The DuPage Community Foundation
(d.b.a. DuPage Foundation)

Financial Report

June 30, 2018

Contents

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Independent Auditor's Report

To the Board of Trustees
The DuPage Community Foundation
(d.b.a. DuPage Foundation)

We have audited the accompanying financial statements of The DuPage Community Foundation (d.b.a. DuPage Foundation), which comprise the statement of financial position as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The DuPage Community Foundation (d.b.a. DuPage Foundation) as of June 30, 2018 and 2017 and its 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.

Plante & Moran, PLLC

November 15, 2018

Statement of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash	$ 1,303,196	$ 1,863,485
Investments (Note 6)	90,764,543	82,311,597
Receivables:		
Pledges receivable	569,629	1,280,164
Charitable lead trust receivable (Note 5)	170,281	178,659
Fees receivable	153,973	132,859
Prepaid expenses and other assets:		
Prepaid expenses	41,179	40,289
Cash value of life insurance	535,381	544,015
Reinsurance contract (Note 4)	38,167	67,219
Property and equipment - Net (Note 3)	1,351,362	1,402,894
Total assets	**$ 94,927,711**	**$ 87,821,181**
Liabilities and Net Assets		
Liabilities		
Accounts payable:	$ 20,285	$ 8,739
Accrued liabilities		
Agency funds (Note 7)	16,201,773	14,427,215
Annuity payable (Note 4)	156,935	193,379
Accrued expenses	58,017	41,374
Total liabilities	16,437,010	14,670,707
Net Assets		
Unrestricted	7,040,248	6,823,203
Temporarily restricted (Note 8)	32,191,971	28,553,055
Permanently restricted (Note 8)	39,258,482	37,774,216
Total net assets	78,490,701	73,150,474
Total liabilities and net assets	**$ 94,927,711**	**$ 87,821,181**

See notes to financial statements.

The DuPage Community Foundation (d.b.a. DuPage Foundation)

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Gifts, bequests, and grants	$ 661,457	$ 3,211,090	$ 2,075,254	$ 5,947,801	$ 726,851	$ 19,458,451	$ 952,039	$ 21,137,341
Net investment gains	655,068	3,831,808	-	4,486,876	915,382	4,323,844	-	5,239,226
Investment income	254,858	1,190,131	-	1,444,989	215,768	826,705	-	1,042,473
Fees revenue	202,501	-	-	202,501	111,846	-	-	111,846
Net assets released from restrictions	4,057,950	(4,057,950)	-	-	4,606,190	(4,606,190)	-	-
Total revenue, gains, and other support	5,831,834	4,175,079	2,075,254	12,082,167	6,576,037	20,002,810	952,039	27,530,886
Expenses								
Allocation of expenses:								
Grants awarded	4,819,615	-	-	4,819,615	5,163,818	-	-	5,163,818
Grant-making activities	1,046,772	-	-	1,046,772	853,013	-	-	853,013
Management and general	413,824	-	-	413,824	392,290	-	-	392,290
Fundraising	461,729	-	-	461,729	443,194	-	-	443,194
Total expenses	6,741,940	-	-	6,741,940	6,852,315	-	-	6,852,315
(Decrease) Increase in Net Assets - Before donor-approved changes in restrictions	(910,106)	4,175,079	2,075,254	5,340,227	(276,278)	20,002,810	952,039	20,678,571
Donor-approved Changes in Restrictions	1,127,151	(536,163)	(590,988)	-	-	-	-	-
Increase (Decrease) in Net Assets	217,045	3,638,916	1,484,266	5,340,227	(276,278)	20,002,810	952,039	20,678,571
Net Assets - Beginning of year	6,823,203	28,553,055	37,774,216	73,150,474	7,099,481	8,550,245	36,822,177	52,471,903
Net Assets - End of year	**$ 7,040,248**	**$ 32,191,971**	**$ 39,258,482**	**$ 78,490,701**	**$ 6,823,203**	**$ 28,553,055**	**$ 37,774,216**	**$ 73,150,474**

See notes to financial statements.

Statement of Cash Flows

June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 5,340,227	$ 20,678,571
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Net investment gains	(4,486,876)	(5,239,226)
Depreciation	51,532	51,532
Noncash donations	(2,493,633)	(17,702,999)
Contributions restricted for long-term purposes	(2,075,254)	(952,039)
Changes in operating assets and liabilities which (used) provided cash:		
Fees receivable	(21,114)	(10,496)
Charitable lead trust receivable	8,378	4,866
Prepaid expenses and other	(890)	20,303
Cash value of life insurance	29,052	29,052
Pledges receivable	710,535	(1,278,164)
Accounts payable	11,546	7,692
Agency funds	1,774,558	2,714,463
Annuity payable	(36,444)	(48,154)
Accrued liabilities	16,643	12,645
Net cash used in operating activities	(1,171,740)	(1,711,954)
Cash Flows from Investing Activities		
Purchases of investments	(24,590,841)	(17,407,340)
Proceeds from sales and maturities of investments	23,127,038	17,697,901
Net cash (used in) provided by investing activities	(1,463,803)	290,561
Cash Flows Provided by Financing Activities - Contributions restricted for long-term purposes	2,075,254	952,039
Net Decrease in Cash	(560,289)	(469,354)
Cash - Beginning of year	1,863,485	2,332,839
Cash - End of year	**$ 1,303,196**	**$ 1,863,485**

See notes to financial statements.

Note 1 - Nature of Business

The DuPage Community Foundation (d.b.a. DuPage Foundation) (the "Foundation") is a grant-making community 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.

During the year 2015, the Foundation started doing business as DuPage Foundation. Its legal name has not been changed.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. This method records revenue and related assets when earned and records expenses and related liabilities when the obligations are incurred.

Classification of Net Assets

Net assets of the Foundation are classified as unrestricted, board designated, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Foundation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. Board designations are imposed and removed by the Board of Trustees and classified as unrestricted.

Cash

The Foundation considers all highly liquid investments purchased with an original maturity of three months or less when purchased to be cash equivalents. The Foundation maintains its cash in bank deposit accounts at Northern Trust, which at times may exceed federally insured limits. The Foundation has not experienced any losses and does not believe it is exposed to any significant credit risk on cash.

Investments

The Foundation's investments are reported at fair value. Donated investments are reflected as contributions at their fair values at the date the donor relinquishes control. Gain or loss on the sale of investments is computed using the specific recorded costs of each security. Investment income is recorded on the accrual basis and is reported in the statement of activities and changes in net assets.

The Foundation's investments are exposed to various risks, such as interest rate, credit risk, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statement of financial position.

Fees Receivable

Fees receivable represent administrative fees charged to agencies and other fund holders. Management determines the allowance for doubtful accounts by reviewing and identifying troubled accounts. For the years ended June 30, 2018 and 2017, all amounts are deemed to be collectible.

Note 2 - Significant Accounting Policies (Continued)

Agency Funds

The Foundation adopted the accounting treatment prescribed by generally accepted accounting principles, *Transfers of Assets to a Not-for-Profit Organization of Charitable Trust that Raises or Holds Contributions for Others,* and, accordingly, records the funds received on behalf of others as a liability.

Property and Equipment

Property and equipment are stated at their estimated fair value at the date donated, or at cost, if purchased. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. The capitalization policy is set at $5,000. Costs of maintenance and repairs are charged to expense when incurred.

Pledges Receivable

All pledges receivable are expected to be collected within one year and are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible. As of June 30, 2018 and 2017, there was $569,629 and $1,280,164, respectively, in pledges receivable and no allowance for uncollectible contributions was recorded.

Gifts, Bequests, and Grants

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Conditional promises are recorded when donor stipulations are substantially met. Contributions are recorded net of allowances. An allowance for doubtful accounts is provided based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions received with donor-imposed restrictions are reported as revenue of the permanently restricted or temporarily restricted net asset class as required by the donor intent. Temporarily restricted net assets are restricted primarily for capital additions and program services. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class.

The bylaws of the Foundation include a variance provision and powers of modification, giving the Board of Trustees the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations, if in the board's sole judgment (without the approval of any trustee, custodian, or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community that the Foundation serves. Based on these provisions, the Foundation accounts for contributions with the donor's imposed restrictions until they use variance power to modify the restrictions.

Donated Services

The Foundation records contributions of donated services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills and that would typically need to be purchased if not provided by donation. When such contributions are received, they are recorded at their fair values in the period received. The Foundation did not receive donated services during the years ended June 30, 2018 and 2017.

Note 2 - Significant Accounting Policies (Continued)

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Grants

Grants are recognized as an expense at the time of formal approval by the Board of Trustees. Conditional grants, if any, are expensed when such conditions are substantially met.

Functional Allocation of Expenses

The costs of providing various program and other services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated based on an analysis of indirect expenses and personnel assigned. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Upcoming Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation expects there to be a change in net asset descriptions, treatment of underwater endowments, and additional disclosures related to liquidity and availability of resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 15, 2018, which is the date the financial statements were available to be issued.

Note 3 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Land	$ 68,860	$ 68,860	-
Buildings	1,019,839	1,019,839	7-40
Building improvements	350,014	350,014	3-10
Computer software	93,578	93,578	3-5
Furniture and equipment	56,667	56,667	5
Total cost	1,588,958	1,588,958	
Accumulated depreciation	237,596	186,064	
Net property and equipment	$ 1,351,362	$ 1,402,894	

Depreciation expense for the years ended June 30, 2018 and 2017 was $51,532.

Note 4 - Charitable Gift Annuities

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 statement 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 and changes in net assets 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 reinsurance contract in the statement of financial position. It is expected that the reinsurance contract will offset the annuity liability, resulting in no net impact on the statement of activities and changes in net assets in future periods. At June 30, 2018 and 2017, the asset and liability arising from this agreement are reported at $38,167 and $67,219, respectively.

During the fiscal years 2013 through 2018, the Foundation entered into six charitable gift annuity agreements with donors. The donors agreed to provide a gift to the fund, in exchange for a lifetime annuity to be paid to the donors. The present value of the annuity payments expected to be made has been shown as a liability in the statement 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 and changes in net assets in the respective year ends. 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 those donors. At June 30, 2018 and 2017, the liability arising from these agreements is reported at $118,768 and $126,160, respectively.

Note 5 - Charitable Lead Trust

During fiscal year 2009, a donor established a trust 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 percent of a unitrust amount equal to 4 percent 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 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 expected future cash inflows. Based on the duration of the trust and a 5 percent discount rate, the fair value of the Foundation's interest in the trust was estimated and recorded in 2009 as a temporarily restricted contribution and as a charitable lead trust receivable. The Foundation received $20,586 and $18,145 from the trust in 2018 and 2017, 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 asset valuation and current market conditions.

Note 6 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation’s assets measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Foundation applies a guidance that allows for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Investments measured at fair value using NAV per share (or its equivalent) as a practical expedient are not classified in the hierarchy table.

Note 6 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2018
Assets - Investments:					
Commodity funds	$ 100,098	$ -	$ -	$ -	$ 100,098
Domestic common stock	10,577,452	-	-	-	10,577,452
Domestic mutual funds	14,223,016	-	-	5,477,290	19,700,306
Emerging markets mutual funds	2,635,380	-	-	2,202,163	4,837,543
Exchange-traded funds	9,644,738	-	-	-	9,644,738
Fixed-income securities	4,358,682	-	-	-	4,358,682
Hedge funds	2,508,826	-	-	2,533,868	5,042,694
International mutual funds	7,747,485	-	-	5,153,015	12,900,500
International common stock	136,557	-	-	-	136,557
Mutual funds	11,702,428	-	-	3,173,753	14,876,181
Private equity funds	-	-	-	5,652,069	5,652,069
Real estate funds	2,937,723	-	-	-	2,937,723
Total assets	$ 66,572,385	$ -	$ -	$ 24,192,158	$ 90,764,543

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2017
Assets - Investments:					
Commodity funds	$ 785,311	$ -	$ -	$ -	$ 785,311
Domestic common stock	9,449,423	-	-	-	9,449,423
Domestic mutual funds	15,061,954	-	-	7,026,761	22,088,715
Emerging markets mutual funds	2,694,541	-	-	1,105,623	3,800,164
Exchange-traded funds	8,664,117	-	-	-	8,664,117
Fixed-income securities	4,349,589	-	-	-	4,349,589
Hedge funds	2,414,510	-	-	2,443,383	4,857,893
International mutual funds	7,243,402	-	-	3,600,315	10,843,717
Mutual funds	8,397,852	-	-	2,491,027	10,888,879
Private equity funds	-	-	-	3,994,491	3,994,491
Real estate funds	2,589,298	-	-	-	2,589,298
Total assets	$ 61,649,997	$ -	$ -	$ 20,661,600	$ 82,311,597

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Note 6 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Investments Held at June 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Domestic mutual funds (a)	$ 5,477,290	$ -	Daily	1-2 days
Emerging market mutual funds (b)	2,202,163	-	Daily	1-2 days
Fixed-income securities (c)	3,173,753	-	Daily	None
Funds of hedge funds (d)	2,533,868	-	90 days or less	90 days or less
International mutual funds (e)	5,153,015	-	Daily	2-3 days
Private equity (f)	5,652,069	4,033,700	Quarterly	None
Total	$ 24,192,158	$ 4,033,700		

	Investments Held at June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Domestic mutual funds (a)	$ 7,026,761	$ -	Daily	1-2 days
Emerging markets mutual funds (b)	1,105,623	-	Daily	1-2 days
Fixed-income securities (c)	2,491,027	-	Daily	None
Funds of hedge funds (d)	2,443,383	-	90 days or less	90 days or less
International mutual funds (e)	3,600,315	-	Daily	2-3 days
Private equity (f)	3,994,491	5,624,300	Quarterly	None
Total	$ 20,661,600	$ 5,624,300		

(a) Domestic mutual funds invest in domestic equities in the Russell 1000, Midcap, and 2000 Indices with the objective of outperforming the Russell 1000, Midcap, and 2000 Indices.

(b) Emerging markets mutual funds invest in international securities that are in the MSCI Emerging Markets Index with the objective of replicating the performance of the MSCI Emerging Markets Index.

(c) Fixed-income securities invest in domestic fixed-income securities with the objective of replicating the BC US Aggregate Bond Index.

(d) Funds of hedge funds are designated 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 percent of the investments are in side pocket arrangements. The Foundation will not be able to redeem such value from any particular underlying investments 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.

(e) International mutual funds invest 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.

(f) Private equity invests in private equity with the objective of obtaining a competitive rate of return.

Note 7 - Agency Funds

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

	2018	2017
Additions:		
Deposits	$ 1,088,013	$ 2,254,245
Investment income	332,146	275,843
Net realized and unrealized gain	954,468	1,301,671
Total additions	2,374,627	3,831,759
Deductions:		
Distributions	439,580	969,050
Investment expenses	160,489	148,246
Total deductions	600,069	1,117,296
Change in balance	1,774,558	2,714,463
Agency funds - Beginning of year	14,427,215	11,712,752
Agency funds - End of year	$ 16,201,773	$ 14,427,215

Note 8 - Donor-restricted and Board-designated Endowments

The Foundation's endowment consists of 282 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. 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.

Interpretation of Relevant Law

The Board of Trustees 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 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:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

- Other resources of the Foundation
- The investment policies of the Foundation

	Endowment Net Asset Composition by Type of Fund as of June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (6,064,269)	$32,191,971	$39,258,482	$ 65,386,184
Board-designated endowment funds	10,872,754	-	-	10,872,754
Total funds	$ 4,808,485	$32,191,971	$39,258,482	$ 76,258,938

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 4,785,497	$28,553,055	$37,774,216	$ 71,112,768
Investment return:				
Investment income	250,483	1,190,131	-	1,440,614
Net appreciation (realized and unrealized)	634,673	3,831,808	-	4,466,481
Total investment return	885,156	5,021,939	-	5,907,095
Contributions	91,465	3,211,090	2,075,254	5,377,809
Appropriation of endowment assets for expenditure	(2,080,784)	(4,057,950)	-	(6,138,734)
Donor-approved changes in restrictions	1,127,151	(536,163)	(590,988)	-
Endowment net assets - End of year	$ 4,808,485	$32,191,971	$39,258,482	$ 76,258,938

	Endowment Net Asset Composition by Type of Fund as of June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (4,639,747)	$28,553,055	$37,774,216	$ 61,687,524
Board-designated endowment funds	9,425,244	-	-	9,425,244
Total funds	$ 4,785,497	$28,553,055	$37,774,216	$ 71,112,768

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 5,139,358	$ 8,550,245	$36,822,177	$ 50,511,780
Investment return:				
Investment income	215,768	826,705	-	1,042,473
Net appreciation (realized and unrealized)	915,382	4,323,844	-	5,239,226
Total investment return	1,131,150	5,150,549	-	6,281,699
Contributions	72,158	19,458,451	952,039	20,482,648
Appropriation of endowment assets for expenditure	(1,557,169)	(4,606,190)	-	(6,163,359)
Endowment net assets - End of year	$ 4,785,497	$28,553,055	$37,774,216	$ 71,112,768

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $6,064,269 and $4,639,747 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. 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.

Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to minimize risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, 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 the moving average of the portfolio's fair value from the previous 12 quarters (that is, the moving average will be determined in the last quarter of the calendar year based on 12 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Endowment assets are invested in a well-diversified asset mix intended to result in consistent inflation-protected rates of return with sufficient liquidity to make an annual distribution of between 4 percent and 5 percent, 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 percent annually. Actual returns in any given year may vary from this amount.