valued using quoted market prices and other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry-standard models that consider assumptions, including time value and yield curve, as well as other relevant economic measures.

The equity long-only global fund category invests in a manager that provides participants with an opportunity to obtain long-term growth primarily from a diversified portfolio of global equity securities.

The equity long/short hedge funds category includes investments in funds that invest with fund managers that deploy both long and short positions in U.S. and global common stocks. Management of the underlying hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.

The multistrategy hedge funds category includes investments in funds that invest through a wide variety of hedge fund managers employing many different strategies, with a bias toward credit spreads and arbitrage-type styles.

The distressed opportunities hedge funds category includes investments in funds that deploy a spectrum of distressed securities investment approaches.

The natural resources funds category invests in funds that pursue investments in private natural resource enterprises, primarily in oil and gas exploration and development.

The private equity funds category includes several venture capital and private equity funds that invest in both domestic and foreign private equity and venture capital firms.

The investments in the natural resources, distressed opportunities, and private equity categories above can never be redeemed from the funds' managers. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 3 to 10 years.

The Community Foundation also monitors the liquidity of its investment portfolio to be certain that cash needs for any particular period of time can be met. At December 31, 2019 and 2018, the entire portfolio was invested as follows: 60 percent and 57 percent in assets with daily redemption terms, 10 percent and 12 percent monthly redemption, 10 percent and 9 percent quarterly redemption, 4 percent and 7 percent semiannual redemption, 5 percent and 5 percent annual redemption, and 11 percent and 10 percent illiquid, respectively. These figures are measured and monitored on a quarterly basis.

**Note 13 - Annuity Payable**

Annuity payable is composed of a charitable gift annuity, which is a contract between the Community Foundation and a donor in which the Community Foundation agrees to pay the donor (or other person named by the donor) a lifetime annuity in return for a gift of cash or marketable securities. A liability is recorded for the amount due to an income beneficiary of a charitable gift annuity based on the present value of the estimated future payments to be distributed during the income beneficiary's expected life. Each year, the liability is remeasured for changes in actuarial assumptions, and changes in the liability due to factors other than cash payments, such as changing life expectancies, are recorded as an increase or decrease to revenue, gains, and other support.

**December 31, 2019 and 2018**

**Note 14 - Liquidity and Availability of Financial Resources**

At December 31, 2019 and 2018, the Community Foundation has \$6,718,948 and \$6,385,518, respectively, of financial assets available within one year to meet cash needs for general expenditures. At December 31, 2019, the \$6,718,948 consists of cash of \$2,827,912, contributions receivable of \$390,025, and short-term investments of \$1,880,315, along with an approved endowment spend of \$1,620,696 for 2020 general expenditures. At December 31, 2018, the \$6,385,518 consists of cash of \$2,312,853, contributions receivable of \$157,673, and short-term investments of \$2,352,113, along with an approved endowment spend of \$1,562,879 for 2019 general expenditures. General expenditures include administrative expenses, fundraising expenses, some program expenses, and grant commitments expected to be paid in the subsequent year. None of the financial assets included above are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The contributions receivable included above are subject to implied time restrictions but are expected to be collected within one year.

The Community Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet six months of general expenditures, which are, on average, approximately \$851,800 and \$804,000 for the years ended December 31, 2019 and 2018, respectively. The Community Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Community Foundation invests cash in excess of daily requirements in various short-term investments, including Federal Deposit Insurance Corporation-insured savings accounts, certificates of deposit, and short-term treasury instruments.