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THE VALLEY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, 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, 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.

Change in Accounting Principle

As discussed in Note 1, during the year ended December 31, 2019, The Valley Community Foundation, Inc., as a resource recipient, adopted the contributions received guidance under Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
February 28, 2020

THE VALLEY COMMUNITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 825,340	$ 780,787
Investments at market value - component funds	19,064,391	15,431,714
Investments at market value - organization funds	8,853,135	7,516,370
Total investments	28,742,866	23,728,871
Contributions receivable	15,000	1,355,000
Other assets	3,850	7,103
Furniture and equipment, net	52,249	62,048
Total Assets	$ 28,813,965	$ 25,153,022
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 7,865	$ 81,229
Organization funds	8,853,135	7,516,370
Grants payable	191,568	222,145
Total liabilities	9,052,568	7,819,744
Net Assets Without Restriction	19,761,397	17,333,278
Total Liabilities and Net Assets	$ 28,813,965	$ 25,153,022

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, 2019 AND 2018

	2019	2018
Revenue, Gains and Other Support		
Contributions	$ 2,203,963	$ 3,541,682
Less transfers to organization funds	(545,563)	(1,674,629)
Net contributions	1,658,400	1,867,053
Investment gain (loss), net	2,821,910	(580,648)
Total revenue, gains and other support	4,480,310	1,286,405
Expense		
Grants and distributions approved, net	1,717,941	1,802,866
Grants for program management and direct grant activities	378,229	374,846
Total grants expense	2,096,170	2,177,712
Less distributions from organization funds	(296,132)	(177,818)
Net grant expense	1,800,038	1,999,894
Development, donor services and fund stewardship	157,596	156,186
Management, leadership and operations	94,557	93,712
Total administration expense	252,153	249,898
Total expense	2,052,191	2,249,792
Increase (Decrease) in Net Assets	2,428,119	(963,387)
Net Assets - Beginning of Year	17,333,278	18,296,665
Net Assets - End of Year	$ 19,761,397	$ 17,333,278

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, 2019

	Program Services			Supporting Services			
	Grants Awarded and Programs	**Other Program Expenses**	**Total Program Services**	**Management and General**	**Development and Fundraising**	**Total Supporting Services**	**Total Foundation Services**
Grants to community	$ 1,717,941	$ -	$ 1,717,941	$ -	$ -	$ -	$ 1,717,941
Salaries and wages	-	216,294	216,294	54,074	90,123	144,197	360,491
Employee benefits and employment taxes	-	48,136	48,136	12,034	20,057	32,091	80,227
Consultants	-	19,656	19,656	4,914	8,190	13,104	32,760
Depreciation	-	5,879	5,879	1,470	2,450	3,920	9,799
Dues and fees	-	2,828	2,828	707	1,178	1,885	4,713
General	-	1,137	1,137	284	472	756	1,893
Information management, technology and maintenance	-	15,843	15,843	3,961	6,601	10,562	26,405
Insurance	-	3,655	3,655	914	1,523	2,437	6,092
Marketing, outreach and special events	-	33,451	33,451	8,363	13,938	22,301	55,752
Meetings	-	3,022	3,022	756	1,259	2,015	5,037
Occupancy	-	16,010	16,010	4,001	6,672	10,673	26,683
Professional fees	-	8,100	8,100	2,025	3,375	5,400	13,500
Supplies	-	4,048	4,048	1,012	1,687	2,699	6,747
Travel	-	170	170	42	71	113	283
Total Functional Expenses	$ 1,717,941	$ 378,229	$ 2,096,170	$ 94,557	$ 157,596	$ 252,153	$ 2,348,323

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 and General**	**Development and 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.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 2,428,119	$ (963,387)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,799	18,155
Realized and unrealized (gain) loss on investments	(2,891,884)	570,334
(Increase) decrease in operating assets:		
Contributions receivable	1,340,000	(1,332,271)
Other assets	3,253	15,652
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(73,364)	21,542
Organization funds	1,336,765	813,689
Grants payable	(30,577)	27,895
Net cash provided by (used in) operating activities	2,122,111	(828,391)
Cash Flows from Investing Activities		
Proceeds from sales of investments	5,891,820	9,344,068
Purchases of investments	(7,969,378)	(8,082,777)
Purchases of furniture and equipment	-	(10,109)
Net cash provided by (used in) investing activities	(2,077,558)	1,251,182
Net Increase in Cash and Cash Equivalents	44,553	422,791
Cash and Cash Equivalents - Beginning of Year	780,787	357,996
Cash and Cash Equivalents - End of Year	$ 825,340	$ 780,787

The accompanying notes are an integral part of the financial statements

THE VALLEY COMMUNITY FOUNDATION, INC.
NOTES TO 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, obtained 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 and The Community Foundation, 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. The affiliation agreement is renewed periodically, the last of which occurred in May 2018 by the respective Board of Directors for a ten-year period. 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 and was granted to be 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 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 June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. The amendment also clarifies the determination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified prospective method, in which case the effect of applying the standard would be recognized for any agreements not completed and any new agreements entered into at the date of initial application. The new standard is effective for annual reporting periods beginning after December 15, 2018 for resource recipients and for annual reporting periods beginning after December 15, 2019 for resource providers. Management has adopted ASU 2018-08 as a resource recipient, for the year ended December 31, 2019. Management will adopt ASU 2018-08 as a resource provider for the year ending December 31, 2020 and is still considering the impact of adoption as a resource provider. The amendments have been applied using the modified prospective method. There was no cumulative effect of applying ASU 2018-08.

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, 2019 and 2018, 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 $545,563 and $296,132, respectively, for the year ended December 31, 2019, and $1,674,629 and $177,818, respectively, for the year ended December 31, 2018.

The amounts received but not yet distributed totaled $8,853,135 and $7,516,370 at December 31, 2019 and 2018, 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, 2019 is as follows:

Description	Total	Level 1	Level 2	Level 3	Investments Valued at NAV (a)
Short-term investments	$ 195,423	$ 195,423	$ -	$ -	$ -
Fixed income	4,215,546	3,224,893	-	-	990,653
Equities:					
International	5,108,907	1,037,108	-	-	4,071,799
Domestic	10,245,732	3,350,354	-	-	6,895,378
Alternatives:					
Hedged equity	4,578,474	-	-	-	4,578,474
Real assets	2,205,485	-	-	-	2,205,485
Private equity	1,367,959	-	-	-	1,367,959
Investments as of December 31, 2019	$ 27,917,526	$ 7,807,778	$ -	$ -	$ 20,109,748
Percent of Total	100%	28.0%	0.0%	0.0%	72.0%

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%

(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, 2019 and 2018.

The following table discloses certain additional information as of December 31, 2019 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	$ 990,653	$ None	More than 3 years	N/A
Domestic equity	6,895,378	None	Daily to quarterly	0-60 days' notice
Hedged equity (Class B)	4,303,486	None	Annually with a 1-year lock-up period	60 days written notice
International equity	4,071,799	None	Monthly to 3-year lock-up period	5-90 days' notice
Hedged equity (Class B2)	274,988	None	Annually beginning 2013 with a 1-year lock-up period	95 days written notice
Real assets	2,205,485	552,375	More than 3 years	N/A
Private equity	1,367,959	1,136,844	More than 3 years	N/A
Total net asset value	$ 20,109,748	$ 1,689,219		

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 (30.1%) of the fair value of its investments on a monthly basis, and just under fifty percent (48.2%) 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, 2019 and 2018.

Investment activity for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Realized and unrealized gains (losses)	$ 2,891,884	$ (570,334)
Interest and dividends	94,358	126,700
	2,986,242	(443,634)
Less investment management expenses	(164,332)	(137,014)
Investment gain (loss), net	$ 2,821,910	$ (580,648)

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, 2019 and 2018 are as follows:

	2019	2018
Furniture and equipment	$ 205,879	$ 205,879
Accumulated depreciation	(153,630)	(143,831)
Furniture and equipment, net	$ 52,249	$ 62,048

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 (i.e., a donor stipulation that includes a barrier that must be overcome and a right of release from obligation) 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, 2019 and 2018, in the amounts of $15,000 and $1,355,000, 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, 2019, 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, 2019 and 2018 is summarized below:

	2019	2018
Grants payable, beginning of year	$ 222,145	$ 194,250
Grants approved	1,985,268	2,501,832
Grant payments distributed	(2,009,684)	(2,429,487)
Cancellations and adjustments	(6,161)	(44,450)
Grants payable, end of year	$ 191,568	$ 222,145

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 the statement of functional expenses. 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 28, 2020, 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, 2019 and 2018, consisted of the following:

	2019	2018
Net Assets Without Restriction:		
Designated	$ 5,801,736	$ 5,001,713
Donor-advised	10,512,311	9,241,697
Preference	1,321,747	1,176,638
Unrestricted	2,125,603	1,913,230
Total net assets	$ 19,761,397	$ 17,333,278

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, $1,218,098 and $1,005,229 were provided for during the years ended December 31, 2019 and 2018, 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 $30,632 and $27,156 for the years ended December 31, 2019 and 2018, respectively.

Note 5 - **Availability and Liquidity**:

The following represents The Foundation's financial assets at December 31, 2019 and 2018:

Financial assets at year end:		2019		2018
Cash and cash equivalents	$	825,340	$	780,787
Contributions receivable		15,000		1,355,000
Investments		195,423		183,585
Financial assets available to meet general expenditures over the next twelve months	$	1,035,763	$	2,319,372

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, 2019 are as follows:

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

Lease expense under the operating lease totaled $13,500 and $13,500 for the years ended December 31, 2019 and 2018, respectively.