

Cumberland Community Foundation, Inc.

Fayetteville, North Carolina

Consolidated Financial Statements

As of and for the Years ended June 30, 2019 and 2018

CUMBERLAND COMMUNITY FOUNDATION, INC.

Fayetteville, North Carolina

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HAIGH, BYRD & LAMBERT, LLP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Cumberland Community Foundation, Inc.
Fayetteville, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cumberland Community Foundation, Inc. and its supporting organization (collectively referred to as the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Haigh, Byrd & Lambert, LLP

Certified Public Accountants
November 19, 2019

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Cash and cash equivalents	\$ 393,089	\$ 1,517,111
Investments	95,306,566	87,255,462
Contributions receivable - split-interest agreements	173,866	214,453
Other receivables	2,390	5,318
Equipment and improvements, net	237,353	238,225
Total assets	\$ 96,113,264	\$ 89,230,569
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Grants and other payables	\$ 715,936	\$ 261,276
Annuity obligations	1,626,540	1,951,054
Liability for amounts held on behalf of others	5,218,181	4,947,542
Other payables	5,436	-
Total liabilities	7,566,093	7,159,872
Net assets:		
Without donor restrictions:		
Designated for donor-advised grants	10,234,656	4,097,179
Designated for endowment	12,082,179	14,032,259
Invested in property and equipment	237,353	238,225
Undesignated, including reserves	1,587,321	1,555,784
Total without donor restrictions	24,141,509	19,923,447
With donor restrictions:		
Restricted for the passage of time	1,301,071	1,494,267
Restricted in perpetuity - endowment	63,609,690	61,956,940
Underwater endowments	(505,099)	(1,303,957)
Total with donor restrictions	64,405,662	62,147,250
Total net assets	88,547,171	82,070,697
Total liabilities and net assets	\$ 96,113,264	\$ 89,230,569

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

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Contributions	\$ 6,525,205	\$ 2,028,614	\$ 8,553,819
Net investment income	7,764,936	61,420	7,826,356
Net investment (losses)	(4,983,484)	5,595	(4,977,889)
Change in value of split-interest agreements	-	(173,842)	(173,842)
Other income	179,126	-	179,126
Net assets released from restrictions	(336,625)	336,625	-
Total revenues and other support	<u>9,149,158</u>	<u>2,258,412</u>	<u>11,407,570</u>
Expenses:			
Grant disbursements	3,800,885	-	3,800,885
Program expenses	634,236	-	634,236
General and administrative	331,308	-	331,308
Fundraising and development	164,667	-	164,667
Total expenses	<u>4,931,096</u>	<u>-</u>	<u>4,931,096</u>
Change in net assets	4,218,062	2,258,412	6,476,474
Net assets at beginning of year	<u>19,923,447</u>	<u>62,147,250</u>	<u>82,070,697</u>
Net assets at end of year	<u>\$ 24,141,509</u>	<u>\$ 64,405,662</u>	<u>\$ 88,547,171</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support:			
Contributions	\$ 2,088,662	\$ 9,906,849	\$ 11,995,511
Net investment income	2,631,144	66,744	2,697,888
Net investment gains	2,020,852	(61,176)	1,959,676
Change in value of split-interest agreements	-	(166,121)	(166,121)
Other income	125,251	-	125,251
Net assets released from restrictions	1,235,736	(1,235,736)	-
Total revenues and other support	<u>8,101,645</u>	<u>8,510,560</u>	<u>16,612,205</u>
Expenses:			
Grant disbursements	3,686,478	-	3,686,478
Program expenses	599,140	-	599,140
General and administrative	308,305	-	308,305
Fundraising and development	159,156	-	159,156
Total expenses	<u>4,753,079</u>	<u>-</u>	<u>4,753,079</u>
Change in net assets	3,348,566	8,510,560	11,859,126
Net assets at beginning of year	<u>16,574,881</u>	<u>53,636,690</u>	<u>70,211,571</u>
Net assets at end of year	<u>\$ 19,923,447</u>	<u>\$ 62,147,250</u>	<u>\$ 82,070,697</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

	Program Services		General and Administrative	Fundraising and Development	Total
	Grants	Other			
Grants					
Environment	\$ 277,032	\$ -	\$ -	\$ -	\$ 277,032
Education	872,712	-	-	-	872,712
Health & human services	312,725	-	-	-	312,725
Public safety/disaster relief	291,537	-	-	-	291,537
Crime and legal related	202,925	-	-	-	202,925
Arts, culture & humanities	248,589	-	-	-	248,589
Religion	653,762	-	-	-	653,762
Other	941,603	-	-	-	941,603
Depreciation	-	10,093	10,094	10,093	30,280
Dues and subscriptions	-	1,959	10,829	875	13,663
Employee benefits	-	47,762	21,594	13,570	82,926
Insurance	-	-	12,854	-	12,854
Meetings expense	-	16,379	10,901	21,215	48,495
Miscellaneous	-	-	1,399	-	1,399
Occupancy	-	231,619	18,246	18,246	268,111
Office expense	-	66	17,428	35	17,529
Payroll taxes	-	22,029	9,960	6,259	38,248
Postage and shipping	-	1,065	3,361	2,800	7,226
Printing and publications	-	2,883	1,462	3,283	7,628
Professional fees	-	-	70,406	-	70,406
Salaries and wages	-	295,329	133,521	83,906	512,756
Staff development	-	390	1,925	108	2,423
Telephone	-	1,757	1,786	1,757	5,300
Travel	-	2,905	5,542	2,520	10,967
Total expenses	\$ 3,800,885	\$ 634,236	\$ 331,308	\$ 164,667	\$ 4,931,096

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2018

	Program Services		General and Administrative	Fundraising and Development	Total
	Grants	Other			
Grants					
Environment	\$ 352,599	\$ -	\$ -	\$ -	\$ 352,599
Education	1,034,632	-	-	-	1,034,632
Health & human services	656,707	-	-	-	656,707
Community improvement	452,625	-	-	-	452,625
Arts, culture & humanities	471,853	-	-	-	471,853
Religion	689,581	-	-	-	689,581
Other	28,481	-	-	-	28,481
Depreciation	-	9,392	9,391	9,391	28,174
Dues and subscriptions	-	1,385	13,334	200	14,919
Employee benefits	-	37,174	17,260	9,385	63,819
Insurance	-	-	12,651	-	12,651
Meetings expense	-	11,073	7,091	24,724	42,888
Miscellaneous	-	-	1,429	-	1,429
Occupancy	-	231,596	18,223	18,223	268,042
Office expense	-	1,876	20,439	106	22,421
Payroll taxes	-	20,334	9,440	5,133	34,907
Postage and shipping	-	1,029	3,729	2,800	7,558
Printing and publications	-	3,612	2,522	13,364	19,498
Professional fees	-	-	57,050	-	57,050
Salaries and wages	-	271,380	125,995	68,510	465,885
Staff development	-	809	2,335	1,635	4,779
Telephone	-	1,974	1,975	1,974	5,923
Travel	-	7,506	5,441	3,711	16,658
Total expenses	\$ 3,686,478	\$ 599,140	\$ 308,305	\$ 159,156	\$ 4,753,079

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 6,476,474	\$ 11,859,126
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,280	28,174
Net realized and unrealized (gains) and losses	4,977,889	(1,959,676)
Actuarial changes in value of annuity obligations	(116,017)	258,231
Contributions restricted for long-term investment	(2,029,022)	(9,903,310)
Changes in:		
Other receivables	2,928	134
Contributions receivable - split-interest agreements	40,587	25,261
Grants payable	454,660	(178,660)
Funds held for agencies	270,639	128,721
Other payables	5,436	-
Net cash provided from operating activities	10,113,854	258,001
Cash flows from investing activities:		
Purchase of property and equipment	(29,409)	(46,405)
Purchase of investments	(13,028,993)	(9,499,243)
Net cash (used) for investing activities	(13,058,402)	(9,545,648)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investments	2,029,022	9,903,310
Investment income subject to annuity agreements	141,982	138,197
Payments on annuity obligations	(350,478)	(671,571)
Net cash provided from financing activities	1,820,526	9,369,936
Net increase (decrease) in cash and cash equivalents	(1,124,022)	82,289
Cash and cash equivalents at beginning of year	1,517,111	1,434,822
Cash and cash equivalents at end of year	\$ 393,089	\$ 1,517,111

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

CUMBERLAND COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Organization

Cumberland Community Foundation, Inc. (the "Foundation") was created in July 1980 as a publicly supported non-profit entity formed and administered exclusively to promote and facilitate philanthropy in Cumberland County and the surrounding area. The Foundation concentrates its efforts on grant making, endowment building, education, and services to nonprofit organizations.

CCF Real Estate Foundation, a non-profit corporation, was created in December 2004 as a supporting organization for Cumberland Community Foundation, Inc. to operate primarily as a holding entity for all real property contributions received. The Board of Directors of CCF Real Estate Foundation are determined and appointed by the Board of Directors of Cumberland Community Foundation, Inc. and a majority of the directors serving for CCF Real Estate Foundation at any time shall simultaneously be directors of Cumberland Community Foundation, Inc.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Foundation's policy is to designate donor gifts without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Net Assets With Donor Restrictions - Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

b. Reclassification of Net Assets

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

NOTES TO FINANCIAL STATEMENTS - continued

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for those short-term managed as part of investment management strategies.

d. Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Domestic and international capital markets may experience significant volatility with respect to certain securities. As a result, significant fluctuations in the fair value of investments may have occurred subsequent to June 30, 2019 and 2018.

e. Investment Pool

The Foundation maintains master investment accounts for its endowments. A portion of net income from securities in the master investment accounts is allocated to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

f. Promises to Give

Unconditional promises to give are recognized as revenue in the period the promises are made and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Promises to give are recorded at net realizable value if they are expected to be collected in one year or at fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

g. Equipment, Improvements and Depreciation

Equipment and improvements are stated at cost if purchased or at fair value if donated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from five to forty years.

h. Variance Power

All contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance power gives the Board of Directors the ability to modify donor restrictions that are incapable of fulfillment or are inconsistent with the charitable needs of the community.

i. Income Taxes

The Foundation and its supporting organization are exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. As a result, income taxes are not included in the Foundation's consolidated financial statements.

The Foundation accounts for tax uncertainties based on a more likely than not recognition threshold whereby tax benefits are only recognized when the Foundation believes that they have a greater than 50% likelihood of being sustained upon examination by taxing authorities. The Foundation has evaluated all its tax positions and determined that it had no uncertain tax positions as of June 30, 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS - continued

j. Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of activities and the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation of a reasonable basis that is consistently applied. All expenses excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

k. Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

l. Liability for Amounts Held on Behalf of Others

The Foundation recognizes a liability for funds received and held for the sole benefit of other organizations.

m. Annuity Obligations

The Foundation receives gifts of future interests through charitable remainder unitrusts, charitable lead trusts, and gift annuities.

Charitable remainder unitrusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to a non-charitable beneficiary, usually the donor, over a specified period of time not to exceed the lives of the beneficiaries. The distributions to the beneficiaries are for a specified percentage of the trust's fair market value as determined annually. Upon termination of the trust, the not-for-profit receives the assets remaining in the trust.

The charitable lead trust is an agreement in which a donor has established and funded a trust with quarterly distributions to be made to the Foundation for a period of time. Upon termination of the trust, the remainder of the trust assets is paid to beneficiaries designated by the donor. The Foundation is not the trustee of these assets, therefore the financial statements reflect a contribution receivable measured at the present value of cash flows to be received by the Foundation.

The present value of the liability resulting from these gifts, determined based on mortality tables using annual Internal Revenue Service discount rates, is recorded as an annuity obligation. The amount equal to the portion of the current fair value of the gift over the amount payable is recorded as assets with restrictions if the Foundation is the beneficiary or annuity obligations if the Foundation is acting as the agent. The Foundation has voluntarily elected the fair value option for valuing all liabilities associated with the irrevocable trust agreements and annuity agreements to improve the clarity and consistency of the valuation of these liabilities.

n. Principles of Consolidation

The consolidated financial statements as of and for the years ended June 30, 2019 and 2018, include the accounts of Cumberland Community Foundation, Inc. and CCF Real Estate Foundation, after elimination of all inter-company accounts and transactions.

o. Donated Services

A substantial number of volunteers donated significant amounts of time to oversight of operations and fundraising efforts. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition under SFAS No. 116.

NOTES TO FINANCIAL STATEMENTS - continued

p. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Concentration of Credit Risk

The Foundation maintains bank accounts at several banks. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit as of June 30, 2019 and 2018 was \$308,173 and \$1,672,061, respectively.

4. Liquidity

The Foundation receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions contained in each fund agreement. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. Endowment funds consist of donor restricted endowments and board restricted designated endowments. In addition, the Foundation receives support without donor restrictions.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 393,089	\$ 1,517,111
Investments	23,508,677	18,162,793
Other receivables	2,390	5,318
	<u>\$ 23,904,156</u>	<u>\$ 19,685,222</u>

The assets above include \$10,234,656 and \$4,097,179 in donor-advised funds as of June 30, 2019 and 2018, respectively. The Foundation generally uses these assets for grantmaking based on donor recommendations.

The Foundation manages its cash following three guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term administrative costs, grant commitments and obligations under endowments with donor restrictions and quasi endowments that support mission fulfillment will continue to be met, ensuring the stability of the Foundation

The Foundation maintains financial assets available to meet administrative, general, fundraising and other obligations at a level that represents 100% of annual core operating expenses plus an amount that represents expected grant payments approved by the Foundation. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds. Annually, the board will designate a portion of operating surplus to short and long-term reserves. As of June 30, 2019, the operating reserves were \$1,036,638 and the building reserves were \$172,403. As of June 30, 2018, the operating reserves were \$1,184,694 and the building reserves were \$167,526.

NOTES TO FINANCIAL STATEMENTS - continued

5. Investments

Investments at June 30, 2019 and 2018, included in the statement of financial position are as follows:

	2019	2018
Cash held for investment	\$ 7,271,241	\$ 5,156,672
Mutual funds	80,925,188	77,165,730
Corporate debt securities	1,294,411	380,205
Government debt securities	837,151	937,344
Equities	890,173	200,000
Preferred stock	594,048	-
Land held for investment	2,224,115	2,026,615
Annuities	25,000	114,583
Note receivable	1,145,746	1,174,411
Cash surrender value of life insurance	99,493	99,902
	<u>\$95,306,566</u>	<u>\$87,255,462</u>

The Foundation maintains its investments with various broker-dealers. The Foundation invests in a variety of investments, which are subject to fluctuations in market values and expose the Foundation to a certain degree of interest and credit risk.

Net investment income for the years ended June 30, 2019 and 2018 consists of interest and dividends and is presented net of related expenses. Net investment gains for the years ended June 30 consists of net realized and unrealized gains and losses.

6. Conditional Promises to Give

Conditional promises to give during the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Conditional upon successful fund raising and ground breaking	\$ 500,000	\$ 750,000
Conditional upon successful fund raising	50,000	50,000
Conditional upon certificate of occupancy	-	10,000
	<u>\$ 550,000</u>	<u>\$ 810,000</u>

7. Equipment and Improvements

Equipment and improvements consist of the following at June 30, 2019 and 2018:

	2019	2018
Improvements	\$ 527,159	\$ 521,946
Furniture	36,525	36,525
Equipment	126,161	101,966
	<u>689,845</u>	<u>660,437</u>
Less: accumulated depreciation	452,492	422,212
Equipment and improvements - net	<u>\$ 237,353</u>	<u>\$ 238,225</u>

NOTES TO FINANCIAL STATEMENTS - continued

8. Endowment Spending Policy and Reinvested Endowment Income

Absent donor stipulations to the contrary, state law allows the Foundation's board to appropriate and spend so much of net appreciation in endowment investments (in addition to interest and dividends) as is prudent considering the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. During the years ending June 30, 2019 and 2018, the endowment spending policy was 4 percent of the average of the market values at the end of the previous 12 quarters. This amount is appropriated for expenditure, or the Foundation may elect to spend the earned income. Earned income is defined as interest and dividends. The excess, if any, of total fund earnings over the 4 percent appropriation retains its specific endowment fund identity and remains reinvested as reinvested endowment income.

The reinvested endowment income helps preserve the purchasing power of the endowment funds and also provides the Foundation with the ability to continue charitable giving, in accordance with the donor's original wishes, in years of low investment returns. Reinvested endowment income is held as either unrestricted or temporarily restricted funds, depending on the donor's original stipulations regarding the use of the endowment.

The composition of endowment net assets and changes in net assets as of June 30, 2019 and 2018 are as follows:

	Without Donor	With Donor Restrictions	Total
Balance at July 1, 2018	\$ 14,032,259	\$ 59,262,925	\$ 73,295,184
Contributions	4,233	1,678,035	1,682,268
Investment income	7,635,005	-	7,635,005
Net appreciation	(4,993,712)	-	(4,993,712)
Program expenditures	(1,667,743)	-	(1,667,743)
Internal transfers and assets released from restrictions	<u>(2,927,862)</u>	<u>1,082,665</u>	<u>(1,845,197)</u>
Balance at June 30, 2019	<u>\$ 12,082,180</u>	<u>\$ 62,023,625</u>	<u>\$ 74,105,805</u>
	Without Donor	With Donor Restrictions	Total
Balance at July 1, 2017	\$ 11,253,587	\$ 50,558,656	\$ 61,812,243
Contributions	-	9,968,391	9,968,391
Investment income	2,738,276	-	2,738,276
Net appreciation	1,996,954	-	1,996,954
Program expenditures	(2,271,418)	-	(2,271,418)
Internal transfers and assets released from restrictions	<u>314,860</u>	<u>(1,264,122)</u>	<u>(949,262)</u>
Balance at June 30, 2018	<u>\$ 14,032,259</u>	<u>\$ 59,262,925</u>	<u>\$ 73,295,184</u>

Funds with Deficiencies - From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

NOTES TO FINANCIAL STATEMENTS - continued

At June 30, 2019 and 2018, funds with deficiencies of \$505,099 and \$1,303,957, respectively, were reported in net assets with donor restrictions.

	2019	2018
Fair value of underwater endowment funds	\$ 2,250,760	\$ 1,390,467
Original endowment gift amount	2,755,859	2,694,424
Deficiencies of underwater endowment funds	<u>\$ (505,099)</u>	<u>\$ (1,303,957)</u>

9. Funds Held for Agencies

Funds held for agencies are unrestricted funds received from non-profit organizations that designate themselves as beneficiaries. Accordingly, such funds are reported as liabilities rather than as unrestricted net assets of the Foundation. The activities related to funds held for other agencies are summarized as follows:

Balance at July 1, 2018	\$ 4,947,542
Receipts	269,751
Investment income	569,622
Realized and unrealized gains and losses	(267,249)
Distributions	(216,250)
Investment management fees	(15,156)
Administrative expense allocation	(70,079)
Balance at June 30, 2019	<u>\$ 5,218,181</u>
Balance at July 1, 2017	\$ 4,818,821
Receipts	53,807
Investment income	192,664
Realized and unrealized gains and losses	155,342
Distributions	(223,996)
Investment management fees	(9,487)
Administrative expense allocation	(39,609)
Balance at June 30, 2018	<u>\$ 4,947,542</u>

10. Employee Benefit Plan

Beginning on January 1, 2013, the Foundation began offering a 401k retirement plan. Under this plan, employees may participate after three consecutive months of full-time employment but are not vested in the employer contribution until after they have been employed for three years. Employees are immediately vested in their personal contributions. The Foundation makes a five percent contribution for each employee's annual salary paid in equal bi-monthly installments to the individual's account. Total contributions were \$25,294 and \$19,861 for the years ending June 30, 2019 and 2018.

11. Compensated Absences

The Organization has not accrued a liability for compensated absences because the amount cannot be reasonably estimated.

NOTES TO FINANCIAL STATEMENTS - continued

12. Investments Restricted Under Lease Commitment

The Foundation's long-term investments at June 30, 2019 and 2018, include government and corporate debt securities and U.S Treasury securities with fair values totaling \$1,301,071 and \$1,494,267, respectively. These securities were acquired as a result of two gifts received from a financial institution (that is also the assignor of the lease described in Note 12). Securities totaling \$838,896 as of June 30, 2019 and \$1,064,057 as of June 30, 2018 represent the funds from a 1984 gift that are restricted to fund operating facility lease payments until the year 2024. The remaining \$462,175 and \$430,210 as of June 30, 2019 and 2018, are from a 1995 gift of a U. S. Treasury zero-coupon bond due November 15, 2023, with a face amount of \$500,000. This bond will be available to exercise the lease purchase option described in note 12. If the Foundation elects not to exercise the lease purchase option in the year 2024, the funds will be available to the Foundation for unrestricted use on the condition that the Foundation assigns its lease purchase option back to the original assignor.

13. Lease Commitment

The Foundation is the assignee of a lease for the real estate used by the Foundation for its operations. The original lease was entered into on February 19, 1973. The assignor (the original lessee) transferred to the Foundation (the assignee) all of its rights and a limited amount of its liabilities under the lease agreement. Contemporaneously to the signing of the agreement, the assignor made a gift to the Foundation stipulating that the funds be restricted as security for payment of rentals from August 1, 1994 through the end of the lease term. From August 1, 1994, through July 31, 2014, the Foundation was liable for rental payments only to the extent of the income earned on the restricted funds. From August 1, 2014, through February 29, 2024, the Foundation is liable for rental payments limited to the balance of the restricted funds. If these funds or the income earned on these funds prove to be insufficient, the liability for payment reverts back to the assignor. At the end of the lease term the Foundation can exercise an option assignment to purchase the leased property for \$500,000, as described in Note 11.

The current terms of the lease call for monthly rental payments of \$21,684 until the termination of the lease in July 2024. The total amount of payments in the year ended June 30, 2019 totaled \$260,211.

The future minimum lease payments are as follows:

Year ending June 30:	
2020	\$ 260,211
2021	260,211
2022	260,211
2023	260,211
2024	<u>173,475</u>
Total	<u>\$ 1,214,319</u>

NOTES TO FINANCIAL STATEMENTS - continued

14. Fair Values of Financial Statements

FASB ASC 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Mutual funds, corporate and government debt securities, cash held for investment, and life insurance accounts are valued at the net asset value of shares held by the Foundation at year end. Land held for investment is valued at either the real estate appraisal or the county tax value. Split interest agreements are estimated as the present value of expected future cash flows.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2019 and 2018:

	Fair Value Measurements at June 30, 2019			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 80,925,188	\$ 80,925,188	\$ -	\$ -
Corporate debt securities	1,294,411	1,294,411	-	-
Government debt securities	837,151	837,151	-	-
Equities	890,173	890,173	-	-
Preferred stock	594,048	594,048	-	-
Cash held for investment	7,271,241	7,271,241	-	-
Cash surrender value of life insurance	99,493	99,493	-	-
Annuities	25,000	-	-	25,000
Land held for investment	2,224,115	-	2,224,115	-
Note receivable	1,145,746	-	1,145,746	-
Contribution receivable:				
- split interest agreements	173,866	-	-	173,866
Total assets at fair value	\$ 95,480,432	\$ 91,911,705	\$ 3,369,861	\$ 198,866

NOTES TO FINANCIAL STATEMENTS - continued

Fair Value Measurements at June 30, 2018				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 77,165,730	\$ 77,165,730	\$ -	\$ -
Corporate debt securities	380,205	380,205	-	-
Government debt securities	937,344	937,344	-	-
Equities	200,000	200,000	-	-
Cash held for investment	5,156,672	5,156,672	-	-
Cash surrender value of life insurance	99,902	99,902	-	-
Annuities	114,583	-	-	114,583
Land held for investment	2,026,615	-	2,026,615	-
Note receivable	1,174,411	-	1,174,411	-
Contribution receivable:				
- split interest agreements	214,453	-	-	214,453
	<u>\$ 87,469,915</u>	<u>\$ 83,939,853</u>	<u>\$ 3,201,026</u>	<u>\$ 329,036</u>

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets measured at a fair value on a recurring basis using significant unobservable inputs:

Split-Interest Agreements

July 1, 2018	\$ 214,453
Change in value of split-interest agreements	(5,587)
Payments from split-interest agreements	(35,000)
June 30, 2019	<u>\$ 173,866</u>

Split-Interest Agreements

July 1, 2017	\$ 239,714
Change in value of split-interest agreements	9,739
Payments from split-interest agreements	(35,000)
June 30, 2018	<u>\$ 214,453</u>

15. Subsequent Events

Management has evaluated subsequent events through November 19, 2019, the date on which the financial statements were available to be issued.