

**THE CHEST FOUNDATION**

**FINANCIAL STATEMENTS**

June 30, 2018 and 2017

THE CHEST FOUNDATION

FINANCIAL STATEMENTS

June 30, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
The CHEST Foundation  
Glenview, Illinois

***Report on the Financial Statements***

We have audited the accompanying financial statements of The CHEST Foundation ("Foundation"), which comprise the statements of financial position as of June 30, 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 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.

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(Continued)

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The CHEST Foundation as of June 30, 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.

*Crowe LLP*  
Crowe LLP

Chicago, Illinois  
October 18, 2018

THE CHEST FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 304,529	\$ 230,793
Pledges receivable, net	886,490	1,157,822
Prepaid expenses and other assets	62,296	51,318
Due from affiliated organization	3,123,860	2,225,682
Investments	<u>10,975,181</u>	<u>10,490,668</u>
Total assets	<u>\$ 15,352,356</u>	<u>\$ 14,156,283</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	<u>\$ 132,305</u>	<u>\$ 94,524</u>
Total liabilities	<u>132,305</u>	<u>94,524</u>
Net assets		
Unrestricted	9,922,296	8,509,876
Temporarily restricted	1,129,914	1,384,042
Permanently restricted	<u>4,167,841</u>	<u>4,167,841</u>
Total net assets	<u>15,220,051</u>	<u>14,061,759</u>
Total liabilities and net assets	<u>\$ 15,352,356</u>	<u>\$ 14,156,283</u>

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See accompanying notes to the financial statements.

THE CHEST FOUNDATION  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2018

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<b>Revenue and other support</b>				
Contributions	\$ 1,845,147	\$ 349,500	\$ -	\$ 2,194,647
Event registration and other income	88,716	-	-	88,716
Net assets released from restrictions	<u>438,000</u>	<u>(438,000)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>2,371,863</u>	<u>(88,500)</u>	<u>-</u>	<u>2,283,363</u>
<b>Expenses</b>				
Grants and awards	726,549	-	-	726,549
Program expenses	525,613	-	-	525,613
General and administrative	<u>57,911</u>	<u>-</u>	<u>-</u>	<u>57,911</u>
Total expenses	<u>1,310,073</u>	<u>-</u>	<u>-</u>	<u>1,310,073</u>
<b>Changes in net assets</b>				
<b>before non-operating activities</b>	1,061,790	(88,500)	-	973,290
Interest and dividends	\$181,295	44,624	-	225,919
Realized gain on investments	176,320	43,399	-	219,719
Unrealized loss on investments	(14,837)	(3,651)	-	(18,488)
Capital campaign contributions	8,185	-	-	8,185
Net assets released for capital campaign	250,000	(250,000)	-	-
Capital campaign grant to College	(250,000)	-	-	(250,000)
Capital campaign expenses	<u>(333)</u>	<u>-</u>	<u>-</u>	<u>(333)</u>
Total non-operating activities	<u>350,630</u>	<u>(165,628)</u>	<u>-</u>	<u>185,002</u>
<b>Changes in net assets</b>	1,412,420	(254,128)	-	1,158,292
Net assets, beginning of year	<u>8,509,876</u>	<u>1,384,042</u>	<u>4,167,841</u>	<u>14,061,759</u>
<b>Net assets, end of year</b>	<u>\$ 9,922,296</u>	<u>\$ 1,129,914</u>	<u>\$ 4,167,841</u>	<u>\$ 15,220,051</u>

See accompanying notes to the financial statements.

THE CHEST FOUNDATION  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<b>Revenue and other support</b>				
Contributions	\$ 1,560,746	\$ 315,000	\$ 71,653	\$ 1,947,399
Event registration and other income	108,206	-	-	108,206
Net assets released from restrictions	<u>654,500</u>	<u>(654,500)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>2,323,452</u>	<u>(339,500)</u>	<u>71,653</u>	<u>2,055,605</u>
<b>Expenses</b>				
Grants and awards	639,742	-	-	639,742
Program expenses	786,170	-	-	786,170
General and administrative	<u>64,940</u>	<u>-</u>	<u>-</u>	<u>64,940</u>
Total expenses	<u>1,490,852</u>	<u>-</u>	<u>-</u>	<u>1,490,852</u>
<b>Changes in net assets</b>				
<b>before non-operating activities</b>	832,600	(339,500)	71,653	564,753
Interest and dividends	186,477	21,007	-	207,484
Realized gain on investments	304,724	34,328	-	339,052
Unrealized gain on investments	216,178	24,353	-	240,531
Capital campaign contributions	12,472	-	-	12,472
Net assets released for capital campaign	150,000	(150,000)	-	-
Capital campaign grant to College	(150,000)	-	-	(150,000)
Capital campaign expenses	<u>(38,810)</u>	<u>-</u>	<u>-</u>	<u>(38,810)</u>
Total non-operating activities	<u>681,041</u>	<u>(70,312)</u>	<u>-</u>	<u>610,729</u>
<b>Changes in net assets</b>	1,513,641	(409,812)	71,653	1,175,482
Net assets, beginning of year	<u>6,996,235</u>	<u>1,793,854</u>	<u>4,096,188</u>	<u>12,886,277</u>
<b>Net assets, end of year</b>	<u>\$ 8,509,876</u>	<u>\$ 1,384,042</u>	<u>\$ 4,167,841</u>	<u>\$ 14,061,759</u>

See accompanying notes to the financial statements.

THE CHEST FOUNDATION  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,158,292	\$ 1,175,482
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Permanently restricted cash contributions	-	(71,653)
Realized gain on sale of investments	(219,719)	(339,052)
Unrealized loss (gain) on investments	18,488	(240,531)
Changes in operating assets and liabilities		
Pledges receivable	271,332	466,810
Prepaid expenses and other assets	(10,978)	(45,893)
Accounts payable	37,781	(13,417)
Due from/to affiliated organization	(898,178)	(846,485)
Net cash provided by operating activities	<u>357,018</u>	<u>85,261</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(4,358,733)	(5,918,394)
Proceeds from sale of investments	<u>4,075,451</u>	<u>5,860,154</u>
Net cash used in investing activities	(283,282)	(58,240)
<b>Cash flows from financing activities</b>		
Permanantly restricted cash contributions	<u>-</u>	<u>71,653</u>
Net change in cash and cash equivalents	73,736	98,674
Cash and cash equivalents, beginning of year	<u>230,793</u>	<u>132,119</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 304,529</u>	<u>\$ 230,793</u>

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See accompanying notes to the financial statements.

THE CHEST FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 1 - GENERAL INFORMATION**

The CHEST Foundation (the "Foundation") has the American College of Chest Physicians (the "College") as its only member. The Foundation is organized for the purpose of providing resources to advance the prevention and treatment of diseases of the chest. To impart this mission and advance cardiopulmonary and critical care medicine, the Foundation creates educational programs, supports clinical research, confers awards, and raises public awareness about lung health. The Foundation's broad array of programs is supported by the College members, individuals, foundations, and industry partners.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Net Assets: The Foundation classifies net assets as follows:

*Unrestricted* - Net assets not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited to contractual agreements with outside parties.

*Temporarily Restricted* - Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation, pursuant to those restrictions, or that expire by the passage of time.

*Permanently Restricted* - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Income earned on these assets is temporarily restricted for use by the Foundation. Such assets primarily include the Foundation's permanent endowment funds.

Operations: Operating results in the statements of activities reflect all transactions increasing or decreasing unrestricted net assets except those activities associated with long-term capital projects and investing activities.

Revenue Recognition: Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor restriction or by law. Expirations of the donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between applicable classes of net assets. The Foundation classifies donor-restricted contributions as unrestricted if restrictions are satisfied in the same reporting period in which the contributions are received.

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(Continued)

THE CHEST FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Pledges Receivable: Pledges receivable are stated at the present value of future payments due from donors, net of allowances for uncollectible amounts. The Foundation determines its allowance for uncollectible amounts by considering a number of factors, including the length of time receivables are past due, the Foundation's previous collection history, the donor's current ability to pay its obligation to the Foundation, and the condition of the general economy and industry as a whole. The Foundation writes off receivables when they become uncollectible. As of June 30, 2018 and 2017, no allowance for uncollectible amounts was deemed necessary against the receivables.

Contributions: Contributions received, including unconditional promises to give, are recognized as revenue when the donor's commitment is received. Unconditional promises to give are recognized at the estimated present value of the future cash flows, net of allowances. Conditional promises to give are recorded when the conditions are substantially met. Promises to give made and collected in the same reporting period are recorded when received in the appropriate net asset category.

Fundraising: Fundraising costs for the years ended June 30, 2018 and 2017, were \$122,496 and \$226,913, respectively.

Cash and Cash Equivalents: All highly liquid investments with a maturity of three months or less when purchased that are to be used for operating activities are considered to be cash equivalents. Cash equivalents allocated to investments are reported as investments.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their estimated fair values in the statement of financial position. Estimated fair values are determined primarily from quoted market prices where available, or quoted market prices of comparable instruments, where prices are not available. Earnings on investments, including interest, dividends and realized and unrealized gains and losses, are reported as other changes in net assets on the statements of activities.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with investments, it is at least reasonably possible that changes in risk in the near term would materially affect the amounts reported in the statement of financial position.

Recent Accounting Guidance: In August 2016, the FASB issued (ASU) 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this Update affect not-for-profit entity's (NFP's) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2018, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2018. Management has performed their analysis through October 18, 2018, the date the financial statements were available to be issued.

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THE CHEST FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 3 - INCOME TAX STATUS**

The Foundation has received a favorable determination letter from the Internal Revenue Service stating it is exempt from Federal income taxes on related income under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Foundation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of June 30, 2018 and 2017.

Due to its tax-exempt status, the Foundation is not subject to U.S. federal income tax or state income tax, except on unrelated business income. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

**NOTE 4 - PLEDGES RECEIVABLE**

The following is a summary of pledges receivable as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Amounts due		
Less than one year	\$ 770,241	\$ 984,840
One to five years	116,456	184,374
Over five years	<u>5,724</u>	<u>2,724</u>
Gross pledges receivable	892,421	1,171,938
Less discount	<u>(5,931)</u>	<u>(14,116)</u>
Net pledges receivable	<u>\$ 886,490</u>	<u>\$ 1,157,822</u>

Pledges are recorded after discounting to the present value of the expected future cash flows using discount rates ranging between 1.4% and 1.6%.

**NOTE 5 - RELATED PARTIES**

Certain expenses of the Foundation are paid by the College. Collections from the Foundation’s Beyond Our Walls Capital Campaign pledges receivable are used to pay-down the College’s Construction term loan. During the year ended June 30, 2018 and 2017, the Foundation transferred \$250,000 and \$150,000, respectively, to the College. Certain amounts are received by the College on behalf of the Foundation. Amounts due from the College at June 30, 2018 and 2017 totaled \$3,123,860 and \$2,225,682, respectively. There were no amounts due to the College at June 30, 2018 and 2017.

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(Continued)

THE CHEST FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018 and 2017

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**NOTE 6 - INVESTMENTS**

Fair value of investments consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Money market	\$ 633,559	\$ 302,560
Mutual funds		
Equity funds	2,513,852	2,357,179
Corporate fixed income funds	1,188,103	1,430,432
Bonds		
U.S. Government issues	1,968,938	2,085,080
Corporate issues	1,480,103	1,542,484
Foreign issues	56,684	59,055
Stocks		
Common stock	2,937,159	2,584,488
Preferred stock	540	540
Foreign stock	<u>196,243</u>	<u>128,850</u>
	<u>\$ 10,975,181</u>	<u>\$ 10,490,668</u>

**NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Financial Accounting Standards Board (FASB) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

FASB establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

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(Continued)

THE CHEST FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

*Money market:* Because cash equivalents are held as part of the investment portfolio, these are priced at the cash value of one dollar per security. Any interest earned is recognized as interest receivable (Level 2 inputs - income approach).

*Mutual funds (equity and fixed income), bonds, and stocks:* Fair values reflect the closing price reported in the active market in which the security is traded (Level 1 inputs). U.S. Government bonds that are less readily marketable are priced by comparing dollar-for-dollar quoted market prices of similar, linked securities. These funds can be exited within 30 days of notification (Level 2 inputs - market approach).

Assets and liabilities measured at fair value as of June 30, 2018 and 2017, are summarized below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2018</u>				
Money markets	\$ -	\$ 633,559	\$ -	\$ 633,559
Mutual funds				
Equity funds	2,513,852	-	-	2,513,852
Corporate fixed income funds	1,188,103	-	-	1,188,103
Bonds				
U.S. Government issues	-	1,968,938	-	1,968,938
Corporate issues	1,480,103	-	-	1,480,103
Foreign issues	-	56,684	-	56,684
Stocks				
Common stock	2,937,159	-	-	2,937,159
Preferred stock	-	540	-	540
Foreign stock	196,243	-	-	196,243
	<u>\$ 8,315,460</u>	<u>\$ 2,659,721</u>	<u>\$ -</u>	<u>\$ 10,975,181</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2017</u>				
Money markets	\$ -	\$ 302,560	\$ -	\$ 302,560
Mutual funds				
Equity funds	2,357,179	-	-	2,357,179
Corporate fixed income funds	1,430,432	-	-	1,430,432
Bonds				
U.S. Government issues	-	2,085,080	-	2,085,080
Corporate issues	1,542,484	-	-	1,542,484
Foreign issues	-	59,055	-	59,055
Stocks				
Common stock	2,584,488	-	-	2,584,488
Preferred stock	-	540	-	540
Foreign stock	128,850	-	-	128,850
	<u>\$ 8,043,433</u>	<u>\$ 2,447,235</u>	<u>\$ -</u>	<u>\$ 10,490,668</u>

(Continued)

THE CHEST FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 8 - RESTRICTIONS ON NET ASSETS**

The following table presents temporarily restricted net assets received and released from restriction for the years ended June 30, 2018 and 2017:

	<u>Awards</u>	<u>Lectureship</u>	<u>Time</u>	<u>Total</u>
Balance at July 1, 2017	\$ 125,898	\$ 515,456	\$ 1,152,500	\$ 1,793,854
Additions	-	-	315,000	315,000
Investment earnings	4,502	75,186	-	79,688
Released from restriction	<u>(50,000)</u>	<u>(12,000)</u>	<u>(742,500)</u>	<u>(804,500)</u>
Balance at June 30, 2017	80,400	578,642	725,000	1,384,042
Additions	-	-	349,500	349,500
Investment earnings	41,255	43,117	-	84,372
Released from restriction	<u>-</u>	<u>(48,000)</u>	<u>(640,000)</u>	<u>(688,000)</u>
Balance at June 30, 2018	<u>\$ 121,655</u>	<u>\$ 573,759</u>	<u>\$ 434,500</u>	<u>\$ 1,129,914</u>

**NOTE 9 - ENDOWMENT COMPOSITION**

The Foundation's endowment consists of donor-restricted endowment funds with spending restrictions for the scholarships, research and education.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of Trustees of the Foundation has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the State of Illinois in its enacted version of UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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(Continued)

THE CHEST FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 9 - ENDOWMENT COMPOSITION** (Continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation 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 Foundation
- (7) The investment policies of the Foundation.

Endowment net asset composition by type of fund as of June 30, 2018 and 2017:

Changes in endowment net assets for year ended June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds and unappropriated earnings, June 30, 2018	\$ (352,781)	\$ 466,984	\$ 4,167,841	\$ 4,282,044
Donor-restricted endowment funds and unappropriated earnings, June 30, 2017	\$ (280,620)	\$ 424,620	\$ 4,167,841	\$ 4,311,841

Changes in endowment net assets for the year ended June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, July 1, 2016	\$ (413,626)	\$ 406,062	\$ 4,096,188	\$ 4,088,624
Investment return:				
Interest and dividends	61,424	21,007	-	82,431
Realized gain	100,374	34,328	-	134,702
Unrealized gain	71,208	24,353	-	95,561
New gifts	-	-	71,653	71,653
Appropriation for expenditures	(100,000)	(61,130)	-	(161,130)
Net assets, June 30, 2017	(280,620)	424,620	4,167,841	4,311,841
Investment return:				
Interest and dividends	41,169	44,624	-	85,793
Realized gain	40,039	43,399	-	83,438
Unrealized loss	(3,369)	(3,651)	-	(7,020)
New gifts	-	-	-	-
Appropriation for expenditures	(150,000)	(42,008)	-	(192,008)
Net assets, June 30, 2018	\$ (352,781)	\$ 466,984	\$ 4,167,841	\$ 4,282,044

(Continued)

**NOTE 9 - ENDOWMENT COMPOSITION** (Continued)

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce an annual return of at least 5% while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return exceeding the Consumer Price Index by 3% percent annually, depending on the type of security. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving 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 an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy: The Foundation's Board has adopted an annual spending guideline based on withdrawing from the operating endowment a minimum of 3% after inflation over a full market cycle.

Donor-Restricted Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. For the years ended June 30, 2018 and 2017, there were donor-restricted deficiencies of \$352,781 and \$280,620, respectively.

Donor-restricted principal, unless otherwise directed by the donor, shall not be disbursed.