

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations

Combined Financial Statements

Years Ended April 30, 2018 and 2017

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Independent Auditors' Report

Board of Governors
Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Memphis, Tennessee

We have audited the accompanying combined financial statements of Community Foundation of Greater Memphis, Inc. and Affiliated Foundations (the "Foundation"), which comprise the combined statements of financial position as of April 30, 2018 and 2017, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of Greater Memphis, Inc. and Affiliated Foundations as of April 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.

Dixon Hughes Goodman LLP

**Memphis, Tennessee
September 17, 2018**

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Combined Statements of Financial Position
April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (includes money market instruments of \$33,050,893 and \$21,345,652 in 2018 and 2017, respectively)	\$ 26,456,265	\$ 16,537,972
Investments	412,788,487	383,311,607
Accounts receivable	33,651	31,342
Notes receivable, net	12,267,427	8,970,514
Contributions receivable from charitable lead trusts, net	2,791,160	3,772,821
Interest and dividends receivable	327,385	306,658
Life insurance proceeds receivable	20,000	20,000
Cash surrender value of life insurance policies, net	12,289,086	12,435,037
Property and equipment, net	962,878	1,031,160
Other assets	2,118,063	3,517,962
	<u>2,118,063</u>	<u>3,517,962</u>
Total assets	<u>\$ 470,054,402</u>	<u>\$ 429,935,073</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 358,337	\$ 327,476
Accrued liabilities	142,456	122,638
Grants payable	1,669,277	3,049,618
Charitable remainder trusts payable	1,011,323	1,042,453
Agency funds	76,158,262	87,569,067
	<u>76,158,262</u>	<u>87,569,067</u>
Total liabilities	79,339,655	92,111,252
Net assets:		
Unrestricted:		
Donor advised	319,510,446	283,625,247
Board designated	14,814,448	14,380,707
	<u>14,814,448</u>	<u>14,380,707</u>
Total unrestricted net assets	334,324,894	298,005,954
Temporarily restricted	55,847,623	39,320,660
Permanently restricted	542,230	497,207
	<u>542,230</u>	<u>497,207</u>
Total net assets	<u>390,714,747</u>	<u>337,823,821</u>
Total liabilities and net assets	<u>\$ 470,054,402</u>	<u>\$ 429,935,073</u>

See accompanying notes.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Combined Statements of Activities
Years Ended April 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:								
Revenues:								
Contributions	\$ 189,506,198	\$ 22,451,719	\$ 45,023	\$ 212,002,940	\$ 102,047,100	\$ 1,211,337	\$ 36,252	\$ 103,294,689
Investment income-interest and dividends	5,297,833	725,019	-	6,022,852	4,653,632	845,998	-	5,499,630
Other	923,394	19,027	-	942,421	653,430	25,764	-	679,194
Net assets released from restrictions	8,327,579	(8,327,579)	-	-	3,438,431	(3,438,431)	-	-
Total revenues	204,055,004	14,868,186	45,023	218,968,213	110,792,593	(1,355,332)	36,252	109,473,513
Approved distributions and expenses:								
Grants to selected or designated organizations	177,349,554	-	-	177,349,554	161,866,383	-	-	161,866,383
Program expenses	140,964	-	-	140,964	91,541	-	-	91,541
Fund expenses	1,374,260	-	-	1,374,260	1,247,527	-	-	1,247,527
Operating expenses	3,052,900	-	-	3,052,900	2,662,185	-	-	2,662,185
Total approved distributions and expenses	181,917,678	-	-	181,917,678	165,867,636	-	-	165,867,636
Revenues over (under) approved distributions and expenses before net gain on investments and net loss on other assets	22,137,326	14,868,186	45,023	37,050,535	(55,075,043)	(1,355,332)	36,252	(56,394,123)
Net gain on investments:								
Realized	8,038,509	1,227,271	-	9,265,780	5,274,441	842,013	-	6,116,454
Unrealized	7,228,505	431,506	-	7,660,011	13,984,718	2,926,954	-	16,911,672
Net gain (loss) on other assets:								
Unrealized	(1,085,400)	-	-	(1,085,400)	393,500	-	-	393,500
Increase (decrease) in net assets	36,318,940	16,526,963	45,023	52,890,926	(35,422,384)	2,413,635	36,252	(32,972,497)
Net assets, beginning of year	298,005,954	39,320,660	497,207	337,823,821	333,428,338	36,907,025	460,955	370,796,318
Net assets, end of year	\$ 334,324,894	\$ 55,847,623	\$ 542,230	\$ 390,714,747	\$ 298,005,954	\$ 39,320,660	\$ 497,207	\$ 337,823,821

See accompanying notes.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Combined Statements of Cash Flows
Years Ended April 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 52,890,926	\$ (32,972,497)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	68,282	77,527
Realized gain on sale of investments	(9,265,796)	(6,116,454)
Unrealized gain on investments	(7,659,988)	(16,911,672)
Unrealized loss (gain) on other assets	1,085,400	(393,500)
Investment securities contributed and held	(1,506,919)	(6,334,852)
Contributed note receivable	(3,300,000)	-
Decrease in cash surrender value of life insurance, net	145,951	1,595,958
Change in assets and liabilities:		
Contributions receivable from charitable lead trusts	981,661	1,139,678
Interest and dividends receivable	(20,727)	(49,552)
Other assets	314,499	(23,716)
Accounts receivable	(2,310)	(7,076)
Accounts payable and accrued liabilities	50,679	36,984
Grants payable	(1,380,341)	(1,078,035)
Charitable remainder trusts payable	(103,137)	(270,795)
Agency funds	(15,326,690)	2,147,766
Net cash provided by (used in) operating activities	<u>16,971,490</u>	<u>(59,160,236)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	104,874,000	79,052,642
Purchases of investments	(111,930,284)	(93,821,270)
Payments received on notes receivable	3,087	2,977
Capital expenditures	-	(29,665)
Net cash used in investing activities	<u>(7,053,197)</u>	<u>(14,795,316)</u>
Net increase (decrease) in cash and cash equivalents	<u>9,918,293</u>	<u>(73,955,552)</u>
Cash and cash equivalents, beginning of year	<u>16,537,972</u>	<u>90,493,524</u>
Cash and cash equivalents, end of year	<u>\$ 26,456,265</u>	<u>\$ 16,537,972</u>

See accompanying notes.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations Notes to Financial Statements

1. General Purpose and Activities

Community Foundation of Greater Memphis, Inc. is a nonprofit organization established to administer contributions received and distribute grants to meet community needs.

Affiliated foundations, which are commonly controlled by the Board of Governors of Community Foundation of Greater Memphis, Inc., include The Canale Foundation, Inc.; CFR Memphis, LLC; Community Foundation Realty, Inc.; The Clarence Day Foundation; The Dunavant Foundation; Germantown United Methodist Church Endowment, Inc.; Gilliland Family Fund, Inc.; Jeniam II Foundation; MARCH Foundation; Memphis-Plough Community Foundation; The Pictsweet Foundation; Porter-Leath Early Childhood Foundation; The Gayle S. Rose Foundation, Inc.; Teacher Town USA, Inc. and The Turley Foundation, Inc.

Donors contribute to the following fund types: Unrestricted Funds – those for which the Board has full discretion in making distributions for charitable purposes to meet community needs; Donor Advised Funds – unrestricted funds for which the donor has reserved the right to make nonbinding distribution recommendations to the Board; Field of Interest Funds – those used at the Board's discretion to meet a general field of charitable need specified by the donor; and Donor Designated Funds – those established to provide sustaining support to specific agencies or institutions specified by the donor (collectively, "funds").

Unrestricted net assets include contributions to the Unrestricted Funds, Donor Advised Funds and affiliated foundations. Temporarily restricted net assets include contributions to the Field of Interest Funds, Designated Funds and split-interest agreements. Permanently restricted net assets include contributions to the GiVE 365 program.

2. Summary of Significant Accounting Policies

Principles of combination

The combined financial statements include the accounts of the Community Foundation of Greater Memphis, Inc. and the affiliated foundations (collectively referred to as the "Foundation"). The combined financial statements of the Foundation have been prepared on the accrual basis. The combined financial statements reflect the assets and financial activity of the various funds administered by the Foundation.

Cash equivalents

All highly liquid investments with a remaining maturity of three months or less at the date of purchase are considered to be cash equivalents.

Contributions

Contributions are recorded as revenue when an unconditional promise to give is received. Bequests are accrued as revenue when the respective donor has died and the will has been declared valid. Other deferred contributions are recorded as revenue when the conditions limiting the transfer of assets have been satisfied, typically when the promise becomes irrevocable. Contributions are recorded at fair value at the date of donation. Contributions receivable are recorded at the present value of expected net proceeds ultimately payable to the Foundation. Contributions receivable are adjusted annually and any present value gain or loss is reflected in the combined statements of activities as an adjustment to contributions.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations Notes to Financial Statements

Agency funds

Assets contributed to the Foundation from or for the direct benefit of another nonprofit organization are accounted for as a liability (Agency Funds) rather than being recognized as revenue to the Foundation, as the Foundation is acting as an agent on the behalf of the other nonprofit organization. Investment or other income produced from these assets is also accounted for as a liability.

Investments

Investments are carried at fair value or the lower of cost or fair value if fair value is not readily determinable. Investments carried at the lower of cost or fair value are evaluated for impairment annually or whenever events or circumstances indicate that the investments carrying value exceeds its fair value. See Note 4 for discussion of fair value measurements.

Securities are held in custodial accounts administered by certain major financial institutions. Interest and dividend income is recorded on an accrual basis. Realized gains and losses on the sales of securities are calculated on the basis of specific identification of the securities sold.

The Foundation operates a pooled investment portfolio. New funds or additions to existing funds are assigned shares in the investment pool based upon the per share estimated fair value at the beginning of the month in which the funds are deposited. Income, including unrealized appreciation or depreciation and realized capital gains and losses, is allocated on a monthly basis.

The Foundation's investments include various types of securities in various companies within various markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the Foundation's combined financial statements.

Property and equipment

The Foundation capitalizes expenditures for property and equipment. Property and equipment purchased are stated at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

Allowance for uncollectible amounts

An allowance for uncollectible amounts is recorded against notes receivable to reduce the recorded balance to an amount that is estimated as collectible by management. A charge to operating expenses is recorded in the period any portion of a receivable is estimated to be uncollectible.

Split interest agreements

Under charitable remainder trust agreements, assets are transferred to the Foundation and the specified income earned from these assets is distributed to designated beneficiaries, either for life or for a designated period of time. The estimated present value of the earnings to be distributed is recorded as a liability of the Foundation designated as charitable remainder trusts payable. Upon death of the beneficiary or expiration of the specified time period, the right to the remainder of the funds transfers to the Foundation. At April 30, 2018 and 2017, the Foundation held \$2,685,941 and \$2,687,167, respectively, of assets under split interest agreements. The present value of the remainder interest of the split interest agreements included in the net assets of the Foundation at April 30, 2018 and 2017, was \$1,674,618 and \$1,644,714, respectively.

Under charitable lead trust agreements, income is distributed to the Foundation for a designated time period. Upon expiration of the time period, the remainder of the funds will transfer to the donor or selected beneficiaries. The estimated present value of amounts receivable under charitable lead trust agreements is included in contributions receivable from charitable lead trusts.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations

Notes to Financial Statements

Present values of charitable remainder trusts and charitable lead trusts are based on discounted rates ranging from 1.7% to 2.7%.

Grants payable

Grants payable to selected or designated organizations and the related expense are recorded when the grants are approved by the Board of Governors for payment.

Expenses

Program expenses are comprised of those expenses directly related to grant programs, including salary costs for those employed solely for a particular project. Fund expenses are those expenses, such as property insurance and life insurance premiums, incurred directly with administration of donor advised funds and maintenance of properties held as grant investments. Operating expenses are administrative costs not directly identifiable with a specific fund or project.

Income taxes

The Foundation has been determined to be exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code as evidenced by a determination letter dated August 22, 1990. Additionally, the Foundation has been determined to be an organization that is not a private foundation. The Foundation has determined that it does not have any material unrecognized tax positions as of April 30, 2018 and 2017.

Donated services

Unpaid volunteers contribute significant amounts of time to fund-raising campaigns and other program activities of the Foundation. No amounts have been reflected in the accompanying combined financial statements for these donated services, as they do not meet the criteria requiring such recognition.

Estimates

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

Recent accounting pronouncements

The Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. **Net Asset Classes** - Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
2. **Investment Return** - Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.
3. **Expenses** - Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations Notes to Financial Statements

- 4. Liquidity and Availability of Resources** - The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures with one year of the statement of financial position date.
- 5. Presentation of Operating Cash Flows** - Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit entity to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

The Foundation intends to adopt the new ASU guidance using the retrospective method for the fiscal year ended April 30, 2019.

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which applies to all entities that receive or make contributions, including business entities. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. No new disclosures are required.

For grants/contributions made, donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements.

For federal and other government grants, the ASU clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today.

For transactions in which a non-public entity serves as a resource recipient, the entity should apply the amendments in this ASU on contributions received to annual periods beginning after December 15, 2018 (the Foundation's fiscal year 2020). For transactions in which a non-public entity serves as a resource provider, the entity should apply the amendments in this ASU on contributions made to annual periods beginning after December 15, 2019 (the Foundation's fiscal year 2021). Early adoption of the amendments is permitted.

Subsequent events

The Foundation has evaluated the effect subsequent events would have on the combined financial statements through September 17, 2018, which is the date the combined financial statements were available to be issued.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Notes to Financial Statements

3. Investments

A summary of investment income for the years ended April 30, 2018 and 2017, follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 6,022,852	\$ 5,499,630
Realized gain	9,265,780	6,116,454
Unrealized gain	7,660,011	16,911,672
Investment fees, included in expenses	<u>(1,018,536)</u>	<u>(836,033)</u>
	<u>\$ 21,930,107</u>	<u>\$ 27,691,723</u>

4. Fair Value of Financial Assets and Liabilities

Fair value as defined under accounting principles generally accepted in the United States of America is an exit price, representing 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 market data or assumptions that market participants would use in pricing the asset or liability under a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The amounts presented in the fair value table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

Prices for investment securities, such as domestic common stocks, mutual funds, and certain U.S. government and agency fixed income securities, and the transacted values for money market mutual funds are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1.

Prices for corporate bonds, municipal bonds, certain U.S. government and agency obligations and certain equity securities are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

There is limited or no observable data for the prices of private real estate investments and other private company investments that are held by the Foundation, and the resulting fair values of these securities are categorized as Level 3. The fair value of these investments as of April 30, 2018 and 2017, was estimated based primarily on information provided by the fund managers or management of the private company.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations Notes to Financial Statements

The fair values of hedged equity, absolute return (hedge fund), certain private equity and certain bond fund investments are estimated based primarily on the NAV or its equivalent provided by the fund managers.

The values of private real estate investments, other private company investments, hedged equity, absolute return funds (hedge fund), certain private equity and certain bond fund investments (collectively, "alternative investments") are estimated by the individual investment manager taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent arm's-length transactions involving securities of the investee, the value of similar securities issued by companies in the same or similar businesses, and limited marketability of the portfolio. Valuations provided by the general partners and investment managers are evaluated by management and the investment committee through accounting and financial reporting processes to review and monitor existence and valuation assertions. Management has instituted processes in the areas of initial due diligence, ongoing monitoring and financial reporting. Specific efforts employed by management include ongoing interaction with the fund manager to include on-site visits and interviews, ongoing monitoring of portfolio holdings, activities and performance. Management also reviews interim financial information and reviews details of investment holdings to obtain an understanding of the underlying investments. Monitoring also includes obtaining and reviewing audited financial statements noting the type of opinion, basis of accounting, procedures pertaining to the valuation of alternative investments and comparison of audited valuation with the fund's valuation.

There were no changes during the years ended April 30, 2018 and 2017, to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

The Foundation offers four primary investment pools for charitable assets. Donors may recommend the pool that fits best with their charitable plans. The following table sets forth within the fair value hierarchy the Foundation's investment pools and other investments accounted for at fair value on a recurring basis as of April 30, 2018 and 2017.

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Notes to Financial Statements

	Assets at Fair Value as of April 30, 2018				Total
	Level 1	Level 2	Level 3	NAV	
Cash equivalent pool:					
Money market funds and negotiable CDs	\$ 17,403,574	\$ -	\$ -	\$ -	\$ 17,403,574
U.S. Government and agency obligations	22,946,281	-	-	-	22,946,281
Corporate and municipal bonds and bond funds	-	11,240,538	-	-	11,240,538
	<u>40,349,855</u>	<u>11,240,538</u>	-	-	<u>51,590,393</u>
Fixed income pool:					
Money market funds	3,290	-	-	-	3,290
Corporate and municipal bonds and bond funds	11,557,563	-	-	-	11,557,563
	<u>11,560,853</u>	-	-	-	<u>11,560,853</u>
Balanced pool:					
Money market funds	10,702,215	-	-	-	10,702,215
U.S. Government and agency obligations	3,413,247	9,099,138	-	-	12,512,385
Corporate and municipal bonds and bond funds	12,136,376	17,816,173	-	5,950,497	35,903,046
Equity securities and equity funds	71,997,532	-	-	29,282,916	101,280,448
Absolute return funds	-	-	-	17,648,021	17,648,021
Hedged equity funds	-	-	-	11,579,781	11,579,781
Private equity investments	-	-	1,420,459	-	1,420,459
Private real estate investments	-	-	2,303,277	-	2,303,277
	<u>98,249,370</u>	<u>26,915,311</u>	<u>3,723,736</u>	<u>64,461,215</u>	<u>193,349,632</u>
Equity pool:					
Money market funds	887,129	-	-	-	887,129
Equity securities and equity funds	18,206,898	-	-	6,931,793	25,138,691
Hedged equity funds	-	-	-	2,617,990	2,617,990
	<u>19,094,027</u>	-	-	<u>9,549,783</u>	<u>28,643,810</u>
Other:					
Money market funds	4,054,685	-	-	-	4,054,685
U.S. Government and agency obligations	513,069	-	-	-	513,069
Corporate and municipal bonds and bond funds	2,702,447	-	-	3,193,632	5,896,079
Equity securities and equity funds	98,999,834	-	-	6,006,906	105,006,740
Absolute return funds	-	-	-	6,766,537	6,766,537
Hedged equity funds	-	-	-	21,220,070	21,220,070
Private company investments	-	-	3,232,903	-	3,232,903
	<u>106,270,035</u>	-	<u>3,232,903</u>	<u>37,187,145</u>	<u>146,690,083</u>
Total	<u>\$275,524,140</u>	<u>\$ 38,155,849</u>	<u>\$ 6,956,639</u>	<u>\$ 111,198,143</u>	431,834,771
Cash deposits and money market instruments included in cash and cash equivalents					(33,050,893)
Investments carried at cost					<u>14,004,609</u>
Investments					<u>\$412,788,487</u>

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Notes to Financial Statements

	Assets at Fair Value as of April 30, 2017				Total
	Level 1	Level 2	Level 3	NAV	
Cash equivalent pool:					
Money market funds and negotiable CDs	\$ 9,423,705	\$ -	\$ -	\$ -	\$ 9,423,705
U.S. Government and agency obligations	26,659,073	-	-	-	26,659,073
Corporate and municipal bonds and bond funds	-	11,804,297	-	-	11,804,297
	<u>36,082,778</u>	<u>11,804,297</u>	<u>-</u>	<u>-</u>	<u>47,887,075</u>
Fixed income pool:					
Money market funds	1,755	-	-	-	1,755
Corporate and municipal bonds and bond funds	11,477,634	-	-	-	11,477,634
	<u>11,479,389</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,479,389</u>
Balanced pool:					
Money market funds	7,241,762	-	-	-	7,241,762
U.S. Government and agency obligations	2,729,149	6,963,298	-	-	9,692,447
Corporate and municipal bonds and bond funds	12,196,833	15,016,272	-	5,972,901	33,186,006
Equity securities and equity funds	79,042,141	-	-	25,253,670	104,295,811
Absolute return funds	-	-	-	16,810,938	16,810,938
Hedged equity funds	-	-	-	10,665,302	10,665,302
Private equity investments	-	-	1,410,282	-	1,410,282
Private real estate investments	-	-	2,356,867	-	2,356,867
	<u>101,209,885</u>	<u>21,979,570</u>	<u>3,767,149</u>	<u>58,702,811</u>	<u>185,659,415</u>
Equity pool:					
Money market funds	806,174	-	-	-	806,174
Equity securities and equity funds	16,551,619	-	-	5,974,674	22,526,293
Hedged equity funds	-	-	-	2,411,242	2,411,242
	<u>17,357,793</u>	<u>-</u>	<u>-</u>	<u>8,385,916</u>	<u>25,743,709</u>
Other:					
Money market funds	3,872,256	-	-	-	3,872,256
U.S. Government and agency obligations	1,223,871	-	-	-	1,223,871
Corporate and municipal bonds and bond funds	2,881,978	311,640	-	2,870,922	6,064,540
Equity securities and equity funds	92,266,951	-	-	5,393,250	97,660,201
Absolute return funds	-	-	-	7,975,796	7,975,796
Hedged equity funds	-	-	-	1,089,240	1,089,240
Private company investments	-	-	1,997,158	-	1,997,158
	<u>100,245,056</u>	<u>311,640</u>	<u>1,997,158</u>	<u>17,329,208</u>	<u>119,883,062</u>
Total	<u>\$266,374,901</u>	<u>\$ 34,095,507</u>	<u>\$ 5,764,307</u>	<u>\$ 84,417,935</u>	390,652,650
Cash deposits and money market instruments included in cash and cash equivalents					(21,345,652)
Investments carried at cost					<u>14,004,609</u>
Investments					<u>\$383,311,607</u>

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The following table illustrates the activity of level 3 assets from May 1, 2016, to April 30, 2018:

	<u>Real Estate Investments</u>	<u>Private Company Investments</u>	<u>Total</u>
Fair value, May 1, 2016	\$ 1,869,282	\$ 1,150,313	\$ 3,019,595
Unrealized gains	200,755	424,480	625,235
Purchases	<u>286,830</u>	<u>1,832,647</u>	<u>2,119,477</u>
Fair value, April 30, 2017	2,356,867	3,407,440	5,764,307
Realized gains	38,869	-	38,869
Unrealized losses	(92,459)	(294,733)	(387,192)
Contributions	<u>-</u>	<u>1,540,655</u>	<u>1,540,655</u>
Fair value, April 30, 2018	<u>\$ 2,303,277</u>	<u>\$ 4,653,362</u>	<u>\$ 6,956,639</u>

The following table provides information related to the previously mentioned investments that are valued based primarily on NAV.

	<u>Fair Value April 30, 2018</u>	<u>Fair Value April 30, 2017</u>	<u>Unfunded Commitments at April 30, 2018</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Absolute return funds ^(a)	\$ 24,414,558	\$ 24,786,733	\$ -	Annually	60 - 95 days
Bond funds ^(b)	9,144,129	8,843,823	-	Monthly	10 days
Equity funds ^(c)	42,221,615	36,621,594	-	Monthly/Quarterly	6 - 60 days
Hedged equity funds ^(d)	<u>35,417,841</u>	<u>14,165,785</u>	-	/Annually	60 - 100 days
Total	<u>\$ 111,198,143</u>	<u>\$ 84,417,935</u>	<u>\$ -</u>		

- a) Absolute Return Funds - This category includes multi-strategy funds, partnerships and funds of funds that attempt to generate positive returns that are not correlated to the returns of the overall markets. The main strategies include: credit oriented hedges, direct lending, master limited partnerships, energy/commodities, various arbitrage strategies such as convertible, merger, risk, and statistical, and other value oriented hedges. Other strategies utilized are equities held in both long and short positions in global markets. Investments in this category are limited by various gate constraints during periods of illiquidity.
- b) Bond Funds - This category includes investments in various fixed income strategies through funds and partnerships. The underlying investments include asset backed securities, corporate obligations, convertible bonds, and U.S. Treasury and agency securities. There are no significant periods of liquidity constraints on securities held within the category.
- c) Equity Funds - This category consists of investments in varying types of equity funds, partnerships and funds of funds. Underlying investments include small, medium, and large capitalization domestic and foreign company equities. Investments in this category are not limited by gate constraints or significant periods of illiquidity. However, 5% of the fund is restricted to 10% of value daily maximum liquidation.
- d) Hedged Equity Funds - This category consists of funds, partnerships and funds of funds that make long and short position equity investments. Securities utilized in this strategy include equity securities of publicly traded and privately held global companies. Investment distributions are subject to 60 to 100 days advance notice. However, distributions during periods of illiquidity are restricted by gate constraints.

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Notes to Financial Statements

5. Notes Receivable

Notes receivable at April 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Contributed note	\$ 8,963,135	\$ 8,963,135
Economic development notes	117,482	120,569
Other	<u>3,317,950</u>	<u>17,950</u>
	<u>12,398,567</u>	9,101,654
Less allowance for uncollectible amounts	<u>(131,140)</u>	<u>(131,140)</u>
	<u>\$ 12,267,427</u>	<u>\$ 8,970,514</u>

The Foundation received a grant of approximately \$1.6 million from the City of Memphis for business loans to certain qualified borrowers. These economic development notes are collateralized by real property, bear interest from 5.0% to 10.5% and are payable in monthly installments of principal and interest over periods of five to twenty years.

In 2016, a donor contributed a note receivable that bears interest at 1.68% with annual interest payments due on March 1. The note matures on December 5, 2024.

In 2018, the Foundation entered into a promissory note receivable agreement with a local business in an effort to promote artistic, economic and social development in the Memphis area. Interest is assessed at the current mid-term AFR rate (1.85% at April 30, 2018). Available borrowings on the note are \$3,000,000, of which \$2,000,000 was outstanding as of April 30, 2018. The note is unsecured and matures on January 1, 2023.

In 2018, the Foundation entered into a promissory note receivable agreement with a local nonprofit organization to provide funding for a home mortgage loan fund. The note receivable of \$1,300,000 as of April 30, 2018, is secured by the loans made through the loan fund up to the amount of funds that have been extended under the note receivable agreement. The note receivable bears interest at the current Wall Street Journal Prime Rate minus 4% (.75% at April 30, 2018) and matures April 20, 2028.

6. Contributions Receivable from Charitable Trusts

Contributions receivable from charitable lead trusts are scheduled to be received as follows at April 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Within one year	\$ 1,101,086	\$ 1,099,304
Two to five years	1,379,499	2,364,420
Over five years	<u>734,355</u>	<u>814,157</u>
	<u>3,214,940</u>	4,277,881
Less present value adjustments using discount rates of 2.95% and 2.29% at April 30, 2018 and 2017, respectively	<u>(423,780)</u>	<u>(505,060)</u>
	<u>\$ 2,791,160</u>	<u>\$ 3,772,821</u>

Community Foundation of Greater Memphis, Inc. and Affiliated Foundations
Notes to Financial Statements

7. Property and Equipment

Property and equipment at April 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 202,000	\$ 202,000
Building and improvements	1,533,458	1,533,458
Furniture and equipment	<u>390,628</u>	<u>390,628</u>
	2,126,086	2,126,086
Less accumulated depreciation	<u>(1,163,208)</u>	<u>(1,094,926)</u>
	<u>\$ 962,878</u>	<u>\$ 1,031,160</u>

8. Other Assets

Other assets at April 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Land held for resale at fair value	\$ 370,200	\$ 1,735,600
Cultural artifacts, at appraised value at date of gift	1,728,463	1,727,600
Miscellaneous other assets	<u>19,400</u>	<u>54,762</u>
	\$ 2,118,063	\$ 3,517,962

Land held for resale is recorded at fair value at the date of donation and adjusted as unrealized gains or losses when updated valuations are received from third-party valuations such as Foundation commissioned appraisals or government property tax assessment appraisals. Land held for resale is categorized as Level 3 in the fair value hierarchy.

9. Grants Payable

The following summarizes the changes in grants payable during 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Grants payable at beginning of year	\$ 3,049,618	\$ 4,127,653
Unconditional grants recognized, net of adjustments of \$40,782 and \$65,917, respectively, to reflect present value of multi-year grants	177,349,554	161,866,383
Less grant payments	<u>(178,729,895)</u>	<u>(162,944,418)</u>
	<u>\$ 1,669,277</u>	<u>\$ 3,049,618</u>

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Notes to Financial Statements

Grants payable are scheduled to be disbursed as follows:

<u>Year Ending April 30,</u>	
2019	\$ 1,140,885
2020	349,000
2021	176,000
2022	10,000
2023	13,000
Thereafter	<u>20,000</u>
Total	1,708,885
Less adjustments to reflect present value of multi-year grants, discounted using a rate of 2.95% at April 30, 2018	<u>(39,608)</u>
	<u>\$ 1,669,277</u>

10. Agency Funds

Transactions in agency funds are summarized as follows:

	<u>2018</u>	<u>2017</u>
Additions:		
Contributions	\$ 8,871,938	\$ 6,410,649
Investment income – interest and dividends	1,356,760	1,412,504
Net gain on investments	<u>3,915,883</u>	<u>6,242,594</u>
	14,144,581	14,065,747
Deductions:		
Grants to designated organizations	25,003,655	5,059,886
Other expenses	<u>551,731</u>	<u>615,501</u>
	<u>25,555,386</u>	<u>5,675,387</u>
Increase (decrease) in agency funds	<u>(11,410,805)</u>	8,390,360
Balance in agency funds, beginning of year	<u>87,569,067</u>	<u>79,178,707</u>
	<u>\$ 76,158,262</u>	<u>\$ 87,569,067</u>

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following at April 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Field of interest funds	\$ 30,077,000	\$ 12,647,129
Designated funds	21,320,472	21,136,093
Split-interest agreements	<u>4,450,151</u>	<u>5,537,438</u>
	<u>\$ 55,847,623</u>	<u>\$ 39,320,660</u>

12. Permanently Restricted Net Assets

Permanently restricted net assets of \$542,230 and \$497,207 at April 30, 2018 and 2017, respectively, consist of an endowment established by contributions to the Foundation's GiVE 365 program. Half of all contributions to GiVE 365 are invested in an endowment fund, the earnings from which are temporarily restricted for grants that meet community needs.