

COMMUNITY FOUNDATION OF GREATER MUSCATINE  
Muscatine, Iowa

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

June 30, 2018

# KAY L. CHAPMAN, CPA PC

116 Harrison Street  
Muscatine, Iowa 52761  
563-264-1385

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Community Foundation of Greater Muscatine  
Muscatine, Iowa 52761

I have audited the accompanying financial statements of the Community Foundation of Greater Muscatine (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018, and the related statements of activities and statements of cash flows for the eighteen months 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of Greater Muscatine as of June 30, 2018, and the changes in its net assets and its cash flows for the eighteen months then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive style with a large initial 'K'.

Kay L. Chapman, CPA PC

October 19, 2018

COMMUNITY FOUNDATION OF GREATER MUSCATINE  
 Statements of Financial Position  
 June 30, 2018

Exhibit A

**ASSETS**

Current Assets		
Cash and cash equivalents		\$ 8,831,962
Property and Equipment		
Office equipment		9,818
Furniture and fixtures		1,130
Total property and equipment		10,948
Less: accumulated depreciation		10,948
Net Property and Equipment		-
Non-current Assets		
West Liberty Fund, LLC		1,741,999
Long-term investments		13,953,333
Long-term investment-building		2,129,781
Life insurance cash value		21,482
Total Non-current Assets		17,846,595
<b>TOTAL ASSETS</b>		<b><u>\$26,678,557</u></b>

**LIABILITIES AND NET ASSETS**

Current Liabilities		
Payroll taxes payable		\$ 15,856
Net Assets		
Permanently restricted		
Endowments		5,999,831
Other permanently restricted		7,787
Total Permanently Restricted		6,007,618
Temporarily restricted		
Endowments		1,564,769
Other temporarily restricted		15,034,418
Total Temporarily Restricted		16,599,187
Unrestricted		
Designated		
Endowments		1,739,684
Other designated		103,367
Total Designated		1,843,051
Undesignated, operations		2,212,845
Total Unrestricted		4,055,896
Total Net Assets		26,662,701
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$26,678,557</u></b>

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF GREATER MUSCATINE  
Statement of Activities  
For the Eighteen Months Ended June 30, 2018

Exhibit B

<b>REVENUE</b>	Unrestricted	Designated	Temporarily Restricted	Permanently Restricted	Total
Donations	\$ 132,329	\$ 335,464	\$ 9,935,956	\$ 337,297	\$10,741,046
Fund management fees	293,649	-	2,500	-	296,149
Fund origination fees	2,700	-	-	-	2,700
Interest/dividends	5,927	77,365	110,647	245,942	439,881
Realized gains on investments	-	19,707	835,385	4,991	860,083
Unrealized gain on investments	18,742	385,225	232,570	416,643	1,053,180
Grants	152,005	2,000	114,960	584,273	853,238
Miscellaneous	4,726	-	-	-	4,726
Program income	-	10,061	163,065	30,602	203,728
<b>Total Revenue</b>	<u>610,078</u>	<u>829,822</u>	<u>11,395,083</u>	<u>1,619,748</u>	<u>14,454,731</u>
Release from Restrictions					
Grants from other funds	1,802,196	-	16,300	10,182	1,828,678
<b>Total after release from restrictions</b>	<u>2,412,274</u>	<u>829,822</u>	<u>11,411,383</u>	<u>1,629,930</u>	<u>16,283,409</u>
<b>EXPENSES</b>					
Advertising	17,297	-	-	-	17,297
Annuity	-	106,250	-	-	106,250
Fund management fees	-	49,497	143,000	90,575	283,072
Fund origination fees	-	-	1,350	1,350	2,700
Grants	-	189,957	1,337,585	591,222	2,118,764
Insurance	4,009	-	-	-	4,009
Meetings	743	-	-	-	743
Miscellaneous	4,848	-	-	-	4,848
Office expense	49,879	-	122	19	50,020
Professional associations	5,241	-	-	-	5,241
Professional services	6,056	-	-	-	6,056
Program support	-	5,489	349,405	80,542	435,436
Rent	9,655	-	-	-	9,655
Salaries, temp wages and payroll taxes	333,947	-	-	-	333,947
Subscriptions	223	-	-	-	223
Travel	7,786	-	-	-	7,786
Utilites	2,012	-	-	-	2,012
<b>Total Expenses</b>	<u>441,696</u>	<u>351,193</u>	<u>1,831,462</u>	<u>763,708</u>	<u>3,388,059</u>
Net Assets Released from Restrictions					
Grants to other funds	-	(1,802,196)	(10,182)	(16,300)	(1,828,678)
<b>Change in Net Assets</b>	<u>1,970,578</u>	<u>(1,323,567)</u>	<u>9,569,739</u>	<u>849,922</u>	<u>11,066,672</u>
<b>Net Assets, Beginning of Year</b>	<u>242,267</u>	<u>3,166,618</u>	<u>7,029,448</u>	<u>5,157,696</u>	<u>15,596,029</u>
<b>Net Assets, End of Year</b>	<u>\$2,212,845</u>	<u>\$1,843,051</u>	<u>\$16,599,187</u>	<u>\$6,007,618</u>	<u>\$26,662,701</u>

The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF GREATER MUSCATINE  
 Statements of Cash Flows  
 For the Eighteen Months Ended June 30, 2018

Exhibit C

**Net Cash Flows from Operating Activities**

Change in Net Assets	<u>\$11,066,671</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities	
Realized (gain) on investments	(860,083)
Unrealized (gain) on investments	(1,053,180)
Increase in payroll taxes payable	6,568
(Decrease) in cash value of life insurance	<u>(133)</u>
Net adjustments	<u>(1,906,828)</u>
Net Cash Provided by Operating Activities	<u>9,159,843</u>

**Cash Flows from Investing Activities**

Purchase of investments	(7,743,407)
Donation of non-cash investments	(2,129,781)
Sale of investments	<u>3,123,355</u>
Net Cash (Used in) Investing Activities	<u>(6,749,833)</u>

**Cash Flows from Financing Activities**

Net Increase in Cash	2,410,010
Cash and Cash Equivalents, Beginning of Year	<u>6,421,952</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,831,962</u>

**Supplemental Disclosures**

Interest paid	<u>\$ -</u>
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The accompanying notes are an integral part of these financial statements.

COMMUNITY FOUNDATION OF GREATER MUSCATINE  
Notes to Financial Statements  
June 30, 2018

**Note 1. Summary of Significant Accounting Policies**

- A. Organization – The Community Foundation of Greater Muscatine was formed in 1999 to promote philanthropy within the greater Muscatine, Iowa community, educate the community to facilitate effective philanthropy, and provide for the current and future charitable needs of the community.
- B. Basis of Presentation – The Community Foundation of Greater Muscatine prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for NFPs. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Net Assets – The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. This includes contributions when the restrictions are met within the same reporting period.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. Permanently restricted assets consist of long-term and short-term investments.

C. Permanently Restricted Net Assets

The permanently restricted net assets were donated by various donors. At June 30, 2018 the permanently restricted funds were as follows:

Brant Bruhn Memorial Scholarship	\$ 13,441
Community Foundation of Louisa County	
Columbus Jct United Methodist Church	26,619
Letts Public Library Endowment	10,000
Louisa County 4-H Foundation	11,849

Louisa County Trails Association	17,161
Lisa Ostrem Memorial Endowment	8,685
Tri-Rivers Conservation Foundation Agency	3,786
Werner Scholarship Fund	17,455
United Presbyterian Church USA	10,903
Tri-Rivers Conservation Foundation Agency	11,577
Morning Sun Community Center	24,970
Luithly Scholarhp Fund	9,970
First United Presbyterian	10,072
William Paris Conservation	13,492
Wapello Alumni Association	25,594
Louisa County Endow Iowa Match Endowment	16,353
Louisa County Endow Iowa Endowment	435,182
CFLC Impact Endowment	31,223
Louisa County Fair Endowment	17,043
Friends of CFLC Operating	5,255
Louisa county Historical Endowment	13,098
Hal Cross Wapello Music Endowment	16,155
Friends of CF of Louisa County	10,182
Community Foundation of Louisa County other	800
Crossroads Foundation Endowment	37,891
* Dianne Dalbey Scholarship	28,619
Diversity Service Center Endowment	17,826
Domestic Violence Shelter Endowment	296,706
Family Resources Inc. Endowment	41,421
Flickinger Center Scholarship	12,639
Flickinger Learning Center Endowment	51,055
* Francis & Patricia Carroll Scholarship	63,575
Friends of Art Center Endowment	62,466
Friends of Muscatine Historical Preservation Endowment	13,915
Friends Step Maintenance Acorn	11,124
George Millett Fund	120,583
Great River Tennis Assoc Endowment	1,084
Hendricks Community Service Award	105,138
Larry Fullington Scholarship Endowment	27,743
Leah L. Maurer Memorial Scholarship	24,323
L&M Music Boosters Scholarships	980
* Maurice A. and Donna J. Reed	86,169
MCSA Endowment	656,902
Micaela Brunson Scholarship Fund	60,470
Muscatine Arboretum Assoc. Endowment	11,433



Muscatine Art Center Support Foundation	1,406,389
Muscatine Band Boosters Endowment	21,318
Muscatine County Arts Council Endowment	37,369
Muscatine County Conservation - Kirschner	111,757
Muscatine County Endowment Fund	463,191
Muscatine Cultural Alliance Endowment	
Cultural Alliance Endowment Fund	17,464
Cultural Alliance Umbrella Fund	9,303
Friends of Pine Creek Mill	1,226
Muscatine Civic Chorale Fund	2,682
Muscatine Historic Preserv Comm Endowment	515
Muscatine History & Industry Center	2,536
Muscatine Masquers Endowment	14,066
Muscatine Symphony Orchestra	121,397
Musser Public Library	2,640
Muscatine Diabetes Project Endowment	4,543
Muscatine Health Support Fund Endowment	10,076
Old Barn Maintenance	15,869
Pat and Jim Powers Endowment	12,474
Ray Hockersmith Fund	89,893
Robert A. Werner Endowment	14,776
* Schlutz Family Foundation Endowment	10,026
Senior Resources Endowment	15,050
Senior Resources Meals on Wheels	192,629
Stanley, Lande & Hunter Community Fund	17,272
Stevens Endowment for Drakes	13,300
Strengthening Families Endowment	11,729
Anonymous Endowment	553
Sturms Scholarship Endowment	9,495
Susan Dravis Fund	5,931
* Walter Muscatine Arboretum	3,256
* Walter Musser Museum Endowment	10,018
West Liberty Community Fund	51,024
West Liberty Park, LLC Endowment	179,178
West Liberty Dream Catchers	383,745
* Whetstine Endowment Fund	119,389
Wulf Family Scholarship Endowment	10,728
^ Youth Sports Foundation Endowment	92,678
Zoo Garden at Week Park Endowment	29,206
Total Permanently Restricted Funds	<u>\$ 6,007,618</u>

\*These component funds have been classified as donor-advised where the donor may have advisory privileges with respect to distributions according to the Pension Protection Act of 2006.

D. Temporarily Restricted Net Assets

At June 30, 2018 the temporarily restricted funds were as follows:

Agricultural Learning Center	\$	1,839
Art Space Charitable Fund		1,244
* Askren Family Charitable Fund		2,211
Atalissa Betterment Committee		3,400
Blue Zones Project		1,256
Boat Club Environmental		1,529
Charitable Fund #101		174,602
Clark Foundation Project Fund		350
Coins for Christmas		3,605
Collitz Fund for Homeless		143,139
Collitz Habitat for Humanity		150,518
Community Improvement Action Team (CIAT)		
Muscatine Boat Show Committee		533
Muscatine Community Gardens		4,659
Crossroads Fund Charitable Fund		
Crossroads Continuing Fund		2,650,264
Crossroads Fund Charitable Fund		152,431
Cross Country Program		5,650
Deb & Keith Porter Advised Fund		4,373
Doc Wester Shoe Fund		3,795
Downtown Action Alliance		17,055
Franklin 5th Scholarship Fund		5,116
Friends of Harmony Place Fund		3,840
Friends of Muscatine-China		35,887
Friends of Muscatine Historic Preservation		48,632
Friends of Musser Public Library		2,500
Friends of the Old Barn		1,109
Friendship Education		45,885
GMG Schools Foundation		
Bob & JoAnn Jensen Scholarship Fund		456,906
GMG Schools Foundation		35,543
Grow Muscatine Charitable Fund		8,827
Jubilee Community Center		6,369
Keep Muscatine Beautiful		20,972

Kent Nutrition Group - Gives	38,150
L&M Music Boosters Project Fund	1,945
MCSA Charitable Fund	195,889
Muscatine Health Support Granting Fund	5,597,466
Muscatine Art Center Support Fund	784,978
Muscatine Art Center Support Charitable Fund	67,335
Muscatine Community School Foundation	1,849,150
Muscatine County Arts Council	17,533
Muscatine County Boxing Club	11,162
Muscatine County Endowment Granting Fund	3,400
Muscatine County Fair Charitable Fund	125,050
Muscatine Center for Business Development	1,620
Muscatine Diabetes Walk Project Fund	24,630
Muscatine Financial Literacy Coalition	11,587
Muscatine Japan Youth Exchange	10,405
Muscatine Levee Charitable Fund	178,237
Muscatine Orchestra Boosters	1,996
Muscatine 2nd Saturday Project Fund	3,004
Muscatine Soapbox Derby Project Fund	3,119
Muscatine Symphony Orchestra Fund	5,872
Muscatine Trails Charitable Fund	5,453
Muscatine Dog Park Project Fund	7,508
Pearls of Progress	181,404
Pearl City Lighthouse	292
Pearl City Pavilion	53,597
Pearl City Players	1,237
Power to Save Fund	3,813
* Reed Advised Charitable Fund	31,315
Riding for Success	16,553
* Robert & JoAnn Jensen Charitable	38,817
Rotary Club of Muscatine Organization	13,203
Shay Scholarship Endowment Fund	140
STEM Matters - Robots & More	35,585
Temp Associates Scholarship Fund	1,199,782
Townsend Scholarships	85,774
* Toyota of Muscatine Donor Advised Fund	147,598
Vision Mission Assistance	15,664
Weed Park Bandstand	1,952
Weed Park Zoo Garden	1,883
West Liberty Dream Catchers	63,865
West Liberty Fund LLC	

Land & Improvements	1,741,999
West Liberty Charitable Fund	17,346
West Liberty LULAC Citizenship	1,853
What's Up Muscatine	4,472
Designated Gifts	<u>1,515</u>
Total Temporarily Restricted Net Assets	<u>\$ 16,599,187</u>

\*These component funds have been classified as donor-advised where the donor may have advisory privileges with respect to distributions according to the Pension Protection Act of 2006.

E. Designated Net Assets – Certain unrestricted net assets have been designated for various programs or uses by the Board of Directors of the Foundation. At June 30, 2018 the designated net assets were as follows:

Cares & Shares Endowment Fund	\$ 1,675,857
CFGM/Hancher Muscatine Outreach	38,410
Emergency Response Fund	13,164
Endow Iowa Endowment	33,646
Youth Engaged in Service	1,312
Joan U. Axel Fund	15,000
NAEIR Supply Program	1,989
Endow Stronger Community Fund	17,744
Underserved Dental Program	15,748
Lois M. Walter Endowment Fund	<u>30,181</u>
Total Designated Net Assets	<u>\$ 1,843,051</u>

\*In May 2011, the Community Foundation received a bequest from Hilda E. Collitz that established the Hilda E. Collitz Charitable Remainder Annuity Trust. This trust is separate from all component funds within the Community Foundation and is classified in this audit as designated assets. It forms the basis for the Foundation-managed trust fund from which a fixed annuity is paid monthly to the individual(s) specified by Mrs. Collitz. Upon the passing of the beneficiary(ies), the remainder was transferred to the Community Foundation's unrestricted assets. The beneficiary died on April 30, 2018. As of June 30, 2018, the remainder of \$1,802,196 had been legally transferred to the Community Foundation's unrestricted assets.

F. Undesignated, Operations Net Assets – The amount of net assets that is unrestricted and available for operations of the Foundation at June 30, 2018 was \$2,212,841.

G. Income Tax Status – The Foundation was incorporated as an Iowa corporation in 1999, under the Iowa Nonprofit Corporation Act, Iowa Code Chapter 504A (1989). The corporation is organized and operated exclusively for charitable, scientific, literary and educational purposes, and therefore, is exempt from income taxes under Section

501(c)(3) of the Internal Revenue Code and similar state provisions. The Foundation is also exempt from local real estate taxes. For the years ended December 31, 2017, management has determined the Foundation had no unrelated business income. The tax years ending 2017, 2016 and 2015 are still open to audit for both federal and state purposes.

- H. Estimates – The preparation of financial statements in conformity with an other comprehensive basis of accounting other than generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- I. Cash and Cash Equivalents – Cash in excess of daily requirements is invested in bank money market accounts. Such investments are deemed to be cash equivalents for the purposes of the statement of cash flows.
- J. Investments – The Foundation invests in a combination of cash equivalent funds, publicly-traded common stocks, mutual funds and fixed-income securities. Investments are presented in the financial statements at fair value. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of investments are recorded on a trade-date basis. Investment income includes both interest and dividend income. Interest income is recorded on the cash basis. Dividends are recorded on the ex-dividend date. Net realized gains (losses) represent the gains (losses) on investments sold during the reporting period. Net unrealized gains (losses) represent the gains (losses) on investments held throughout the reporting period and are included in the change in net assets in the accompanying statement of activities.

- K. Property and Equipment – Property and equipment are recorded at cost. Items with a cost of \$300 or greater are capitalized. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets.

- L. Accounting for Contributions – Contributions are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction.

The Foundation is a beneficiary under several donor's wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the Foundation has an irrevocable right to the bequest.

- M. Expense Recognition – The cost of providing the Foundation's programs and other activities is summarized in the statement of activities. Expenses that can be identified with a specific donor fund are charged directly to that fund. General and administrative expenses include those costs that are not directly identifiable with any specific fund, but which provide for the overall support and direction of the Foundation.

## Note 2. Investments

The Community Foundation's long-term investment portfolio consists of a mix of fixed-income investments (approximately 40%) and equity investments (approximately 60%). The equity investments are diversified over several equity mutual funds with differing focuses as follows, at June 30, 2018:

	<u>Fair Value</u>	<u>Cost</u>
CFGM Investment Committee Directed		
Portfolio for Endowments		
Conservative Growth		
Vanguard 500 Index Admiral Fund	\$ 112,420	\$ 101,850
Vanguard High Dividend Yield Index Investor Fund	33,104	31,848
Vanguard Intermediate Term Bond Index Admiral	49,547	51,518
Vanguard Mid-cap Growth Index Admiral Fund	52,610	45,909
Vanguard REIT Index Admiral Fund	14,874	16,281
Vanguard Small-cap Index Admiral Fund	52,987	46,978
Vanguard Total Bond Market Index Admiral Fund	50,593	51,708
Vanguard Total World Stock Index Investor Fund	16,687	15,222
Vanguard Total International Stock Index Admiral Fund	15,946	15,049
Vanguard Wellington Investor Fund	16,334	16,315
Vanguard Windsor II Investor	<u>25,050</u>	<u>25,347</u>
Total Conservative Growth	<u>440,152</u>	<u>418,025</u>
Active Growth		
Vanguard 500 Index Admiral Fund	4,207,935	3,225,321
Fidelity Select Biotechnology	536,314	440,394
Vanguard Dividend Growth	944,854	797,839
Vanguard Mid-cap Index Fund	1,444,952	1,078,882
Vanguard REIT Index Admiral Fund	553,072	508,803
Vanguard Small-cap Index Admiral Fund	1,387,462	995,843
Vanguard Total Bond Market Index Admiral Fund	560,392	587,866
Vanguard Total World Stock Index Investor Fund	556,227	467,099
Vanguard Total International Stock Index Admiral Fund	533,728	495,563

Vanguard Wellington Fund Admiral	548,617	511,516
Vanguard Windsor II Fund	<u>653,712</u>	<u>646,781</u>
Total Active Growth	<u>11,927,265</u>	<u>9,755,907</u>
Total CFGM Investment Committee Directed	<u>12,367,417</u>	<u>10,173,932</u>
Dynamic Portfolio for Hilda E. Collitz CRA Trust		
Driehaus Emerging Market Growth Fund	152,727	126,231
Fidelity Select Biotechnology	61,599	49,020
Vanguard Long-term Bond Index Fund	43,803	46,568
Vanguard 500 Index Admiral Fund	345,210	176,360
Vanguard Mid-cap Index Fund	207,049	103,039
Vanguard REIT Index Admiral Fund	118,149	101,625
Vanguard Small-cap Index Fund Admiral	243,853	132,126
Vanguard Total International Stock Index Admiral Fund	176,912	158,296
Vanguard Total Bond Market Index Admiral Fund	49,662	51,778
Vanguard Total World Stock Index Fund	<u>186,952</u>	<u>147,263</u>
Total Collitz Fund	<u>1,585,916</u>	<u>1,092,306</u>
Total	<u>\$ 13,953,333</u>	<u>\$ 11,266,238</u>

### Note 3. Endowment Funds

Accounting principles generally accepted in the United States of America (GAAP) provides guidance on the net asset classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

The Foundation's endowments consist of 120 funds established for a variety of purposes. Such endowments include both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. These endowment funds also include a charitable remainder trust. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of relevant law:*

Management and the Board have determined that the majority of the Foundation's net assets do not meet the definition of endowment funds under UPMIFA. The Foundation is governed subject to its bylaws and most contributions are received subject to the terms of fund agreements.

Under the terms of the Foundation's endowment spending policy, the maximum spending rate determined by the investment committee annually and approved by the board of directors. The current maximum spending rate is 5% in accordance with Endow Iowa Program requirements. All, or a portion of, the available grant may be expended per the

endowment fund's written agreement. All available grant monies, or any unused portion, may remain in the endowment to help it grow.

As a result of the ability to distribute corpus, management has determined that all contributions received subject to the standard fund agreements, and subject to UPMIFA, are classified as temporarily restricted until appropriated, at which time the appropriation is reclassified to unrestricted net assets. Contributions that are subject to fund agreements which are modified may be recorded as permanently restricted, temporarily restricted, or unrestricted, depending on the specific terms of the respective fund agreement.

Generally if the corpus of a contribution can at some point in the future become available for spending it is recorded as temporarily restricted. If the corpus never becomes available for spending it is reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are received.

At June 30, 2018, endowment net assets consist of the following:

Type of Endowment Fund	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds				
Permanent endowment	\$ -	\$ -	\$ 5,999,831	\$ 5,999,831
Term endowment	-	1,564,769	-	1,564,769
Board-designated endowment	<u>1,739,684</u>	<u>-</u>	<u>-</u>	<u>1,739,684</u>
Total	<u>\$ 1,739,684</u>	<u>\$ 1,564,769</u>	<u>\$ 5,999,831</u>	<u>\$ 9,304,284</u>

Changes in endowment net assets during the eighteen-month period ended June 30, 2018 are as follows:

	<u>Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
As of 12-31-16	<u>\$ 1,467,085</u>	<u>\$ -</u>	<u>\$ 5,154,580</u>	<u>\$ 6,621,665</u>
Increases				
Contributions	266,450	2,275,631	701,192	3,243,273
Program revenue	-	250	29,798	30,048
Transfers	1,782,808	1,006,786	223,385	3,012,979
Investment return	<u>255,981</u>	<u>100,356</u>	<u>746,381</u>	<u>1,102,718</u>
Total increases	<u>2,305,239</u>	<u>3,383,023</u>	<u>1,700,756</u>	<u>7,389,018</u>
Decreases				
Fund management fees	23,404	14,675	91,783	129,862
Program disbursements	-	168	1,209	1,377
Grants	158,950	16,547	590,541	766,038
Loss on investments	41,834	55,139	78,358	175,331



Transfers	6,250	1,731,725	93,614	1,831,589
Released from restriction	<u>1,802,202</u>	<u>-</u>	<u>-</u>	<u>1,802,202</u>
Total decreases	<u>2,032,640</u>	<u>1,818,254</u>	<u>855,505</u>	<u>4,706,399</u>
As of 6-30-18	<u>\$ 1,739,684</u>	<u>\$ 1,564,769</u>	<u>\$ 5,999,831</u>	<u>\$ 9,304,284</u>

*Funds with deficiencies:*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. There are no such deficiencies at June 30, 2018.

*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 endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 7-10% net of related investment management fees. Actual returns in any given year may vary from this objective.

*Strategies employed for achieving return objectives:*

To satisfy its long-term rate-of-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 parameters.

*Spending policy and how the investment objectives relate to the spending policy:*

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current standard spending policy is to make available for distribution an amount equal to 5% of a rolling four-quarter average market value of each endowment. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow annually at an average rate of 2-5%. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

**Note 4. Fair Value Measurements**

The Foundation reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that

entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1. Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.
- Level 2. Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets in markets that are not active;
  - Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
  - Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3. Unobservable inputs that are based on the Foundation’s own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

When available, the Foundation measures fair value using level 1 inputs because they generally provide the most reliable evidence of the fair value. The primary uses of fair value measures in the Foundation’s financial statements are recurring measurement of short term investments. At June 30, 2018, the Foundation’s investments were all measured using level 1 inputs, except for the Long-term Investment-Building which is measured at level 3. The estimated fair value of the long-term investment-building is based on the appraised fair value of the respective property at the time of the donation.

The changes in the level 3 asset measured at fair value on a recurring basis using significant unobservable inputs during the eighteen-month period ended June 30, 2018 are as follows:

Beginning of period	\$ -
Donations	<u>2,129,781</u>
End of period	<u>\$ 2,129,781</u>

**Note 5. Credit Risk and Market Risk**

The Foundation invests in a combination of cash equivalent funds, publicly-traded common stocks, mutual funds, fixed-income securities and alternative investments. All investment securities are subject to the risks common to financial markets, including interest rate risk, credit risk, and overall market risk. Due to the level of risk associated with all investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position.

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The

Foundation maintains cash accounts, certificates of deposits (CDs), and participates in the Certificate of Deposit Account Registry Service (CDARS) in local financial institutions. The Federal Deposit Insurance Organization (FDIC) and National Credit Union Association (NCUA) guarantees accounts, CDs and CDARS up to \$250,000 per financial institution. The balances maintained in the financial institutions at June 30, 2018 were not all covered by FDIC and NCUA guarantees. The Foundation's approved investment Policy Supporting Guidelines is \$350,000 per insured financial institution. Freedom Bank and West Chester Savings Bank merged into Central State Bank's charter (now known as CBI Bank and Trust). A summary of uninsured cash balances at June 30, 2018 follows:

Ascentra Credit Union	\$ 346,064
CBI	498,915
CBI-CDRS	3,084,921
Community Bank	245,689
Family Credit Union	322,010
F&M Bank and Trust	232,757
First National Bank	110,390
FNB-CDRS	2,788,057
First National Bank - Fairfield	336,576
Members Community Credit Union	287,349
MidwestOne Bank	354,898
West Liberty State Bank	<u>220,720</u>
Total financial institution balances	8,828,347
CDRS insured by FDIC and NCUA	5,872,978
Insured by FDIC and NCUA	<u>2,369,509</u>
Uninsured financial institution balances	585,860
Covered by additional \$100,000 Board Policy	<u>492,000</u>
Uninsured amount above board policy	<u><u>\$ 93,860</u></u>

#### **Note 6. Real Estate Held for Resale**

The Community Foundation of Greater Muscatine owns the West Liberty Business Park in West Liberty, Iowa, which was created as a charitable venture to promote and encourage businesses to locate in the West Liberty community to provide expanded employment opportunities. The project was made possible through an anonymous donation made in 2001 and developed through the West Liberty Fund, LLC, an entity created by the Community Foundation which appoints an operational board. The sale of lots increases Liberty Park Endowment from which earnings may be used for the benefit of West Liberty. The carrying amount is at cost, which includes the direct costs of improvements. During the eighteen months ended June 30, 2018 there were two lots sold.

<u>West Liberty Fund LLC</u>	
Land	\$ 584,107
Improvements	933,156
Donated improvements	<u>224,736</u>
Total	<u>\$ 1,741,999</u>

#### **Note 7. Operating Lease**

The Foundation leases the office space located at 208 West 2<sup>nd</sup> Street, Suite 213, Muscatine, Iowa. The terms of the lease are for one year commencing November 1, 2006 and monthly rental payments of \$535, of which \$35 is for utilities, which are below market value. The lease has an option for annual extensions, which have been exercised.

The annual lease payments under the operating lease existing as of June 30, 2018 are approximately \$6,420 per year. In May 2010, the Foundation began paying utilities on the rented space. Prior to that date, the utilities had been paid by the landlord.

#### **Note 8. Donated Services and Materials**

There were in-kind professional services, products and rent donated during 2017 and 2018. No monetary value was assessed to these services. The total value is deemed to be immaterial to the financial statements.

Gifts of life insurance are eligible for acceptance by the Community Foundation and are reported at the cash value at the end of each audited year as opposed to the value of the death benefit.

#### **Note 9. Affiliation with Community Foundation of Louisa County**

The Foundation entered into a formal affiliation agreement with the Community Foundation of Louisa County on September 20, 2016. As the host foundation, Community Foundation of Greater Muscatine provides policy governance, along with financial, investment and administrative management to its affiliate, including tax-deductibility for donors.

#### **Note 10. Concentrations**

The Foundation relies almost entirely from donations received from individuals, businesses and other not-for-profit organizations in and around the Muscatine area along with earned income. Therefore, the financial position of the Foundation is highly dependent upon the economic condition of the local businesses and community, as well as a few large donors, earnings on assets and interest rates of its investments.

### **Note 11. Subsequent Events**

Subsequent events have been evaluated through October 19, 2018, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statement would be required.

### **Note 12. Recently Issued Accounting Standards Update**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), to improve financial reporting with respect to leasing transactions. ASU 2016-02 requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. The provisions of ASU 2016-02 will be effective for the fiscal year ending December 31, 2020. Early adoption is permitted.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 changes presentation and disclosure requirements for not-for-profit organizations to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users of the financial statements. This standard includes qualitative and quantitative requirements in the following areas: 1) net asset classes, 2) investment return, 3) expenses, 4) liquidity and the availability of resources, and 5) presentation of operating cash flows. The provisions of ASU 2016-14 will be effective for the fiscal year ending December 31, 2018. Early adoption is permitted.

The Foundation is currently evaluating both ASU 2016-02 and ASU 2016-14 and the related impact thereof on the Foundation's financial statements.