

The Greater Cedar Rapids Community Foundation

Financial Statements
December 31, 2018

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Independent Auditor's Report

RSM US LLP

Board of Directors
The Greater Cedar Rapids Community Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Greater Cedar Rapids Community Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities 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 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 Greater Cedar Rapids Community Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Cedar Rapids, Iowa
April 23, 2019

The Greater Cedar Rapids Community Foundation

Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ -	\$ 5,059,659
Certificates of deposit	4,897,468	750,000
Receivables, contributions and grants	136,534	17,223
Prepaid expenses	19,206	21,668
Investments	153,123,915	164,959,413
Beneficial interests in charitable trusts	1,449,300	79,900
Interests in real estate	576,000	576,000
Property and equipment, net	1,418,221	1,453,434
Cash value of life insurance	298,354	310,586
	<u>161,918,998</u>	<u>173,227,883</u>
Total assets	\$ 161,918,998	\$ 173,227,883
Liabilities and Net Assets		
Liabilities:		
Excess of outstanding checks over bank balance	\$ 449,134	\$ -
Accounts payable	26,236	24,609
Accrued expense	63,820	63,497
Grants payable	549,948	500,341
Amounts due under annuity and unitrust agreements	1,636,907	1,712,383
Amounts held on behalf of others	34,590,948	38,831,232
	<u>37,316,993</u>	<u>41,132,062</u>
Total liabilities	37,316,993	41,132,062
Net assets:		
Net assets, without donor restrictions	121,390,989	130,057,444
Net assets, with donor restrictions	3,211,016	2,038,377
	<u>124,602,005</u>	<u>132,095,821</u>
Total net assets	124,602,005	132,095,821
	<u>\$ 161,918,998</u>	<u>\$ 173,227,883</u>
Total liabilities and net assets	\$ 161,918,998	\$ 173,227,883

See notes to financial statements.

The Greater Cedar Rapids Community Foundation

**Statement of Activities
Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and bequests	\$ 9,509,232	\$ 1,369,400	\$ 10,878,632
Less contributions raised on behalf of others	(1,594,931)	-	(1,594,931)
Support and revenue, net	7,914,301	1,369,400	9,283,701
Investment income, net of investment expense \$328,485	4,436,613	151,592	4,588,205
Net depreciation of investments	(12,824,669)	(202,563)	(13,027,232)
	(8,388,056)	(50,971)	(8,439,027)
Less losses on behalf of others	1,832,802	-	1,832,802
Investment loss, net	(6,555,254)	(50,971)	(6,606,225)
Other revenue	89,274	-	89,274
Net assets released from restrictions	-	-	-
Total support and revenue	1,448,321	1,318,429	2,766,750
Expenses and other adjustments:			
Grants	11,806,599	-	11,806,599
Administration of grants, allocated expenses	565,426	-	565,426
Less grants awarded on behalf of others	(4,014,910)	-	(4,014,910)
Grant expense, net	8,357,115	-	8,357,115
Other programs	359,389	-	359,389
Management and general expense	608,619	-	608,619
Fundraising and development expenses	777,160	-	777,160
Total expenses, net	10,102,283	-	10,102,283
Other adjustments, actuarial adjustment on annuities and unitrust agreements	-	145,790	145,790
Total expenses and other adjustments	10,102,283	145,790	10,248,073
Change in net assets	(8,653,962)	1,172,639	(7,481,323)
Adjustment for transfer of funds to amounts held on behalf of others (Note 1)	(12,493)	-	(12,493)
Net assets, beginning of year	130,057,444	2,038,377	132,095,821
Net assets, end of year	\$ 121,390,989	\$ 3,211,016	\$ 124,602,005

See notes to financial statements.

**The Greater Cedar Rapids
Community Foundation**

**Statement of Activities
Year Ended December 31, 2017**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and bequests	\$ 14,613,573	\$ -	\$ 14,613,573
Less contributions raised on behalf of others	(2,684,477)	-	(2,684,477)
Support and revenue, net	11,929,096	-	11,929,096
Investment income, net of investment expense \$292,571	2,962,859	151,643	3,114,502
Net appreciation of investments	16,937,258	17,459	16,954,717
	19,900,117	169,102	20,069,219
Less (earnings) on behalf of others	(4,306,481)	-	(4,306,481)
Investment income, net	15,593,636	169,102	15,762,738
Other revenue	158,916	-	158,916
Net assets released from restrictions	-	-	-
Total support and revenue	27,681,648	169,102	27,850,750
Expenses and other adjustments:			
Grants	9,157,577	-	9,157,577
Administration of grants, allocated expenses	485,561	-	485,561
Less grants awarded on behalf of others	(1,247,772)	-	(1,247,772)
Grant expense, net	8,395,366	-	8,395,366
Other programs	315,845	-	315,845
Management and general expense	588,700	-	588,700
Fundraising and development expenses	695,816	-	695,816
Total expenses, net	9,995,727	-	9,995,727
Other adjustments, actuarial adjustment on annuities and unitrust agreements	-	(218,640)	(218,640)
Total expenses and other adjustments	9,995,727	(218,640)	9,777,087
Change in net assets	17,685,921	387,742	18,073,663
Adjustment for transfer of funds to amounts held on behalf of others (Note 1)	(1,941,498)	-	(1,941,498)
Net assets, beginning of year	114,313,021	1,650,635	115,963,656
Net assets, end of year	\$ 130,057,444	\$ 2,038,377	\$ 132,095,821

See notes to financial statements.

The Greater Cedar Rapids Community Foundation

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (7,481,323)	\$ 18,073,663
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributions of beneficial interest in charitable trusts	(1,369,400)	-
Depreciation	59,796	70,433
Actuarial adjustment on annuities and unitrust agreements	145,790	(218,640)
Net depreciation (appreciation) in market value of investments	11,194,430	(12,648,236)
Reinvested investment earnings	(4,588,205)	(3,114,502)
Proceeds from sale of donated investment securities	385,106	3,674,251
Effects of changes in operating assets and liabilities:		
Receivables and interests in real estate	(119,311)	401,659
Prepaid expenses	2,462	(4,696)
Accounts payable and accrued expenses	1,950	14,050
Grants payable	49,607	492,674
Net cash (used in) provided by operating activities	(1,719,098)	6,740,656
Cash flows from investing activities:		
Purchase of certificates of deposit, net	(4,147,468)	(750,000)
Proceeds from sales and maturities of investments	6,520,208	1,471,281
Purchases of investments	(3,508,843)	(7,168,048)
Proceeds from sale of donated real estate interest	-	1,460,000
Purchases of property and equipment	(24,583)	(5,827)
Decrease (increase) in cash value of life insurance	12,232	(32,646)
Net cash used in investing activities	(1,148,454)	(5,025,240)
Cash flows from financing activities:		
Contributions raised on behalf of others	1,594,935	2,684,477
Grants paid on behalf of others	(4,014,910)	(1,247,772)
Payments on annuity and life income agreements	(221,266)	(214,550)
Change in excess of outstanding checks over bank balance	449,134	-
Net cash (used in) provided by financing activities	(2,192,107)	1,222,155
Net (decrease) increase in cash and cash equivalents	(5,059,659)	2,937,571
Cash and cash equivalents:		
Beginning	5,059,659	2,122,088
Ending	\$ -	\$ 5,059,659
Supplemental schedules of noncash operating activities:		
Net (depreciation) appreciation in market value of investments for earnings on behalf of others	\$ (1,832,802)	\$ 4,306,481
Adjustment for transfer of funds to amounts held on behalf of others	\$ 12,493	\$ 1,941,498

See notes to financial statements.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of business: In 1949, the Community Welfare Foundation (the Foundation) of Cedar Rapids was established as a private foundation for the purpose of receiving gifts and bequests to provide support for charitable enterprise in the city of Cedar Rapids. In 1987, the Foundation became a public foundation and changed its name to The Greater Cedar Rapids Community Foundation (the Foundation) to reflect the broader interests of the rapidly growing Linn County community. Today, the Foundation provides grants to various organizations in the greater Cedar Rapids community to help foster and promote public, charitable, scientific, literary and educational activities.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Summary of the Foundation's significant accounting policies follows:

Basis of presentation: The financial statements of the Foundation have been prepared on the accrual basis and follow the accounting guidance for contributions received and contributions made and financial statements of not-for-profit organizations. Under these standards, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Contributions received are reported as with donor restrictions or without donor restrictions, depending on the existence or absence of donor-imposed restrictions. The standards also provide that if the governing body of an organization has the right to remove a donor restriction, known as variance power, the contributions should be classified as net assets without donor restrictions. The Foundation receives contributions from donors with advice regarding distribution of the assets and the earnings therefrom. The Foundation attempts to meet the desires expressed by the donors at the time of the contribution; however, under the gifting agreements the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose if, in the sole judgment of the Foundation's Board of Directors, such restrictions or conditions become unnecessary, undesirable, impractical or inconsistent with the charitable needs of the community.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

A description of the funds of the Foundation is as follows:

Endowed funds, subject to variance power as described earlier, include gifts, which require, by donor restriction, that the corpus of the gift be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. The related income and expenses associated with these restrictions have been reflected in the endowed funds. The endowed funds are classified as net assets without donor restrictions due to the Foundation's variance power over the assets and are included in net assets without donor restrictions in the financial statements. The various types of endowed agreements are as follows:

Type of Endowed Fund	Description of Fund
Without donor restrictions	The donor has made a contribution of cash or assets to the Discretionary Fund at the Foundation which is invested in perpetuity. The investment earnings are then distributed by the Foundation as grants that address current issues and community needs.
Donor advised	The donor has made a contribution of cash or assets to an endowed fund at the Foundation which is invested in perpetuity. The donor, or someone the donor names, makes recommendations to the Foundation about how the investment earnings should be distributed as grants. The recommendations are submitted to the Foundation's Board of Directors for their approval.
Donor designated	The donor has made a contribution of cash or assets to an endowed fund at the Foundation which is invested in perpetuity. The investment earnings are then distributed by the Foundation as grants to the beneficiary(ies) that were specified by the donor when the fund was established to support general operations or a specific program of the organization.
Field of interest	The donor has made a contribution of cash or assets to an endowed fund at the Foundation which is invested in perpetuity. The investment earnings are then distributed by the Foundation as grants that focus on a particular charitable cause.

Non-endowed funds include gifts (other than for operations) that are presently available for use and are included in net assets without donor restrictions in the financial statements. The donor may establish a donor advised, donor designated or field of interest fund whereby the corpus of the fund is available for use as determined under the various donor agreements subject to the variance power as described earlier.

Net assets with donor restrictions include funds received under various trust and annuity agreements, which require the Foundation to follow the provisions of the trust or annuity agreement until termination. Upon termination, the funds will be classified as net assets without donor restrictions as outlined earlier.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Amounts held on behalf of others: The Foundation acts as an agent for certain unrelated organizations. The total amount of the funds held on behalf of these organizations has been reflected in investments as an asset and a liability on the statement of financial position. On the statement of activities, the Foundation reports the gross amount of support, revenue and expenses with the amount raised and expended on behalf of others being shown as a reduction in the gross amounts of support, revenue and expenses. During the years ended December 31, 2018 and 2017, management determined that funds totaling \$12,493 and \$1,941,498, respectively, needed to be transferred to amounts held on behalf of others upon changes in the donor agreements.

Endowment fund investment and distribution policies: The Foundation has adopted investment and distribution policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The long-term objective of the Foundation, as determined by its investment committee, is to achieve a total return in excess of the sum of its distribution rate, the long-term inflation rate, the aggregate costs of portfolio management and any growth factor which the investment committee may, from time to time, determine appropriate. Total endowment assets should return, over rolling 12-month periods, a nominal rate of return greater than or equal to a composite index created by combining the various benchmark indices adopted by the investment committee for each category of its portfolio allocation.

To satisfy its long-term return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

On an annual basis, the investment committee recommends the distribution rate to the Board of Directors for the ensuing year. It is the policy of the Foundation to distribute an amount equal to the product of the investment portfolio's average market value for the trailing 12-quarter average multiplied by the distribution rate. All distributions are subject to compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Contributions: The Foundation records contributions (including promises to give) when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the assets or at the time the unconditional promise to give is made. Bequests are recognized as a contribution at the time the will is declared valid, provided that the bequest is unconditional. Pledges, bequests and other promises to give that are to be received after more than a year have been discounted to reflect the present value of the future cash flows.

Conditional promises to give, where the donor has placed a condition on the gift that the ultimate transfer of the assets or promise to give is contingent on a future and uncertain event, are not recorded as contributions until the condition is met. There are no material amounts of conditional promises to give at December 31, 2018 and 2017.

Gifts of cash and other assets that are received under trust or annuity agreements to be received in subsequent periods are recorded as net assets with donor restrictions. The net assets with donor restrictions are released to net assets without donor restrictions when the trust or annuity agreement terminates and the assets are collected.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Contributions of donated items are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contributions from related parties, primarily board members, for the years ended December 31, 2018 and 2017 totaled \$40,625 and \$105,943, respectively.

Cash equivalents: The Foundation considers highly liquid investments purchased with an original maturity of three months or less and not held by a trustee to be cash equivalents.

Certificates of deposit: Consist of certificates of deposit with a maturity greater than 90 days at the date acquired and are recorded at cost.

Investments: Investments of the Foundation are carried at fair value. Fair value is the price 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. The Foundation elected to report the fair value of alternative investments, comprised of hedge funds and private equity funds, using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the Foundation based on various factors. See Note 4 for discussion of fair value measurements. Realized gains or losses on investments are determined by the average cost method for mutual funds, and specific identification method for investments in common stock and are reported as increases or decreases in net assets. Investment income is also reported in the statement of activities as an increase in net assets without donor restrictions or net assets with donor restrictions based on the intentions stipulated by the donor.

Beneficial interests in charitable trusts: The Foundation has beneficial interests in charitable trusts that are held by third parties. Under these arrangements, the Foundation has an irrevocable right to receive its share of the income earned on the trust assets in perpetuity, but never receives its share of the underlying assets. The Foundation's share of the trust assets is initially recorded at fair value as a beneficial interest in charitable trusts and contribution income under restricted support within net assets with donor restrictions. Subsequent changes in the fair value of the Foundation's share of the trust assets are recorded as change in value of split-interest agreements in net assets with donor restrictions in the statement of activities. Annual distributions are reported as investment income.

Living trusts, testamentary trusts and gift annuities: The assets in living trusts, testamentary trusts and gift annuities are recorded at fair value at the inception of the trust or annuity based on the fair value of the underlying investments and a liability is recorded to reflect the net present value of the expected future payments to the beneficiary. Living trusts, testamentary trusts and gift annuities assets totaled \$4,245,932 and \$4,895,558 as of December 31, 2018 and 2017, respectively, and are included with investments in the statements of financial position.

The annuity and life income obligations are determined annually to reflect the change in life expectancy of the donor/beneficiary as well as expected payments to be made under the agreement. Investment income and distributions to beneficiaries increase or decrease the assets and the related obligation.

The remainder interest is recorded as a contribution to the Foundation or an increase in amounts held on behalf of others, depending on the terms of the agreement.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The NAV of the annuity and life income obligations is computed using life expectancies from the Society of Actuaries' Annuity 2000 Mortality Table and the applicable interest rates established by the Internal Revenue Service.

Property and equipment: Property and equipment, which are purchased, are stated at their original cost and donated equipment is recorded at fair value at the date of receipt, typically determined through independent appraisal. Property and equipment are depreciated on the straight-line method over their estimated useful lives, which range from 5 to 40 years. The Foundation has adopted a policy of capitalizing, at cost, or at fair value if donated, all acquisitions of property and equipment in excess of \$1,000 and a useful life greater than one year. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Impairment of long-lived assets: The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Grants payable: Grants are charged to operations and recognized as liabilities when authorized by the Board of Directors, regardless of the year in which they are paid.

Functional expenses: Operating expenses are allocated to program services, management and general, and fundraising based on estimated time spent in the activity. The amounts allocated to each functional expense category are included in the statement of activities.

Income tax status: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. Certain investments of the Foundation are subject to the unrelated business income tax regulations, and occasionally will require the Foundation to pay tax on this unrelated business income. The Foundation is not classified as a private foundation.

The Foundation follows the accounting guidance for Accounting for Uncertainty in Income Taxes. In accordance with the guidance for uncertainty in income taxes, management has evaluated their material tax positions and determined that there are no income tax effects with respect to its financial statements. The Foundation is no longer subject to examination by federal or state authorities for years prior to 2015, nor has the Foundation been notified of any impending examination and no examinations are currently in process.

Reclassifications: Certain amounts within the statement of financial position as of December 31, 2017 have been reclassified, with no effect on the statement of activities, to be consistent with the classifications adopted for the current year ended December 31, 2018.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-05 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation adopted the updated standard during the year ended December 31, 2018 with minimal impact on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Foundation’s financial statements as the Foundation has certain operating lease arrangements for which it is the lessee and lessor. The standard is effective on January 1, 2020, with early adoption permitted. The Foundation is in the process of evaluating the impact of this new guidance.

Note 2. Receivables

Unconditional promises to give are expected to be realized in the following periods as of December 31, 2018 and 2017:

	2018	2017
In one year or less	\$ 45,167	\$ 8,223
From one to five years	91,367	9,000
Total	<u>\$ 136,534</u>	<u>\$ 17,223</u>

Imputed interest in discounting contributions receivable was not material for the years ended December 31, 2018 and 2017.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 3. Investments

Many of the Foundation's investments are pooled on a market value basis. Income from the pool is allocated to funds based on the respective market value of the particular funds. The carrying value of investments is as follows as of December 31, 2018 and 2017:

	2018	2017
Equity securities	\$ 5,435,410	\$ 6,029,183
Mutual funds	101,176,782	112,733,015
Debt securities	1,920,338	1,832,899
Global fixed income bond funds	6,828,004	7,295,251
Money market funds	547,045	2,192,650
Real estate based securities	1,969,492	1,930,977
Hedge funds	4,956,938	4,429,793
Private equity funds	27,308,583	26,185,542
Savings and cash equivalents	2,981,323	2,330,103
Total	<u>\$ 153,123,915</u>	<u>\$ 164,959,413</u>

The Foundation is the trustee for five charitable remainder trusts whereby the Foundation is required to pay certain amounts to the income beneficiary for their lifetime. At the termination of the agreements, the Foundation will receive the corpus of these funds. As a result, these investments have been segregated from the general investments of the Foundation. Investments in the charitable remainder trusts consist of equity securities, debt securities and money market funds.

Note 4. Fair Value Measurements

The Foundation estimates fair value using the guidance established by *Fair Value Measurements*, which defines fair value as the price 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 in its principal market, or in the absence of a principal market the most advantageous market for the investment or liability. The Foundation accounts for its investments at fair value. In accordance with the guidance, the Foundation has categorized its investments, based on the priority of the inputs to the valuation technique which give the highest priority to quoted prices in active markets and the lowest priority to unobservable inputs, into a three-level fair value hierarchy. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets that the Foundation has the ability to access as of the measurement date.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable, or can be corroborated by, observable market data. Level 2 investments also include other investments, measured using the practical expedient, that do not have any significant redemption restrictions, lock up periods, gates or other characteristics that would cause report and liquidation date NAV to be significantly different, if redemption were requested at the report date.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

Level 3: The Foundation has elected to report the fair value of certain investments, primarily those included in investments on the statement of financial position, using the practical expedient. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. These investments would have significant redemption and other restrictions that would limit the Foundation's ability to redeem out of the fund at report date NAV. For all investments that do not meet the conditions for using the practical expedient, valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Foundation's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of option pricing models, discounted cash flow models and similar techniques.

The asset's or liability'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 instruments measured at fair value and their classification in the valuation hierarchy. There have been no changes in the methodologies used as of December 31, 2018 and 2017.

Debt and equity securities: Valued at the closing price reported on the active or observable market on which the individual securities are traded. In less active markets or if prices are not current, the valuation is based on quoted prices for identical or similar assets.

Mutual funds: Valued at the quoted closing price reported on the active market on which the individual securities are traded.

Money market funds: Valued at cost, which approximates fair value of shares held at year-end.

Global fixed income bond funds: Valued at the closing price reported on the active or observable market on which the individual securities are traded.

Real estate based funds: Fair value is determined based on the value of the underlying assets held by the funds. The valuation policy includes complete independent appraisals at least annually for each asset, with approximately 25 percent of the real estate investments externally appraised each quarter. Additionally the fund performs quarterly internal valuations on each of the real estate investments in the fund with the exception of recently acquired real estate investments.

Hedge funds: Valued using the practical expedient, which allows for the use of NAV of shares held at year-end. Values are based on exchange quotes, broker quotes or third-party vendor pricing to value complex or illiquid assets. Fair values of other assets are based on the best information available under the circumstances, which may include the Foundation's own data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There were no transfers between Levels 2 and 3 during the years ended December 31, 2018 and 2017.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The following tables present assets measured at fair value by classification within the fair value hierarchy as of December 31, 2018 and 2017:

	2018			
	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Service	\$ 498,363	\$ 498,363	\$ -	\$ -
Technology	635,657	635,657	-	-
Financials	929,573	929,573	-	-
Utilities	39,020	39,020	-	-
Consumer goods	860,427	860,427	-	-
Healthcare	1,035,091	1,035,091	-	-
Basic materials	179,128	179,128	-	-
Industrial	686,104	686,104	-	-
Energy	572,047	572,047	-	-
Mutual funds:				
Large cap	32,952,377	32,952,377	-	-
Mid cap	669,778	669,778	-	-
Small cap	6,798,711	6,798,711	-	-
Balanced	11,867	11,867	-	-
Diversifying strategies	428,321	428,321	-	-
International	36,781,220	36,781,220	-	-
Real estate	653,014	653,014	-	-
Real assets	95,937	95,937	-	-
Bond	22,065,963	22,065,963	-	-
Commodities	719,594	719,594	-	-
Debt securities	1,920,338	1,920,338	-	-
Global fixed income bond funds	863,181	863,181	-	-
Money market funds	547,045	547,045	-	-
Real estate based funds	35,272	35,272	-	-
Hedge funds	300,760	300,760	-	-
Total	110,278,788	\$ 110,278,788	\$ -	\$ -
Investments measured at net asset value (1)	42,761,584			
Cash equivalents, reported at cost	83,543			
Total investments portfolio	<u>\$ 153,123,915</u>			
Beneficial interest in charitable trusts	\$ 1,449,300	\$ -	\$ -	\$ 1,449,300

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

	2017			
	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Service	\$ 142,380	\$ 142,380	\$ -	\$ -
Technology	1,076,321	1,076,321	-	-
Financials	947,160	947,160	-	-
Utilities	29,113	29,113	-	-
Consumer goods	1,027,617	1,027,617	-	-
Healthcare	968,809	968,809	-	-
Basic materials	206,335	206,335	-	-
Industrial	750,814	750,814	-	-
Energy	880,634	880,634	-	-
Mutual funds:				
Large cap	37,685,163	37,685,163	-	-
Mid cap	715,818	715,818	-	-
Small cap	8,945,136	8,945,136	-	-
Balanced	13,654	13,654	-	-
Diversifying strategies	1,421,281	1,421,281	-	-
International	37,491,763	37,491,763	-	-
Real estate	833,396	833,396	-	-
Real assets	130,229	130,229	-	-
Bond	24,525,324	24,525,324	-	-
Commodities	971,251	971,251	-	-
Debt securities	1,832,899	1,832,899	-	-
Global fixed income bond funds	1,085,430	1,085,430	-	-
Money market funds	800,023	800,023	-	-
Real estate based funds	50,678	50,678	-	-
Hedge funds	346,816	346,816	-	-
Total	122,878,044	\$ 122,878,044	\$ -	\$ -
Investments measured at net asset value (1)	39,751,266			
Cash equivalents, reported at cost	2,330,103			
Total investments portfolio	<u>\$ 164,959,413</u>			
Beneficial interest in charitable trusts	\$ 79,900	\$ -	\$ -	\$ 79,900

(1) In accordance with Subtopic 810-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The following table presents additional information about investments measured at fair value on a recurring basis for which the Foundation has utilized Level 3 inputs to determine fair value as of December 31, 2018 and 2017:

	2018	2017
	Beneficial Interest in Charitable Trusts	Beneficial Interest in Charitable Trusts
Balance, beginning	\$ 79,900	\$ 224,600
Contributions	1,369,400	-
Payments and fees	-	(144,700)
Balance, ending	<u>\$ 1,449,300</u>	<u>\$ 79,900</u>

The net unrealized gains or losses attributable to investments held were not material during the years ended December 31, 2018 and 2017.

The table below sets forth the unfunded commitments and redemption terms for the assets that were valued at NAV (or its practical expedient) as of December 31, 2018 and 2017:

Description	2018 Fair Value	2017 Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Private equity funds (a)	\$ 25,469,729	\$ 23,995,187	\$ 8,415,771	Monthly/Quarterly/Semi-Annually	30-100 days
Multi-strategy hedge funds (b)	4,656,178	4,082,977	-	Quarterly	not required
Global fixed income funds (c)	5,964,823	6,209,821	-	Daily	not required
Real estate funds (d)	1,934,220	1,880,299	-	Daily	not required
Private equity funds (a)	1,838,854	2,190,355	730,149	Not eligible	N/A
Money market funds (e)	2,897,780	1,392,627	-	N/A	N/A
Total	<u>\$ 42,761,584</u>	<u>\$ 39,751,266</u>	<u>\$ 9,145,920</u>		

- (a) These are investments in several private equity funds that invest primarily in equity and debt investments. These investments are considered to have certain nonredeemable interests where redemptions are generally not permitted during the life of the fund. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund.
- (b) This category invests in funds that pursue multiple strategies to diversify risks and reduce volatility. The fund classifies its private investment funds into five portfolio strategies: opportunistic equity, enhanced fixed income, absolute return, tactical trading and private investments.
- (c) The objective of this investment category is to provide income-oriented returns from a globally diversified portfolio of primarily debt or debt-like securities. An associated objective is the preservation and enhancement of principal.
- (d) This category includes investments in a real estate fund that invests primarily in U.S. commercial real estate. The fund uses derivative financial instruments to reduce its exposure to changes in interest rates.
- (e) This category seeks to offer the potential to earn higher yields than other money market funds. Current income consistent with liquidity and stability of capital are sought and the fund invests in various high-quality, short-term instruments.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those affects could be significant.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 5. Property and Equipment

The balances of the major classes of depreciable assets at December 31, 2018 and 2017 are as follows:

	2018	2017
Land	\$ 70,000	\$ 70,000
Building and improvements	1,595,133	1,595,133
Furniture and equipment	465,963	453,373
Total	2,131,096	2,118,506
Less accumulated depreciation	(712,875)	(665,072)
Net property and equipment	<u>\$ 1,418,221</u>	<u>\$ 1,453,434</u>

Note 6. Annuity and Unitrust Agreements

The Foundation has received amounts from various individuals under annuity and unitrust agreements (life income agreements), which require the Foundation to pay the donors varying amounts during their lifetime. The present value of the payments to be made, using discount rates ranging from 3 percent to 8.8 percent, is \$1,636,907 and \$1,712,383, as of December 31, 2018 and 2017, respectively. In estimating the amounts due under the annuity and unitrust agreements, management has estimated the life expectancy of the annuitants using life expectancy tables prepared by the Society of Actuaries' Annuity 2000 Mortality Table. However, actual events impacting these estimates could significantly change the valuation.

Note 7. Retirement Plan

The Foundation has adopted a retirement plan, qualified under Section 403(b) of the Internal Revenue Code, covering all of its employees. The plan is a defined-contribution plan whereby the Foundation contributes a percentage of the employees' salaries. The total retirement expense for the years ended December 31, 2018 and 2017 was \$93,083 and \$85,453, respectively.

Note 8. Concentration of Credit Risk

The Foundation maintains its cash and cash equivalents in a commercial bank located in Cedar Rapids, Iowa. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The Foundation maintains cash in bank deposit accounts, which at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	2018	2017
Charitable remainder trusts	<u>\$ 3,211,016</u>	<u>\$ 2,038,377</u>

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 10. Lease Commitments

The Foundation leases office equipment under noncancellable operating leases expiring in various years through 2022.

Future minimum lease payments required under these leases are as follows:

Years ending December 31:	
2019	\$ 28,135
2020	27,796
2021	27,316
2022	8,257
2023	3,600
Total	<u>\$ 95,104</u>

There was minimal rent expense for the years ended December 31, 2018 and 2017.

The Foundation rents a portion of its facility under an operating lease to another organization. The lease has a term of five years expiring in June 2021. Rental income from the lease for both of the years ended December 31, 2018 and 2017 was \$25,459.

The following is a schedule by years of future minimum rental payments to be received under the lease:

Years ending December 31:	
2019	\$ 25,459
2020	25,459
2021	12,727
Total minimum future rentals	<u>\$ 63,645</u>

Note 11. Endow Iowa Program

The Foundation participates in the Endow Iowa Program (the Program), which is administered by the Iowa Economic Development Authority through qualified community foundations. The Program's purpose is to create sustainable, philanthropic opportunities for charitable impact in Iowa communities. The legislation governing the Program requires that contributions received be accumulated in a fund, referred to as a 'permanent endowment', for purposes of calculating annual spending, which may not exceed 5 percent. During the years ended December 31, 2018 and 2017, contributions without donor restrictions totaled \$2,014,330 and \$3,137,455, respectively, related to the Program.

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 12. Functional Expense Classification

The Foundation allocates expenses across the following functions as follows for the years ended December 31, 2018 and 2017:

	2018				
	Grants	Management and General	Fundraising	Other Program	Total
Salaries and benefits	\$ 384,615	\$ 401,389	\$ 593,727	\$ 286,165	\$ 1,665,896
Depreciation and amortization	-	59,796	-	-	59,796
Other	180,811	147,434	183,433	73,224	584,902
Total	<u>\$ 565,426</u>	<u>\$ 608,619</u>	<u>\$ 777,160</u>	<u>\$ 359,389</u>	<u>\$ 2,310,594</u>

	2017				
	Grants	Management and General	Fundraising	Other Program	Total
Salaries and benefits	\$ 364,499	\$ 376,482	\$ 536,314	\$ 254,436	\$ 1,531,731
Depreciation and amortization	-	59,796	-	-	59,796
Other	121,062	152,422	159,502	61,409	494,395
Total	<u>\$ 485,561</u>	<u>\$ 588,700</u>	<u>\$ 695,816</u>	<u>\$ 315,845</u>	<u>\$ 2,085,922</u>

Note 13. Financial Assets Availability and Liquidity

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, certificates of deposit, and marketable debt and equity securities. Based on historical experience, only a portion of contributions and grants receivable due within one year are considered available for use in meeting annual operating needs (liquid). As of December 31, 2018, the following financial assets are available to meet annual operating needs for the years then ended:

Cash and cash equivalents	\$ -
Contributions for unrestricted purposes due in one year or less	45,167
Certificates of deposit	4,897,468
Investments	153,123,915
Beneficial interests in charitable trusts	1,449,300
Total financial assets as of December 31	<u>\$ 159,515,850</u>
Financial assets available to meet general expenditures over the next 12 months:	
Cash	\$ -
Certificates of deposit	4,897,468
Contributions for unrestricted purposes due in one year or less	45,167
Estimated payout on nondonor restrictions	2,036,000
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,978,635</u>

The Greater Cedar Rapids Community Foundation

Notes to Financial Statements

Note 14. Subsequent Events

Management has evaluated subsequent events through April 23, 2019, the date the financial statements were available for issuance. Through that date there were no events requiring recognition or disclosure in the financial statements.

