



**PIKES PEAK COMMUNITY FOUNDATION
AND AFFILIATE**

Consolidated Financial Statements

For the Year Ended December 31, 2018

And

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Pikes Peak Community Foundation
Colorado Springs, Colorado

We have audited the accompanying consolidated financial statements of Pikes Peak Community Foundation and Affiliate, a non-profit organization, (collectively, the Foundation), which comprise the consolidated balance sheet as of December 31, 2018 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pikes Peak Community Foundation and Affiliate as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2018 the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Pikes Peak Community Foundation and Affiliate's 2017 consolidated financial statements, and our report dated May 18, 2018 expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan + Co. LLP

May 14, 2019

PIKES PEAK COMMUNITY FOUNDATION AND AFFILIATE

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2018 (with comparative totals for 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 3,501,637	\$ 3,270,327
Investments	44,358,105	44,070,454
Property and equipment, net	8,178,323	8,243,468
Land held for investment	4,323,000	4,323,000
Land and water taps held for sale	2,130,996	2,130,996
Building held for sale	489,416	937,500
Water rights	6,003,554	6,003,554
Other assets	294,809	80,521
TOTAL	<u>\$ 69,279,840</u>	<u>\$ 69,059,820</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 163,939	\$ 173,693
Deposit on sale of land	55,000	55,000
Liability associated with a charitable remainder trust	337,866	394,002
Funds held as agency endowments	840,965	779,506
Funds held in trust for others	3,780,165	4,183,595
Total	<u>5,177,935</u>	<u>5,585,796</u>
NET ASSETS		
Without donor restrictions:		
Designated for endowment	9,058,692	9,380,252
Undesignated	54,926,944	53,958,185
Total	63,985,636	63,338,437
With donor restrictions	116,269	135,587
Total net assets	<u>64,101,905</u>	<u>63,474,024</u>
TOTAL	<u>\$ 69,279,840</u>	<u>\$ 69,059,820</u>

See notes to financial statements.

PIKES PEAK COMMUNITY FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018 (with comparative totals for 2017)

	2018				With Donor Restrictions	Total	2017 Total
	Operating Funds	Community Funds	Real Estate Funds	Total			
REVENUE							
Contributions	\$ 131,364	\$ 5,331,155	\$ 303,000	\$ 5,765,519		\$ 5,765,519	\$ 3,808,268
Program income	30,081	21,616	24,558	76,255		76,255	134,159
Management fee, charged to others	36,801			36,801		36,801	33,136
Management fee, internal	445,882	(415,043)	(30,839)	—		—	
Gain on sale of property and equipment			1,715,878	1,715,878		1,715,878	
Other revenue	47,594		11,513	59,107	\$ (19,318)	39,789	232,587
Investment (loss) income, net	(163,964)	(1,689,436)	(135,458)	(1,988,858)		(1,988,858)	4,882,284
Total	527,758	3,248,292	1,888,652	5,664,702	(19,318)	5,645,384	9,090,434
EXPENSES							
Grants	10,773	3,727,458		3,738,231		3,738,231	4,157,918
Non-grant program expenses	28,617	38,872	820	68,309		68,309	354,205
Payroll and related	714,951		53,799	768,750		768,750	858,731
General and administrative	182,767	1,475	47,410	231,652		231,652	249,119
Rent and utilities	93,136		8,816	101,952		101,952	112,495
Depreciation	33,976		30,084	64,060		64,060	74,810
Legal and professional	34,244		10,305	44,549		44,549	49,203
Total expenses	1,098,464	3,767,805	151,234	5,017,503	—	5,017,503	5,856,481
Change in net assets	\$ (570,706)	\$ (519,513)	\$ 1,737,418	647,199	(19,318)	627,881	3,233,953
NET ASSETS, Beginning of year				63,338,437	135,587	63,474,024	60,240,071
NET ASSETS, End of year				\$ 63,985,636	\$ 116,269	\$ 64,101,905	\$ 63,474,024

See notes to financial statements.

PIKES PEAK COMMUNITY FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2018 (with comparative totals for 2017)

	2018								2017 Total
	Program Services				Supporting Services			Total	
	Philanthropic Services	Community Impact	Community Programs	Total Program Services	Fundraising	Management and General	Total Supporting Services		
Grants	\$ 3,512,950	\$ 94,633	\$ 129,680	\$ 3,737,263		\$ 968	\$ 968	\$ 3,738,231	\$ 4,157,918
Non-grant program expenses	25,848	1,513	40,948	68,309				68,309	354,205
Payroll and related	199,859	115,340	153,703	468,902	\$ 15,329	284,519	299,848	768,750	858,731
General and administrative	44,044	27,550	66,912	138,506	3,132	90,014	93,146	231,652	249,119
Rent and utilities	26,508	15,293	20,390	62,191	2,039	37,722	39,761	101,952	112,495
Depreciation			64,060	64,060				64,060	74,810
Legal and professional	5,695	3,286	27,026	36,007	438	8,104	8,542	44,549	49,203
Total	<u>\$ 3,814,904</u>	<u>\$ 257,615</u>	<u>\$ 502,719</u>	<u>\$ 4,575,238</u>	<u>\$ 20,938</u>	<u>\$ 421,327</u>	<u>\$ 442,265</u>	<u>\$ 5,017,503</u>	
PERCENTAGE	<u>77%</u>	<u>5%</u>	<u>10%</u>	<u>92%</u>	<u>0%</u>	<u>8%</u>	<u>8%</u>	<u>100%</u>	
TOTAL - 2017	<u>\$ 2,272,464</u>	<u>\$ 1,311,037</u>	<u>\$ 1,748,048</u>	<u>\$ 5,331,549</u>	<u>\$ 83,934</u>	<u>\$ 440,998</u>	<u>\$ 524,932</u>		<u>\$ 5,856,481</u>
PERCENTAGE - 2017	<u>39%</u>	<u>23%</u>	<u>30%</u>	<u>92%</u>	<u>1%</u>	<u>7%</u>	<u>8%</u>		<u>100%</u>

See notes to financial statements.

PIKES PEAK COMMUNITY FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018 (with comparative totals for 2017)

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ 627,881	\$ 3,233,953
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	64,060	74,810
Realized and unrealized investment losses (gains)	3,019,238	(3,799,603)
Donation of property and equipment	(283,000)	
Gain on sale of property and equipment	(1,715,878)	
Other	(16,412)	63,603
Changes in operating assets and liabilities:		
Other assets	(214,288)	3,586
Accounts payable and accrued expenses	(9,754)	96,759
Deposit on sale of land		55,000
Net cash provided by (used in) operating activities	<u>1,471,847</u>	<u>(271,892)</u>
INVESTING ACTIVITIES		
Purchases of investments	(30,904,247)	(18,807,095)
Sales of investments	27,215,663	18,694,158
Proceeds on sale of property and equipment	2,448,047	
Purchases of property and equipment		<u>(51,269)</u>
Net cash used in investing activities	<u>(1,240,537)</u>	<u>(164,206)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	231,310	(436,098)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>3,270,327</u>	<u>3,706,425</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 3,501,637</u>	<u>\$ 3,270,327</u>
NONCASH INVESTING ACTIVITIES		
Donation of property and equipment	<u>\$ 283,000</u>	

See notes to financial statements.

PIKES PEAK COMMUNITY FOUNDATION AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pikes Peak Community Foundation (PPCF) is a Colorado nonprofit corporation. The mission of PPCF is to inspire generosity, serve donors and mobilize resources to effectively address concerns facing the Pikes Peak Region. The Foundation is dedicated to empowering the community through grant making, partnerships and research; together with donors, the Foundation mobilizes and aligns resources to support immediate and long-term needs for the health of citizens.

Principles of Consolidation — The consolidated financial statements include the accounts of PPCF and Pikes Peak Real Estate Foundation (PPREF) (collectively, the Foundation). PPREF was organized to support PPCF and is consolidated since PPCF has both an economic interest in and control over the entity. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation — The accompanying financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Asset Classification — Net assets without donor restrictions represent the expendable resources that are available for operations at management's discretion. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Most funds of the Foundation are classified as net assets without donor restriction because the governing instruments of the Foundation and donor agreements provide the Foundation with variance power. The Board of Trustees of the Foundation has variance power to modify any restriction or condition placed on the distribution of funds and to apply the whole or any part of the principal or income of funds as in its judgement is necessary to serve more effectively the charitable purposes of the Foundation. However, the Board of Trustees would only exercise this authority if the stated purpose of a contribution is no longer applicable and incapable of fulfillment. It is the expressed intention of the Foundation to honor the designations of the donors.

Net assets with donor restrictions represent resources restricted by donors as to purpose or by the passage of time and resources whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Cash and Cash Equivalents — For purposes of the statement of cash flows, the Foundation considers cash, amounts due from banks and highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

Donated Services — The Foundation recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by persons possessing those skills and would typically need to be purchased if not provided by donation.

Investments — Investments are carried at fair value. Fair values for money market accounts, mutual funds, exchange traded funds, real estate investment trusts and common stocks are determined principally through quoted market prices. Fair values for government obligations and corporate bonds are determined principally through pricing services. Certificates of deposit are valued at cost which approximates fair value. Fair values for private equity securities are determined through the Foundation's proportionate share of the estimated value of the private company. Realized and unrealized gains and losses are reflected in the consolidated statement of activities. Earnings on restricted investments are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the earnings are recognized. All other earnings on donor restricted investments are recognized as an increase in temporarily restricted net assets according to the nature of the restrictions on the original gift. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Property and Equipment — All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets in excess of \$50,000 are capitalized. Property and equipment, which consist of land, buildings and furniture and fixtures, are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of three to five years for furnishings and equipment and 40 years for buildings.

Land, Building and Water Taps Held for Sale — Land, building, and water taps held for sale are recorded at the lower of cost or fair market value. At December 31, 2018 the building held for sale is recorded at cost and land and water taps held for sale are recorded at fair market value.

Water Rights — Water rights are recorded at fair value on the date of donation and are assessed for impairment annually. No impairment loss was recognized during the years ended December 31, 2018 and 2017. See Note 6 for further information.

Funds Held as Agency Endowments — The Foundation has adopted accounting standards for transactions in which a community foundation accepts a contribution from a nonprofit organization and agrees to transfer those assets, the return on investment of those assets, or both, back to the nonprofit organization. The standards specifically require that if a nonprofit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency funds. As of December 31, 2018 and 2017 the Foundation held four agency funds with the balance of those funds totaling \$840,965 and \$779,506, respectively. The Foundation maintains variance power and legal ownership of agency endowment funds and they appear in the accompanying consolidated balance sheet as funds held as agency endowments.

Funds Held in Trust for Others — The Foundation receives certain transfers of assets that are revocable or are not assets held for the benefit of the Foundation. These transfers are accounted for as a liability by the Foundation and appear in the accompanying consolidated balance sheets as

funds held in trust for others. At December 31, 2018 and 2017, respectively, the balance of those funds totaled \$3,780,165 and \$4,183,595.

Operating Funds — Operating funds consist of PPCF operations, including the management fee charged to all community funds, PPCF discretionary grants, Venetucci Farm and Aspen Valley Ranch.

Concentrations of Credit Risk — Certain financial instruments potentially subject the Foundation to concentrations of credit risk. These financial instruments consist primarily of cash and investments.

Use of Estimates — Preparation of the Foundation's financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status — The Foundation is a nonprofit corporation which is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies as a public charity for purposes of Charitable Contribution deduction. The Foundation believes that it does not have any uncertain tax positions that are material to the financial statements.

Change in Accounting Principle — On August 18, 2016, FASB issued Accounting Standards Update (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. During 2018, management implemented ASU 2016-14 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications — Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Subsequent Events — The Foundation has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. LIQUIDITY AND AVAILABILITY

The following table reflects the Foundation's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. There are no board designations on financial assets to meet cash needs for general expenditures.

The following table reflects the Foundation's financial assets as of December 31, 2018 and 2017:

	2018	2017
Cash and cash equivalents	\$ 3,501,637	\$ 3,270,327
Investments	<u>44,358,105</u>	<u>44,070,454</u>
Total financial assets	<u>47,859,742</u>	<u>47,340,781</u>
Less amounts unavailable for general expenditures within one year, due to:		
Funds designated by board as endowment	9,058,692	9,380,252
Funds held as agency endowments	840,965	779,506
Funds held in trust for others	3,780,165	4,183,595
Illiquid investments	511,306	426,311
Restricted by donor with time restriction	<u>112,269</u>	<u>135,587</u>
Total financial assets available to management to meet cash needs for general expenditures within one year	<u>\$ 33,556,345</u>	<u>\$ 32,435,530</u>

Contributions received by the Foundation are separated as Donor Advised Funds, Designated Funds, Field of Interest Funds or Undesignated Funds at the request of the donor. Donor Advised Funds are available for grant disbursement generally based on donor recommendation. Designated Funds are generally used for a specific charitable organization as recommended by the donor. Field of Interest Funds are available for grant disbursement within a charitable field of interest as recommended by the Foundation's Board of Trustees. The Foundation has the unilateral right to redirect the use of donor contributions to another beneficiary, however the Foundation's intent is to honor the wishes of donors as long as those wishes are capable of fulfillment.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation's typical operating procedures to manage an emergency cash flow need is the liquidate investments. The Foundation manages its cash flow through regular (monthly) analysis of cash flows and budgeted expenses.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation is required to use a fair value hierarchy that prioritizes 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 below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2: Prices determined using significant other observable inputs. 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: Prices determined using significant unobservable inputs.

The investment'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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, the Foundation's financial instruments at fair value as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018:				
Measured at fair value on a recurring basis:				
ASSETS				
Investments:				
Common stock:				
Domestic	\$ 8,794,502	\$ 8,794,502		
International	8,665,222	8,665,222		
Money market accounts	2,533,176	2,533,176		
Exchange traded funds:				
Domestic fixed income	1,188,095	1,188,095		
Domestic equity	1,692,397	1,692,397		
Real estate and alternative	1,846,045	1,846,045		
International equity	502,753	502,753		
International fixed income	9,567	9,567		
Closed end	31,074	31,074		
Mutual funds:				
Domestic fixed income	6,129,250	6,129,250		
Real estate and alternative	1,879,920	1,879,920		
Domestic equity	2,497,091	2,497,091		
International equity	1,184,348	1,184,348		
International fixed income	688,740	688,740		
Other	153,754	153,754		
Real estate investment trusts	648,034	648,034		
Fixed income:				
Corporate bonds	2,670,775		\$ 2,670,775	
Government obligations	2,732,056		2,732,056	
Private equity securities	<u>511,306</u>			\$ <u>511,306</u>
Total investments	44,358,105	38,443,968	5,402,831	511,306
Measured at fair value on a non-recurring basis:				
Land held for investment	4,323,000			4,323,000
Land and water taps held for sale	2,130,996			2,130,996
Building held for sale	<u>489,416</u>			<u>489,416</u>
Total	<u>\$ 51,301,517</u>	<u>\$ 38,443,968</u>	<u>\$ 5,402,831</u>	<u>\$ 7,454,718</u>
Measured at fair value on a recurring basis:				
LIABILITIES				
Charitable remainder trust	<u>\$ 337,866</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 337,866</u>

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017:				
Measured at fair value on a recurring basis:				
ASSETS				
Investments:				
Common stock:				
Domestic	\$ 10,941,351	\$ 10,941,351		
International	6,931,886	6,931,886		
Money market accounts	525,192	525,192		
Exchange traded funds:				
Domestic fixed income	2,582,047	2,582,047		
Domestic equity	2,010,937	2,010,937		
Real estate and alternative	446,027	446,027		
International equity	399,422	399,422		
International fixed income	25,640	25,640		
Closed End	38,156	38,156		
Mutual funds:				
Domestic fixed income	5,484,442	5,484,442		
Real estate and alternative	3,391,719	3,391,719		
Domestic equity	2,118,262	2,118,262		
International equity	1,405,489	1,405,489		
International fixed income	711,828	711,828		
Other	203,017	203,017		
Real estate investment trusts	976,031	976,031		
Fixed income:				
Corporate bonds	2,831,027		\$ 2,831,027	
Government obligations	2,621,670		2,621,670	
Private equity securities	<u>426,311</u>			\$ <u>426,311</u>
Total investments	44,070,454	38,191,446	5,452,697	426,311
Measured at fair value on a non-recurring basis:				
Land held for investment	4,323,000			4,323,000
Land and water taps held for sale	2,130,996			2,130,996
Buildings held for sale	<u>937,500</u>			<u>937,500</u>
Total	<u>\$ 51,461,950</u>	<u>\$ 38,191,446</u>	<u>\$ 5,452,697</u>	<u>\$ 7,817,807</u>
Measured at fair value on a recurring basis:				
LIABILITIES				
Charitable remainder trust	<u>\$ 394,002</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 394,002</u>

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs are as follows:

Private Equity Securities:

Balance, January 1, 2017	\$ 343,631
Purchases	89,542
Change in value	<u>(6,862)</u>
Balance, December 31, 2017	426,311
Purchases	40,000
Change in value	<u>44,995</u>
Balance, December 31, 2018	<u>\$ 511,306</u>

Land Held for Investment:

Balance, January 1, 2017	\$ 4,323,000
Change in value	<u>—</u>
Balance, December 31, 2017	4,323,000
Change in value	<u>—</u>
Balance, December 31, 2018	<u>\$ 4,323,000</u>

Land and Water Taps Held for Sale:

Balance, January 1, 2017	\$ 2,130,996
Change in value	<u>—</u>
Balance, December 31, 2017	2,130,996
Change in value	<u>—</u>
Balance, December 31, 2018	<u>\$ 2,130,996</u>

Charitable Remainder Trust:

Balance, January 1, 2017	\$ 366,524
Change in value	60,927
Distributions	<u>(33,449)</u>
Balance, December 31, 2017	394,002
Change in value	(19,355)
Distributions	<u>(36,781)</u>
Balance, December 31, 2018	<u>\$ 337,866</u>

The following table shows quantitative information about significant unobservable inputs related to Level 3 fair value measurements used as of December 31, 2018:

Investment	Valuation Technique	Unobservable Input	Range
Liability associated with charitable remainder remainder trust	Discounted cash flows	Expected life of lead beneficiaries	18.2 years
		Return on assets	8 %
		Discount rate	8 %
Private equity limited partnerships	Value reported by the partnerships	Fair values of the underlying assets of the partnerships	
Land held for investment	Appraisal	Third party appraiser judgments on economic conditions	
Land and water taps held for sale	Sale transaction subsequent to year end	Written offer to purchase assets as of December 31, 2018 and subsequent closing of sale	

Private Equity Limited Partnership — At December 31, 2018 the Foundation has invested \$180,510 in PV Ventures II, L.P. (the Partnership) and has committed an additional investment of \$19,490. The Partnership has a term of ten years which commenced on December 31, 2014, with provisions for two additional one-year period extensions at the sole discretion of the General Partner, and additional one-year period extensions at the consent of the majority in interest of the Limited Partners. The partnership does not have a redemption feature but may be dissolved prior to the termination date subject to certain conditions. The Partnership's primary investment focus is to pursue a venture capital strategy, generally through investments in seed and early stage technology companies.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2018	2017
Land	\$ 7,207,000	\$ 7,207,000
Buildings	1,142,370	1,142,370
Furniture and equipment	82,367	361,084
Art and sculptures	<u>39,500</u>	<u>39,500</u>
Total	8,471,237	8,749,954
Less accumulated depreciation	<u>292,914</u>	<u>506,486</u>
Property and equipment, net	<u>\$ 8,178,323</u>	<u>\$ 8,243,468</u>

5. LAND HELD FOR INVESTMENT

During the year ended December 31, 2014, the Foundation received a donation of 131 acres of land which had an appraised value of \$4,323,000 at the time of the donation. The land is expected to be sold or donated to another non-profit organization. The land is recorded at fair market value in the accompanying consolidated balance sheet.

6. WATER RIGHTS AND LEASES OF WATER RIGHTS

Management has been notified that the water available under water rights has been contaminated by Perfluorinated Compounds. These water rights are leased to the Security Water District, the City of Foundation and the Widefield Water and Sanitation District (the Water Districts). The water lease contains provisions for a reduction of the lease payments if the water does not meet drinking water standards. On January 1, 2018, the Foundation entered into an abeyance agreement with the Water Districts which suspends the lease payments. Currently, the Foundation and the Water Districts are pursuing a claim against the United States Air Force for damages sustained as a result of the water contamination.

As of December 31, 2018, the timeline and prospect of treatment is undetermined. No impairment of the water rights has been recorded because impairment has not been determined to be probable and cannot be estimated.

7. CHARITABLE TRUST SPLIT-INTEREST AGREEMENTS

The Foundation serves as trustee of a charitable remainder trust. A charitable remainder trust provides for the payments of distributions to the grantor or other designated beneficiaries over the trust's term (the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. Assets held in the charitable remainder trust totaled \$454,135 and \$529,589 at December 31, 2018 and 2017, respectively, and are reported at fair value within investments in the accompanying financial statements. On an annual basis, the Foundation revalues the associated liability based on actuarial assumptions. The present value of the estimated future payments is \$337,866 and \$394,002 at December 31, 2018 and 2017, respectively.

The Foundation also serves as trustee for a charitable remainder trust whose beneficiary of the trust is a third-party organization. The trust assets, which total \$911,673 and \$1,030,399 at December 31, 2018 and 2017, respectively, are included within investments and funds held in trust for others in the accompanying consolidated financial statements.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the net assets of the split interest agreement under which the Foundation will receive the remaining assets at trust termination and are available for distribution in future periods (see Note 7).

9. ENDOWMENT FUNDS

The Foundation has no donor restricted endowments due to its variance power. The Foundation's endowment consists of 23 individual funds established for a variety of purposes. These funds include funds established by donors for specified charitable purposes or not-for-profit organizations. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation has interpreted 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. The Foundation classifies as board designated net assets (a) the original value of gifts designated by the board as endowment, (b) the original value of subsequent gifts to the board designated endowment and (c) accumulations of investment earnings and/or losses to the board-designated endowment in accordance to board designations. The Foundation considers all earnings and/or losses on board designated endowments to accumulate in the board designated endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions to be held in perpetuity is classified as net assets with donor restrictions restricted for a specified purpose or the passage of time until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation 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 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

Changes in Endowment Net Assets without donor restrictions for the years ended December 31, 2018 and 2017 is as follows:

Endowment net assets, January 1, 2017	\$ 8,192,944
Investment return, net	1,172,943
Contributions	954,715
Distributions	<u>(940,350)</u>
Endowment net assets, December 31, 2017	9,380,252
Investment return, net	(418,953)
Contributions	518,213
Distributions	<u>(420,820)</u>
Endowment net assets, December 31, 2018	<u>\$ 9,058,692</u>

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. The Foundation’s spending policy considers market returns for the previous twelve quarters along with inflation and investment fees and typically spends within 3% to 6% of the balance of the endowed funds. Under this policy the endowment assets are invested in a manner that is intended to produce maximum results while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide a rate of return sufficient to keep pace with the rate of inflation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

10. COMMITMENTS

The Foundation entered into an operating lease with a related party in November 2016 for office space through 2021. As of December 31, 2018, future minimum lease payments under this lease are as follows:

2019	\$ 82,908
2020	84,389
2021	<u>85,869</u>
Total	<u>\$ 253,166</u>

11. RELATED PARTIES

Certain board members are fund advisors of donor advised funds that are held with the Foundation. As of December 31, 2018 and 2017, the value of these donor advised funds was \$8,179,733 and \$8,490,632, respectively.

The Foundation leases office space from an entity owned by a board member. Rent expense under the lease was \$82,488 and \$79,011 during the years ended December 31, 2018 and 2017, respectively.

12. FUNCTIONAL EXPENSES ALLOCATION METHODS

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated fully to the related programs include grants, non-grant program expenses and depreciation. The expenses that are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services include payroll and related taxes, rent and utilities, general and administrative, legal and professional.