

Lincoln Community Foundation, Inc.
Lincoln, Nebraska

December 31, 2018 and 2017

Financial Statements
and
Independent Auditor's Report



CPAs & Consultants | Wealth Management

Lincoln Community Foundation, Inc.
Years ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Lincoln Community Foundation, Inc.
Lincoln, Nebraska

We have audited the accompanying financial statements of the Lincoln Community Foundation, Inc. which comprise the statements of financial position as of December 31, 2018 and 2017, and 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 of 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 Lincoln Community Foundation, Inc. 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.

HBE LLP

Lincoln, Nebraska
May 10, 2019

HBE
HBE

Lincoln Community Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (note A)	\$ 10,815,789	\$ 8,840,767
Certificates of deposit	6,329,534	3,820,784
Investments (notes A, C and D)	98,782,480	106,665,960
Stocks in transit (note D)	106,612	5,286,694
Beneficial interests in charitable trusts (notes D and G)	256,601	271,984
Unconditional promises to give (notes A, B and D)	4,375,230	4,013,303
Receivables (notes A and B)	463,221	306,256
Cash surrender value of life insurance	2,666,292	2,718,218
Property and equipment (notes A and F)	<u>2,960,356</u>	<u>3,089,802</u>
 Total assets	 <u>\$ 126,756,115</u>	 <u>\$ 135,013,768</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 1,100,352	\$ 979,588
Annuities and trusts payable (notes D and G)	455,134	526,898
Funds held for agencies (note I)	<u>4,998,551</u>	<u>5,200,596</u>
 Total liabilities	 <u>6,554,037</u>	 <u>6,707,082</u>
 NET ASSETS (notes A and J)		
Without donor restrictions		
Endowment	64,485,281	72,086,988
Available for grantmaking	37,778,972	36,779,858
Operating	10,616,053	12,118,765
With donor restrictions		
Available for grantmaking	147,514	407,386
Restricted to the passage of time	<u>7,174,258</u>	<u>6,913,689</u>
 Total net assets	 <u>120,202,078</u>	 <u>128,306,686</u>
 Total liabilities and net assets	 <u>\$ 126,756,115</u>	 <u>\$ 135,013,768</u>

See accompanying notes to financial statements.

Lincoln Community Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years ended December 31,

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Contributions	\$ 11,311,714	\$ 5,310,870	\$ 16,622,584	\$ 15,849,211	\$ 4,230,140	\$ 20,079,351
Investment performance, net (note C)	(9,016,820)	(36,821)	(9,053,641)	12,383,080	90,280	12,473,360
Change in value of split-interest agreements	10,632	2,325	12,957	8,923	197,088	206,011
Other income	359,495	-	359,495	355,260	-	355,260
Net assets released from restrictions	5,275,677	(5,275,677)	-	4,165,231	(4,165,231)	-
Total revenue and support	7,940,698	697	7,941,395	32,761,705	352,277	33,113,982
EXPENSES						
Grants	13,263,319	-	13,263,319	12,516,131	-	12,516,131
Other program expenses	1,594,614	-	1,594,614	1,545,052	-	1,545,052
Management and general	563,108	-	563,108	540,983	-	540,983
Development and fundraising	624,962	-	624,962	674,717	-	674,717
Total expenses	16,046,003	-	16,046,003	15,276,883	-	15,276,883
Increase (decrease) in net assets	(8,105,305)	697	(8,104,608)	17,484,822	352,277	17,837,099
Net assets at beginning of year	120,985,611	7,321,075	128,306,686	103,500,789	6,968,798	110,469,587
Net assets at end of year	\$ 112,880,306	\$ 7,321,772	\$ 120,202,078	\$ 120,985,611	\$ 7,321,075	\$ 128,306,686

See accompanying notes to financial statements.

Lincoln Community Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31,

	2018						
	Program Services			Supporting Activities			
	Grants and Scholarships	Other Programs	Total Program Services	Management and General	Development and Fundraising	Total Supporting Activities	Total
Grants awarded and programs	\$ 12,917,351	\$ 190,215	\$ 13,107,566	\$ -	\$ -	\$ -	\$ 13,107,566
Personnel and benefits	284,783	384,823	669,606	359,026	466,436	825,462	1,495,068
Community outreach	-	190,128	190,128	43,766	73,305	117,071	307,199
Fiscal sponsorships	-	440,569	440,569	-	-	-	440,569
Staff development	5,207	13,637	18,844	8,137	11,634	19,771	38,615
Office expenses	22,466	37,451	59,917	57,510	35,731	93,241	153,158
Professional services	-	-	-	43,746	-	43,746	43,746
Building and occupancy	15,649	207,829	223,478	18,056	15,626	33,682	257,160
Depreciation	17,863	129,962	147,825	32,867	22,230	55,097	202,922
Total expenses	\$ 13,263,319	\$ 1,594,614	\$ 14,857,933	\$ 563,108	\$ 624,962	\$ 1,188,070	\$ 16,046,003

	2017						
	Program Services			Supporting Activities			
	Grants and Scholarships	Other Programs	Total Program Services	Management and General	Development and Fundraising	Total Supporting Activities	Total
Grants awarded and programs	\$ 12,186,540	\$ 135,243	\$ 12,321,783	\$ -	\$ -	\$ -	\$ 12,321,783
Personnel and benefits	273,545	410,455	684,000	357,310	474,674	831,984	1,515,984
Community outreach	-	264,442	264,442	38,196	122,142	160,338	424,780
Fiscal sponsorships	-	334,226	334,226	-	-	-	334,226
Staff development	3,915	27,766	31,681	4,845	11,467	16,312	47,993
Office expenses	21,882	35,358	57,240	53,446	33,760	87,206	144,446
Professional services	-	-	-	42,641	-	42,641	42,641
Building and occupancy	13,385	205,545	218,930	14,329	11,978	26,307	245,237
Depreciation	16,864	132,017	148,881	30,216	20,696	50,912	199,793
Total expenses	\$ 12,516,131	\$ 1,545,052	\$ 14,061,183	\$ 540,983	\$ 674,717	\$ 1,215,700	\$ 15,276,883

See accompanying notes to financial statements.

Lincoln Community Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from revenue and support	\$ 19,056,744	\$ 12,100,026
Cash paid to employees and vendors	(2,345,710)	(2,403,279)
Cash paid as disbursements	(13,416,935)	(12,534,554)
Investment income received	<u>3,764,268</u>	<u>3,429,626</u>
Net cash provided by operating activities	<u>7,058,367</u>	<u>591,819</u>
Cash flows from investing activities		
Proceeds from certificates of deposit	1,498,146	1,068,170
Purchases of certificates of deposit	(4,006,896)	(230,172)
Proceeds from sale of investments	19,977,246	11,884,432
Purchases of investments	(22,398,584)	(11,721,330)
Purchase of property and equipment	<u>(73,475)</u>	<u>(55,587)</u>
Net cash provided (used) by investing activities	<u>(5,003,563)</u>	<u>945,513</u>
Cash flows from financing activities		
Payments on annuities and trusts payable	<u>(79,782)</u>	<u>(74,207)</u>
Net increase in cash and cash equivalents	1,975,022	1,463,125
Cash and cash equivalents at beginning of year	<u>8,840,767</u>	<u>7,377,642</u>
Cash and cash equivalents at end of year	<u>\$ 10,815,789</u>	<u>\$ 8,840,767</u>
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities		
Increase (decrease) in net assets	<u>\$ (8,104,608)</u>	<u>\$ 17,837,099</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	202,922	199,793
Realized and unrealized (gains) losses on investments	12,711,103	(9,140,709)
Reinvested interest and dividends	(54,786)	(108,648)
Actuarial loss on annuities	56,381	80,322
Non-cash contributions	(2,586,525)	(2,927,676)
(Increase) decrease in assets		
Stocks in transit	5,180,082	(5,176,847)
Unconditional promises to give	(361,927)	(36,718)
Receivables	(156,965)	(193,344)
Cash surrender value of life insurance	51,926	(120,016)
Increase in liabilities		
Accounts payable and accrued expenses	<u>120,764</u>	<u>178,563</u>
Total adjustments to increase (decrease) in net assets	<u>15,162,975</u>	<u>(17,245,280)</u>
Net cash provided by operating activities	<u>\$ 7,058,367</u>	<u>\$ 591,819</u>

See accompanying notes to financial statements.

Lincoln Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

Lincoln Community Foundation, Inc. (the Foundation) was incorporated on April 11, 1955. The mission of the Foundation is to provide leadership and resources to help build a great city. The Foundation also owns and manages the Lincoln Community Foundation Building. The building is leased to tax-exempt organizations.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. The accompanying financial statements of the Foundation have been prepared on the accrual method of accounting.

New Accounting Pronouncement. On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Cash and Cash Equivalents. For purposes of the statements of financial position, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be temporary cash investments.

Investments. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Donated securities are recorded as contributions equal to the fair market value of the securities at the date of gift.

Receivables. Receivables are stated at the amount management expects to collect from the balance outstanding at year-end. The Foundation does not charge interest on overdue account balances. Based on management's assessment of the credit history of the debtors having outstanding balances and the current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Property and Equipment and Depreciation. Property and equipment are carried at cost, if purchased, and at fair market value at the date of contribution, if received by donation, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed primarily on the straight-line method. It is the Foundation's policy to capitalize property and equipment over \$500. Buildings and improvements are depreciated over estimated lives of five to forty years. Furniture, fixtures and equipment are depreciated over estimated lives of three to seven years.

Promises to Give. Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Those expected to be collected in future years are recorded at present value of estimated future cash flows. Based upon a review of outstanding receivables and historical collection information, management has deemed no allowance is necessary for doubtful accounts. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional.

Funds Held for Agencies. Funds established by an unrelated not-for-profit organization using its own funds and for its own benefit are classified by the Foundation as a liability rather than as a net asset. The Foundation refers to these as agency funds.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Asset Classification. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions. Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

With donor restrictions. Net assets subject to donor- or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, and are reported in the statements of activities as net assets released from restrictions.

In August 2008, the Financial Accounting Standards Board issued guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA were also improved.

The State of Nebraska adopted UPMIFA effective September 1, 2007. The Foundation adopted the Financial Accounting Standards Board's guidance and required disclosures for the year ended December 31, 2008. The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of "endowment" under UPMIFA. The Foundation is governed subject to the Governing Documents of the Foundation and most contributions are subject to the terms of the Governing Documents, including the Foundation's payout policy.

Under the terms of the Governing Documents, the Board of Directors has the ability to distribute as much of the principal of the funds as the board in its sole discretion shall determine. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

Donor restricted net assets consist of split-interest agreements, unconditional promises to give, and restricted accounts.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Endowment Investment and Spending Policies. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. The Foundation's investment and spending policies, which have been approved by the Foundation's Board of Directors, work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current investment objective is to achieve a total return (net of inflation and expenses) that is at least as great as the spending supported by the portfolio, so that the purchasing power of the portfolio does not decline over time. The Foundation utilizes an asset allocation model of 75% equity and 25% fixed income.

To satisfy its long-term return objectives, the Foundation utilizes 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.

The spending policy determines the amount of money distributable from the Foundation's various endowment funds for grant making, taking into account administrative costs. The spending rate allowed distributions for grant making at 4.75% and 4.5% of the sixteen-quarter net asset fund balance average for the years ended December 31, 2018 and 2017, respectively. The spending rate is approved by the board of directors annually in order to take into account the effect of recent investment returns and long-term investment returns.

Fair Value Measurements. The Financial Accounting Standards Board has issued guidance defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. 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 utilizes a fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The asset 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. Transfers between levels shall occur at the actual date of the event or change in circumstances that caused the transfer. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance are not required to be categorized in the fair value hierarchy. The Foundation's investments in commodity limited partnerships and index funds that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy.

Functional Expenses. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include building and occupancy and depreciation, which are allocated on a square footage basis, as well as personnel and benefits, community outreach, staff development, and office expenses, which are allocated on the basis of time and effort.

Advertising and Marketing Costs. The Foundation expenses advertising and marketing costs when incurred. The accompanying financial statements include advertising and marketing expense of \$154,731 and \$201,011 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes. Lincoln Community Foundation, Inc. is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, income earned in the performance of the Foundation's exempt purpose is not subject to income tax. Any income earned through unrelated business activities is subject to income tax at normal corporate rates. The Foundation has qualified transportation fringe benefits which are subject to tax on unrelated business income. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation's federal Exempt Organization Business Income Tax Returns (Form 990 and 990T) for December 31, 2018, 2017, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Use of 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.

Lincoln Community Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE B - UNCONDITIONAL PROMISES TO GIVE AND RECEIVABLES

Unconditional promises to give consist of donor pledges due in the following periods:

	2018	2017
Less than one year	\$ 6,000	\$ 129,212
One to five years	188,000	93,500
Five to fifteen years	471,702	463,327
Fifteen to twenty-five years	4,267,902	2,917,413
More than twenty-five years	1,880,000	2,490,000
	6,813,604	6,093,452
Less discount to present value (1.2% to 7.4%)	(2,438,374)	(2,080,149)
	\$ 4,375,230	\$ 4,013,303

Receivables consist of:

Note receivable, bequest	\$ 2,179	\$ 3,927
Notes receivable, program	286,042	297,250
Estate receivables	175,000	-
Receivable for mission initiative	-	5,079
	\$ 463,221	\$ 306,256

The note receivable, bequest originates from a bequest from an individual from the sale of land. Annual payments including 5% interest are due through 2019.

The note receivable, program originates from a \$300,000 mission investment loan to a not-for-profit corporation. The note calls for 27 equal quarterly installment payments of \$5,000 including 3% interest commencing on July 1, 2017 through April 1, 2024, at which time all unpaid principal and interest is due. The loan is secured by a deed of trust.

Lincoln Community Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE C - INVESTMENTS

Investments consist of the following:

	2018	
	Cost	Market
Marketable securities:		
U.S. Government bonds	\$ 2,548,067	\$ 2,642,438
Municipal and local bonds	11,054,556	11,052,856
Corporate bonds	4,276,668	4,244,910
Auction rate securities	1,461,563	1,473,285
Common stocks	13,740,373	14,741,603
Equity and fixed-income funds	56,021,105	63,751,677
	89,102,332	97,906,769
Nonmarketable securities:		
Alternative investments	561,346	875,711
	\$ 89,663,678	\$ 98,782,480

	2017	
	Cost	Market
Marketable securities:		
U.S. Government bonds	\$ 1,325,176	\$ 1,433,489
Municipal and local bonds	11,619,022	11,718,672
Corporate bonds	3,129,927	2,836,780
Auction rate securities	1,461,563	1,475,076
Common stocks	10,002,378	11,532,083
Equity and fixed-income funds	55,576,455	76,638,275
	83,114,521	105,634,375
Nonmarketable securities:		
Alternative investments	688,904	1,031,585
	\$ 83,803,425	\$ 106,665,960

Investment performance consists of the following:

	2018	2017
Interest and dividend income	\$ 3,777,573	\$ 3,446,164
Net realized and unrealized gains (losses)	(12,711,103)	9,140,709
Investment expenses	(120,111)	(113,513)
	\$ (9,053,641)	\$ 12,473,360

Lincoln Community Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE OF ASSETS AND LIABILITIES

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in methodologies used during the years ended December 31, 2018 and 2017.

Common stock and preferred stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the observable net asset value (NAV) of shares held by the Foundation at year end.

U.S. government and agency obligations: Valued using independent pricing models.

Corporate bonds: Valued using independent pricing models.

Municipal and local bonds: Valued using independent pricing models.

Auction rate securities: Valued using independent pricing models.

Alternative investments: Valued based on the value of the underlying assets.

Stocks in transit: Valued at the closing price reported on the active market on which the individual securities are traded.

Unconditional promises to give: Valued using the estimated present value of future cash flows at historical discount rates.

Estate receivables: Valued at fair market value of the underlying assets less settlement costs.

Annuity agreements: Valued using the estimated present value of the annuity obligation. The Foundation has elected the fair value option for measuring annuity obligations. The discount rate of 3.6% (2018) and 2.6% (2017) and the actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables are updated each period the obligations are valued.

Beneficial interest in charitable trusts: Valued at the fair market value of the trust based on the underlying assets less the estimated present value of the annuity obligation.

Lincoln Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE OF ASSETS AND LIABILITIES - CONTINUED

The following table sets forth the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2018.

<u>December 31, 2018</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Common stocks	\$ 14,741,603	\$ 14,741,603	\$ -	\$ -
Mutual funds, equities				
U.S. core	14,378,617	14,378,617	-	-
U.S. large cap	4,440,651	4,440,651	-	-
U.S. small cap	13,149,437	13,149,437	-	-
U.S. emerging markets	3,206,132	3,206,132	-	-
U.S. real estate	2,639,368	2,639,368	-	-
International	22,405,014	22,405,014	-	-
Mutual funds, balanced				
U.S.	232,299	232,299	-	-
Global	1,313,458	1,313,458	-	-
Mutual funds, fixed income	1,986,701	1,986,701	-	-
U.S. Government bonds	2,642,438	-	2,642,438	-
Corporate bonds				
AA rating	1,344,226	-	1,344,226	-
A rating	2,900,684	-	2,900,684	-
Municipal and local bonds				
AAA rating	2,832,312	-	2,832,312	-
AA rating	8,220,544	-	8,220,544	-
Auction rate securities	1,473,285	-	1,473,285	-
Investments measured at NAV:				
Alternative investment funds	875,711	-	-	-
Total investments	<u>\$ 98,782,480</u>	<u>\$ 78,493,280</u>	<u>\$ 19,413,489</u>	<u>\$ -</u>
Stocks in transit:				
Common stocks				
Financial	\$ 78,404	\$ 78,404	\$ -	\$ -
Industrial	28,208	28,208	-	-
Total stocks in transit	<u>\$ 106,612</u>	<u>\$ 106,612</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in charitable trusts	<u>\$ 256,601</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 256,601</u>
Unconditional promises to give receivable	<u>\$ 4,375,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,375,230</u>
Estate receivables	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ -</u>	<u>\$ -</u>
Annuities and trust payable	<u>\$ 455,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 455,134</u>
Unconditional promises to give to others	<u>\$ 372,841</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,841</u>

Lincoln Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE OF ASSETS AND LIABILITIES - CONTINUED

The following table sets forth the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2017.

<u>December 31, 2017</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Common stocks	\$ 11,532,083	\$ 11,532,083	\$ -	\$ -
Mutual funds, equities				
U.S. core	17,071,521	17,071,521	-	-
U.S. large cap	5,029,140	5,029,140	-	-
U.S. small cap	13,694,390	13,694,390	-	-
U.S. emerging markets	3,784,016	3,784,016	-	-
U.S. real estate	2,858,876	2,858,876	-	-
International	24,437,555	24,437,555	-	-
Mutual funds, balanced				
U.S.	219,828	219,828	-	-
Global	1,462,769	1,462,769	-	-
Mutual funds, fixed income	8,080,180	8,080,180	-	-
U.S. Government bonds	1,433,489	-	1,433,489	-
Corporate bonds				
AA rating	1,499,189	-	1,499,189	-
A rating	1,337,591	-	1,337,591	-
Municipal and local bonds				
AAA rating	1,740,702	-	1,740,702	-
AA rating	9,750,500	-	9,750,500	-
A rating	227,470	-	227,470	-
Auction rate securities	1,475,076	-	1,475,076	-
Investments measured at NAV:				
Alternative investment funds	1,031,585	-	-	-
Total investments	<u>\$ 106,665,960</u>	<u>\$ 88,170,358</u>	<u>\$ 17,464,017</u>	<u>\$ -</u>
Stocks in transit:				
Common stocks				
Financial	\$ 5,217,516	\$ 5,217,516	\$ -	\$ -
Industrial	40,382	40,382	-	-
Closely held	28,796	28,796	-	-
Total stocks in transit	<u>\$ 5,286,694</u>	<u>\$ 5,286,694</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in charitable trusts	<u>\$ 271,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,984</u>
Unconditional promises to give receivable	<u>\$ 4,013,303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,013,303</u>
Annuities and trust payable	<u>\$ 526,898</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 526,898</u>
Unconditional promises to give to others	<u>\$ 158,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 158,260</u>

Lincoln Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE OF ASSETS AND LIABILITIES - CONTINUED

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended December 31, 2018.

<u>December 31, 2018</u>	<u>Beneficial Interest in Charitable Trusts</u>	<u>Unconditional Promises to Give</u>	<u>Due to Annuitants</u>	<u>Unconditional Promises to Give Others</u>
Beginning balance	\$ 271,984	\$ 4,013,303	\$ 526,898	\$ 158,260
Distributions	-	-	(33,017)	-
Unconditional promises to give received during the year	-	1,050,000	-	-
Unconditional promises to give collected during the year	-	(329,848)	-	-
Unconditional promises to give awarded during the year	-	-	-	250,000
Unconditional promises to give paid out during the year	-	-	-	(30,000)
Change in discount of unconditional promises to give	-	(358,225)	-	(5,419)
Actuarial change in value of split-interest agreements	<u>(15,383)</u>	<u>-</u>	<u>(38,747)</u>	<u>-</u>
Ending balance	<u>\$ 256,601</u>	<u>\$ 4,375,230</u>	<u>\$ 455,134</u>	<u>\$ 372,841</u>

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended December 31, 2017.

<u>December 31, 2017</u>	<u>Beneficial Interest in Charitable Trusts</u>	<u>Unconditional Promises to Give</u>	<u>Due to Annuitants</u>	<u>Unconditional Promises to Give Others</u>
Beginning balance	\$ 246,282	\$ 3,976,585	\$ 581,518	\$ 185,462
Distributions	-	-	(27,961)	-
Unconditional promises to give received during the year	-	100,000	-	-
Unconditional promises to give collected during the year	-	(84,788)	-	-
Unconditional promises to give awarded during the year	-	-	-	(30,000)
Change in discount of unconditional promises to give	-	21,506	-	2,798
Actuarial change in value of split-interest agreements	<u>25,702</u>	<u>-</u>	<u>(26,659)</u>	<u>-</u>
Ending balance	<u>\$ 271,984</u>	<u>\$ 4,013,303</u>	<u>\$ 526,898</u>	<u>\$ 158,260</u>

The net unrealized and realized gains and losses are included in investment performance on the statements of activities.

Lincoln Community Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE OF ASSETS AND LIABILITIES - CONTINUED

Investments valued at NAV consist of the following:

	2018			
	Fair Value	Unfunded Commitments	Frequency (if eligible)	Redemption Notice Period
Commodity limited partnerships	\$ 875,711	\$ 839,781	N/A	N/A
	2017			
	Fair Value	Unfunded Commitments	Frequency (if eligible)	Redemption Notice Period
Commodity limited partnerships	\$ 1,031,585	\$ 839,781	N/A	N/A

Commodity limited partnerships - A limited partnership intended to invest in opportunities created by underlying fund managers with an investment focus on energy, timber, real estate, mining, and other minerals and natural resources. The partnership will end one year after all underlying investments have been disposed. Investors cannot request redemptions and all fund distributions are at the discretion of the underlying fund manager and the terms of that fund.

NOTE E - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2018	2017
Cash and cash equivalents	\$ 10,815,789	\$ 8,840,767
Certificates of deposit	6,329,534	3,820,784
Short-term investments	3,884,911	2,434,279
Unconditional promises to give		
due within one year	6,000	129,212
Receivables	197,179	29,006
Endowment spending rate distributions and appropriations	3,747,528	3,835,645
	\$ 24,980,941	\$ 19,089,693

The endowment funds consist of funds designated by the board as endowments.

The board designated endowment of \$64,485,281 is subject to an annual spending rate of 4.75% percent as described in Note A. Annual spending is intended to be used for grant making and other program services as part of the Board's annual budget approval and appropriation.

NOTES TO FINANCIAL STATEMENTS

NOTE E - LIQUIDITY AND AVAILABILITY - CONTINUED

As part of the liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$10,616,053 as of December 31, 2018. The operating reserve is a board-designated fund with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the organization also could draw upon \$2,000,000 of available lines of credit (as further discussed in Note O).

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consists of:

	<u>2018</u>	<u>2017</u>
Land	\$ 641,294	\$ 641,294
Buildings and improvements	5,715,862	5,665,734
Furniture, fixture and equipment	<u>800,653</u>	<u>796,345</u>
	7,157,809	7,103,373
Less accumulated depreciation	<u>(4,197,453)</u>	<u>(4,013,571)</u>
	<u>\$ 2,960,356</u>	<u>\$ 3,089,802</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$202,922 and \$199,793, respectively.

NOTE G - SPLIT INTEREST AGREEMENTS

The Foundation has entered into irrevocable agreements (split-interest agreements) with donors where, in exchange for a gift from the donor, the Foundation provides an annuity to the donor or other designated beneficiaries for a specific period of time, usually the life of the donor.

A liability is recognized for the estimated present value of the annuity obligation and the contributed assets are recorded at their gross market value. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service (IRS) guidelines and actuarial tables. The discount rate used was 3.6% and 2.6% for the years ended December 31, 2018 and 2017, respectively. The amount of the liability is adjusted annually in accordance with the IRS actuarial tables and a gain or loss is recorded to reflect the change in value.

For agreements where the Foundation is not the trustee, the Foundation has recorded an asset as a beneficial interest in charitable trusts.

There were no new contributions for the years ended December 31, 2018 and 2017.

Lincoln Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE G - SPLIT INTEREST AGREEMENTS - CONTINUED

If a gift annuity has a projected liability greater than the gift annuity's assets, the excess liability is the Foundation's and is recorded as a negative unrestricted net asset. For the years ended December 31, 2018 and 2017, there was \$57,489 and \$59,321, respectively, of negative equity related to annuities in this situation.

Assets of the Foundation, as derived from split-interest agreements, are as follows:

	<u>2018</u>	<u>2017</u>
Assets included in investments and cash	\$ 781,463	\$ 830,500
Beneficial interest in charitable trusts	\$ 256,601	\$ 271,984

NOTE H - UNCONDITIONAL PROMISES TO GIVE OTHERS

Unconditional promises to give others consists of a multi-year grant due in the following years:

2019	\$ 130,000
2020	105,000
2021	100,000
2022	25,000
2023	<u>25,000</u>
Unconditional promises to give others	385,000
Less discount to present value (1.8% to 3.6%)	<u>(12,159)</u>
	<u>\$ 372,841</u>

Unconditional promises to give others are included in accounts payable and accrued expenses on the statements of financial position.

NOTE I - TRANSACTIONS IN FUNDS HELD FOR AGENCIES

Transactions in funds held for agencies are summarized as follows:

	<u>2018</u>	<u>2017</u>
Additions:		
Contributions	\$ 402,771	\$ 199,864
Investment performance	<u>(421,059)</u>	<u>580,401</u>
	<u>(18,288)</u>	<u>780,265</u>
Deductions:		
Administrative fees	(40,074)	(37,839)
Grant distributions	<u>(143,683)</u>	<u>(178,540)</u>
	<u>(183,757)</u>	<u>(216,379)</u>
INCREASE (DECREASE) IN BALANCE	(202,045)	563,886
Funds held for agencies, beginning of year	<u>5,200,596</u>	<u>4,636,710</u>
Funds held for agencies, end of year	<u>\$ 4,998,551</u>	<u>\$ 5,200,596</u>

Lincoln Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE J - NET ASSETS - CONTINUED

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Expiration of time restrictions	\$ 250,889	\$ 115,395
Satisfaction of purpose restrictions	4,847,479	3,763,182
Distributions (proceeds are not restricted by donors)		
Assets held under split-interest agreements	<u>177,309</u>	<u>286,654</u>
	<u>\$ 5,275,677</u>	<u>\$ 4,165,231</u>

NOTE K - INTENTIONS TO GIVE

The Foundation has received indications of gifts in the form of bequests which are revocable during the donors' lifetime or irrevocable for which a donation amount cannot be determined. Due to the uncertain nature of these intentions, the Foundation has not recognized a promise to give or contribution revenue for these gifts.

NOTE L - ENDOWMENTS

All endowment net assets relate to board designated endowment funds for which the Foundation has the ability to distribute principal subject to a spending policy, and is managing the funds in accordance with the investment policy to allow the funds to maintain their purchasing power and fulfill the Foundation's purpose.

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance January 1, 2018	\$ 72,086,988	\$ -	\$ -	\$ 72,086,988
Interest and dividends	2,661,464	-	-	2,661,464
Realized and unrealized losses	(9,742,273)	-	-	(9,742,273)
Contributions	3,314,747	-	-	3,314,747
Amounts appropriated for expenditure	<u>(3,835,645)</u>	<u>-</u>	<u>-</u>	<u>(3,835,645)</u>
Balance December 31, 2018	<u>\$ 64,485,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,485,281</u>

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

Balance January 1, 2017	\$ 65,383,488	\$ -	\$ -	\$ 65,383,488
Interest and dividends	2,610,334	-	-	2,610,334
Realized and unrealized gains	6,517,299	-	-	6,517,299
Contributions	1,337,760	-	-	1,337,760
Amounts appropriated for expenditure	<u>(3,761,893)</u>	<u>-</u>	<u>-</u>	<u>(3,761,893)</u>
Balance December 31, 2017	<u>\$ 72,086,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,086,988</u>

Lincoln Community Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE M - OPERATING LEASES

As Lessee

On February 6, 2014, the Foundation entered into a 60-month operating lease for a copier. Under the terms of the lease, monthly rent payments are \$259.

On May 21, 2014, the Foundation entered into a 60-month operating lease for office equipment. Under the terms of the lease, monthly rent payments are \$907.

On May 8, 2018, the Foundation entered into a 51-month operating lease for a postage machine. Under the terms of the lease, quarterly rent payments are \$409.

Future minimum lease payments for the years following December 31, 2018 are:

2019	\$ 6,928
2020	1,636
2021	1,636
2022	<u>818</u>
	<u>\$ 11,018</u>

As Lessor

The Foundation has entered into lease agreements for office space. The leases with various non-profit organizations expire through 2026.

The financial statements include rent income of \$289,143 and \$275,503 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease revenues for the years following December 31, 2018 are:

2019	\$ 246,447
2020	212,984
2021	168,124
2022	142,504
2023	142,905
Thereafter	<u>312,298</u>
	<u>\$ 1,225,262</u>

NOTE N - RETIREMENT PLAN

The Foundation has a SIMPLE-IRA plan covering eligible employees. The plan provides for matching contributions, approved by the Board of Directors annually. The Foundation contributed \$34,639 and \$33,276 to the retirement plan for the years ended December 31, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE O - LINE OF CREDIT

The Foundation has a revolving credit note agreement with a financial institution, which provides it may borrow up to \$2,000,000 at an annual interest rate equal to 0.5% plus the prime rate. The revolving credit note is supported by an agreement which provides for certain covenants which include the maintenance of liquid assets having a value of at least \$20 million. The note is secured by substantially all assets of the Foundation. No amounts had been borrowed on the revolving credit note as of December 31, 2018. The revolving credit note expires July 31, 2019.

NOTE P - DEFERRED COMPENSATION

The Foundation entered into a deferred compensation agreement with the Foundation's President. The Foundation will determine an annual accrual intended to be equal to 10% of the President's base compensation for five years beginning January 1, 2015. The accruals will earn interest equal to the annual endowment performance but not less than zero until the agreement vests on January 1, 2020. Once vested, the President will receive the benefits in equal quarterly installments over five years from the date of retirement, over which time the deferred amount will continue to earn interest. The Foundation recognized expense of \$19,140 and \$33,284 for the years ended December 31, 2018 and 2017, respectively, under the agreement.

NOTE Q - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of checking, money market, and certificate of deposit accounts at financial institutions. Accounts at each institution are insured by the FDIC up to \$250,000. The bank accounts, at December 31, 2018 and 2017, exceeded federally insured limits by \$4,452,978 and \$758,315, respectively. The Foundation has not experienced any losses on such accounts.

NOTE R - RECLASSIFICATIONS

Certain amounts in the year ended December 31, 2017 financial statements have been reclassified to conform with current year presentation. These reclassifications had no effect on the 2017 statement of activities.

NOTE S - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the audit report date, the date that the financial statements were available to be issued.