

The Foundation for Enhancing Communities

Financial Statements and
Supplementary Information

Year Ended December 31, 2017
with Independent Auditor's Report

MaherDuessel

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THE FOUNDATION FOR ENHANCING COMMUNITIES

YEAR ENDED DECEMBER 31, 2017

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Independent Auditor's Report

**Board of Directors
The Foundation for
Enhancing Communities**

We have audited the accompanying financial statements of The Foundation for Enhancing Communities (Foundation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We previously audited the Foundation's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maher Duessel

Harrisburg, Pennsylvania
March 15, 2018

THE FOUNDATION FOR ENHANCING COMMUNITIES

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(With Comparative Totals at December 31, 2016)

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|-----------------------------|
| Assets | | |
| <hr/> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,703,497 | \$ 1,861,135 |
| Receivables: | | |
| Accounts | 80,599 | 46,623 |
| Contributions | 504,308 | 694,843 |
| Prepaid expenses | 28,629 | 25,567 |
| Total current assets | <u>3,317,033</u> | <u>2,628,168</u> |
| Noncurrent assets: | | |
| Pledges receivable | 101,110 | 93,328 |
| Contributions receivable, net of current portion | 1,000,000 | 1,000,000 |
| Property and equipment, net | 50,918 | 42,537 |
| Investments | 81,481,043 | 66,611,954 |
| Split-interest agreements | 11,480,849 | 10,593,236 |
| Total Assets | <u>\$ 97,430,953</u> | <u>\$ 80,969,223</u> |
| <hr/> | | |
| Liabilities and Net Assets | | |
| <hr/> | | |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 8,265 | \$ 8,370 |
| Grants payable | 1,283,831 | 951,488 |
| Total current liabilities | <u>1,292,096</u> | <u>959,858</u> |
| Noncurrent liabilities: | | |
| Liability to resource providers | 5,820,902 | 4,991,177 |
| Liabilities under split-interest agreements | 6,403,899 | 6,038,941 |
| Total Liabilities | <u>13,516,897</u> | <u>11,989,976</u> |
| Net Assets: | | |
| Unrestricted | 76,283,357 | 61,612,884 |
| Temporarily restricted | 7,630,699 | 7,366,363 |
| Total Net Assets | <u>83,914,056</u> | <u>68,979,247</u> |
| Total Liabilities and Net Assets | <u>\$ 97,430,953</u> | <u>\$ 80,969,223</u> |

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

THE FOUNDATION FOR ENHANCING COMMUNITIES

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

(With Comparative Totals For Year Ended December 31, 2016)

| | Unrestricted | Temporarily Restricted | Total 2017 | Total 2016 |
|--|----------------------|---------------------------|----------------------|----------------------|
| Revenue, Gains, and Other Support: | | | | |
| Contributions | \$ 9,927,935 | \$ 251,169 | \$ 10,179,104 | \$ 7,006,064 |
| Investment income | 11,613,748 | - | 11,613,748 | 6,455,118 |
| Fee income | 400,194 | - | 400,194 | 365,691 |
| Other income | 202,487 | - | 202,487 | 221,691 |
| Split-interest agreements | - | 4,193 | 4,193 | 119,964 |
| Change in value of split-interest agreements | - | 518,462 | 518,462 | 501,083 |
| Grant revenue | 37,223 | 2,700 | 39,923 | 62,514 |
| Net assets released from restriction | 512,188 | (512,188) | - | - |
| Total revenue, gains, and other support | 22,693,775 | 264,336 | 22,958,111 | 14,732,125 |
| Expenses: | | | | |
| Program services | 6,655,121 | - | 6,655,121 | 6,220,019 |
| General and administrative | 933,116 | - | 933,116 | 871,373 |
| Asset development | 435,065 | - | 435,065 | 350,310 |
| Total expenses | 8,023,302 | - | 8,023,302 | 7,441,702 |
| Change in Net Assets | 14,670,473 | 264,336 | 14,934,809 | 7,290,423 |
| Net Assets: | | | | |
| Beginning of year | 61,612,884 | 7,366,363 | 68,979,247 | 61,688,824 |
| End of year | <u>\$ 76,283,357</u> | <u>\$ 7,630,699</u> | <u>\$ 83,914,056</u> | <u>\$ 68,979,247</u> |

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

THE FOUNDATION FOR ENHANCING COMMUNITIES

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

(With Comparative Totals For Year Ended December 31, 2016)

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Change in net assets | \$ 14,934,809 | \$ 7,290,423 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net realized and unrealized gain on investments | (10,493,838) | (5,198,926) |
| Split-interest agreements | (4,193) | (119,964) |
| Net change in value of split-interest agreements | (518,462) | (501,083) |
| Donated investments | (4,087,482) | (639,847) |
| Depreciation | 22,773 | 16,393 |
| (Increase) decrease in: | | |
| Receivables | 148,777 | (67,774) |
| Prepaid expenses | (3,062) | 2,654 |
| Increase (decrease) in: | | |
| Accounts payable | (105) | (17,886) |
| Grants payable | 332,343 | 128,999 |
| Liability to resource providers | 829,725 | 381,177 |
| Net cash provided by operating activities | <u>1,161,285</u> | <u>1,274,166</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of equipment | (31,154) | (49,167) |
| Purchase of investments | (3,449,876) | (5,838,483) |
| Proceeds from the sale of investments | <u>3,162,107</u> | <u>4,001,282</u> |
| Net cash used in investing activities | <u>(318,923)</u> | <u>(1,886,368)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 842,362 | (612,202) |
| Cash and Cash Equivalents | | |
| Beginning of year | <u>1,861,135</u> | <u>2,473,337</u> |
| End of year | <u>\$ 2,703,497</u> | <u>\$ 1,861,135</u> |

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

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. Organization and Summary of Significant Accounting Policies

Organization

The Foundation for Enhancing Communities (the Foundation) is a non-profit community foundation. Its primary purpose is to attract, manage, and disburse funds for philanthropic purposes to organizations and provide scholarships in the Central Pennsylvania area.

Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The net realized and unrealized gain on investments presented in the Statement of Cash Flows for the year ended December 31, 2017 is reported in the financial statements as follows:

| | |
|--|---------------------|
| Net realized and unrealized gain on investments | \$ 10,493,838 |
| Attributable to assets held for resource providers | <u>(778,225)</u> |
| | <u>\$ 9,715,613</u> |

Receivables

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

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Investments

Fair Value Measurements

The Foundation records its investments based on fair value. The use of observable inputs are maximized and the use of unobservable inputs are minimized by using observable inputs when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently, and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 — Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Foundation. The Foundation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively

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YEAR ENDED DECEMBER 31, 2017

involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Valuation of Investments

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1 include active listed equities and equity and fixed income mutual funds.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. Level 2 instruments include life insurance annuities, beneficial interests in life insurance policies, and floating rate demand notes. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include tuition credits. When observable prices are not available for Level 3 securities, the Foundation uses one or more valuation techniques (e.g., the market approach, the income approach, or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

The inputs used by the Foundation in estimating the value of Level 3 investments may include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations, other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Foundation in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Foundation due to the lack of observable inputs may significantly impact the resulting fair value and, therefore, the Foundation's results of operations.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Investments in marketable securities with readily determinable fair values are recorded at the fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Property and Equipment

Land, furniture, and equipment are recorded at cost or fair value (if donated), less accumulated depreciation. Donated assets are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Depreciation policies reflect the use of the straight-line method with useful lives ranging from two to ten years. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Deductions are made for retirements resulting from renewals or betterments.

Liability to Resource Providers

Liability to resource providers consists of assets transferred from non-profit organizations that specified itself or an affiliate as the beneficiary of the fund created.

Restricted and Unrestricted Revenue and Support

For Financial Statement purposes, support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same period. Restrictions not met in the same period are reported as an increase in temporarily restricted net assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Temporarily Restricted Net Assets

For Financial Statement purposes, temporarily restricted net assets result from contributions and other inflows of assets, other asset enhancements and diminutions, and reclassifications to (or from) other classes of net assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Permanently Restricted Net Assets

Permanently restricted net assets result from contributions with donor-imposed stipulations that must be maintained permanently by the Foundation.

Conditional Promises and Indications of Intentions to Give

The Foundation does not recognize conditional promises as revenue until the condition is met or the pledges are received.

From time to time, the Foundation is the beneficiary under various wills, the total value of which is not determinable. Such amounts are recorded as contributions when clear title is established and the proceeds are clearly measurable.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Endowment Investment and Spending Policies

The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Board of Directors has the ability to distribute a portion of the original principal of any trust or separate gift, devise, bequest, or fund as the Board of Directors shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The Foundation has adopted investment and spending policies, approved by the Board of Directors, 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 those endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. 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 to achieve its long-term return objectives with prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant-making and administration. Based on the investment model selected by the donor, the current spending policy is to distribute between 4.0% and 6.5% of a moving five-year trailing average of the fair value of the endowment funds plus a historical performance factor. Accordingly, over the long-term, the Foundation expects its current spending policy to allow its endowment assets to grow. 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 investment return.

Tax Status

The Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code (Code) and is a publicly supported organization as described in Section 509(a)(1) of the Code. Contributions to the Foundation are deductible for federal income tax purposes because it is an organization described in Section 170(c)(2). The Foundation files Form 990 - Return of Organization Exempt from Income Tax, on an annual basis.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

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YEAR ENDED DECEMBER 31, 2017

Risks and Uncertainties

Financial instruments, which potentially expose the Foundation to concentrations of credit risk, include cash and investments in marketable securities. As a matter of policy, the Foundation maintains cash balances only with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Investment securities are also exposed to various other risks such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such changes could materially affect the amount reported on the Statement of Financial Position.

Pending Standards Update

Accounting Standards Update (ASU) 2014-09, *“Revenue from Contracts with Customers,”* is effective for the Foundation’s financial statements for the year ending December 31, 2019 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures. Early application of the amendments in the ASU is not allowed.

ASU 2016-02, *“Leases (Topic 842),”* is effective for the Foundation’s financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the Statement of Financial Position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Early application of the amendments in the ASU is allowed.

ASU 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* is effective for the Foundation’s financial statements for the year ending December 31, 2018. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, how underwater donor-restricted endowment funds are treated, will increase the information available about liquidity and the availability of resources, requires financial statements for not-for-profits to provide expenses both by nature and function, as well as an analysis of those expenses by both nature and function, along with disclosure of the methods used to allocate those costs among the various functions, and standardizes how organizations present investment returns and what expenses should be netted against

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YEAR ENDED DECEMBER 31, 2017

those returns. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. Early application of the amendments in the ASU is allowed.

Management has not yet determined the impact of these amendments on the Foundation's financial statements.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

2. Deposits

Cash and cash equivalents with a book value and bank balance of \$2,703,497 and \$2,825,504, respectively, at December 31, 2017 consist of \$500,000 of deposits that are insured by the Federal Deposit Insurance Corporation (FDIC), \$552,214 of deposits that are insured by the Securities Investors Protection Corporation (SIPC), \$1,150,000 of deposits that are insured by Lloyd's of London or other London insurers, and \$623,290 of checking account and money market account deposits that are uninsured.

3. Contributions and Pledges Receivable

Contributions receivable consists of amounts due to the Foundation through wills, estates, or other agreements. The timing of the receipt of certain contributions is unknown. Included in contributions receivable is \$1 million that is subject to final settlement of the estate. All contributions receivable are considered to be current with the exception of one contribution which is expected to be received within the next five years.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Pledges receivable, summarized by donor type, consist of the following at December 31, 2017:

| | |
|--------------------|-------------------|
| Individuals | <u>\$ 101,110</u> |
| Amounts due in: | |
| Less than one year | \$ - |
| One to five years | <u>101,110</u> |
| | <u>\$ 101,110</u> |

4. Investments

The Foundation's investments are, in part, comprised of funds held awaiting distribution to approved recipients of such funds and investments held under custodial agreements.

Fair Value of Financial Instruments

The following tables summarize the valuation of the Foundation's investments subject to measurements at fair value as of December 31, 2017:

| | <u>Level</u> | <u>Fair Value</u> |
|----------------------------|--------------|----------------------|
| Common stock: | | |
| Financials | 1 | \$ 73,055 |
| Equity mutual funds: | | |
| Large cap funds | 1 | 38,186,628 |
| Mid cap funds | 1 | 6,891,722 |
| Small cap funds | 1 | 10,404,210 |
| International developed | 1 | 11,097,510 |
| Emerging markets | 1 | 2,959,829 |
| Fixed mutual funds: | | |
| Corporate bonds | 1 | 8,136,764 |
| U.S. Agency obligations | 1 | 2,616,610 |
| Floating rate demand notes | 2 | 367,489 |
| Tuition credits | 3 | <u>747,226</u> |
| Total Investments | | <u>\$ 81,481,043</u> |

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Fair value of floating rate demand notes categorized as Level 2 is calculated using the book value approach. The notes are recorded at the amount invested at the time of purchase plus any reinvested interest.

The following table summarizes the changes in fair values associated with Level 3 assets:

| | December 31, 2016 | Contributions/ Purchases | Withdrawals/ Payments | Change in Value | December 31, 2017 |
|-----------------|----------------------|-----------------------------|--------------------------|--------------------|----------------------|
| Tuition credits | \$ 768,296 | \$ - | \$ - | \$ (21,070) | \$ 747,226 |

Tuition credits represent an investment in the Pennsylvania 529 Guaranteed Savings Plan fund, a separate fund established by the Commonwealth of Pennsylvania and managed by the Pennsylvania Department of the Treasury, to be used for qualified college expenses. Contributions to the account must be held for approximately one year before withdrawn.

The following table represents the Foundation's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

| Instrument | Fair Value | Principal Valuation Technique | Unobservable Inputs | Range of Significant Input Values | Weighted Average |
|-----------------|------------|-------------------------------------|--|---|---------------------|
| Tuition Credits | \$ 747,226 | Income approach | Tuition inflation projections | 4.00% to 6.25% | 5.04% |
| | | | Investment return, net of investment expense | 6.00% | 6.00% |

The following changes in assumptions were noted from December 31, 2016. The investment return assumption, net of investment expense, decreased from 7.00% to 6.00%. The weighted average of tuition inflation projections decreased from 5.37% to 5.04%.

The Investment Advisory Committee (IAC), which reports to the Board of Directors of the Foundation, is responsible for determining the valuation of the tuition credits. The IAC reviews the tuition credit valuation as reported on the quarterly statements received from

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

the fund and compares this information to the benchmarks reported in the Annual Report for the PA 529 College Savings program and other information as it related to the current level of tuition costs within the Commonwealth of Pennsylvania.

The following table summarizes the valuation of the Foundation's split-interest agreements subject to measurements at fair value as of December 31, 2017:

| | Level | Fair Value |
|---|-------|----------------------|
| Cash and cash equivalents | 1 | \$ 15,689 |
| Equity mutual funds: | | |
| Large cap funds | 1 | 6,628,332 |
| Mid cap funds | 1 | 654,716 |
| Small cap funds | 1 | 1,521,801 |
| International developed | 1 | 1,148,611 |
| Emerging markets | 1 | 214,108 |
| Real estate | 1 | 85,581 |
| Fixed mutual funds: | | |
| Intermediate bonds | 1 | 419,841 |
| Short-term bonds | 1 | 107,056 |
| Life insurance annuities | 2 | <u>206,851</u> |
| | | 11,002,586 |
| Beneficial interest in life insurance policies - cash surrender value | 2 | <u>478,263</u> |
| Total Split-Interest Agreements | | <u>\$ 11,480,849</u> |

Fair value of life insurance annuities categorized as Level 2 is determined based on the life of the contract and an interest rate that is equal to the yield of a comparable U.S. Treasury Strip. Fair value of the beneficial interest in life insurance policies is based on the amount of available cash upon cancellation of the insurance policy before maturity. The fair value is determined by the insurer.

All change in value of split-interest agreements in the table above is reflected in the accompanying Statement of Activities.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Income (loss) on investments consists of the following for the year ended December 31, 2017:

| | | |
|---|----|-------------------|
| Interest and dividends | \$ | 1,898,135 |
| Net realized and unrealized gain (not including assets held for resource providers) | | 9,715,613 |
| | \$ | <u>11,613,748</u> |

5. Split-Interest Agreements

The Foundation is trustee for several charitable remainder unitrusts (unitrusts) and charitable lead trusts (lead trusts) with a fair value of the assets at December 31, 2017 of \$11,480,849. The unitrusts require annual distributions to the donors and the remainder is distributed to the Foundation at termination of the trust. The lead trusts require annual distributions to the Foundation and the remainder is distributed to the donors at termination of the trust. The present value of future payment liabilities on unitrusts, based on the donors' ages and a discount factor of 1.2% to 8.4% is \$6,403,899 at December 31, 2017.

| | | |
|--|----|--------------------|
| Fair value of split-interest agreements at December 31, 2017 | \$ | 11,480,849 |
| Present value of contributions to the Foundation | | <u>(5,076,950)</u> |
| Present value of future liabilities under split interest agreements at December 31, 2017 | \$ | <u>6,403,899</u> |

6. Grants Payable

Grants are authorized by the Board of Directors with consideration of the donor's recommendation. During the year ended December 31, 2017, grant expense was \$4,000,085. Grants payable totaling \$1,283,831 represents amounts approved by the Board of Directors, but not disbursed as of December 31, 2017.

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

7. Restrictions on Net Assets

For Financial Statement purposes, at December 31, 2017, unrestricted net assets of \$76,283,357 include approximately \$76,211,000 in endowment funds, of which approximately \$773,000 is maintained in a Board-designated Operating Reserve fund. While the Foundation retains variance power in its Bylaws to change conditions and restrictions on a fund under certain circumstances, except at the request of the donor, the Foundation may not change the purpose or a specific beneficiary of a fund without court approval.

For Financial Statement purposes, at December 31, 2017, temporarily restricted net assets consist of split-interest agreements which are subject to time restrictions totaling \$5,076,949, special projects which are subject to purpose restrictions totaling \$1,553,750, and a \$1,000,000 restricted contribution receivable.

Temporarily restricted net assets released from restriction during the year ended December 31, 2017 consist of \$512,188 released for purpose restrictions met within the current year.

Endowment net asset activity for the year ended December 31, 2017 is as follows:

| | <u>Unrestricted Net Assets</u> |
|--|------------------------------------|
| Endowment funds with variance power - beginning of year | \$ 61,522,000 |
| Contributions | 8,607,000 |
| Other income | 642,000 |
| Investment income | 11,614,000 |
| Program/grant expenses | <u>(6,174,000)</u> |
| Endowment funds with variance power - end of year | <u>\$ 76,211,000</u> |

THE FOUNDATION FOR ENHANCING COMMUNITIES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

8. Office Lease

The Foundation conducts its operations from an office that is leased under an operating lease. During the year ended December 31, 2016, the lease was extended through 2020. During the year ended December 31, 2017, rent under the current long-term lease was \$86,652.

Future minimum rental payments under the operating lease are as follows:

| | | |
|-------|----|-----------------------|
| 2018 | \$ | 89,159 |
| 2019 | | 91,834 |
| 2020 | | 94,589 |
| 2021 | | <u>72,526</u> |
| Total | \$ | <u><u>348,108</u></u> |

SUPPLEMENTARY INFORMATION

THE FOUNDATION FOR ENHANCING COMMUNITIES

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

(With Comparative Totals For Year Ended December 31, 2016)

| | Program Services | General and Adminis- trative | Asset Development | Total 2017 | Total 2016 |
|-----------------------------------|---------------------|------------------------------------|----------------------|---------------------|---------------------|
| Expenses: | | | | | |
| Grants | \$ 4,000,085 | \$ - | \$ - | \$ 4,000,085 | \$ 3,590,629 |
| Special projects | 1,900,264 | - | - | 1,900,264 | 1,952,445 |
| Salaries and benefits | 455,618 | 563,275 | 211,129 | 1,230,022 | 1,127,300 |
| Rent and office maintenance | 43,957 | 54,344 | 20,369 | 118,670 | 156,865 |
| Technology | 38,079 | 47,077 | 17,645 | 102,801 | 101,254 |
| Administrative and custodial fees | 38,742 | 47,897 | 17,953 | 104,592 | 97,715 |
| Special events | - | - | 85,312 | 85,312 | 81,335 |
| Professional fees | 43,435 | 53,698 | 20,127 | 117,260 | 73,262 |
| Marketing | 37,549 | 46,421 | 17,400 | 101,370 | 71,213 |
| Office | 14,485 | 17,907 | 6,712 | 39,104 | 39,772 |
| Staff development | 25,425 | 31,432 | 11,782 | 68,639 | 36,426 |
| Insurance | 9,280 | 11,473 | 4,301 | 25,054 | 26,283 |
| In-kind | 18,877 | 23,337 | 8,747 | 50,961 | 22,429 |
| Dues and fees | 8,867 | 10,962 | 4,108 | 23,937 | 18,440 |
| Travel and meetings | 7,321 | 9,051 | 3,393 | 19,765 | 17,244 |
| Depreciation | 8,435 | 10,429 | 3,909 | 22,773 | 16,393 |
| Printing | 4,702 | 5,813 | 2,178 | 12,693 | 12,031 |
| Miscellaneous | - | - | - | - | 666 |
| Total expenses | \$ 6,655,121 | \$ 933,116 | \$ 435,065 | \$ 8,023,302 | \$ 7,441,702 |