

**PELLA COMMUNITY FOUNDATION
AND SUBSIDIARY**

Consolidated Financial Statements

June 30, 2019

**PELLA COMMUNITY FOUNDATION
AND SUBSIDIARY**

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Independent Auditors' Report

To the Board of Directors of
Pella Community Foundation
Pella, Iowa

We have audited the accompanying consolidated financial statements of Pella Community Foundation (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities 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.

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 of 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 principles 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pella Community Foundation and Subsidiary as of June 30, 2019 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

TDT CPAs and Advisors, P.C.

Pella, Iowa
October 9, 2019

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Consolidated Statement of Financial Position
June 30, 2019

Assets:	
Cash and cash equivalents	\$ <u>1,137,436</u>
Investments:	
Fixed income securities	937,930
Exchange traded funds	3,439,149
Mutual funds	1,568,331
Unit investment trusts	119,336
Private equity funds	82,182
	<u>6,146,928</u>
Fixed assets:	
Land	392,500
Improvements	23,332
Less accumulated depreciation	<u>(4,545)</u>
Net fixed assets	<u>411,287</u>
Total assets	<u>\$ <u>7,695,651</u></u>
Liabilities:	
Agency funds:	
Crossroads of Pella	\$ 132,945
Dollars for Scholars	16,763
Jump for Kids	6,840
Pella Regional Health Center Foundation	1,514,094
Pella Christian High School	117,705
	<u>1,788,347</u>
Deferred rent	<u>8,663</u>
Total current liabilities	<u>8,663</u>
Total liabilities	<u>1,797,010</u>
Net assets:	
Net assets without donor restriction - board designated	2,246,617
Net assets without donor restriction	<u>3,652,024</u>
Total net assets	<u>5,898,641</u>
Total liabilities and net assets	<u>\$ <u>7,695,651</u></u>

See accompanying notes to consolidated financial statements.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Consolidated Statement of Activities
June 30, 2019

Revenues without donor restrictions:	
Contributions	\$ 926,219
Investment income	147,854
Realized and unrealized gains (losses) on investments	148,025
Rental income	17,325
Administrative fees	<u>9,209</u>
Total revenues without donor restrictions	<u>1,248,632</u>
 Expenses:	
Program services:	
Grants	167,457
Donations	79,750
Property taxes	1,934
Depreciation	2,087
Support services:	
Office expenses	4,637
Professional fees	11,668
Advertising	126
Dues and subscriptions	<u>5,355</u>
Total expenses	<u>273,014</u>
Change in net assets without donor restriction	975,618
Net assets without donor restriction, beginning of year	<u>4,923,023</u>
Net assets without donor restriction, end of year	<u><u>\$ 5,898,641</u></u>

See accompanying notes to consolidated financial statements.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Consolidated Statement of Cash Flows
June 30, 2019

Cash flows from operating activities:	
Contributions received	\$ 925,228
Rent collected	17,325
Investment income collected	147,854
Administrative fees collected	9,209
	1,099,616
Cash paid for grants and donations	(247,207)
Cash paid to suppliers	(30,703)
Net cash distributed to agency funds	(47,220)
	(325,130)
Net cash provided (used) by operating activities	774,486
Cash flows from investing activities:	
Investment proceeds	342,034
Purchases of investments	(530,302)
Investment fees paid	(32,605)
	(220,873)
Net cash provided (used) by investing activities	(220,873)
Net increase (decrease) in cash and cash equivalents	553,613
Cash and cash equivalents, beginning of year	583,823
Cash and cash equivalents, end of year	\$ 1,137,436

See accompanying notes to consolidated financial statements.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Consolidated Statement of Cash Flows
June 30, 2019

Reconciliation of change in net assets to net cash provided (used) by operating activities:

Change in net assets	\$ 975,618
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	2,087
Donated securities	(991)
Realized and unrealized gains on investments	(148,025)
Net cash distributed to agency funds	(47,220)
Decrease in accounts payable	<u>(6,983)</u>
Net cash provided (used) by operating activities	<u><u>\$ 774,486</u></u>

Non-cash investing activity:

Realized and unrealized gains (losses) on investments and investment income allocated to agency funds	\$ <u>94,851</u>
Donated securities	<u>991</u>

See accompanying notes to consolidated financial statements.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2019

Note 1 - Significant Accounting Policies

The significant accounting policies followed by Pella Community Foundation and Subsidiary (the Foundation) are presented to assist the reader in evaluating the consolidated financial statements and other data contained in this annual report.

Nature of Organization - The Foundation is a nonprofit organization incorporated on January 16, 1991 in the State of Iowa. The basic purpose of the Foundation is to preserve the heritage and enhance the quality of life for the people of Pella by facilitating the work of the nonprofit tax-exempt organizations of the area. This purpose is accomplished by: 1) creating charitable endowments from the gifts and bequests of those who wish to support the community and its people, 2) investing funds carefully to assure the earning of a safe and continuing income, and 3) distributing the income by means of a fair and analytical system which will identify and fund the most effective proposals for solving problems and seizing opportunities as they arise throughout the years.

On June 14, 2016, Grow Pella Holdings, LLC (GPH) was organized in the State of Iowa with the Foundation being the sole member of this Limited Liability Company. GPH was established for the purpose of owning land which has been donated to the Foundation. On June 30, 2016, the first donation of farmland was accepted by the Foundation and GPH.

Consolidation Policy - The consolidated financial statements include the accounts of Pella Community Foundation, and its subsidiary Grow Pella Holdings, LLC. All significant intercompany transactions are eliminated in the consolidated financial statements.

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

Basis of Consolidated Financial Statements - The Foundation's policy is to prepare its consolidated financial statements on the accrual basis of accounting and follow generally accepted accounting principles in the United States of America for contributions received and contributions made and financial statements for not-for-profit organizations. Under these standards, the Foundation is required to report information regarding its consolidated financial position and activities according to two classes of net assets: net assets with donor restriction and net assets without donor restriction. Contributions received are reported as support either with donor restrictions or without donor restrictions, depending on the existence or nature of any donor restrictions. The standards also provide that if the governing body of an organization has the right to remove a donor restriction, the contributions should be classified as net assets without donor restriction. The Foundation receives contributions from donors with advice regarding distribution of the funds and earnings thereon. The Foundation attempts to meet the desires expressed by donors; however, under the gifting agreements the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose if in the sole judgment of the Foundation's board, such restrictions or conditions become unnecessary, undesirable, impractical, or inconsistent with the charitable needs of the community.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

Revenue Recognition - Revenues are reported as increases in net assets without donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on date of contribution based primarily on public information. Contributions received with donor-imposed restrictions (including those for acquisition of long-lived assets) that are met within the same year as received are reported as revenues without donor restrictions. Gains and losses on investments or liabilities are reported as increases or decreases in net assets without donor restriction, unless their use is restricted by donor stipulation or by law. Expenses are reported as decreases in net assets without donor restriction.

Tax Status - The Foundation is organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. As such, the Foundation is exempt from federal income taxes. It has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code, and it qualifies for the charitable contributions deduction for donors. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Grow Pella Holdings, LLC has elected to be a Limited Liability Company for income tax purposes. Accordingly, a provision for income taxes has not been established. Grow Pella Holdings, LLC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Accounting Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents - For purposes of reporting cash flows, in addition to unrestricted currency and demand deposits with banks or other financial institutions, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fixed Assets - The Foundation capitalizes all assets with a useful life of greater than one year. Improvements are depreciated on the straight-line method over a 15 year useful life. Donated property and equipment is recorded at appraised value.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the consolidated statement of financial position with both realized and unrealized gains and losses reported in the consolidated statement of activities. The fair values of marketable securities are generally determined based on quoted market prices or estimates of fair value provided by external investment managers.

Contributed Services - Many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services in the consolidated financial statements.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2019

Note 1 – Significant Accounting Policies (Continued)

Date of Management's Review - Management has evaluated subsequent events through October 9, 2019, the date when the consolidated financial statements were available to be issued.

Note 2 - Fair Value Measurement

Accounting literature establishes 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 as follows:

Basis of Fair Value Measurement

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table presents by level, within the fair value hierarchy, the assets at fair value as of June 30, 2019. Assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

Description	June 30, 2019	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds	\$ 1,568,331	1,568,331	-	-
Fixed income securities	937,930	937,930	-	-
Unit investment trusts	119,336	119,336	-	-
Private equity	82,182	-	82,182	-
Exchange traded funds	3,439,149	3,439,149	-	-
Total investments	\$ 6,146,928	6,064,746	82,182	-

Investments are categorized as Level 2 instruments when the Foundation has the ability to redeem its investment at fair value in the near term. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2019

Note 3 - Agency Funds

Several nonprofit organizations have transferred funds to the Foundation to be managed by the Foundation while retaining all rights to income and principal. This provides those nonprofit organizations with investment management services they may not have had access to otherwise. The Foundation charges these organizations an administrative fee for these services. The Foundation charged an administrative fee of 0.5% for the year ended June 30, 2019.

Note 4 - Estate Bequests

The Foundation has knowledge of being included as a beneficiary in several wills. No amounts have been recorded in the consolidated financial statements for these bequests as they are considered intentions to give that are not legally enforceable. Amounts will be recorded when the Foundation has received legal notice that the deceased will has cleared probate, and the bequest amount and estimated date of receipt is known.

Note 5 - Board-Designated Endowment

Accounting literature provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Accounting literature also requires additional disclosures about the Foundation's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the Foundation is subject to UPMIFA.

The State of Iowa enacted UPMIFA effective July 1, 2008, the provisions of which apply to the endowment funds existing on or established after that date.

As of June 30, 2019, the board of directors had designated \$2,246,617 of net assets without donor restriction as a general endowment fund to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified in net assets without donor restriction.

Composition of and changes in board-designated endowment net assets for the year ended June 30, 2019 are as follows:

Board-designated endowment net assets, beginning of year	\$ 1,436,618
Additional board designations during year	791,202
Investment income	46,624
Net appreciation (depreciation)	50,752
Amounts appropriated for expenditure	<u>(78,579)</u>
Board-designated endowment net assets, end of year	<u>\$ 2,246,617</u>

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2019

Note 5 - Board-Designated Endowment (Continued)

Investment Return Objectives, Risk Parameters and Strategies - The Foundation has adopted investment and spending policies, approved by the board of directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of up to 5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy - The Finance Committee of the Foundation annually recommends an appropriation for distribution each year based upon the total return of all assets not to exceed 5% of the yearend balance of all assets with any undistributed income added to the corpus. In establishing this policy, the Foundation considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its general endowment fund to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return. Distribution for the year ended June 30, 2019 was approved at 5%.

Endow Iowa Program - The Foundation participates in the Endow Iowa Program (the Program), which is administered by the Iowa Department of Economic Development through qualified community foundations. The Program's purpose is to create sustainable, philanthropic opportunities for charitable impact in Iowa communities. The legislation governing the Program requires that contributions received be accumulated in a fund, referred to as a 'permanent endowment', for purposes of calculating annual spending, which may not exceed 5%. At June 30, 2019, net assets without donor restriction included \$602,979 related to the Program.

Note 6 - Concentrations of Credit Risk

The Foundation maintains its cash in bank demand deposit accounts at different financial institutions. Frequently the balances of these cash deposits have exceeded the Federal Deposit Insurance Corporation's (FDIC) insured limit of \$250,000. The Foundation does not expect to experience any losses on those amounts.

Note 7 - Lease Agreement

The Foundation leases the land owned by Grow Pella Holdings (subsidiary) under a one year lease for \$34,650 and is renewable. Since the land is owned jointly with another entity, the subsidiary has annual rental income of \$17,325.

PELLA COMMUNITY FOUNDATION AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2019

Note 8 – Financial Asset Liquidity

The Foundation has \$1,137,436 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$1,137,436. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 9 – Expenses by Functional Classification

Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

The table below presents expenses by both their nature and their function for the year ended June 30, 2019:

	Program	Management and General	Fundraising	Total
Grants	\$ 167,457	-	-	167,457
Donations	79,750	-	-	79,750
Office expenses	-	-	4,637	4,637
Professional fees	-	11,668	-	11,668
Advertising	-	-	126	126
Dues and subscriptions	-	5,355	-	5,355
Property tax	1,934	-	-	1,934
Depreciation	2,087	-	-	2,087
Total expenses	\$ 251,228	17,023	4,763	273,014