

**The DuPage
Community Foundation**

**Financial Statements
and
Independent Auditor's Report
For the Year Ended
June 30, 2013**

Wolf & Company LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The DuPage Community Foundation
Wheaton, Illinois

We have audited the accompanying financial statements of THE DUPAGE COMMUNITY FOUNDATION, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The DuPage Community Foundation as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The DuPage Community Foundation's 2012 financial statements, and our report dated October 5, 2012 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Oakbrook Terrace, Illinois
January 27, 2014

Wolf & Company LLP

THE DUPAGE COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	<u>2013</u>	<u>2012</u>
Cash and cash equivalents - unrestricted	\$ 237,683	\$ 191,541
Cash and cash equivalents - restricted	<u>2,851,049</u>	<u>2,091,805</u>
Total cash and cash equivalents	3,088,732	2,283,346
Administrative fees receivable	-	80,522
Prepaid expenses and other	16,898	12,916
Charitable lead trust receivable (Note 8)	219,239	211,769
Investments (Note 2)	43,064,582	36,898,705
Re-insurance contract (Note 7)	183,426	212,477
Property and equipment, net (Note 3)	<u>443,151</u>	<u>446,069</u>
Total assets	<u>\$ 47,016,028</u>	<u>\$ 40,145,804</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 18,859	\$ 83,358
Agency funds (Note 10)	9,875,958	7,421,929
Annuity payable (Note 7)	<u>212,791</u>	<u>212,477</u>
Total liabilities	<u>10,107,608</u>	<u>7,717,764</u>
Net assets:		
Unrestricted	5,108,639	4,652,162
Temporarily restricted	4,237,714	3,359,719
Permanently restricted	<u>27,562,067</u>	<u>24,416,159</u>
Total net assets	<u>36,908,420</u>	<u>32,428,040</u>
Total liabilities and net assets	<u>\$ 47,016,028</u>	<u>\$ 40,145,804</u>

See accompanying notes to the financial statements and independent auditor's report.

THE DUPAGE COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES

	Unrestricted*	Temporarily Restricted*	Permanently Restricted*	For the Year Ended June 30,	
				2013	2012
Support and revenue:					
Gifts, bequests, and grants	\$ 325,677	\$ 1,053,041	\$ 3,224,392	\$ 4,603,110	\$ 6,321,390
Interest and dividend income	114,849	571,675	-	686,524	809,588
Net investment gains (losses)	440,569	2,018,176	-	2,458,745	(699,215)
Fees	83,250	-	-	83,250	77,794
Rental income	28,635	-	-	28,635	-
Net assets released from restrictions	<u>2,843,381</u>	<u>(2,764,897)</u>	<u>(78,484)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,836,361</u>	<u>877,995</u>	<u>3,145,908</u>	<u>7,860,264</u>	<u>6,509,557</u>
Expenses:					
Grants awarded	2,360,061	-	-	2,360,061	1,883,775
Grant-making activities	566,505	-	-	566,505	466,487
Management and general	222,049	-	-	222,049	222,273
Fund raising	<u>231,269</u>	<u>-</u>	<u>-</u>	<u>231,269</u>	<u>228,869</u>
Total expenses	<u>3,379,884</u>	<u>-</u>	<u>-</u>	<u>3,379,884</u>	<u>2,801,404</u>
Increase in net assets	456,477	877,995	3,145,908	4,480,380	3,708,153
Net assets, beginning of year	<u>4,652,162</u>	<u>3,359,719</u>	<u>24,416,159</u>	<u>32,428,040</u>	<u>28,719,887</u>
Net assets, end of year	<u>\$ 5,108,639</u>	<u>\$ 4,237,714</u>	<u>\$ 27,562,067</u>	<u>\$ 36,908,420</u>	<u>\$ 32,428,040</u>

*See Note 4.

See accompanying notes to the financial statements and independent auditor's report.

THE DUPAGE COMMUNITY FOUNDATION
STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase in net assets	\$ 4,480,380	\$ 3,708,153
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net investment (gains) losses	(2,458,745)	699,215
Depreciation	14,590	15,976
(Increase) decrease in:		
Administrative fees receivable	80,522	(8,718)
Charitable lead trust receivable	(7,470)	19,985
Bequest receivable	-	1,100,000
Prepaid expenses and other	(3,982)	5,473
Increase (decrease) in:		
Accounts payable and accrued expenses	(64,499)	46,619
Agency funds	2,454,029	(811,484)
Annuity payable	29,365	-
Net cash provided by operating activities	<u>4,524,190</u>	<u>4,775,219</u>
Cash flows from investing activities:		
Purchase of property and equipment	(11,672)	-
Purchase of investments	(12,975,553)	(9,991,968)
Proceeds from sales and maturities of investments	<u>9,268,421</u>	<u>5,566,994</u>
Net cash used in investing activities	<u>(3,718,804)</u>	<u>(4,424,974)</u>
Net increase in cash and cash equivalents	805,386	350,245
Cash and cash equivalents:		
Beginning of year	<u>2,283,346</u>	<u>1,933,101</u>
End of year	<u>\$ 3,088,732</u>	<u>\$ 2,283,346</u>
<u>Non-cash activities:</u>		
Donated investments	<u>\$ 750,117</u>	<u>\$ 195,320</u>
Donated property	<u>\$ 1,750,000</u>	<u>\$ -</u>

See accompanying notes to the financial statements and independent auditor's report.

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of the Organization - The DuPage Community Foundation (Foundation) is a grant-making foundation created in 1986 to benefit the people of DuPage County, Illinois. The Foundation receives contributions and bequests into endowment funds. The earnings on these funds are used, according to donors' wishes, for the Foundation's grant-making and community leadership activities.

Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation - Under generally accepted accounting principles, The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Foundation considers cash to consist of monies held in demand deposit accounts. Cash equivalents are all unrestricted highly liquid investments with initial maturity dates of three months or less. Cash and short-term investments held in bank and brokerage money market accounts are reported as restricted because the Foundation holds those funds as endowments.

Income Taxes - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A), and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Foundation recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Foundation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before the year ending June 30, 2010.

Investments - Investments are reported at fair value based upon quoted market prices. Donated investments are reflected as contributions at their market values at the date the donor relinquishes control.

Property and Equipment - Property and equipment are stated at cost or, if donated, at the approximate fair market value at the date of donation. The capitalization policy is set at \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in revenue or expense for the period. Estimated useful lives of depreciable property and equipment are as follows:

Buildings	40 years
Computer software	3 years
Furniture and equipment	5-7 years

Donated Services - The Foundation recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Cont.)

Fair Value Measurements - In May 2011, the Financial Accounting Standards Board (FASB) issued guidance in Accounting Standards Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 was issued to improve comparability of fair value application, measurements and disclosures between U.S. GAAP reporting and IFRS reporting. ASU No. 2011-04 clarifies fair value definitions and enhances fair value measurement guidance with respect to highest and best use measurements, equity instrument measurements, and measurement of financial instruments that are managed within a portfolio. Additionally, ASU No. 2011-04 expands disclosures for unobservable inputs used in Level 3 fair value measurements. ASU No. 2011-04 is effective for annual periods beginning after December 15, 2011. The Foundation adopted this guidance during the year ended June 30, 2013.

Accounting 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 expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable - The Foundation considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to the change in net assets when that determination is made.

Restricted and Unrestricted Revenue and Support - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Agency Funds - Funds established by an unrelated not-for-profit organization using its own funds and for its own benefit are classified by the Foundation as a liability, rather than as a net asset. The Foundation refers to such funds as agency funds. The Foundation maintains variance power and legal ownership of agency funds and, as such, continues to report the funds as assets of the Foundation. The changes in such agency funds are summarized in Note 10, "Agency Funds."

Grants Authorized But Unpaid - Grants authorized but unpaid at year end, if any, are reported as liabilities. There were no authorized but unpaid grants at June 30, 2013 and June 30, 2012.

Concentrations - The Foundation routinely maintains balances in financial institutions in excess of the federally insured amounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Comparative Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Cont.)

Pending Accounting Pronouncement: Statement of Cash Flows (Topic 230): Not for Profit Entities - In October 2012, the FASB issued Accounting Standards Update No. 2012-05, *Statement of Cash Flows (Topic 230): Not for Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (ASU No. 2012-05). ASU No. 2012-05 was issued to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows for not-for-profit organizations. ASU No. 2012-05 stipulates that proceeds from the sale of donated financial assets may be classified within operating activities, financing activities or investing activities with such determination depending on the intentions and actions of the Foundation and/or donor-imposed restrictions. ASU No. 2012-05 is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The Foundation intends to adopt ASU No. 2012-05 in 2014.

2. Investments

Investments are summarized as follows:

	June 30,	
	2013	2012
Marketable equity securities:		
Emerging markets	\$ 2,516,970	\$ 1,979,634
International region:		
Mutual funds	4,921,302	3,331,934
Common stocks	36,597	561,653
United States:		
Mutual funds	16,606,710	9,788,651
Common stocks	1,910,300	3,683,887
Fixed income securities	10,919,395	10,175,351
Life insurance surrender value	521,735	512,920
Funds of hedge funds	3,693,075	2,845,389
Real estate funds/partnership	1,313,383	1,549,116
Private equity	557,793	512,071
Commodity funds	67,322	1,958,099
	<u>\$ 43,064,582</u>	<u>\$ 36,898,705</u>

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

3. Property and Equipment

Property and equipment is summarized as follows:

	June 30,	
	2013	2012
Land	\$ 95,000	\$ 95,000
Buildings	379,696	379,696
Computer software	54,838	43,166
Furniture and equipment	43,568	43,568
	573,102	561,430
Accumulated depreciation	(129,951)	(115,361)
Property and equipment, net	\$ 443,151	\$ 446,069

4. Restrictions on Net Assets

Net assets consist of unrestricted operating and board-designated funds as well as temporarily and permanently restricted donor funds.

Permanently restricted net assets consist of principal contributions which are restricted by donors and are to be held by the Foundation as permanent endowment funds. Temporarily restricted net assets consist of contributions received from donors with purpose or time restrictions and net earnings from permanently restricted net assets that are available for grants for a variety of purposes including arts, basic human needs, children and youth, environmental, health and scholarships. In certain cases, grants may be awarded or expenses paid from principal balances, resulting in a release of permanently restricted funds. Unrestricted net assets consist of donations received by the Foundation which have not been restricted by the donor and are available for operations and grant-making as deemed by the Board of Trustees.

5. Endowment Funds

The Foundation's endowment consists of approximately 185 individual funds established for a variety of purposes. Endowments include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Management of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

5. Endowment Funds (Cont.)

fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policy.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return with acceptable levels of risk, including investment income as well as capital appreciation, which exceeds the annual distribution. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of between 4% and 5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return, net of fees, of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. Long-term expectations may be expressed by the following equation currently:

$$\begin{aligned} \text{Expected Average Annual Total Return Net of Fees} &\geq \text{Grants} + \text{Inflation} + \text{Administrative} \\ \text{Fees Currently, (8-9\%} &\geq 4\text{-5\%} + 3\% + 1\%) \end{aligned}$$

The Foundation will use the moving average method to plan year-to-year grants in order to reduce annual variations in the amounts distributed from the aggregate portfolio. The amount will be determined based on a 12-averaged-quarter moving average of portfolio market value. (That is, the moving average will be determined in the last quarter of the calendar year based on the twelve averaged quarters ending September 30 before the calendar year in which the funds are to be spent.) For funds less than three years old, the market value will be the average of all averaged quarters to date. This policy creates more consistent and predictable granting by the Foundation over the long term.

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

5. Endowment Funds (Cont.)

Endowment net asset composition by type of fund as of June 30, 2013 and 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
June 30, 2013:				
Endowment funds:				
Donor-restricted	\$ (990,202) *	\$ 4,237,714	\$ 27,562,067	\$ 30,809,579
Board-designated	<u>5,449,333</u>	<u>-</u>	<u>-</u>	<u>5,449,333</u>
Total funds	<u>\$ 4,459,131</u>	<u>\$ 4,237,714</u>	<u>\$ 27,562,067</u>	<u>\$ 36,258,912</u>
June 30, 2012:				
Endowment funds:				
Donor-restricted	\$ (1,162,869) *	\$ 3,359,719	\$ 24,416,159	\$ 26,613,009
Board-designated	<u>5,167,341</u>	<u>-</u>	<u>-</u>	<u>5,167,341</u>
Total funds	<u>\$ 4,004,472</u>	<u>\$ 3,359,719</u>	<u>\$ 24,416,159</u>	<u>\$ 31,780,350</u>

* Represents amount by which the endowment assets are less than the donor's basis.

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
July 1, 2011:				
Contributions	327,867	529,227	5,464,296	6,321,390
Interest and dividend income	160,108	649,480	-	809,588
Net investment losses	(240,641)	(458,574)	-	(699,215)
Amounts appropriated for expenditure	<u>(723,699)</u>	<u>(1,856,552)</u>	<u>(183,675)</u>	<u>(2,763,926)</u>
June 30, 2012:	4,004,472	3,359,719	24,416,159	31,780,350
Contributions	81,783	1,053,041	3,224,392	4,359,216
Interest and dividend income	114,331	571,675	-	686,006
Net investment gains	617,819	2,018,176	-	2,635,995
Amounts appropriated for expenditure	<u>(359,274)</u>	<u>(2,764,897)</u>	<u>(78,484)</u>	<u>(3,202,655)</u>
June 30, 2013	<u>\$ 4,459,131</u>	<u>\$ 4,237,714</u>	<u>\$ 27,562,067</u>	<u>\$ 36,258,912</u>

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

6. Unrestricted Net Assets

Unrestricted net assets are available for the following purposes as of June 30:

	2013	2012
Operating	\$ 649,508	\$ 647,690
General endowment	5,449,333	5,167,341
Accumulated endowment	(990,202)	(1,162,869)
	\$ 5,108,639	\$ 4,652,162

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. Permanently restricted endowment assets are less than the donor's basis by \$990,202 and \$1,162,869 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations as well as continued appropriation for expenditures that were deemed prudent by the Board under the currently adopted spending policy.

7. Charitable Gift Annuity

In 2004, the Foundation entered into a charitable gift annuity agreement with a donor. The donor agreed to provide a gift to the fund, in exchange for a lifetime annuity to be paid to the donor. The present value of the annuity payments expected to be made has been shown as a liability in the statements of financial position. The gift, net of the annuity liability and expenses related to the donation, was reported as a contribution in the statement of activities in the fiscal year ended June 30, 2005. As required by state law, the Foundation entered into an agreement with an insurance company to fund payment of the annuity to this donor. The value of this annuity agreement is reflected as a re-insurance contract in the statements of financial position. It is expected that the re-insurance contract will offset the annuity liability, resulting in no net impact on the statement of activities in future periods. At June 30, 2013 and 2012, the asset and liability arising from this agreement are reported at \$183,426 and \$212,477, respectively.

In 2013, the Foundation entered into a charitable gift annuity agreement with a donor. The donor agreed to provide a gift to the fund, in exchange for a lifetime annuity to be paid to the donor. The present value of the annuity payments expected to be made has been shown as a liability in the statements of financial position. The gift, net of the annuity liability and the expenses related to the donation, was reported as a contribution in the statement of activities in the fiscal year ended June 30, 2013. The Foundation met state law requirements and was not required to enter into an agreement with an insurance company to fund payment of the annuity to this donor. At June 30, 2013, the liability arising from this agreement is reported at \$29,365.

8. Charitable Lead Trust

During fiscal year 2009, a donor established a trust with a local foundation naming the Foundation as one of the lead beneficiaries of a charitable lead annuity trust. Under terms of the split-interest agreement, the Foundation is to receive 45% of a unitrust amount equal to 4% of the net fair market value of the assets of the trust valued as of the first business day of each taxable year for the trust, for

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

8. Charitable Lead Trust (Cont.)

a period of 22 years. After that time, the trust is to terminate, and remaining trust assets are to be distributed to others. The receivable for the split-interest agreement is carried at fair value, which the Foundation has estimated based on the present value of its expected future cash inflows. Based on the duration of the trust and a 5% discount rate, the fair value of the Foundation's interest in the trust was estimated to be \$206,138, which was recorded in 2009 as a temporarily restricted contribution and as contribution receivable - charitable lead trust. The Foundation received \$16,206 and \$19,985 from the trust in 2013 and 2012, respectively, which was recorded as a reduction in the receivable and a corresponding reclassification from temporarily restricted to unrestricted net assets. On an annual basis, the Foundation will revalue the contribution receivable based on annual asset valuation and current market conditions.

9. Fair Value Measurement

Generally accepted accounting principles provide a uniform framework for the definition, measurement and disclosure of fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Such accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1:* Quoted market prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:* Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3:* Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for identical assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities which include mutual funds, exchange traded fixed income securities, real estate funds, commodity funds, funds of hedge funds, and equity securities are valued based on quoted prices on nationally recognized security exchanges. Recurring Level 2 securities include certain mutual funds, fixed income securities, commodity funds, and equity securities that are not

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurement (Cont.)

actively traded are valued based on quoted market prices for similar assets and other observable inputs such as yield curves and default rates. Fair values for assets in Level 3 are calculated using assumptions about discounted cash flow and other present value techniques.

Fair values of assets measured on a recurring basis at June 30, 2013 and 2012 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2013:				
Marketable equity securities:				
Emerging markets	\$ 2,516,970	\$ 1,643,423	\$ 873,547	\$ -
International region:				
Mutual funds	4,921,302	1,273,163	3,648,139	-
Common stocks	36,597	36,597	-	-
United States:				
Mutual funds	16,606,710	9,137,577	7,469,133	-
Common stocks	1,910,300	1,910,300	-	-
Fixed income securities	10,919,395	7,336,925	3,582,470	-
Life insurance surrender value	521,735	-	-	521,735
Funds of hedge funds	3,693,075	430,345	-	3,262,730
Real estate funds/partnership	1,313,383	1,247,979	-	65,404
Private equity	557,793	-	-	557,793
Commodity funds	67,322	67,322	-	-
 Total	 <u>\$ 43,064,582</u>	 <u>\$ 23,083,631</u>	 <u>\$ 15,573,289</u>	 <u>\$ 4,407,662</u>

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurement (Cont.)

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012:				
Marketable equity securities:				
Emerging markets	\$ 1,979,634	\$ 1,186,745	\$ 792,889	\$ -
International region:				
Mutual funds	3,331,934	996,182	2,335,752	-
Common stocks	561,653	561,653	-	-
United States:				
Mutual funds	9,788,651	991,133	8,797,518	-
Common stocks	3,683,887	3,683,887	-	-
Fixed income securities	10,175,351	4,575,350	5,600,001	-
Life insurance surrender value	512,920	-	-	512,920
Funds of hedge funds	2,845,389	400,324	-	2,445,065
Real estate funds/partnership	1,549,116	1,483,282	-	65,834
Private equity	512,071	-	-	512,071
Commodity funds	1,958,099	1,958,099	-	-
Total	\$ 36,898,705	\$ 15,836,655	\$ 17,526,160	\$ 3,535,890

The following tables set forth additional disclosures of the Foundation's investments whose fair value is estimated using net asset value per share as of June 30, 2013 and 2012:

Investment	Objective	Fair Value	Redemption Frequency	Redemption Notice Period
June 30, 2013:				
Marketable equity securities:				
Emerging markets	(a)	\$ 873,547	Daily	1 - 2 days
International region:				
Mutual funds	(b)	3,648,139	Daily	2 - 3 days
United States:				
Mutual funds	(c)	7,469,133	Daily	1 - 2 days
Fixed income securities	(d)	3,582,470	Daily	None
Life insurance surrender value	(e)	521,735	Daily	None
Funds of hedge funds	(f)	3,262,730	90 days or less	90 days or less
Private equity	(g)	557,793	Quarterly	None
		<u>\$ 19,915,547</u>		

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurement (Cont.)

<u>Investment</u>	<u>Objective</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
June 30, 2012:				
Marketable equity securities:				
Emerging markets	(a)	\$ 792,889	Daily	1 - 2 days
International region:				
Mutual funds	(b)	2,335,752	Daily	2 - 3 days
United States:				
Mutual funds	(c)	8,797,518	Daily	1 - 2 days
Fixed income securities	(d)	5,600,001	Daily	None
Life insurance				
surrender value	(e)	512,920	Daily	None
Funds of hedge funds	(f)	2,445,065	90 days or less	90 days or less
Private equity	(g)	<u>512,071</u>	Quarterly	None
		<u>\$ 20,996,216</u>		

- (a) Invests in international securities that are in the MSCI Emerging Markets Index with the objective of replicating the performance of the MSCI Emerging Markets Index.
- (b) Invests in international securities that are in the MSCI EAFE Index and in the MSCI Emerging Markets Index with the objective of outperforming the MSCI EAFE Index and replicating the performance of the MSCI ACWI ex-US.
- (c) Invests in domestic equities in the Russell 1000, Midcap, and 2000 Indices with the objective of outperforming the Russell 1000, Midcap, and 2000 Indices.
- (d) Invests in domestic fixed income securities with the objective of replicating the BC US Aggregate Bond Index.
- (e) Life insurance policies designed to provide safety of principal and a competitive rate of return. Generally, there are not any events that could limit the ability of the Foundation to transact at cash surrender value within 90 days, or in the rare circumstances, cash surrender value paid over time. There are not any events that allow the issuer to terminate the policy and which require the Foundation to settle at an amount different than cash surrender value paid either within 90 days or over time.
- (f) These funds of hedge funds are designed to provide a competitive rate of return. Generally, these investments have a redemption period of 90 days or less and a notification period of 90 days or less. Approximately 0.2% of the investments are in side pocket arrangements. The Foundation will not be able to redeem such value from any particular underlying investment until such amount is released from its respective side pocket arrangement. The Foundation is not able to estimate the timing of receipt of such amounts.
- (g) Invests in private equities with the objective of obtaining a competitive rate of return.

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9. Fair Value Measurement (Cont.)

Changes in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2013 and 2012 are as follows:

	Life Insurance Surrender Value	Funds of Hedge Funds	Real Estate Limited Partnership	Private Equity	Total
July 1, 2011:	\$ 501,484	\$ 1,250,541	\$ 64,909	\$ 530,380	\$ 2,347,314
Purchases	-	1,250,000	-	-	1,250,000
Settlements	-	-	-	(91,699)	(91,699)
Net investment gains (losses)	<u>11,436</u>	<u>(55,476)</u>	<u>925</u>	<u>73,390</u>	<u>30,275</u>
June 30, 2012:	512,920	2,445,065	65,834	512,071	3,535,890
Purchases	-	550,000	-	87,371	637,371
Settlements	-	-	-	(69,368)	(69,368)
Net investment gains (losses)	<u>8,815</u>	<u>267,665</u>	<u>(430)</u>	<u>27,719</u>	<u>303,769</u>
June 30, 2013	<u>\$ 521,735</u>	<u>\$ 3,262,730</u>	<u>\$ 65,404</u>	<u>\$ 557,793</u>	<u>\$ 4,407,662</u>

The fair value of assets measured on a nonrecurring basis at June 30, 2013 and 2012 consists of a charitable lead trust receivable of \$219,239 and \$211,769, respectively. Fair value for the receivable from a beneficial interest in a charitable lead trust (Level 3) is determined by calculating the present value of the future distributions expected to be received, based on the duration of the trust and a 5% discount rate. There have been no changes in valuation techniques and related inputs.

Changes in fair value of the contribution receivable for the years ended June 30, 2013 and 2012 are as follows:

June 30, 2011:	\$ 231,754
Settlements	(19,985)
Investment income, net	<u>-</u>
June 30, 2012:	211,769
Settlements	(16,206)
Investment income, net	<u>23,676</u>
June 30, 2013	<u>\$ 219,239</u>

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurement (Cont.)

The following table represents the Foundation's quantitative information about significant unobservable inputs used in Level 3 fair value measurements, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs at June 30, 2013:

<u>Type</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Rate or Range of Rates</u>
Life insurance surrender value	\$ 521,735	Fair value equals cash surrender value	Dividend scale changes and surrenders	Determined based in part on the amount of future coverage
Funds of hedge funds	\$ 3,262,730	Fair value equals net asset value	Data obtained from the Sub-Funds of net asset value, as well as other considerations that may increase or decrease such estimated value	NA
Real estate funds/ partnership	\$ 65,404	Fair value equals expected future cash flows	Estimated future market rental income, property operating expenses, holding periods, discount rates, market capitalization rates, and sales prices	NA
Private equity	\$ 557,793	Fair value equals net asset value	Recent observable transactions information for similar investments, nonbinding bids received from potential buyers and, in some cases, discounted cash flow analysis	NA

NA – not available

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10. Agency Funds

The financial effects of transactions related to agency funds are recorded as changes in the agency funds liability on the statements of financial position and are not included in the statements of activities. The changes are summarized as follows:

	June 30,	
	2013	2012
Additions:		
Contributions	\$ 1,997,072	\$ 794,680
Investment income	188,219	238,548
Net unrealized and realized gains (losses)	688,863	(344,463)
Total additions	2,874,154	688,765
Deductions:		
Distributions	305,878	1,387,261
Investment expenses	114,247	112,988
Total deductions	420,125	1,500,249
Change in balance	2,454,029	(811,484)
Agency funds, beginning of year	7,421,929	8,233,413
Agency funds, end of year	\$ 9,875,958	\$ 7,421,929

11. Related Parties

A company with a Foundation Trustee as its salesman provided printing services for the Foundation for a total cost of \$10,109 for the year ended June 30, 2013, and \$26,417 for the year ended June 30, 2012. The Trustee disclosed the conflict in his Conflict of Interest form and bidding information is on file to validate the selection of the Trustee's company.

12. In-Kind Contributions

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. Approximately 22% of total support and revenue was received by the Foundation as donated commercial property which was valued at \$1,750,000 and recorded as permanently restricted gifts, bequests, and grants on the statements of activities. The Foundation sold this property during the fiscal year for the recorded price.

13. Reclassifications

Certain reclassifications have been made to the 2012 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

THE DUPAGE COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

14. Subsequent Events

The Foundation has evaluated subsequent events through January 27, 2014 the date which the financial statements were available to be issued.