
Community Foundation of Snohomish County
A Washington Non-Profit Corporation

Financial Statements

For the Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Foundation of Snohomish County

We have audited the accompanying financial statements of Community Foundation of Snohomish County (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of Snohomish County as of December 31, 2018 and 2017, 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.

Aiken & Sanders

Aberdeen, WA
September 23, 2019

Community Foundation of Snohomish County
A Washington Non-Profit Corporation

Statement of Financial Position

December 31, 2018 & 2017	2018	2017
Assets		
Current Assets:		
Cash & cash equivalents	\$ 2,722,164	\$ 2,635,381
Interest receivable	-	773
Total Current Assets	2,722,164	2,636,154
Property & Equipment:		
Land	151,200	151,200
Building & improvements	350,128	350,128
Office equipment & furniture	60,033	60,033
Accumulated depreciation	(176,372)	(160,159)
Total Property & Equipment	384,989	401,202
Other Assets:		
Loan receivable	600,000	300,000
Life insurance policy, cash surrender value	423,021	393,182
Contributions receivable, charitable remainder trusts	1,056,770	1,187,151
Prepaid assets	2,434	-
Investments	21,153,234	21,900,021
Total Other Assets	23,235,459	23,780,354
Total Assets	\$ 26,342,612	\$ 26,817,710
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,937	\$ -
Security deposit payable	500	1,000
Accrued expenses	17,142	9,638
Deferred revenue	285,000	206,000
Assets held under agency agreements	2,775,088	2,373,034
Total Liabilities	3,079,667	2,589,672
Net Assets:		
Without Donor Restrictions	549,449	500,486
Without Donor Restrictions - Board designated capital reserve	53,126	56,185
Without Donor Restrictions - Board designated endowments	201,073	237,772
	803,648	794,443
With Donor Restrictions	22,459,297	23,433,595
Total Net Assets	23,262,945	24,228,038
Total Liabilities and Net Assets	\$ 26,342,612	\$ 26,817,710

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

Community Foundation of Snohomish County
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Statement of Activities and Changes in Net Assets

Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Public support:			
Contributions	\$ 614,038	\$ 1,687,889	\$ 2,301,927
Fundraiser	39,875	-	39,875
Less: direct event expense	(5,038)	-	(5,038)
Investment earnings	61,243	(839,716)	(778,473)
Rental income	25,650	-	25,650
Administrative fees	390,283	-	390,283
Net assets released from restrictions	<u>1,822,471</u>	<u>(1,822,471)</u>	<u>-</u>
Total Support and Revenue	<u>2,948,522</u>	<u>(974,298)</u>	<u>1,974,224</u>
Expenses:			
Program services	2,797,022	-	2,797,022
Management and general	95,718	-	95,718
Fundraising	<u>46,577</u>	<u>-</u>	<u>46,577</u>
Total Expenses	<u>2,939,317</u>	<u>-</u>	<u>2,939,317</u>
Change in Net Assets	9,205	(974,298)	(965,093)
Net Assets, Beginning of Year	<u>794,443</u>	<u>23,433,595</u>	<u>24,228,038</u>
Net Assets, End of Year	<u>\$ 803,648</u>	<u>\$ 22,459,297</u>	<u>\$ 23,262,945</u>

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

Community Foundation of Snohomish County
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Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Public support:			
Contributions	\$ 490,183	\$ 1,445,145	\$ 1,935,328
Fundraiser	1,560	-	1,560
Less: direct event expense	(6,043)	-	(6,043)
Investment earnings	27,378	2,374,859	2,402,237
Rental income	27,698	-	27,698
Administrative fees	357,478	-	357,478
Net assets released from restrictions	<u>2,008,032</u>	<u>(2,008,032)</u>	<u>-</u>
Total Support and Revenue	<u>2,906,286</u>	<u>1,811,972</u>	<u>4,718,258</u>
Expenses:			
Program services	2,576,377	-	2,576,377
Management and general	70,645	-	70,645
Fundraising	<u>39,459</u>	<u>-</u>	<u>39,459</u>
Total Expenses	<u>2,686,481</u>	<u>-</u>	<u>2,686,481</u>
Change in Net Assets	219,805	1,811,972	2,031,777
Net Assets, Beginning of Year	<u>574,638</u>	<u>21,621,623</u>	<u>22,196,261</u>
Net Assets, End of Year	\$ <u>794,443</u>	\$ <u>23,433,595</u>	\$ <u>24,228,038</u>

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

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Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services	Management & General	Fundraising	Total
Salaries & wages	\$ 360,183	\$ 39,533	\$ 39,533	\$ 439,249
Payroll benefits & taxes	45,868	5,034	5,034	55,936
Professional services	99,340	33,113	-	132,453
Office expenses	18,315	2,010	2,010	22,335
Training & development	42,264	2,224	-	44,488
Building expenses	21,016	7,005	-	28,021
Marketing	8,238	2,746	-	10,984
Administrative fees	489,247	-	-	489,247
Depreciation	12,160	4,053	-	16,213
CRUT Payouts	26,400	-	-	26,400
Grants & scholarships	1,673,991	-	-	1,673,991
Total	\$ 2,797,022	\$ 95,718	\$ 46,577	\$ 2,939,317

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

Community Foundation of Snohomish County
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Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services	Management & General	Fundraising	Total
Salaries & wages	\$ 307,309	\$ 33,729	\$ 33,729	\$ 374,767
Payroll benefits & taxes	34,089	3,741	3,741	41,571
Professional services	50,002	16,667	-	66,669
Office supplies	18,118	1,989	1,989	22,096
Training & development	32,495	1,710	-	34,205
Building expenses	12,825	4,275	-	17,100
Marketing	10,173	3,391	-	13,564
Administrative fees	307,736	-	-	307,736
Depreciation	15,429	5,143	-	20,572
CRUT Payouts	33,948	-	-	33,948
Grants & scholarships	1,754,253	-	-	1,754,253
Total	\$ 2,576,377	\$ 70,645	\$ 39,459	\$ 2,686,481

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

Community Foundation of Snohomish County
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Statements of Cash Flows

Year Ended December 31, 2018 & 2017	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (965,093)	\$ 2,031,777
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	16,213	20,572
Increase (Decrease) in pledge receivable discount	-	(23,475)
Investment earnings	778,473	(2,402,237)
(Increase) Decrease in Operating Assets		
Interest receivable	773	(773)
Loan receivable	(300,000)	-
Contribution receivable	130,381	(64,633)
Life insurance policy	(29,839)	4,270
Prepaid assets	(2,434)	-
Increase (Decrease) in Operating Liabilities		
Accounts payable	1,937	(1,115)
Accrued expenses	7,504	(548)
Security deposit payable	(500)	-
Deferred contributions	79,000	80,000
Agency endowment	402,054	307,669
Net Cash Provided (Used) by Operating Activities	<u>118,469</u>	<u>(48,493)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Activity: Investments	(31,686)	(742,827)
Purchase of property & equipment	-	(1,293)
Net Cash Provided (Used) by Investing Activities	<u>(31,686)</u>	<u>(744,120)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86,783	(792,613)
BEGINNING CASH AND CASH EQUIVALENTS	<u>2,635,381</u>	<u>3,427,994</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 2,722,164</u>	<u>\$ 2,635,381</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:		
Cash Paid During the Fiscal Years for Interest	\$ <u>-</u>	\$ <u>-</u>

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

Community Foundation of Snohomish County
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Notes to Financial Statements

December 31, 2018 and 2017

1. ORGANIZATION AND PURPOSE:

The Community Foundation of Snohomish County (the Foundation) is organized as a nonprofit tax-exempt corporation under the laws of the State of Washington. As a community foundation, it serves donors across the full spectrum of philanthropy including arts and culture, health and welfare, education, human services, environment, and community.

The mission of the Foundation is to work in partnership with donors to strengthen communities in greater Everett and Snohomish County by:

- Building permanent charitable funds,
- Connecting donors to charitable causes they care about,
- Making effective grants, and
- Providing leadership to address community issues.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. **Basis of Presentation--**

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Without Donor Restriction Net Assets: Net assets that are not subject to donor-imposed stipulations.

With Donor Restriction Net Assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and or the passage of time.

The Foundation's grant distribution goal is to provide a consistent and stable flow of grants. The annual grant expenditure allowed will be four percent of the fund balances, unless otherwise stated in the fund agreement. The allocation is made in January based upon the average of the prior three year-end fund balances. A minimum of \$500 can be distributed in annual grants from funds that have achieved a minimum balance of \$25,000 and have achieved four quarters of earnings.

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 donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (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.

Administrative fees are charged quarterly to individual funds at rates established in the donor fund agreements. These fees are reported as reclassifications between the applicable net asset classes at the time they are charged to donor funds.

B. **Cash and Cash Equivalents--**

For the purpose of reporting cash flows, the Foundation considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less, to be cash equivalents.

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December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

C. Liquidity & Availability--

At December 31, 2018, the Foundation has \$2,724,598 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, consisting of cash in the amount of \$2,722,164 and prepaid expenses of \$2,434. Prepaid expenses will be consumed with the passage of time, expensed within one year.

At December 31, 2017, the Foundation had \$2,635,381 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, consisting of cash.

D. Property & Equipment--

Property and equipment is stated at cost if purchased or at fair market value if donated. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets of three to seven years. Expenditures greater than \$1,000 are capitalized. Amounts less than \$1,000 are expensed when incurred.

E. Grants--

Grants are approved by the Board of Directors of the Foundation in accordance with respective by-laws and guidelines. Grants are recorded in the financial statements when approved.

F. Allocation of Functional Expenses--

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

G. Use of Estimates--

The preparations of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

H. Fair Value Measurement--

Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted market prices for identical assets. Level 3 inputs have the lowest priority and are used only when Level 1 and Level 2 inputs are not available. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The fair value of investments was measured on a recurring basis using quoted prices in active markets for identical assets (Level 1) in 2018 and 2017. There were not any investments that were valued using Level 2 or Level 3 inputs in either years.

I. Advertising--

The Foundation's policy is to expense advertising costs as they are incurred.

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Notes to Financial Statements

December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

J. Volunteer Services--

The efforts of volunteer workers are not reflected in the accompanying financial statement; however, many volunteers have donated significant amounts of their time to the Foundation. The in-kind value of labor donated is not recognized as revenue because its value is not readily determinable.

K. Income Taxes--

The Foundation is tax-exempt in accordance with Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Accordingly, no provision for income tax has been recorded.

3. INVESTMENTS AND INVESTMENT RETURN:

The Foundation records investments in marketable and debt securities at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. At December 31, 2018, the Foundation's investments included \$505,720 in cash and money market funds, \$5,696,185 in fixed income funds, and \$14,951,329 in stocks and mutual funds. At December 31, 2017, the Foundation's investments included \$424,013 in cash and money market funds, \$5,284,927 in fixed income funds, and \$16,191,081 in stocks and mutual funds.

Investment earnings (losses) consist of the following components for the year ended December 31, 2018:

	<u>2018</u>
Unrealized gains and losses	\$ (1,289,054)
Interest and dividends	525,363
Realized gains and losses	74,139
Management fees charged	<u>(88,921)</u>
Investment earnings (losses)	<u><u>\$ (778,473)</u></u>

Investment earnings (losses) consist of the following components for the year ended December 31, 2017:

	<u>2017</u>
Unrealized gains and losses	\$ 1,273,665
Interest and dividends	437,017
Realized gains and losses	780,599
Management fees charged	<u>(89,044)</u>
Investment earnings (losses)	<u><u>\$ 2,402,237</u></u>

Earnings are allocated between funds in the investment pool, which include endowment funds and funds with donor restrictions based upon allowed uses.

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Notes to Financial Statements

December 31, 2018 and 2017

4. CONTRIBUTIONS RECEIVABLE ---SPLIT-INTEREST AGREEMENT:

In 2002, a donor established a trust with a local bank naming the Foundation as beneficiary in a charitable remainder trust. Under terms of the split-interest agreement, the Foundation is to receive approximately \$1,000,000 upon the donor's death. During 2016, the Foundation's share was adjusted down to approximately \$878,000. The receivable for the split-interest agreement is carried at fair value, which the Foundation has estimated based on the present value of its expected future cash flows. Based on the Donor's life expectancy and a 4% discount rate the fair value of the Foundation's interest in the trust was estimated to be \$750,070 and \$835,290, respectively, at December 31, 2018 and 2017. On an annual basis, the Foundation revalues the contribution receivable based on applicable mortality tables and current market conditions.

In 2010, the Foundation became the beneficiary of a third charitable remainder trust. Under the terms of this split-interest agreement, the Foundation is to receive the full balance of the trust upon the death of the Donor. The receivable for the split-interest agreement is carried at fair value based on quoted prices in the active market, which was \$306,700 and \$351,861, respectively, at December 31, 2018 and 2017.

5. ASSETS HELD UNDER AGENCY AGREEMENTS:

The Foundation holds assets under agency fund agreements for the benefit of fifteen unrelated nonprofit organizations. These funds may be distributed to the respective beneficiaries upon their request, and as such, are included in current liabilities in the Foundation's Statements of Financial Position.

6. RETIREMENT PLAN:

The Foundation sponsors a SIMPLE retirement plan covering all employees and provides a five percent matching provision. During the years ended December 31, 2018 and 2017 \$21,415 and \$11,537, respectively, was contributed to the retirement plan for eligible employees.

7. RELATED PARTY TRANSACTIONS:

During the years ended December 31, 2018 and 2017, the Foundation received donations from Board members, management, staff and their families of \$144,343 and \$67,896, respectively.

8. CONCENTRATION OF CREDIT RISK:

As of December 31, 2018 and 2017, the Foundation maintained cash accounts with Coastal Community Bank, Mountain Pacific Bank, and First Financial Northwest Bank, all of which are insured by the Federal Deposit Insurance Corporation's Transaction Account Guaranty Program.

The pledge receivables are primarily from donors located in Snohomish County, Washington. Consequently, the Foundation's ability to collect the pledges is affected by the economy in Snohomish County.

9. LIFE INSURANCE:

In 2002, the Foundation became beneficiary of a \$2,000,000 life insurance policy. The premiums are paid by the donor by making a contribution to the Foundation in the same amount as the premium. In the years ending December 31, 2017, the Foundation received donations of \$52,851 and the Board elected to pay the annual life insurance premium. For 2018, the life insurance policy was changed to a non-bill status.

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Notes to Financial Statements

December 31, 2018 and 2017

10. ENDOWMENT:

The Foundation's endowment consists of 118 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Net Assets Composition by Type of Fund as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			<u>Total 2018</u>
		<u>Agency Endowments</u>	<u>Quasi Endowments</u>	<u>Total</u>	
Donor-restricted & Board-designated endowment funds	\$ 201,073	\$ 1,971,317	\$ 20,487,980	\$ 22,459,297	\$ 22,660,370

Net Assets Composition by Type of Fund as of December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			<u>Total 2017</u>
		<u>Agency Endowments</u>	<u>Quasi Endowments</u>	<u>Total</u>	
Donor-restricted & Board-designated endowment funds	\$ 237,772	\$ 2,094,973	\$ 21,338,622	\$ 23,433,595	\$ 23,671,367

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Notes to Financial Statements

December 31, 2018 and 2017

10. ENDOWMENT (CONT.):

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

	Without Donor Restrictions	With Donor Restrictions			Total
		Agency Endowments	Quasi- Endowments	Total	
		Total			
Donor-restricted endowment net assets, beginning of year	\$ -	\$ 561,815	\$ 18,861,468	\$ 19,423,283	\$ 19,423,283
Contributions	-	-	1,655,047	1,655,047	1,655,047
Investment return	-	(85,220)	(691,647)	(776,867)	(776,867)
Appropriation of endowment assets for expenditure	-	-	(1,616,655)	(1,616,655)	(1,616,655)
Donor-restricted endowment net assets, end of year	-	476,595	18,208,213	18,684,808	18,684,808
Board-designated endowment net assets, beginning of year	237,772	1,135,706	2,477,154	3,612,860	3,850,632
Contributions	30,950	20,342	12,500	32,842	63,792
Investment return	(239)	9,810	(72,659)	(62,849)	(63,088)
Appropriation of endowment assets for expenditure	(67,410)	(68,588)	(137,228)	(205,816)	(273,226)
Board-designated endowment net assets, end of year	201,073	1,097,270	2,279,767	3,377,037	3,578,110
Other restricted funds, non-endowment	-	397,452	-	397,452	397,452
Total	\$ 201,073	\$ 1,971,317	\$ 20,487,980	\$ 22,459,297	\$ 22,660,370

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10. ENDOWMENT (CONT.):

Changes in Endowment Net Assets for the Year Ended December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions		Total	Total
		Agency Endowments	Quasi- Endowments		
Donor-restricted endowment net assets, beginning of year	\$ -	\$ 500,163	\$ 17,556,453	\$ 18,056,616	\$ 18,056,616
Contributions	-	61,652	1,192,893	1,254,545	1,254,545
Investment return	-	-	1,960,811	1,960,811	1,960,811
Appropriation of endowment assets for expenditure	-	-	(1,848,689)	(1,848,689)	(1,848,689)
Donor-restricted endowment net assets, end of year	-	561,815	18,861,468	19,423,283	19,423,283
Board-designated endowment net assets, beginning of year	190,657	898,068	2,269,488	3,167,556	3,358,213
Contributions	23,181	120,247	17,500	137,747	160,928
Investment return	67,825	182,550	231,498	414,048	481,873
Appropriation of endowment assets for expenditure	(43,891)	(65,159)	(41,332)	(106,491)	(150,382)
Board-designated endowment net assets, end of year	237,772	1,135,706	2,477,154	3,612,860	3,850,632
Other restricted funds, non-endowment	-	397,452	-	397,452	397,452
Total	<u>\$ 237,772</u>	<u>\$ 2,094,973</u>	<u>\$ 21,338,622</u>	<u>\$ 23,433,595</u>	<u>\$ 23,671,367</u>

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Notes to Financial Statements

December 31, 2018 and 2017

10. ENDOWMENT (CONT.):

A. Interpretation of Relevant Law--

The State of Washington enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2009. The Board of directors and management of the Foundation have determined that requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment absent explicit donor stipulations to the contrary is appropriate. The Foundation classifies net assets with donor restrictions as (a) the original value of gifts donated to the endowment with donor restrictions, and (b) the original value of subsequent gifts to the endowment with donor restrictions. The Foundation maintains an ongoing relationship with its donors and, with donor permission, allows appropriation of endowment funds in accordance with the Foundation's grant policy.

B. Fund with Deficiency--

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets without donor restrictions.

C. Return Objectives and Risk Parameters--

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the S&P 500 and other relative indexes while assuming an overall moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately five to seven percent annually. Actual returns in any given year may vary from this amount.

D. Strategies Employed for Achieving Objectives--

To satisfy its long-term rate-of-return objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

E. Satisfaction of Donor Restrictions--

Restricted net assets that were released from donor restrictions by incurring expense satisfying the restricted purposes or time restrictions specified by donors as of December 31, 2018 and 2017 was \$1,822,471 and \$2,008,032, respectively.

F. Board Designated Net Assets--

The Foundation's Board has designated net assets with donor restrictions for various purposes to aid in the management of the Foundation's resources and to satisfy certain board objectives.

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Notes to Financial Statements

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11. CAPITAL RESERVE:

The capital reserve was established in anticipation of future capital replacements and improvements. Capital reserves are intended for large planned or emergency capital needs. A separate capital reserve fund was established in 2011 and is increased periodically with board approval in anticipation of future capital replacements and improvements. The board designated capital reserve balance as December 31, 2018 and 2017 was \$53,126 and \$56,185, respectively.

12. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 23, 2019, the date on which the financial statements were available for issue.

13. UNCERTAIN TAX POSITIONS:

The Foundation files income tax returns in the U.S. federal jurisdiction. The Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015. Currently, there is no examination or pending examination with the Internal Revenue Services (IRS).

As of December 31, 2018, there are no tax positions for which the deductibility is certain but for which there is uncertainty regard the timing of such deductibility.

14. IMPACT INVESTING

During 2016, the Foundation loaned HopeWorks Social Enterprises (the Company) \$300,000. The Company purchased property and an adjacent lot to be used to house at least 3 of the social enterprises developed and owned by the Company. This loan will help to payback the loans that are owed to the bank, another organization, and do repairs on the property. Interest is paid annually at 2% for the first 3 years, 3% afterwards. The loan is due in 5 years. The loan is secured by the property.

15. CHANGE IN PRESENTATION

The Foundation adopted Accounting Standards Update 2016-14 (ASU 2016-14) during the year ended December 31, 2018. ASU 2016-14 requires net assets to be presented as ‘without donor restrictions’ and ‘with donor restrictions’ on the statement of financial position. Also on the statement of activities, the columns will be labeled as ‘without donor restrictions’ and ‘with donor restrictions’. Prior to adoption, the net assets on the statement of financial position were presented as unrestricted, temporarily restricted, and permanently restricted. Also on the statement of activities, the columns were also labeled as unrestricted, temporarily restricted, and permanently restricted. ASU 2016-14 states that it should be applied on a retrospective basis for comparative basis financial statements in the year of adoption. There were no changes in the net asset classes and there were no reclassifications.