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THE VALLEY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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THE VALLEY COMMUNITY FOUNDATION, INC.

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Independent Auditors' Report

To the Board of Directors of The Valley Community Foundation, Inc.
Derby, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of The Valley Community Foundation, Inc., which comprise the statements 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.

Auditors' 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 auditors' 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 auditors consider 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 Valley Community Foundation, Inc., 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.

Change in Accounting Principle

As discussed in Note 1, during the year ended December 31, 2018, The Valley Community Foundation, Inc., adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blum, Shapiro + Company, P.C.

West Hartford, Connecticut
February 22, 2019

THE VALLEY COMMUNITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 780,787	$ 357,996
Investments at market value - component funds	15,431,714	18,077,028
Investments at market value - organization funds	7,516,370	6,702,681
Total investments	23,728,871	25,137,705
Contributions receivable	1,355,000	22,729
Other assets	7,103	22,755
Furniture and equipment, net	62,048	70,094
Total Assets	$ 25,153,022	$ 25,253,283
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 81,229	$ 59,687
Organization funds	7,516,370	6,702,681
Grants payable	222,145	194,250
Total liabilities	7,819,744	6,956,618
Net Assets Without Restriction	17,333,278	18,296,665
Total Liabilities and Net Assets	$ 25,153,022	$ 25,253,283

The accompanying notes are an integral part of the financial statements

THE VALLEY COMMUNITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Revenue, Gains and Other Support		
Contributions	$ 3,541,682	$ 2,011,272
Less transfers to organization funds	(1,674,629)	(120,051)
Net contributions	1,867,053	1,891,221
Investment gain (loss), net	(580,648)	2,568,381
Total revenue, gains and other support	1,286,405	4,459,602
Expense		
Grants and distributions approved, net	1,802,866	1,424,478
Grants for program management and direct grant activities	374,846	326,449
Total grants expense	2,177,712	1,750,927
Less distributions from organization funds	(177,818)	(175,132)
Net grant expense	1,999,894	1,575,795
Development, donor services and fund stewardship	156,186	134,586
Management, leadership and operations	93,712	83,045
Total administration expense	249,898	217,631
Total expense	2,249,792	1,793,426
Increase (Decrease) in Net Assets	(963,387)	2,666,176
Net Assets - Beginning of Year	18,296,665	15,630,489
Net Assets - End of Year	$ 17,333,278	$ 18,296,665

The accompanying notes are an integral part of the financial statements

THE VALLEY COMMUNITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Supporting Services			
	Grants Awarded and Programs	**Other Program Expenses**	**Total Program Services**	**Management & General**	**Development & Fundraising**	**Total Supporting Services**	**Total Foundation Services**
Grants to community	$ 1,802,866	$ -	$ 1,802,866	$ -	$ -	$ -	$ 1,802,866
Salaries and wages	-	190,651	190,651	47,663	79,438	127,101	317,752
Employee benefits and employment taxes	-	42,448	42,448	10,612	17,687	28,299	70,747
Consultants	-	23,001	23,001	5,750	9,584	15,334	38,335
Depreciation	-	10,892	10,892	2,724	4,539	7,263	18,155
Dues and fees	-	3,472	3,472	868	1,447	2,315	5,787
General	-	1,062	1,062	267	441	708	1,770
Information management, technology and maintenance	-	14,280	14,280	3,570	5,950	9,520	23,800
Insurance	-	4,229	4,229	1,057	1,762	2,819	7,048
Marketing, outreach and special events	-	30,529	30,529	7,632	12,721	20,353	50,882
Meetings	-	9,082	9,082	2,270	3,784	6,054	15,136
Occupancy	-	17,362	17,362	4,340	7,234	11,574	28,936
Professional fees	-	23,568	23,568	5,892	9,820	15,712	39,280
Supplies	-	4,112	4,112	1,027	1,713	2,740	6,852
Travel	-	158	158	40	66	106	264
Total Functional Expenses	$ 1,802,866	$ 374,846	$ 2,177,712	$ 93,712	$ 156,186	$ 249,898	$ 2,427,610

The accompanying notes are an integral part of the financial statements

THE VALLEY COMMUNITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services			Supporting Services			
	Grants Awarded and Programs	Other Program Expenses	Total Program Services	Management & General	Development & Fundraising	Total Supporting Services	Total Foundation Services
Grants to community	$ 1,424,478	$ -	$ 1,424,478	$ -	$ -	$ -	$ 1,424,478
Salaries and wages	-	181,115	181,115	45,279	75,465	120,744	301,859
Employee benefits and employment taxes	-	41,268	41,268	10,317	17,195	27,512	68,780
Consultants	-	5,834	5,834	1,459	2,431	3,890	9,724
Depreciation	-	10,487	10,487	4,056	2,936	6,992	17,479
Dues and fees	-	2,755	2,755	689	1,148	1,837	4,592
General	-	760	760	188	314	502	1,262
Information management, technology and maintenance	-	8,458	8,458	2,114	3,524	5,638	14,096
Insurance	-	4,549	4,549	1,137	1,896	3,033	7,582
Marketing, outreach and special events	-	32,685	32,685	8,171	13,619	21,790	54,475
Meetings	-	8,695	8,695	2,174	3,623	5,797	14,492
Occupancy	-	17,639	17,639	4,410	7,350	11,760	29,399
Professional fees	-	8,580	8,580	2,145	3,575	5,720	14,300
Supplies	-	3,326	3,326	832	1,386	2,218	5,544
Travel	-	298	298	74	124	198	496
Total Functional Expenses	$ 1,424,478	$ 326,449	$ 1,750,927	$ 83,045	$ 134,586	$ 217,631	$ 1,968,558

The accompanying notes are an integral part of the financial statements

THE VALLEY COMMUNITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ (963,387)	$ 2,666,176
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	18,155	17,479
Realized and unrealized (gain) loss on investments	570,334	(2,562,758)
(Increase) decrease in operating assets:		
Contributions receivable	(1,332,271)	1,177,271
Other assets	15,652	(18,559)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	21,542	52,050
Organization funds	813,689	974,452
Grants payable	27,895	(82,000)
Net cash provided by (used in) operating activities	(828,391)	2,224,111
Cash Flows from Investing Activities		
Proceeds from sales of investments	9,344,068	4,473,487
Purchases of investments	(8,082,777)	(6,817,468)
Purchases of furniture and equipment	(10,109)	(5,241)
Net cash provided by (used in) investing activities	1,251,182	(2,349,222)
Net Increase (Decrease) in Cash and Cash Equivalents	422,791	(125,111)
Cash and Cash Equivalents - Beginning of Year	357,996	483,107
Cash and Cash Equivalents - End of Year	$ 780,787	$ 357,996

The accompanying notes are an integral part of the financial statements

Note 1 - **Organization and Basis of Presentation:**

The Valley Community Foundation, Inc. (The Foundation) is a charitable corporation, organized in 2004 to carry out the purposes, mission, objectives, operations and activities of The Community Foundation for Greater New Haven (The Community Foundation) in the towns of Ansonia, Derby, Shelton, Seymour and Oxford, Connecticut, and their environs.

In 2014, The Foundation, as a result of changes in federal tax law that became effective at the beginning of calendar year 2014, has determined through actions adopted by its Board of Directors that it shall obtain its federal exemption under Section 501(c)(3) as an independent organization for, among other things, fulfilling its public support test, rather than through the former Internal Revenue Code (IRC) provisions afforded under Section 509(a)(3) as a supporting organization to The Community Foundation. Notwithstanding this IRC election by The Foundation, The Community Foundation and The Foundation, through an amendment to the existing affiliation agreement that was adopted in December 2013 by the respective Board of Directors, will continue to report the financial results of The Community Foundation and The Foundation on a combined basis pursuant to the provisions of such affiliation agreement. Consistent with IRC requirements that have existed since The Foundation's formation in 2004, The Foundation and The Community Foundation will continue to issue separate informational tax filings through IRS Form 990.

Under the affiliation agreement between the Foundation and The Community Foundation, The Community Foundation's tax exempt corporation, The Community Foundation for Greater New Haven, Inc. (Corporation) performs the investment management services to the Foundation for all of its permanent component and nonpermanent charitable assets. In 2014, The Corporation sought registration as a Connecticut registered investment adviser with the State of Connecticut's Department of Banking under the Connecticut Uniform Securities Act as part of its on-going efforts to provide local nonprofits with the comfort of knowing that their endowment-like assets are managed according to the industry standards and best practices. In March 2014, the Connecticut Department of Banking's Securities and Business Investments Division notified the Corporation that it was a registered investment adviser. The Corporation advises both its permanent assets, including its component funds, which have come to the Corporation through irrevocable gifts, as well as other non-permanent charitable assets that have come to the Corporation and the Foundation through revocable transfer by charitable institutions wishing to outsource the management of their investments (Organization Funds). The primary investment advisory services that the Corporation provides to Organization Funds are the selection and monitoring of unaffiliated asset managers retained under a commingled fund operating under a long-term asset allocation model, which processes are set forth in an investment management agreement between the Organization Fund and the Corporation. See footnote 2C below for additional information on Organization Funds.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment changes the previous reporting model for nonprofit organizations and enhances the disclosure requirements. The major changes include: a) requiring the presentation of only two classes of net assets rather than three, b) modifying the presentation of underwater endowment funds and related disclosures, c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, f) presenting investment return net of external and direct internal investments expenses, and g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. This ASU is effective for annual periods beginning after December 15, 2017. Management has adopted ASU 2016-14 for the year ended December 31, 2018. The amendments have been retrospectively applied.

Note 2 - **Summary of Significant Accounting Policies:**

a. Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

b. Financial Statement Presentation

The Foundation measures aggregate net assets based on the absence or existence of donor-imposed restrictions. The two categories of net assets for presentation of The Foundation's financial statements are as follows: net assets with donor restrictions and net assets without donor restrictions.

ASC 958-205: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds,* sets forth the net asset classifications of donor-restricted endowment funds in accordance with the State of Connecticut's enacted version of the Uniform Prudent Management of Institutional Funds Act (CUPMIFA). This standard also requires other disclosures concerning an organization's charitable assets including whether or not the organization is subject to CUPMIFA. Although CUPMIFA is not germane, The Foundation has and will continue to provide additional disclosures as further described below for the complete fulfillment of donor intent. Further, The Foundation will continue its stewardship responsibilities by internally accounting for and reporting on all net assets in accordance with each donor's original intent as provided for in the underlying gift instrument that established the fund, as presented in Note 3a. The impact of CUPMIFA's adoption was negligible on the presentation of The Foundation's financial statements given the governing documents' provision for variance power, the unilateral power to redirect the use of a contribution for another charitable purpose. The criteria and circumstances under which the Board of Directors of The Foundation would exercise its responsibility are prescribed within the By-Laws.

The Foundation's financial statements classify all net assets as without donor restrictions; however, as noted above, all recordkeeping for internal management and all external reporting retain the original donor intent and direction for every charitable fund held within The Foundation. All contributions not classified as net assets with donor restrictions are classified as net assets without donor restrictions. As of December 31, 2018 and 2017, The Foundation had no net assets with donor restrictions.

As the community's perpetual endowment organization, The Foundation's spending policies and philosophy since their creation in 2004, as well as the long-term investment management policies and procedures both of which are further described in Note 3b, were designed to function as integrated processes and are administered to reflect the following facts and circumstances, as also described in CUPMIFA, for prudent stewards of charitable assets, including:

1) The duration and preservation of a fund;

2) The purpose of the organization and the donor designations thereto;

3) General economic conditions;

4) The possible effects of inflation and deflation;

5) The expected total return of the charitable assets;

6) Other resources of the organization;

7) The investment policies.

The Foundation, in accordance with the above, would permit spending distributions from funds that were deemed "under water" subject to a complete review of the facts and circumstances pertaining to a fund, the degree to which said fund is below its historic gift value, and at all times subject to the relevant laws and regulations and the stated intentions of the donor.

c. Organization Funds

The Foundation receives and distributes assets for certain endowment funds that have been established by a nonprofit from its own resources for the sole purpose of supporting that specific nonprofit's operations. Amounts received and distributed under these relationships totaled $1,674,629 and $177,818, respectively, for the year ended December 31, 2018, and $120,051 and $175,132, respectively, for the year ended December 31, 2017.

The amounts received but not yet distributed totaled $7,516,370 and $6,702,681 at December 31, 2018 and 2017, respectively, and are included on the statements of financial position and referred to as organization funds.

d. Cash and Cash Equivalents

Cash and cash equivalents include currency and interest-bearing short-term investments with an average maturity of three months or less.

The Foundation maintains deposits that may, at times, be in excess of the financial institution's insurance limits. The Foundation invests available cash and cash equivalents with high-credit quality institutions and believes that such deposits are not subject to significant credit risk.

e. Investments

Investments are carried at fair value, as discussed in Note 2f below. Investments include alternative investments, which are principally hedge strategies, and real assets which include asset classes such as private equity, real estate and natural resources. Because most alternative investments are not immediately marketable given the nature of the underlying strategies and the terms of the investment's governing agreement, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that may be received if a ready market for the investments had been in existence, and the difference could be material. Fair value of alternative investments in limited partnerships are determined by the general partner to be at fair value pursuant to GAAP's standard referred to as *Fair Value Measurements* after it considers certain pertinent factors that are reviewed and discussed by management and its investment committee, in consultation with its independent advisory firm.

f. Fair Value of Financial Instruments

The Foundation is required to measure the fair value of its assets and liabilities under a three-level hierarchy. In addition, in 2015, The Foundation adopted ASU Topic 820, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent),* as issued by the Financial Accounting Standards Board. In summary, ASU Topic 820 is a practical expedient to measure the fair value of certain investments that utilize a net asset value rather than categorized under the fair value hierarchy. For those investments that do not utilize a net asset value methodology, The Foundation will measure the fair value under the three-level hierarchy, as follows:

Level 1: Observable inputs from quoted market prices for identical assets or liabilities to which The Foundation has independent access at the measurement date.

Level 2: Observable inputs based on direct quoted market prices or indices for the asset or liability, either directly or indirectly, or can be corroborated by observable inputs and market data, or The Foundation has the ability to redeem the asset in the near term (within 90 days) subsequent to the measurement date.

Level 3: Prices, which may be derived from an underlying quoted market price, observable input and/or market data contained in Level 1 and Level 2, which also requires significant judgment on observable inputs by the investee as to the net asset value per share or unit of The Foundation's ownership interest in the partners' capital, and where redemption would be available in a period of more than 90 days from the measurement date. Valuation methodologies include, but are not limited to, discounted cash flow analysis, comparable asset analysis, third-party appraisals, third-party pricing services and other applicable indices.

Where:

Observable inputs reflect the market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and from independent sources that are actively involved in the relevant markets, and include assumptions made in pricing and valuations of the asset or liability that are developed from sources independent of The Foundation; and

Unobservable inputs reflect The Foundation's own assumptions about the fair value assumptions made by investees' use in pricing the asset or liability developed based on the best information available. The Foundation has never used unobservable inputs for determining fair value of its investments.

The fair value of The Foundation's investments as of December 31, 2018 is as follows:

Description	Total	Level 1	Level 2	Level 3	Investments Valued at NAV (a)
Short-term investments	$ 183,585	$ 183,585	$ -	$ -	$ -
Fixed income	3,992,967	2,978,753	-	-	1,014,214
Equities:					
International	4,887,942	1,930,737	-	-	2,957,205
Domestic	6,517,254	1,055,794	-	-	5,461,460
Alternatives:					
Hedged equity	3,992,967	-	-	-	3,992,967
Absolute return	413,066	-	-	-	413,066
Real assets	1,858,795	-	-	-	1,858,795
Private equity	1,101,508	-	-	-	1,101,508
Investments as of December 31, 2018	$ 22,948,084	$ 6,148,869	$ -	$ -	$ 16,799,215
Percent of Total	100%	26.8%	0.0%	0.0%	73.2%

The fair value of The Foundation's investments as of December 31, 2017 is as follows:

Description	Total	Level 1	Level 2	Level 3	Investments Valued at NAV (a)
Short-term investments	$ 421,255	$ 421,255	$ -	$ -	$ -
Fixed income	3,964,753	2,850,657	-	-	1,114,096
Equities:					
International	3,518,719	-	-	-	3,518,719
Domestic	9,986,222	1,597,796	-	-	8,388,426
Alternatives:					
Hedged equity	3,345,261	-	-	-	3,345,261
Absolute return	421,255	-	-	-	421,255
Real assets	1,908,038	-	-	-	1,908,038
Private equity	1,214,206	-	-	-	1,214,206
Investments as of December 31, 2017	$ 24,779,709	$ 4,869,708	$ -	$ -	$ 19,910,001
Percent of Total	100%	19.7%	0.0%	0.0%	80.3%

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

There were no transfers between levels of investments during the years ended December 31, 2018 and 2017.

The following table discloses certain additional information as of December 31, 2018 related to The Foundation's investments that report fair valued based on net asset value per share and are not traded in an active market, although such net asset values may be based on underlying securities that are traded in an active market:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Investments Valued at Net Asset Value:				
Fixed income	$ 1,014,214	$ None	More than 3 years	N/A
Domestic equity	5,461,460	None	Daily to quarterly	0-60 days' notice
Hedged equity (Class B)	3,589,786	None	Annually with a 1-year lock-up period	60 days written notice
International equity	2,957,205	None	Monthly to 3-year lock-up period	5-90 days' notice
Hedged equity (Class B2)	403,181	None	Annually beginning 2013 with a 1-year lock-up period	95 days written notice
Absolute return	413,066	None	Annually with one or 3-year lock-up period	100 days written notice
Real assets	1,858,795	468,295	More than 3 years	N/A
Private equity	1,101,508	690,851	More than 3 years	N/A
Total net asset value	$ 16,799,215	$ 1,159,146		

The Foundation assesses and reports on the liquidity of all investments on a quarterly basis to ensure that it has access to sufficient resources necessary for its current and future operational activities. Overall, The Foundation has access to approximately just over thirty percent (31.3%) of the fair value of its investments on a monthly basis, and just over forty percent (42.5%) of the fair value of its investments on a quarterly basis.

The Foundation's carrying amounts of cash and cash equivalents, accounts and grants payable and accrued expenses approximate fair value under Level 1. Investments are carried at fair value as presented above. Split-interest agreements are reported at fair value based on the life expectancy of the beneficiary and the net present value of the expected cash flows using a discount rate. Organization funds are carried at fair value based on the underlying investments. Derivatives instruments are measured at fair value based on observable inputs. Certain alternative investments use stock indices, swaps, options, convertible securities and foreign currency exchange contracts, which are classified as derivatives. The Foundation does not use derivatives for speculative purposes, but rather these instruments are used with the objectives of reducing overall portfolio risk within the parameters provided to the underlying manager under a written agreement.

The Foundation's investments consist of the following types:

Short-Term Investments: Investments consist of treasury securities with an average maturity of 120 days or less, checking accounts and money market holdings with daily liquidity.

Fixed Income: Fixed income investments consist of both domestic and foreign issuances of debt instruments and include both government and corporate holdings. Domestically, The Foundation concentrates primarily on U.S. treasuries, including a separate account approach of Treasury Inflation Protected Securities (TIPS). Internationally, the fixed income strategy includes sovereign-issued, local-currency denominated debt holdings and a global fixed income approach that seeks a long-term, value-oriented approach in local-currency debt instruments.

Equities: Domestic and international equities, including international emerging market equities, are listed securities traded on public exchanges, at various market capitalizations and are priced daily by the underlying managers. The Foundation accesses both domestic and international equities through institutional-class mutual funds, limited partnerships and separate accounts. Publicly traded domestic and international equities accessed through a limited partnership arrangement.

Hedged Equity: This strategy involves equity investments, either long or short, in marketable and publicly traded equities. Traditionally, hedge funds purchase stocks that they perceive to be undervalued and sell stocks that they perceive to be overvalued. The research-intensive and quantitative efforts in identifying promising stocks to hold long in a portfolio may also provide short-sale opportunities, and for this reason many directional hedged equity funds often maintain both long and short portfolios in a fund-of-funds strategy, as employed by The Foundation.

Absolute Return: This investment strategy has an objective to generate in most market environments an annualized return equal to or greater than the 91-day U.S. Treasury Bill plus 5%, net of all costs. Absolute return strategies consist of capital structure arbitrage, hedged equity, special situations, distressed debt and event arbitrage, and employ derivatives, as described above.

Real Assets: This strategy, within The Foundation's real assets investments, consists of investments in several fund-of-funds of commercial, industrial and residential limited partnerships where diversity of property type, region, manager and strategy is a fundamental premise. These investments may also include the purchase, restructure or origination of loans secured by real property or secured by interests in such property.

Private Equity: This strategy consists of making equity capital available through a fund-of-funds structure whereby the underlying investments in the specific companies are not quoted on a public exchange. Private equity consists of qualified investors and institutional funds that make investments directly into private companies or conduct buyouts of public companies. Private equity investments are made with a long-term perspective, or generally about ten years in duration.

The Foundation believes that the carrying amount of its investments is a reasonable fair value as of December 31, 2018 and 2017.

Investment activity for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Realized and unrealized gains (losses)	$ (570,334)	$ 2,562,758
Interest and dividends	126,700	146,110
	(443,634)	2,708,868
Less investment management expenses	(137,014)	(140,487)
Investment gain (loss), net	$ (580,648)	$ 2,568,381

g. Furniture and Equipment

Furniture and equipment purchased in excess of $2,500 are capitalized and are stated at historical cost. Depreciation is provided on a straight-line basis over the following useful lives:

Furniture and equipment	5-20 years
Computer equipment	3-5 years

Furniture and equipment at December 31, 2018 and 2017 are as follows:

	2018	2017
Furniture and equipment	$ 205,879	$ 195,771
Accumulated depreciation	(143,831)	(125,677)
Furniture and equipment, net	$ 62,048	$ 70,094

h. Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. Contributions receivable that are expected to be collected in more than one year are discounted to their present value. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restriction are reclassified to net assets without restriction and reported in the statements of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. The Foundation does not recognize conditional promises and only recognizes unconditional contributions when they become estimable and quantifiable. Contributions receivable as of December 31, 2018 and 2017, in the amounts of $1,355,000 and $22,729, respectively, represent unconditional promises to give that are expected to be collected within one fiscal year.

i. Grants and Contracts Payable

Grants are recorded when approved by the Board of Directors and when the recipient has satisfied all material conditions of the terms of the grant agreement.

As of December 31, 2018, The Foundation is unaware of any material conditions on grants that are unlikely to be satisfied during the approved grant period. In the normal course of business, refunds and cancellations occur as a result of the recipient's needs being less than the appropriated amount and are deducted from the grant appropriations reported in the period as canceled or refunded.

Grant activity for the years ended December 31, 2018 and 2017 is summarized below:

	2018	2017
Grants payable, beginning of year	$ 194,250	$ 276,250
Grants approved	2,501,832	1,433,412
Grant payments distributed	(2,429,487)	(1,490,912)
Cancellations and adjustments	(44,450)	(24,500)
Grants payable, end of year	$ 222,145	$ 194,250

j. Functional Expenses

The costs associated with The Foundation providing various charitable services to the community, including both programmatic services and related support services, have been reported in a supplemental schedule and on a functional basis, and contained in the statement of activities. The cost associated with each of the services provided to the community have been allocated to program and supporting services and have been determined by management based on a human resources allocation framework for all charitable activities performed by The Foundation, and done on an equitable and directly correlated basis, and determined by a method of allocation based on time and effort contributed.

k. Investment Management Fees

Investment management expenses are those direct costs associated with the overall management of all charitable assets entrusted to The Foundation, including all custodial, sub-advisory, and investment management fees and expenses and direct expenses. In addition, in accordance with ASU No. 2016-14, *Nonprofit Entities (Topic 958), Presentation of Financial Statements of Not-For-Profit Entities*, the investment management expense also includes the direct cost of the Community Foundation's professional staff that are dedicated to and responsible for performing these investment management services. These investment management expenses are allocated against realized and unrealized gains on investments on the statements of activities, and the value is disclosed thereon, as further set forth and quantified in footnote 2f, above.

l. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

m. Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through February 22, 2019, which represents the date the financial statements were available to be issued.

Note 3 - **Net Asset Management:**

a. Net Asset Classifications and Values

As discussed in Note 2b, The Foundation internally accounts for all net assets in accordance with the donor's original intent as provided for in the gift instrument, in the following net asset without restriction classifications:

Designated: Represent funds for which the spending is distributed to one or more charitable beneficiaries in accordance with the donor's designation.

Donor-Advised: Represent funds for which the donor has reserved the right to make nonbinding distribution recommendations to The Foundation for distribution to the community in accordance with the policies and procedures governing donor-advised funds as adopted by The Foundation's governing board and the Articles of Incorporation and By-Laws.

Preference: Represent funds for which the spending is distributed to a specific field of interest or geographic location in accordance with the donor's stated interest, under the direction of The Foundation's governing board and the Articles of Incorporation and By-Laws.

Unrestricted: Represent funds that are discretionary and the spending from which is under the direction of The Foundation's governing board and the Articles of Incorporation and By-Laws.

Net assets as of December 31, 2018 and 2017, consisted of the following:

	2018	2017
Net Assets Without Restriction:		
Designated	$ 5,001,713	$ 4,944,441
Donor-advised	9,241,697	10,001,008
Preference	1,176,638	1,287,820
Unrestricted	1,913,230	2,063,396
Total net assets	$ 17,333,278	$ 18,296,665

b. Endowment Spending

The Foundation employs a spending rule policy to maximize the flexibility, efficiency and impact of the endowment management process. This fund utilization policy does not distinguish between investment yield and appreciation, but rather on the total return of the assets.

Since 2004, The Foundation has employed a spending rule policy that calculates endowment spending based on a 20-quarters trailing average market value at a specific spending rate, with a minimum ("Floor") of 4.25% and a maximum ("Cap") of 5.75%, which will be applied to the current June 30th quarter-ending market valuation. The total value of endowment spending during any fiscal year shall be equal to the greater of the amounts calculated by applying the spending rate to the previous 20-quarter average market value, or to that amount calculated by using the Floor. However, under no circumstances shall the amount of endowment spending during any fiscal year be greater than the amount determined by using the Cap.

Based upon the spending rule policy, $1,005,229 and $835,928 were provided for during the years ended December 31, 2018 and 2017, respectively.

Note 4 - **Retirement Plan:**

Eligible employees are covered under a fully-funded, noncontributory 403(b) retirement plan that requires that The Foundation make contributions thereto based on employees' earnings. Total retirement plan contributions were $27,156 and $27,318 for the years ended December 31, 2018 and 2017, respectively.

Note 5 - **Availability and Liquidity**:

The following represents The Foundation's financial assets at December 31, 2018 and 2017:

Financial assets at year end:	2018	2017
Cash and cash equivalents	$ 780,787	$ 357,996
Contributions receivable	1,355,000	22,729
Investments	179,769	247,797
Financial assets available to meet general expenditures over the next twelve months	$ 2,315,556	$ 628,522

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately $152,816). Although The Foundation does not intend to spend from its financial assets other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, funds could be made available if necessary.

Note 6 - **Leases:**

The Foundation leases office space under a noncancelable operating lease, now in its second term, expiring December 31, 2021.

Future lease payments under this lease as of December 31, 2018 are as follows:

Year Ending December 31,	Amounts
2019	$13,500
2020	$13,500
2021	$13,500

Lease expense under the operating lease totaled $13,500 and $13,500 for the years ended December 31, 2018 and 2017, respectively.