

The Oregon Community Foundation

Consolidated Financial Statements as of and for the
Years Ended December 31, 2018 and 2017, and
Independent Auditors' Report

THE OREGON COMMUNITY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
The Oregon Community Foundation
Portland, Oregon

We have audited the accompanying consolidated financial statements of The Oregon Community Foundation (an Oregon not-for-profit corporation) and related supporting organizations ("The Oregon Community Foundation"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Oregon Community Foundation and related supporting organizations as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the consolidated financial statements, in 2018, the Oregon Community Foundation adopted new accounting guidance related to Financial Accounting Standards Board Accounting Standards Update No. 2016-14, Not -For-Profit Entities (Topic 958), using the retrospective method. Our opinion is not modified with respect to this matter.

As discussed in Note 5 to the consolidated financial statements, the consolidated financial statements include investments in real property and other investments valued at \$437,432 thousand (18.7% of total assets) and \$365,063 thousand (15.9% of total assets) as of December 31, 2018 and 2017, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners, and real estate appraisals. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

May 31, 2019

THE OREGON COMMUNITY FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 69,082	\$ 49,092
INTEREST AND DIVIDENDS RECEIVABLE	1,446	2,005
INVESTMENTS	2,171,793	2,133,903
CONTRIBUTIONS RECEIVABLE—Net	17,036	25,701
ASSETS HELD IN CHARITABLE TRUSTS	67,948	78,523
ASSETS HELD IN CHARITABLE GIFT ANNUITIES	6,057	6,444
PROGRAM RELATED INVESTMENTS	8,675	3,262
OFFICE FURNITURE AND EQUIPMENT—At cost, less accumulated depreciation of \$1,907 and \$1,772 in 2018 and 2017, respectively	210	321
OTHER ASSETS	<u>386</u>	<u>289</u>
TOTAL	<u>\$ 2,342,633</u>	<u>\$ 2,299,540</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,398	\$ 629
Grants payable	11,915	10,632
Other	317	329
Funds held as endowment partner funds	191,205	197,832
Liabilities under charitable trust agreements	42,386	48,658
Liabilities under charitable gift annuities	<u>3,982</u>	<u>3,765</u>
Total liabilities	<u>251,203</u>	<u>261,845</u>
NET ASSETS:		
Without donor restrictions	2,047,567	1,981,737
Time restricted	<u>43,863</u>	<u>55,958</u>
Total net assets	<u>2,091,430</u>	<u>2,037,695</u>
TOTAL	<u>\$ 2,342,633</u>	<u>\$ 2,299,540</u>

See notes to consolidated financial statements.

THE OREGON COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018 (In thousands)

	Without Donor Restrictions	Time Restricted	Total
REVENUES AND GAINS:			
Gifts, grants, and contributions	\$ 168,019	\$ 6,445	\$ 174,464
Investment income:		-	
Interest and dividends	13,135	-	13,135
Realized gains—net	26,593	-	26,593
Unrealized losses—net	(84,368)	-	(84,368)
Net gains on alternative investments	46,392	-	46,392
Investment expenses	(5,980)	-	(5,980)
Total investment income	(4,228)	-	(4,228)
Change in value of split-interest agreements	-	(2,668)	(2,668)
Other income	7,044	-	7,044
Net assets released from restrictions	15,872	(15,872)	-
Total revenues and gains	186,707	(12,095)	174,612
GRANTS AND OTHER EXPENSES:			
Grants	103,287	-	103,287
Fundraising and development	2,236	-	2,236
Management and general	4,657	-	4,657
Program services	10,697	-	10,697
Total grants and other expenses	120,877	-	120,877
CHANGE IN NET ASSETS	65,830	(12,095)	53,735
NET ASSETS—Beginning of year	1,981,737	55,958	2,037,695
NET ASSETS—End of year	\$ 2,047,567	\$ 43,863	\$ 2,091,430

See notes to consolidated financial statements.

THE OREGON COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017 (In thousands)

	Without Donor Restrictions	Time Restricted	Total
REVENUES AND GAINS:			
Gifts, grants, and contributions	\$ 181,421	\$ 9,485	\$ 190,906
Investment income:		-	
Interest and dividends	12,936	-	12,936
Realized gains—net	14,285	-	14,285
Unrealized gains—net	170,248	-	170,248
Net gains on alternative investments	46,256	-	46,256
Investment expenses	<u>(5,178)</u>	<u>-</u>	<u>(5,178)</u>
Total investment income	<u>238,547</u>	<u>-</u>	<u>238,547</u>
Change in value of split-interest agreements	<u>-</u>	<u>4,469</u>	<u>4,469</u>
Other income	<u>6,572</u>	<u>-</u>	<u>6,572</u>
Net assets released from restrictions	<u>3,919</u>	<u>(3,919)</u>	<u>-</u>
Total revenues and gains	<u>430,459</u>	<u>10,035</u>	<u>440,494</u>
GRANTS AND OTHER EXPENSES:			
Grants	97,141	-	97,141
Fundraising and development	2,108	-	2,108
Management and general	4,349	-	4,349
Program services	<u>10,423</u>	<u>-</u>	<u>10,423</u>
Total grants and other expenses	<u>114,021</u>	<u>-</u>	<u>114,021</u>
CHANGE IN NET ASSETS	316,438	10,035	326,473
NET ASSETS—Beginning of year	<u>1,665,299</u>	<u>45,923</u>	<u>1,711,222</u>
NET ASSETS—End of year	<u>\$ 1,981,737</u>	<u>\$ 55,958</u>	<u>\$ 2,037,695</u>

See notes to consolidated financial statements.

THE OREGON COMMUNITY FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 53,735	\$ 326,473
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net investment losses (gains) attributable to funds held as endowment partner funds	5,837	(26,672)
Depreciation	135	225
Contributions of stock, real property, and other non-cash assets	(119,299)	(101,424)
Proceeds from sales of stock donations	46,849	28,627
Net realized gains on investments	(26,593)	(14,285)
Net unrealized losses (gains) on investments	84,368	(170,248)
Net gains on alternative investments	(46,392)	(46,256)
Change in:		
Interest and dividends receivable	559	57
Contributions receivable	8,665	(6,721)
Assets held in charitable trusts	10,575	(8,820)
Assets held in charitable gift annuities	387	(873)
Other assets	(97)	(63)
Accounts payable and accrued expenses	769	120
Grants payable	1,283	2,227
Other liabilities	(12)	23
Liabilities under charitable trust agreements	(6,272)	4,739
Liabilities under charitable gift annuities	217	110
Funds held as endowment partner funds	(6,627)	17,206
Net cash provided by operating activities	<u>8,087</u>	<u>4,445</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal payments received on notes	392	238
Purchase of equipment	(24)	(120)
Proceeds from sales of investments	265,594	325,369
Distributions from limited partnership investments	41,651	43,303
Purchases of investments	(229,042)	(307,101)
Additions to limited partnership investments	(66,668)	(54,286)
Net cash provided by investing activities	<u>11,903</u>	<u>7,403</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,990	11,848
CASH AND CASH EQUIVALENTS—Beginning of year	<u>49,092</u>	<u>37,244</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 69,082</u>	<u>\$ 49,092</u>

See notes to consolidated financial statements.

THE OREGON COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. ORGANIZATION

The Oregon Community Foundation (OCF) was established in 1973 to improve life in Oregon and to promote effective philanthropy. OCF accomplishes its purpose by building a permanent endowment for the benefit of the community through the support of philanthropically minded Oregonians. Individuals, corporations, and non-profit agencies contribute to funds that support a wide range of organizations that promote the educational, cultural, health, social, and civic development of Oregon. OCF operates a grants program that seeks out opportunities for the effective use of its resources in a manner that is consistent with its donors' intent.

The consolidated financial statements include the operations of nine supporting organizations, the OCF Joseph E. Weston Foundation, Peter W. Stott Foundation, Sid and Karen DeBoer Foundation, Wieden Family Public Foundation, the Gray Family Foundation, the Robert J. and Leona DeArmond Public Foundation, John and Ginger Niemeyer Foundation, Hollis Foundation and the Oregon Community Foundation Trust. OCF performs all accounting and administrative functions for the supporting organizations as well as appointing the majority of voting members to the Board of Directors for each organization. The supporting organizations make grants to OCF and other outside organizations.

OCF and the consolidated supporting organizations are collectively referred to as the "Foundation."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Classification of Contributions and Net Assets—The accompanying financial statements have been prepared in accordance with the Not-for-Profit Entities Topic of FASB Accounting Standards Codification (ASC) (ASC Section 958). On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958)—Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Balance Sheet and Income Statement Subtopics of ASC Section 958 require the Foundation to present its net assets and its revenue and gains (losses) based upon the existence or absence of donor imposed restrictions. FASB ASC (ASC 958-205-45-28) provides guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The subtopic also provides for enhanced disclosures about endowment funds (both donor-restricted endowment funds and board designated endowment funds). The Foundation adopted this guidance as of December 31, 2018 using the retrospective method.

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

Net Assets Without Donor Restriction—Net assets available for general use and not subject to donor restrictions. Funds designated for donor-advised grants are available for distribution upon recommendation by the donor. The Board of Directors has designated, from net assets without donor restrictions, net assets for endowment, operations and discretionary grants. The Foundation’s policy is to designate unrestricted donor gifts at the discretion of the Board of Directors. Net assets without donor restriction also include the investment in property and equipment, net of accumulated depreciation.

Net Assets with Donor Restrictions—Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. The Foundation has no donor restricted assets as of December 31, 2018.

The Foundation has determined its net assets do not meet the definition of endowment under UPMIFA. The Foundation has elected to provide additional transparency on its net assets and its revenue and gains (losses) by presenting two classes: without donor restrictions and without donor restrictions-time restricted.

The bylaws of the Foundation include a variance provision giving the Board of Directors the power, whenever any restriction or condition on the distribution of funds becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable, educational, and scientific needs of the State of Oregon, to modify any restriction or condition placed on the distribution of funds and to apply the whole or any part of the principal or income of funds as in its judgment is necessary to serve more effectively the charitable, educational and scientific purposes of the Foundation. Based on this provision, all contributions and assets not classified as time restricted are classified as without donor restrictions. Contributions of pledges for which the cash has not been received and assets and liabilities held in charitable trust agreements or life estate agreements are classified as time restricted.

The Foundation’s assets consist of approximately 3,000 individual funds established by donors for a variety of purposes. As noted above, the Foundation classifies these funds as net assets without donor restrictions; however, the Foundation manages funds established by donors as endowed funds in accordance with terms set forth in the individual fund agreements. Accordingly, the Foundation further classifies its net assets without donor restrictions as of December 31, 2018 and 2017, as follows (in thousands):

	2018	2017
Discretionary	\$ 452,181	\$ 470,951
Advised	557,995	568,766
Community	61,123	61,636
Designated	355,804	371,589
Scholarship	127,480	134,420
Administrative	13,196	13,786
Supporting organizations	<u>468,585</u>	<u>350,191</u>
Total endowment	2,036,364	1,971,339
Operating funds—non-endowed	<u>11,203</u>	<u>10,397</u>
Total net assets without donor restrictions	<u>\$ 2,047,567</u>	<u>\$ 1,981,737</u>

None of the Foundation's time restricted net assets are endowment funds.

For the years ended December 31, 2018 and 2017, the following table summarizes activity in endowed funds (in thousands):

Endowment funds—January 1, 2017	\$ 1,655,862
Contributions	181,156
Interest and dividends	12,865
Realized investment gains—net	14,266
Unrealized investment gains—net	211,073
Grants and other expenses	(101,955)
Other	<u>(1,928)</u>
Endowment funds—December 31, 2017	1,971,339
Contributions	167,654
Interest and dividends	13,015
Realized investment gains—net	26,550
Unrealized investment losses—net	(43,839)
Grants and other expenses	(107,663)
Other	<u>9,308</u>
Endowment funds—December 31, 2018	<u>\$ 2,036,364</u>

Cash and Cash Equivalents—Cash and cash equivalents consist of cash in bank accounts and investments with maturities of three months or less at date of acquisition. Cash equivalents are classified as Level II in the fair value hierarchy, as defined in Note 5, as the balances do not trade on a regular basis.

Investments—*Fair Value Measurements and Disclosures Topic of FASB ASC 820* (ASC 820), which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Investments are reflected on the consolidated statements of financial position at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the consolidated statements of activities.

Publicly traded investments in active markets are reported at fair market value based on current quoted market prices.

Investments for which observable market prices in active markets do not exist are reported at fair value, as determined in good faith by management. The valuations of limited partnership investments include assumptions and methods that were prepared by the general partners of the limited partnerships and were reviewed by Foundation management.

See Note 5 for further discussion relating to *Fair Value Measurements and Disclosures* and the Foundation's investments.

Program Related Investments—In 2017, the Foundation designated a \$20 million fund, the Oregon Impact Fund (OIF). The fund supports Oregon-based Program Related Investments, which are investments made to support charitable activities that accomplish the Foundation’s exempt purpose and involve the potential return of capital within an established time frame. Additionally, the Foundation issues Program Related Investments through its donor advised funds from time to time. Program Related Investments totaled \$8,675 thousand and \$3,262 thousand as of December 31, 2018 and 2017, respectively.

Assets Held in Charitable Trusts—The Foundation serves as the trustee for various charitable trusts. Under the terms of these trust agreements, the Foundation makes distributions to income beneficiaries for a given term or for the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to the Foundation. The Foundation records the assets held in charitable trusts at their fair market value based on current quoted market prices and records a liability under charitable trust agreements for the estimated discounted value of the amounts due to the income beneficiaries based on Internal Revenue Service annuity and mortality tables. The Foundation uses the IAR-2016 mortality table in valuing its charitable trusts.

Assets Held in Charitable Gift Annuities—The Foundation has 52 and 46 charitable gift annuities as of December 31, 2018 and 2017, respectively. Under the terms of these agreements, the Foundation makes distributions to the donors for their lifetimes. The Foundation records the assets held in charitable gift annuities at their fair market values based on current quoted market prices and records a liability under the charitable gift annuities based on the estimated discounted value of the amounts due to the donors based on the Internal Revenue Service annuity and mortality tables. The Foundation uses the IAR-2016 mortality table in valuing its charitable gift annuities.

Beneficial Interests in Charitable Trusts—Beneficial interests in charitable trusts (including charitable lead trusts, perpetual trusts, and charitable remainder trusts) held by others are recorded at the net present value of the estimated future amount to be received from such assets. These beneficial interests are included in contributions receivable on the consolidated statements of financial position.

Split-Interest Agreements—Split-interest agreements are agreements between the Foundation and donors in which the donors make gifts to the Foundation, but the Foundation is not the sole beneficiary. The Foundation receives either a lead interest (distributions during the term of the agreement with any remaining assets going to an individual or individuals designated by the donor) or a remainder interest (distribution of assets remaining at the end of the agreement with distributions going to an individual or individuals designated by the donor during the term of the agreement). Assets Held in Charitable Trusts, Assets Held in Charitable Gift Annuities, or Beneficial Interests in Charitable Trusts qualify as split-interest agreements and are accordingly presented as such throughout the following footnotes.

Contributions—Contributions are recorded at fair value at the date of receipt or unconditional promise to give. Amounts are subject to change until the contributions are actually received. For contributions due to be received in more than one-year fair value is recorded as the estimated present value of the future receipts. The Foundation provides an allowance against contributions based on management’s expectations to collect fully such amounts. No allowances were recorded against contributions receivable at December 31, 2018 and 2017. The Foundation reduces uncollectible contributions receivable when management determines the contribution is not collectable.

Grants—Grants are made from available income and principal in accordance with designations by the donors and as approved by the Board of Directors and are recorded at the date the grant is approved.

Office Furniture and Equipment—Office furniture and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over estimated useful lives of three to five years.

Functional Expenses—The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated on the basis of estimates of time and effort. The following table sets forth expenses incurred by supporting function for the years ending December 31, 2018 and 2017 (in thousands):

	2018			
	Program Services	Management & General	Fundraising & Development	Total
Grants awarded	\$103,287	\$ -	\$ -	\$103,287
Personnel	4,881	3,196	1,412	9,489
Advertising and promotion	356	357	318	1,031
Audit and accounting fees	-	40	-	40
Conferences and meetings	109	67	30	206
Consultants and professional services	946	230	176	1,352
Depreciation	115	73	33	221
Information technology	254	161	72	487
Insurance	-	60	-	60
Legal fees	47	73	-	120
Office expenses	142	90	40	272
Occupancy	304	193	86	583
Travel	146	41	51	238
Tax expenses	2,008	-	-	2,008
Other	<u>1,389</u>	<u>76</u>	<u>18</u>	<u>1,483</u>
Total functional expenses	<u>\$113,984</u>	<u>\$4,657</u>	<u>\$2,236</u>	<u>\$120,877</u>

	2017			
	Program Services	Management & General	Fundraising & Development	Total
Grants awarded	\$ 97,141	\$ -	\$ -	\$ 97,141
Personnel	4,591	3,097	1,402	9,090
Advertising and promotion	247	198	241	686
Audit and accounting fees	-	101	-	101
Conferences and meetings	80	52	24	156
Consultants and professional services	831	182	155	1,168
Depreciation	137	90	41	268
Information technology	207	137	63	407
Insurance	-	54	-	54
Legal fees	67	57	-	124
Office expenses	132	87	41	260
Occupancy	291	192	88	571
Travel	139	31	35	205
Tax expenses	2,645	-	-	2,645
Other	<u>1,056</u>	<u>71</u>	<u>18</u>	<u>1,145</u>
Total functional expenses	<u>\$107,564</u>	<u>\$4,349</u>	<u>\$2,108</u>	<u>\$114,021</u>

Functional expenses include both the Foundation's operating expenses, pass-through expenses directly related to donor funds and expenses directly related to supporting organizations. The Foundation's operating expenses totaled \$12,481 thousand and \$12,300 thousand for years ended December 31, 2018 and 2017, respectively.

Income Taxes—The Foundation has been granted tax-exempt status under §501(c) (3) of the Internal Revenue Code and is, therefore, generally exempt from federal and state income taxes. Accordingly, no taxes have been provided for in the accompanying consolidated financial statements.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and gains, and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events—The Foundation has evaluated subsequent events through May 31, 2019, the date the financial statements were available to be issued, and has concluded that there are no material subsequent events, which require adjustment or disclosure.

3. ENDOWMENT INVESTMENT AND SPENDING POLICIES

The goal of the Foundation's investment program for funds held as permanent endowment is to achieve a total rate of return that will allow the Foundation to respond to today's needs and the long-term growth necessary to respond to future needs. The Foundation's investment objective for funds held as term endowment funds is to preserve capital and, if possible, purchasing power over the life of the fund. To meet this objective, assets of individual funds are invested in a mixture of cash, bonds, stocks, and other investments that will produce a reasonable return over a reasonable period, consistent with the payout

schedule and program objective of the fund. Foundation assets are invested in a mixture of equities, fixed-income instruments, alternative investment classes such as hedge funds, distressed debt, and private investments, and cash and cash equivalents.

The Foundation has adopted a spending policy to determine the annual amount available for distribution from funds held as permanent endowment. The goal of the distribution policy is to maximize annual grantmaking to the community while maintaining the purchasing power of the endowment over time. Each year the Board of Directors sets an annual payout rate for the coming year based on a 10-year projection of investment return. The payout rate can range from 4–5% of market value and is determined by balancing the projected 10-year return and the estimated grant payouts over the same time horizon. The currently adopted spending policy is 4.4% of market value using a 13-quarter trailing average of fund market value.

4. ENDOWMENT PARTNER FUNDS

The Foundation follows the *Transfers of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Holds Contributions for Others Subtopic of FASB ASC (ASC 958-605-25-21)* for transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. FASB ASC 958-605-25-21 specifically requires that if a Not-for-Profit Organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as endowment partner funds.

The Foundation maintains variance power and legal ownership of endowment partner funds and as such continues to report the funds as assets of the Foundation. However, in accordance with FASB ASC 958-605-25-23, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

At December 31, 2018 and 2017, the Foundation was the owner of 420 and 407 endowment partner funds, respectively. For the years ended December 31, 2018 and 2017, the following table summarizes activity in such funds (in thousands):

Endowment Partner Fund balance—January 1, 2017	\$180,626
Amounts raised	7,887
Interest and dividends	1,577
Realized gains—net	1,860
Unrealized gains—net	24,812
Grants	(17,343)
Investment fees and other expenses—net	<u>(1,587)</u>
Endowment Partner Fund balance—December 31, 2017	197,832
Amounts raised	7,462
Interest and dividends	1,516
Realized gains—net	3,462
Unrealized losses—net	(9,296)
Grants	(8,189)
Investment fees and other expenses—net	<u>(1,582)</u>
Endowment Partner Fund balance—December 31, 2018	<u>\$191,205</u>

5. INVESTMENTS

FASB ASC 820 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level I—Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level I include listed equities. The Foundation, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Level II—Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, and less liquid and restricted equity securities.

Level III—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, fund of hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The fair value of each asset and liability in the table below was measured using FASB ASC 820 input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values of assets (including program related investments) and liabilities measured and recorded at fair value on a recurring basis at December 31, 2018 and 2017 (in thousands):

	2018			
	Level I	Level II	Level III	Total
Assets:				
Equities:				
Publicly traded equities	\$ 257,259	\$ -	\$ -	257,259
Mutual funds	224,325	-	-	224,325
Fixed income:				
Bonds and notes	-	190,827	-	190,827
Mutual funds	-	19,895	-	19,895
Real property	-	-	127,852	127,852
Other investments	<u>-</u>	<u>-</u>	<u>309,580</u>	<u>309,580</u>
Total	<u>\$ 481,584</u>	<u>\$ 210,722</u>	<u>\$ 437,432</u>	1,129,738
Investments measured at NAV				<u>1,050,730</u>
Total investments				<u>\$ 2,180,468</u>
Assets held in charitable trusts and gift annuities	<u>\$ 51,935</u>	<u>\$ 21,582</u>	<u>\$ 488</u>	<u>\$ 74,005</u>
Beneficial interests in charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,632</u>	<u>\$ 6,632</u>
Liabilities under split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,368</u>	<u>\$ 46,368</u>

	2017			
	Level I	Level II	Level III	Total
Assets:				
Equities:				
Publicly traded equities	\$210,651	\$ -	\$ -	\$ 210,651
Mutual funds	348,090	-	-	348,090
Fixed income:				
Bonds and notes	-	197,702	-	197,702
Mutual funds	-	19,955	-	19,955
Real property	-	-	107,868	107,868
Other investments	<u>-</u>	<u>-</u>	<u>257,195</u>	<u>257,195</u>
 Total	 <u>\$558,741</u>	 <u>\$217,657</u>	 <u>\$365,063</u>	 1,141,461
 Investments measured at NAV				 <u>995,704</u>
 Total investments				 <u>\$2,137,165</u>
 Assets held in charitable trusts and gift annuities	 <u>\$ 62,837</u>	 <u>\$ 21,132</u>	 <u>\$ 998</u>	 <u>\$ 84,967</u>
 Beneficial interests in charitable trusts	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 7,366</u>	 <u>\$ 7,366</u>
 Liabilities under split-interest agreements	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 52,423</u>	 <u>\$ 52,423</u>

For the years ended December 31, 2018 and 2017, the change in Level III assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

	Invested Assets	Beneficial Interests and Gift Annuities	Split- Interest Liabilities
Balance—January 1, 2017	\$ 282,002	\$ 9,371	\$ 47,574
Purchases and issuances	8	-	2,530
Sales and settlements	(17,214)	(1,521)	(147)
Realized losses included in total investment income	(219)	-	-
Contribution of Level III assets	72,667	-	-
Change in unrealized gains included in total investment income	27,819	-	-
Change in value	<u>-</u>	<u>514</u>	<u>2,466</u>
Balance—December 31, 2017	365,063	8,364	52,423
Purchases and issuances	-	-	-
Sales and settlements	(9,906)	(1,297)	1,472
Realized gains (losses) included in total investment income	68	-	(1,044)
Contribution of Level III assets	47,417	-	-
Change in unrealized gains included in total investment income	34,790	-	-
Change in value	<u>-</u>	<u>53</u>	<u>(6,483)</u>
Balance—December 31, 2018	<u>\$ 437,432</u>	<u>\$ 7,120</u>	<u>\$ 46,368</u>

The Foundation recognizes transfers between levels at the end of the reporting period. There were no significant transfers between any fair value levels during the years ended December 31, 2018 and 2017, respectively.

Investment accounts consisting of publicly traded equities and mutual funds are recorded at fair market value based on current quoted market prices. Investments in fixed income securities are recorded at fair value provided primarily by custodians and are based on pricing models that incorporate available trade, bid and other market information. Investments in co-mingled trusts and pooled funds are valued at the net asset value per unit as provided by the fund trustees or custodians.

Quoted market prices are not available for certain investments, including limited partnership investments and real property. These investments are recorded based on the most recent appraisals, adjusted for current market conditions; therefore, the reported value may differ from the value that would have been used had a quoted market price existed. The valuations for limited partnership investments are based on the net asset value of the Foundation's ownership interest in the partners' capital, which includes assumptions and methods that were prepared by the General Partners of the limited partnerships and were reviewed by Foundation management. Real property values are based on appraisals utilizing a sales-comparison approach from independent third parties, which are periodically updated. Other investments (e.g. closely held company shares) are

valued based on third party appraisals at the time of donation and are updated periodically. The Foundation believes that the reported amounts for these investments are a reasonable estimate of their fair value at December 31, 2018 and 2017.

Beneficial interests in charitable trusts (including charitable lead trusts, perpetual trusts, and charitable remainder trusts) held by others are recorded at the net present value of the estimated future amount to be received from such assets. The present value of charitable remainder trusts held by others is based on Internal Revenue Service annuity and mortality tables. The present value of estimated future amounts to be received from charitable lead trusts and perpetual trusts held by others is based on a discount rate of 8%.

Liabilities under split-interest agreements are recorded at the present value of estimated amounts due to income beneficiaries of the agreements based on Internal Revenue Service annuity and mortality tables.

At December 31, 2018, the Foundation's investments valued at net asset value were as follows (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Co-mingled trusts and pooled funds—equity	\$ 394,957	\$ -	Daily to Quarterly	1 day to 60 days
Marketable alternative assets	344,304	-	Monthly to every 24 months	30 days to 90 days
Private capital assets	<u>311,469</u>	<u>174,000</u>	See below	See below
Total	<u>\$1,050,730</u>	<u>\$174,000</u>		

The co-mingled trusts and pooled funds-equity category represents investments in equities, both U.S. and international, including investments in developed and emerging markets and in energy, real estate, and commodity stocks.

Marketable alternative assets are investments in funds organized as limited partnerships. The funds invest primarily in publicly traded securities employing a variety of strategies including absolute return strategies such as diversified arbitrage and investment in distressed securities and long/short strategies.

Private capital assets are investments in funds organized as limited partnerships. The funds invest in private companies, both U.S. and international. This category includes investments in a broad range of strategies including venture capital, private equity, distressed investments, and real assets. The Foundation cannot redeem investments in this category. Instead, the Foundation receives distributions from the partnerships as underlying assets are liquidated. The Foundation estimates that underlying assets of the funds will be liquidated over the next 1 to 10 years, at which time the partnerships will be terminated.

6. LIQUIDITY AND AVAILABILITY

The following table reflects the Foundation's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, endowments and accumulated earnings net of appropriations within one year and board designated endowments. These board designations could be drawn upon if the board approves that action.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018 are as follows (in thousands):

Cash and cash equivalents	\$ 69,082
Contributions receivable	17,036
Program investments and other receivables	10,121
Investments	2,171,793
Assets held in charitable trusts	67,948
Assets held in charitable gift annuities	<u>6,057</u>
Total financial assets	2,342,037
Less those unavailable for general expenditure within one year, due to:	
Contributions receivable collectible beyond one year	5,841
Program investments and other receivables collectible beyond one year	9,084
Investments not convertible to cash within the next 12 months	733,180
Funds held as agency endowments	191,205
Investments in board designated endowments	2,379
Assets held in charitable trusts	67,948
Assets held in charitable gift annuities	<u>6,057</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,326,343</u>

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation has a line of credit in the amount of \$25,000,000 secured by fixed income assets held by its custodian. No funds were borrowed under this agreement during the year ended December 31, 2018. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds. The Foundation maintains an operating reserve of approximately six-months of its annual operating budget which is held in money market funds. Any operating surplus above six-months is designated by the board to an operating endowment fund, which provides an annual distribution to support operations. The operating endowment fund was approximately \$2,379 thousand as of December 31, 2018.

7. CONTRIBUTIONS RECEIVABLE

Included in contributions receivable at December 31, 2018 and 2017, are the following unconditional promises to give (in thousands):

	2018	2017
Beneficial interests in charitable lead trusts	\$ 2,001	\$ 2,687
Beneficial interests in perpetual trusts	71	80
Beneficial interests in charitable remainder trusts	17,562	19,215
Other—pending bequests	<u>10,405</u>	<u>18,335</u>
Gross contributions receivable	30,039	40,317
Less discount	<u>13,003</u>	<u>14,616</u>
Net contributions receivable	<u>\$17,036</u>	<u>\$25,701</u>

Contributions receivable due in more than one year are recorded at their estimated present value, assuming a discount rate of 8%. Contributions receivable at December 31, 2018 and 2017, are due as follows:

	2018	2017
Due in less than one year	\$11,194	\$19,126
Due in one to five years	877	1,482
Due in over five years	<u>17,968</u>	<u>19,709</u>
Total	<u>\$30,039</u>	<u>\$40,317</u>

Assets Held in Charitable Gift Annuities—The Foundation had 52 charitable gift annuity contracts as of December 31, 2018, 46 of which were established in the prior years, and six were established in 2018. Payments on these charitable gift annuity contracts are made to the donors and/or spouses during their lifetime.

Upon execution of the charitable gift annuities, the Foundation records an asset for the fair market value of charitable gift annuities, and a liability based upon the actuarial present value of amounts expected to be paid to the donors; the present value of the liability is adjusted annually. The residual amount the Foundation expects to receive from the annuities, which is the net of the gift annuity asset and the liability, as of December 31, 2018, is summarized below (in thousands):

Gift annuities remainder interest expected to be received (based on life expectancy tables) in:	
Less than one year	\$ -
One to five years	(11)
Over five years	<u>2,086</u>
Total	<u>\$2,075</u>

8. RETIREMENT PLAN

The Foundation provides a defined contribution retirement plan under the provisions of §401(k) of the Internal Revenue Code for qualifying employees. The plan covers substantially all employees and requires the Foundation to annually contribute 10% of each participant's regular compensation. A participant becomes fully vested after three years of service. The Foundation's policy is to fund 401(k) plan costs on a current basis, which amounted to \$614 thousand and \$646 thousand, respectively, for the years ended December 31, 2018 and 2017. These amounts are included in the Personnel line item in the accompanying Functional Expense total included in Note 2.

The Foundation established a 457(b) salary deferral plan for key executives in 2016. The 457(b) Plan is funded by voluntary employee salary deferrals in accordance with regulations established under Section 457(b) of the Internal Revenue Code. The balance in the deferred compensation plan is \$246 thousand and \$150 thousand at December 31, 2018 and 2017, respectively.

9. COMMITMENTS

Rental expense for the Foundation's office space for the years ended December 31, 2018 and 2017, amounted to \$584 thousand and \$571 thousand, respectively. At December 31, 2018, commitments for future minimum payments under the current lease agreements expiring on May 31, 2019, December 31, 2020, September 30, 2021, April 30, 2023, and are December 31, 2024 as follows (in thousands):

Years Ending December 31	
2019	\$ 719
2020	739
2021	550
2022	140
2023	99
2024	<u>77</u>
Total	<u>\$2,324</u>

At December 31, 2018, the Foundation had unfunded commitments of \$174 million in connection with its limited partnership investments.

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