
Rose Community Foundation and Subsidiaries

Consolidated Financial Report
December 31, 2018

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Independent Auditor's Report

To the Board of Trustees
Rose Community Foundation and Subsidiaries

We have audited the accompanying consolidated financial statements of Rose Community Foundation and Subsidiaries (the "Foundation"), which comprise the consolidated statement of financial position as of December 31, 2018 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 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 auditor's 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 Rose Community Foundation and Subsidiaries as of December 31, 2018 and the changes in their net assets, their functional expense, 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 described in Note 2 to the consolidated financial statements, the Foundation adopted the provisions under Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended December 31, 2018, which was applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Rose Community Foundation and Subsidiaries

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Rose Community Foundation and Subsidiaries as of December 31, 2017 were audited by EKS&H LLLP, whose report dated June 12, 2018 expressed an unmodified opinion on those consolidated financial statements.

Plante & Moran, PLLC

August 12, 2019

Rose Community Foundation and Subsidiaries

Consolidated Statement of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 1,185,000	\$ 7,850,000
Investments (Notes 4 and 5)	275,891,000	314,513,000
Contributions receivable (Note 6)	2,871,000	1,483,000
Other assets and receivables (Note 7)	3,810,000	2,235,000
Program-related investment (Note 8)	9,710,000	-
Total assets	<u>\$ 293,467,000</u>	<u>\$ 326,081,000</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 181,000	\$ 293,000
Agency endowments and other funds held on behalf of others (Note 10)	40,411,000	51,288,000
Grants payable (Note 9)	5,706,000	3,911,000
Total liabilities	46,298,000	55,492,000
Net Assets		
Net assets without donor restrictions	228,798,000	263,704,000
Net assets with donor restrictions (Note 12)	18,371,000	6,885,000
Total net assets	247,169,000	270,589,000
Total liabilities and net assets	<u>\$ 293,467,000</u>	<u>\$ 326,081,000</u>

Rose Community Foundation and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Investment (loss) return - Net	\$ (11,236,000)	\$ (85,000)	\$ (11,321,000)	\$ 30,795,000	\$ 190,000	\$ 30,985,000
Contributions	8,789,000	4,326,000	13,115,000	4,545,000	3,533,000	8,078,000
Other income	396,000	-	396,000	288,000	-	288,000
Net assets transfer for program-related investment	(9,710,000)	9,710,000	-	-	-	-
Net assets released from restrictions	2,465,000	(2,465,000)	-	3,321,000	(3,321,000)	-
Total revenue, gains, and other support	(9,296,000)	11,486,000	2,190,000	38,949,000	402,000	39,351,000
Expenses						
Program expenses:						
Grants	17,535,000	-	17,535,000	12,690,000	-	12,690,000
Program expenses	6,439,000	-	6,439,000	5,046,000	-	5,046,000
Total program expenses	23,974,000	-	23,974,000	17,736,000	-	17,736,000
Support services:						
Philanthropic services expenses	747,000	-	747,000	480,000	-	480,000
Administrative expenses	889,000	-	889,000	1,385,000	-	1,385,000
Total support services	1,636,000	-	1,636,000	1,865,000	-	1,865,000
Total expenses	25,610,000	-	25,610,000	19,601,000	-	19,601,000
Change in Net Assets	(34,906,000)	11,486,000	(23,420,000)	19,348,000	402,000	19,750,000
Net Assets - Beginning of year	263,704,000	6,885,000	270,589,000	244,356,000	6,483,000	250,839,000
Net Assets - End of year	\$ 228,798,000	\$ 18,371,000	\$ 247,169,000	\$ 263,704,000	\$ 6,885,000	\$ 270,589,000

Rose Community Foundation and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services			Support Services			
	Grants	Program Expenses	Total	Philanthropic Services Expenses	Administrative Expenses	Total	Total
Salaries and benefit expenses	\$ -	\$ 2,600,000	\$ 2,600,000	\$ 381,000	\$ 610,000	\$ 991,000	\$ 3,591,000
Office expenses	-	447,000	447,000	106,000	160,000	266,000	713,000
Professional services	-	1,483,000	1,483,000	31,000	82,000	113,000	1,596,000
Communications expenses	-	965,000	965,000	115,000	19,000	134,000	1,099,000
Travel and entertainment	-	348,000	348,000	17,000	6,000	23,000	371,000
Grants approved	17,535,000	-	17,535,000	-	-	-	17,535,000
Depreciation expense	-	-	-	-	12,000	12,000	12,000
Distributions	-	594,000	594,000	97,000	-	97,000	691,000
Other projects	-	2,000	2,000	-	-	-	2,000
Total functional expenses	\$ 17,535,000	\$ 6,439,000	\$ 23,974,000	\$ 747,000	\$ 889,000	\$ 1,636,000	\$ 25,610,000

Rose Community Foundation and Subsidiaries

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services			Support Services			
	Grants	Program Expenses	Total	Philanthropic Services Expenses	Administrative Expenses	Total	Total
Salaries and benefit expenses	\$ -	\$ 2,191,000	\$ 2,191,000	\$ 328,000	\$ 571,000	\$ 899,000	\$ 3,090,000
Office expenses	-	318,000	318,000	74,000	614,000	688,000	1,006,000
Professional services	-	1,376,000	1,376,000	18,000	76,000	94,000	1,470,000
Communications expenses	-	391,000	391,000	29,000	94,000	123,000	514,000
Travel and entertainment	-	570,000	570,000	31,000	18,000	49,000	619,000
Grants approved	12,690,000	-	12,690,000	-	-	-	12,690,000
Depreciation expense	-	-	-	-	12,000	12,000	12,000
Distributions	-	197,000	197,000	-	-	-	197,000
Other projects	-	3,000	3,000	-	-	-	3,000
Total functional expenses	\$ 12,690,000	\$ 5,046,000	\$ 17,736,000	\$ 480,000	\$ 1,385,000	\$ 1,865,000	\$ 19,601,000

Rose Community Foundation and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (23,420,000)	\$ 19,750,000
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized investment losses (gains)	15,681,000	(34,415,000)
Depreciation and amortization	12,000	13,000
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Contributions receivable	(1,388,000)	1,941,000
Other assets and receivables	19,000	47,000
Accounts payable and accrued expenses	(112,000)	(150,000)
Grants payable	1,444,000	(1,136,000)
Agency endowments and other funds held on behalf of others	(10,526,000)	4,626,000
Net cash and cash equivalents used in operating activities	(18,290,000)	(9,324,000)
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(2,000)
Purchases of investments	(107,193,000)	(53,988,000)
Proceeds from sales and maturities of investments	130,134,000	69,932,000
Additions to program-related investment	(9,710,000)	-
Program-related note made	(1,705,000)	-
Payments received on program-related note receivable	99,000	-
Net cash and cash equivalents provided by investing activities	11,625,000	15,942,000
Net (Decrease) Increase in Cash and Cash Equivalents	(6,665,000)	6,618,000
Cash and Cash Equivalents - Beginning of year	7,850,000	1,232,000
Cash and Cash Equivalents - End of year	\$ 1,185,000	\$ 7,850,000

December 31, 2018 and 2017

Note 1 - Nature of Business

The purpose of Rose Community Foundation (the "Foundation") is to enhance the quality of life in the seven-county greater Denver community by identifying and supporting programs in the areas of aging, child and family development, education, health, and Jewish life. The Foundation promotes strategic philanthropy by engaging with donors to help them make thoughtful decisions to achieve their philanthropic goals. The Foundation was funded in 1995 from the proceeds of the sale of a significant portion of the net assets of Rose Medical Center to a for-profit healthcare corporation.

During 2018, Rose Community Foundation entered into a statutory merger with Rose Foundation, previously a supporting organization of Rose Community Foundation. All of the assets and liabilities of Rose Foundation were transferred to Rose Community Foundation, and Rose Foundation ceased to exist. As such, Rose Foundation is no longer a subsidiary of Rose Community Foundation as of December 31, 2018.

During 2018, Rose-JCC Holdings, LLC, a 501(c)(3) entity, was created with Rose Community Foundation as the sole member of the entity. Rose-JCC Holdings, LLC holds the program-related investment and activity related to the Jewish Community Center of Denver, as further described in Note 8.

Note 2 - Significant Accounting Policies

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, applied retrospectively to all years presented, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The ASU also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general.

As a result of the adoption of this ASU, the Foundation's program expenses increased by \$446,000, philanthropic services expenses increased by \$18,000, and administrative expenses decreased by \$464,000 in the consolidated statements of activities and changes in net assets and functional expenses for the year ended December 31, 2017. There were no other restatements to the prior year as a result of adopting the ASU.

Principles of Consolidation

The consolidated financial statements include the accounts of Rose Community Foundation and its subsidiaries, Rose Foundation Holdings, LLC; Rose Foundation TOD, LLC; and Rose-JCC Holdings, LLC. All significant interorganization accounts and balances have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements of the Foundation have been prepared on the basis of generally accepted accounting principles (GAAP).

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or the donor-imposed restriction has expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets with donor restrictions unless specified otherwise by the donor or by applicable state law.

Cash and Cash Equivalents

The Foundation considers investments in money market funds not held for investment purposes and highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Foundation places its cash and money market accounts with creditworthy, high-quality financial institutions. As of December 31, 2018, the Foundation maintained balances in excess of federally insured limits in the amount of approximately \$3,802,000.

Investments

Investments are recorded at fair value. Fair value is determined as more fully described in Note 5.

Investment income consists of the Foundation's distributive share of any interest, dividends, and capital gains and losses generated from the Foundation's investments. Realized gains and losses attributable to the Foundation's investments are reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the consolidated statement of activities and changes in net assets.

Investments in marketable equity and fixed-income securities with readily determinable market values are reported at fair value based on quoted prices in active markets. Investments in certain private equity limited partnerships are reported at fair value as of September 30, net of capital contributions and distributions through December 31, due to the timing of when that valuation information is available. The Foundation believes that there is no significant impact to the consolidated financial statements due to this method of reporting.

Alternative investments include real estate, investments in partnerships, and limited liability and other investment companies. The fair values for alternative investments represent the Foundation's pro rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by management. Alternative investments are not publicly traded on national security market exchanges, are generally illiquid, and may be valued differently than if readily available markets exist for such investments. Because of inherent uncertainties of the valuation of alternative investments, the reported fair values of such investments may differ significantly from realized values.

Other Assets and Receivables

Other assets and receivables consist of accounts receivable, program notes receivable, property and equipment, and other assets. The Foundation considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. Accounts deemed uncollectible are charged to the change in net assets when that determination is made.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Property and equipment are stated at cost if purchased or fair value at date of donation. Assets are depreciated or amortized over the estimated useful lives, which range from 3 to 10 years, using the straight-line method. The Foundation capitalizes property and equipment with a cost or fair value at the date of donation of \$5,000 or more. Property and equipment are included within other assets and receivables in the accompanying consolidated statement of financial position.

Agency Endowments and Other Funds Held on Behalf of Others

Agency endowments and other funds held on behalf of others represent assets transferred to the Foundation that are for the benefit of the transferring entity. These funds are accounted for as a liability by the Foundation.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Grants

Program grants awarded by the Foundation are recorded as expenses and liabilities when they are approved by the board of trustees, grant committees, and/or program officers in accordance with the Foundation's grant approval guidelines.

Concentrations of Credit Risk

The Foundation has significant investments and is, therefore, subject to concentrations of credit risk. Investments are made by investment managers engaged by the Foundation, and the investments are managed for the Foundation by an independent investment advisor, serving as an outsourced chief investment officer, and overseen by the Foundation's investment committee. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries. Credit risk with respect to contributions receivable is limited due to the number and creditworthiness of the foundations and individuals that comprise the contributor base.

Functional Allocation of Expenses

The costs of providing grants, programming, and other supporting services have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among various programs and supporting services benefited. Such allocations are determined by management on an equitable basis, such as through time and effort, square footage, and other reasonable means.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code (the "IRC") Section 501(c)(3).

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending December 31, 2020 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Foundation is still evaluating which method it will apply. The new lease standard is not expected to have a significant effect on the Foundation's financial statements as a result of the Foundation's operating leases, as disclosed in Note 13, which will be reported on the consolidated statement of financial position at adoption. Upon adoption, the Foundation will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the consolidated statement of activities and changes in net assets are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending December 31, 2019 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition for foundation and individual grants and contributions.

Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. The 2017 operating cash flow was decreased and investing cash flow was increased by approximately \$5,500,000 due to the presentation of agency fund investment activity.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including August 12, 2019, which is the date the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 3 - Liquidity and Availability of Resources

The Foundation's financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditures are approximately \$212,148,000 as of December 31, 2018, which represent cash and investments that are held in cash equivalents or able to be liquidated within one year, and contributions and notes receivable for general purposes expected to be collected within one year. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date.

The Foundation manages its financial assets to provide resources for the annual costs of its operations by strategically investing a broadly diversified asset allocation model that meets the long-term expected needs of the Foundation. The Foundation has sufficient cash flow for monthly obligations for the year ending December 31, 2019.

Note 4 - Investments

The details of the Foundation's investments at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Equities and equity funds:		
Domestic	\$ 65,635,000	\$ 71,633,000
International	56,663,000	67,331,000
Bonds and bond funds	43,565,000	64,239,000
Money market funds	1,379,000	5,440,000
Certificates of deposit	37,000	37,000
Hedge funds	50,927,000	56,765,000
Private equity limited partnerships	<u>57,685,000</u>	<u>49,068,000</u>
Total investments	<u>\$ 275,891,000</u>	<u>\$ 314,513,000</u>

The above investments include the invested funds of the agency endowments and other funds held on behalf of others, which totaled \$40,411,000 and \$51,288,000 at December 31, 2018 and 2017, respectively.

Net investment return consists of the following:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 2,063,000	\$ 2,542,000
Net realized and unrealized (losses) gains	(15,681,000)	34,415,000
Investment management fees	(342,000)	(390,000)
Activity attributable to agency funds	<u>2,639,000</u>	<u>(5,582,000)</u>
Total net investment return	<u>\$ (11,321,000)</u>	<u>\$ 30,985,000</u>

The Foundation normally incurs income tax expense associated with unrelated business taxable income resulting from certain investments. Unrelated business income subject to tax was not material to the consolidated financial statements in 2017 and is expected to be minimal in 2018.

The investment goal of the Foundation is to protect and grow the portfolio's inflation-adjusted value, net of any distributions or spending from the portfolio, over the long-term to support the mission of the Foundation. As a long-term investor, the Foundation may experience short-term fluctuations in the fair value of its investments due to market volatility.

December 31, 2018 and 2017

Note 4 - Investments (Continued)

Marketable and private alternative investments are exposed to various risks that may cause the reported value of the Foundation's investment assets to fluctuate from period to period and result in a material change to the net assets of the Foundation. Investments in equity securities fluctuate in value in response to many factors, such as the activities and financial condition of individual companies, business and industry market conditions, and the general economic environment.

The value of bonds and other fixed-income securities fluctuate in response to changing interest rates, creditworthiness of issuers, and overall economic policies that impact market conditions.

Some investment managers retained by the Foundation are permitted to use various investment strategies and techniques that are designed to achieve higher investment returns with lower volatility and low correlations to major market indices and other asset classes. Strategies and techniques, such as the use of leverage, futures and forward contracts, option agreements, and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the Foundation's investment portfolio.

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Rose Community Foundation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 5 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Equities and equity funds:				
Domestic	\$ 65,635,000	\$ -	\$ -	\$ 65,635,000
International	56,663,000	-	-	56,663,000
Bonds and bond funds	42,644,000	921,000	-	43,565,000
Total	<u>\$ 164,942,000</u>	<u>\$ 921,000</u>	<u>\$ -</u>	165,863,000
Investments measured at NAV:				
Hedge funds				50,927,000
Private equity limited funds				57,685,000
Total investments measured at NAV				<u>108,612,000</u>
Total investments				<u>\$ 274,475,000</u>

Money market funds and certificates of deposit in the amount of \$1,379,000 and \$37,000, respectively, are not subject to fair value disclosures and, therefore, are not included in the table above at December 31, 2018.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Equities and equity funds:				
Domestic	\$ 71,633,000	\$ -	\$ -	\$ 71,633,000
International	67,331,000	-	-	67,331,000
Bonds and bond funds	61,032,000	3,207,000	-	64,239,000
Total	<u>\$ 199,996,000</u>	<u>\$ 3,207,000</u>	<u>\$ -</u>	203,203,000
Investments measured at NAV:				
Hedge funds				56,765,000
Private equity limited funds				49,068,000
Total investments measured at NAV				<u>105,833,000</u>
Total investments				<u>\$ 309,036,000</u>

Money market funds and certificates of deposit in the amount of \$5,440,000 and \$37,000, respectively, are not subject to fair value disclosures and, therefore, are not included in the table above at December 31, 2017.

Determination of transfers between levels are made at December 31 of each fiscal year. There were no transfers between levels for the years ended December 31, 2018 and 2017. All assets have been valued using a market approach, except for certain Level 2 assets. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. However, the underlying assets may be actively traded. There were no changes in the valuation techniques during the current year.

Rose Community Foundation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 5 - Fair Value Measurements (Continued)

The following table summarizes the significant information related to investments carried at net asset value:

	Fair Value as of December 31, 2018	Fair Value as of December 31, 2017	Unfunded Commitments as of December 31, 2018	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	\$ 11,500,000	\$ 11,008,000	\$ -	Monthly/Qtly	30-70 days
Common trust funds (b)	9,657,000	18,785,000	-	Daily	n/a
Multistrategy hedge funds (c)	891,000	1,488,000	-	Monthly/Qtly/ Annually	30-70 days
Other hedge funds (d)	25,774,000	25,484,000	-	Monthly/Qtly/ Annually	7-95 days
Private equity diversified fund-of-funds (e)	29,103,000	34,126,000	2,008,000	n/a*	n/a*
Private equity and private credit funds (f)	28,217,000	14,926,000	29,265,000	n/a*	n/a*
Real estate funds (g)	3,470,000	16,000	9,254,000	n/a*	n/a*
Total	\$ 108,612,000	\$ 105,833,000	\$ 40,527,000		

*Investments in these categories are required to be held to maturity.

(a) The equity long/short hedge fund category includes investment in hedge funds that invest both long and short (with a net-long bias) primarily in common stocks, located both in the U.S. and internationally and across large/mid/small capitalization stocks. The funds are not currently subjected to any lockup or gate restrictions on withdrawals.

(b) The common trust fund category includes investments in common trust funds that invest primarily in equity and equity-related securities of issuers that are located or do significant business in emerging market countries. The category also includes investments in a real estate investment trust.

(c) The multistrategy hedge fund category includes investments in hedge funds that invest both long and short (with a net-long bias) primarily in credit securities and equity securities, but will also invest in arbitrage strategies (including convertible arbitrage and merger arbitrage) as well as longer-dated side-pocket assets (including private equity and debt investments). The funds are not currently subject to any lockup or gate restrictions on withdrawals. The side-pocket investments totaled \$324,000 and \$1,238,000 as of December 31, 2018 and 2017, respectively, and would not be available for immediate redemption. The expectation for these side-pocket investments is that each individual asset would be sold within a five-year time horizon from its initial investment date, at which time the proceeds would be moved into the main share class with standard liquidity terms.

(d) The other hedge fund category includes investments in multiple alternative investments and equities.

(e) The private equity diversified fund-of-funds category includes investments in several funds that invest in private equity, including primarily venture capital, buyout, and natural resources. Each fund-of-funds invests in limited partnerships across several vintage years. These limited partnerships in turn invest in individual portfolio companies that are expected to be liquidated over a 3- to 10-year period from their initial investment date. Given the illiquid nature of these investments, they cannot be redeemed. Distributions from each fund will be received as the underlying portfolio companies are liquidated. The Foundation is not currently seeking to sell its position in any of the funds.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 5 - Fair Value Measurements (Continued)

(f) The private equity and private credit funds category includes investments in several limited partnerships that invest in private equity, including primarily buyout, distressed debt, venture capital, and private credit. These limited partnerships invest in individual portfolio companies that are expected to be liquidated over a 3- to 10-year period from their initial investment date. Given the illiquid nature of these investments, they cannot be redeemed. Distributions from each fund will be received as the underlying portfolio companies are liquidated. The Foundation is not currently seeking to sell its position in any of the funds.

(g) The real estate funds category includes several real estate funds that invest in U.S. and international commercial real estate, but will also invest in U.S. residential real estate. Given the illiquid nature of these investments, they cannot be redeemed with the funds. Distributions from each fund will be received as the underlying real estate assets are liquidated. It is estimated that the underlying assets of the fund will be liquidated over a 5- to 10-year period from their initial investment date. The Foundation is not currently seeking to sell its position in any of the funds.

Note 6 - Contributions Receivable

Contributions receivable are due as follows:

	2018	2017
Due in less than one year	\$ 1,471,000	\$ 1,283,000
Due in one to five years	1,400,000	200,000
Total	<u>\$ 2,871,000</u>	<u>\$ 1,483,000</u>

Contributions receivable are not discounted to their present value because the effect on the consolidated financial statements is insignificant. Management believes that all pledges are collectible; thus, no allowance for uncollectible accounts has been established.

Note 7 - Other Assets and Receivables

Other assets and receivables consist of the following for the years ended December 31:

	2018	2017
Property and equipment	\$ 520,000	\$ 520,000
Accumulated depreciation	(468,000)	(456,000)
Property and equipment - Net	52,000	64,000
Interest in limited liability company	939,000	939,000
Accounts receivable	159,000	229,000
Program-related notes receivables	2,106,000	500,000
Other assets	554,000	503,000
Total	<u>\$ 3,810,000</u>	<u>\$ 2,235,000</u>

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 7 - Other Assets and Receivables (Continued)

Program-related Notes Receivable

In 2010, the Foundation's wholly owned subsidiary, Rose Foundation TOD, LLC, entered into a revolving loan agreement together with several other funders to provide financing for affordable housing near light rail and bus transit corridors in Denver. The fund was later expanded geographically to finance affordable housing in the greater Denver region. The Foundation committed and has paid in full \$500,000 to a fund for the financing of the projects. Loans from the fund are administered by Enterprise Community Loan Fund, Inc. and return interest to the Foundation at 2 percent annually. The program-related loan receivable is considered to be fully collectible.

During 2018, as part of the program-related investment described in Note 8, the Foundation issued a note receivable to the Jewish Community Centers of Denver (the "JCC") for \$1,705,000 with interest at 0 percent that is due in June 2058. The note is secured by certain pledges made to the JCC. As of December 31, 2018, the outstanding balance is \$1,606,000. The note receivable has not been discounted to its present value, as the effect on the consolidated financial statements is insignificant. Management believes that the note is collectible; thus, no allowance for uncollectible accounts has been established.

Note 8 - Program-related Investment

During 2018, the Foundation entered into a transaction with the Jewish Community Centers of Denver, Colorado nonprofit corporation, to purchase land and property, which includes athletic facilities; a preschool; and social, educational, and other programming. The JCC sold its Denver campus for \$14,666,000, which included land and property purchased by the Foundation using its funds and funds from various donors, and an amount that represented a portion of the outstanding debt of the JCC, which was forgiven as part of the sale. The JCC used the sales proceeds to repay its remaining debts and transaction costs and to establish reserves for deferred maintenance and capital improvements.

The Foundation contributed \$9,710,000 for the purchase of the land and property, which is the recorded cost basis of the program-related investment on the consolidated statement of financial position at December 31, 2018. In addition, the Foundation provided a note receivable to the JCC for \$1,705,000, which is included in program-related notes receivable (see Note 7). As part of this transaction, the Foundation was required to restrict \$9,710,000 of its net assets to support the restricted nature of this program-related investment.

The land and property were leased back to the JCC under a lease agreement with an initial term of 25-years, with the option by the JCC for three renewal periods of 25-years. After 80 years, the Foundation has the option to transfer its interest in the land and property to the JCC for a purchase price of \$100. Annual rent revenue related to the lease agreement is \$1.

Note 9 - Grants Payable

The following summarizes the changes in grants payable for the years ended December 31:

	2018	2017
Grants payable - Beginning of year	\$ 3,911,000	\$ 5,047,000
Unconditional grants approved and expensed	17,535,000	12,690,000
Payments made	(15,740,000)	(13,826,000)
Grants payable - End of year	<u>\$ 5,706,000</u>	<u>\$ 3,911,000</u>

Rose Community Foundation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 9 - Grants Payable (Continued)

Grants payable have not been discounted to present value because the effect on the consolidated financial statements is not significant. Grants payable at December 31, 2018 are scheduled to be disbursed as follows for the years ending December 31:

2019	\$	4,840,000
2020		785,000
2021		81,000
Total	\$	<u>5,706,000</u>

The Foundation has made additional grant commitments that are payable when the grantee fulfills certain conditions. Conditional grant commitments, not recorded because the grantees have not met the conditions required to receive these grants, were approximately \$2,743,000 and \$1,491,000 at December 31, 2018 and 2017, respectively.

Note 10 - Agency Endowment and Other Funds Held on Behalf of Others

The Foundation held the following funds on behalf of others:

	<u>2018</u>	<u>2017</u>
Agency endowment funds created by the Endowment Challenge Initiative	\$ 20,258,000	\$ 22,689,000
Other restricted agency endowment funds	7,218,000	7,326,000
Other funds held on behalf of others	12,935,000	21,273,000
Total	<u>\$ 40,411,000</u>	<u>\$ 51,288,000</u>

The Endowment Challenge Initiative was a three-year initiative aimed at creating endowment funds to be held in perpetuity for institutions primarily serving the greater Denver Jewish community. As part of the initial Endowment Challenge Initiative, 19 agency endowment funds totaling \$18,587,000 were established at the Foundation. Distributions from these endowments of \$1,086,000 and \$1,017,000 were paid to beneficiary institutions consistent with the terms of the initiative in 2018 and 2017, respectively. The balances in these funds at December 31, 2018 and 2017 decreased by \$1,215,000 to \$20,258,000 due to the net of contributions, distributions, and market losses.

Note 11 - Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Net assets subject to purpose restrictions	\$ 8,371,000	\$ 6,595,000
Net assets restricted for JCC program-related investment	9,710,000	-
Net assets to be held in perpetuity	290,000	290,000
Total net assets with donor restrictions	<u>\$ 18,371,000</u>	<u>\$ 6,885,000</u>

Note 12 - Donor-restricted Endowments

The Foundation's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 12 - Donor-restricted Endowments (Continued)

Interpretation of Relevant Law

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 1, 2008. Accordingly, the Foundation follows FASB Staff Position, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.

The Foundation is subject to the UPMIFA and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the Foundation had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Foundation's endowment net assets consisted of the following:

	2018	2017
Net assets subject to time or purpose restrictions	\$ 210,000	\$ 259,000
Net assets to be held in perpetuity	290,000	290,000
Total	\$ 500,000	\$ 549,000

Rose Community Foundation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 12 - Donor-restricted Endowments (Continued)

The following are changes in the endowment net assets:

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ -	\$ 549,000	\$ 549,000
Investment loss:			
Investment income	-	2,000	2,000
Net depreciation (realized and unrealized)	-	(24,000)	(24,000)
Total investment loss	-	(22,000)	(22,000)
Appropriation of endowment assets for expenditure	-	(27,000)	(27,000)
Endowment net assets - End of year	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ -	\$ 513,000	\$ 513,000
Investment return:			
Investment income	-	3,000	3,000
Net appreciation (realized and unrealized)	-	41,000	41,000
Total investment return	-	44,000	44,000
Appropriation of endowment assets for expenditure	-	(8,000)	(8,000)
Endowment net assets - End of year	<u>\$ -</u>	<u>\$ 549,000</u>	<u>\$ 549,000</u>

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. In accordance with GAAP, deficiencies of this nature would be reported in net assets with donor restrictions. There were no such deficiencies at December 31, 2018 and 2017.

Investment Strategy and Return Objectives

Endowment assets are invested pursuant to the Foundation's investment policy. 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 greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Foundation's spending policy allows for appropriating the investment earnings for distribution upon approval of the Foundation's board of trustees.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 13 - Operating Leases

The Foundation leases its office space under an operating lease agreement, which expires on April 30, 2020. The Foundation also leases certain office equipment under operating lease agreements, which expire on various dates through October 2019. Rent expense incurred under these leases during 2018 and 2017 was \$314,000 and \$288,000, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2019	\$ 264,000
2020	89,000
Total	<u>\$ 353,000</u>

Note 14 - Retirement Plan

The Foundation sponsors a 403(b) plan (the "Plan") for substantially all employees. The Plan provides for the Foundation to make a nondiscretionary 3.5 percent employer contribution, as well as discretionary employer contributions. For the years ended December 31, 2018 and 2017, the board of trustees approved a discretionary contribution of 3 percent of participating employees' annual salary. Employees may make contributions beginning on the date of employment, with employer contributions beginning after 12 months of employment. Under the Plan, employees may make before-tax contributions up to the maximum contribution allowed by law. Contributions to the Plan totaled \$147,000 and \$130,000 for the years ended December 31, 2018 and 2017, respectively.