

MCPHERSON COUNTY COMMUNITY FOUNDATION

McPherson, Kansas

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

June 30, 2020 and 2019



December 3, 2020

To the Board of Directors
McPherson County Community Foundation
McPherson, Kansas

Independent Auditor's Report

We have audited the accompanying financial statements of McPherson County Community Foundation (the Foundation), a non-profit organization, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the year (2020) and ten months (2019) then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the year (2020) and ten months (2019) then ended in accordance with accounting principles generally accepted in the United States of America.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

MCPHERSON COUNTY COMMUNITY FOUNDATION
 McPherson, Kansas
STATEMENTS OF FINANCIAL POSITION
 June 30,

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 306,584	\$ 187,429
Prepaid expenses and other assets	35,023	35,000
Total Current Assets	\$ 341,607	\$ 222,429
Non-Current Assets		
Investments	\$ 32,434,297	\$ 29,723,165
Insurance policies	384,412	405,506
Furniture and equipment - Net	11,934	16,518
Total Non-Current Assets	\$ 32,830,643	\$ 30,145,189
TOTAL ASSETS	\$ 33,172,250	\$ 30,367,618
Current Liabilities		
Accounts and grants payable	\$ 26,914	\$ 40,782
Annuities payable	45,900	45,900
Total Current Liabilities	\$ 72,814	\$ 86,682
Non-Current Liabilities		
Annuities payable	\$ 353,982	\$ 399,882
Agency funds	3,326,461	3,312,118
Total Non-Current Liabilities	\$ 3,680,443	\$ 3,712,000
TOTAL LIABILITIES	\$ 3,753,257	\$ 3,798,682
Net Assets		
Without donor restrictions	\$ 1,658,944	\$ 1,585,124
With donor restrictions	27,760,049	24,983,812
Total Net Assets	\$ 29,418,993	\$ 26,568,936
TOTAL LIABILITIES AND NET ASSETS	\$ 33,172,250	\$ 30,367,618

MCPHERSON COUNTY COMMUNITY FOUNDATION

McPherson, Kansas

STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2020 and Ten Months Ended June 30, 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Contributions	\$ 16,000	\$ 3,566,313	\$ 3,582,313	\$ 67,282	\$ 1,666,839	\$ 1,734,121
Net investment return	82,672	1,317,466	1,400,138	40,254	606,028	646,282
Other income, gains and (losses)	196	4,324	4,520	800	(48,884)	(48,084)
Total Revenues	<u>\$ 98,868</u>	<u>\$ 4,888,103</u>	<u>\$ 4,986,971</u>	<u>\$ 108,336</u>	<u>\$ 2,223,983</u>	<u>\$ 2,332,319</u>
Changes in Restrictions						
Satisfaction of usage restrictions	\$ 1,776,581	\$ (1,776,581)	\$ -	\$ 1,402,905	\$ (1,402,905)	\$ -
Fund management fees	335,285	(335,285)	-	252,041	(252,041)	-
Total Changes in Restrictions	<u>\$ 2,111,866</u>	<u>\$ (2,111,866)</u>	<u>\$ -</u>	<u>\$ 1,654,946</u>	<u>\$ (1,654,946)</u>	<u>\$ -</u>
Expenses						
Program services	\$ 1,826,280	\$ -	\$ 1,826,280	\$ 1,558,323	\$ -	\$ 1,558,323
Management and general	290,686	-	290,686	92,418	-	92,418
Fundraising	19,948	-	19,948	42,994	-	42,994
Total Expenses	<u>\$ 2,136,914</u>	<u>\$ -</u>	<u>\$ 2,136,914</u>	<u>\$ 1,693,735</u>	<u>\$ -</u>	<u>\$ 1,693,735</u>
CHANGE IN NET ASSETS	\$ 73,820	\$ 2,776,237	\$ 2,850,057	\$ 69,547	\$ 569,037	\$ 638,584
NET ASSETS - BEGINNING OF YEAR	<u>1,585,124</u>	<u>24,983,812</u>	<u>26,568,936</u>	<u>1,515,577</u>	<u>24,414,775</u>	<u>25,930,352</u>
NET ASSETS - END OF YEAR	<u>\$ 1,658,944</u>	<u>\$ 27,760,049</u>	<u>\$ 29,418,993</u>	<u>\$ 1,585,124</u>	<u>\$ 24,983,812</u>	<u>\$ 26,568,936</u>

MCPHERSON COUNTY COMMUNITY FOUNDATION
 McPherson, Kansas
STATEMENTS OF FUNCTIONAL EXPENSES
 For the Year Ended June 30, 2020 and Ten Months Ended June 30, 2019

	2020				2019			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
	Management and General	Fundraising		Management and General	Fundraising			
Grants to organizations	\$ 1,581,793	\$ -	\$ -	\$ 1,581,793	\$ 1,291,532	\$ -	\$ -	\$ 1,291,532
Grants to individuals	31,350	-	-	31,350	35,300	-	-	35,300
Salaries and wages *	159,604	124,217	17,678	301,499	166,491	14,133	26,853	207,477
Employee retirement *	-	1,425	-	1,425	-	-	-	-
Other employee benefits *	6,737	4,245	767	11,749	2,073	381	724	3,178
Payroll taxes *	13,415	13,458	1,503	28,376	15,241	1,080	2,054	18,375
Fees for accounting service	-	26,573	-	26,573	11,106	9,630	-	20,736
Fees for other service	5,836	-	-	5,836	4,711	-	-	4,711
Advertising and promotion	1,760	-	-	1,760	4,049	-	-	4,049
Office expenses	17,730	38,746	-	56,476	14,194	18,668	13,363	46,225
Information technology	-	21,350	-	21,350	-	30,267	-	30,267
Occupancy	-	45,957	-	45,957	-	13,169	-	13,169
Travel	4,604	2,777	-	7,381	10,900	-	-	10,900
Conferences and meetings	3,451	7,343	-	10,794	2,726	977	-	3,703
Depreciation	-	4,584	-	4,584	-	3,973	-	3,973
Insurance	-	11	-	11	-	140	-	140
	<u>\$ 1,826,280</u>	<u>\$ 290,686</u>	<u>\$ 19,948</u>	<u>\$ 2,136,914</u>	<u>\$ 1,558,323</u>	<u>\$ 92,418</u>	<u>\$ 42,994</u>	<u>\$ 1,693,735</u>

* Each of these expense lines contains costs that are attributed to more than one program or support function and these joint costs have been allocated on the basis of estimates of time and effort.

MCPHERSON COUNTY COMMUNITY FOUNDATION
 McPherson, Kansas
STATEMENTS OF CASH FLOWS
 For the Year Ended June 30, 2020 and Ten Months Ended June 30, 2019

	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in net assets	\$ 2,850,057	\$ 638,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-cash changes in net assets		
Depreciation expense	\$ 4,584	\$ 3,973
Net investment return	(1,400,138)	(646,282)
Loss on sale of land	-	74,343
Contributions restricted for long-term investment	(1,081,778)	(1,187,068)
Changes in operating assets and liabilities		
Prepaid expense	(23)	(35,000)
Accounts payable and payroll liabilities	(13,868)	(366,085)
Funds held for others	14,343	(1,715,952)
Total Adjustments	\$ (2,476,880)	\$ (3,872,071)
Net Cash Provided by (Used In) Operating Activities	\$ 373,177	\$ (3,233,487)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	\$ (2,705,206)	\$ (1,672,177)
Sale of investments	1,415,306	3,410,479
Net Cash Provided by (Used in) Investing Activities	\$ (1,289,900)	\$ 1,738,302
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to annuitants	\$ (45,900)	\$ (45,900)
Contributions restricted for long-term investment	1,081,778	1,187,068
Net Cash Provided by (Used in) Investing Activities	\$ 1,035,878	\$ 1,141,168
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 119,155	\$ (354,017)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	187,429	541,446
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 306,584	\$ 187,429
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

MCPHERSON COUNTY COMMUNITY FOUNDATION

McPherson, Kansas

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

Note 1: Summary of Significant Accounting Policies

Organization

The McPherson County Community Foundation (the Foundation) is a not-for-profit organization formed in 2001 whose mission is to serve the common good for its residents, building strong communities by engaging people in philanthropy and developing a permanent endowment to provide resources, now and for generations to come.

Basis of Accounting

The Foundation's policy is to prepare its financial statements on the accrual basis of accounting in accordance with financial reporting provisions prescribed by the Financial Accounting Standards Board. This basis of accounting is commonly known as U.S. Generally Accepted Accounting Principles (GAAP).

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at (1) fair value if valuation information is readily available or (2) historical cost if valuation information is not readily available. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Financial Instrument Risks

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by Foundation management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts.

Investments are made by diversified investment managers whose performance is monitored by the Foundation and the finance committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Foundation believes that its investment policies and guidelines are prudent for the long-term welfare of the organization.

Annuities Payable

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the annuitant's lifetime. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution with or without donor restrictions based on the underlying fund agreement established by the annuitant. In subsequent years, the liability for future payments to the donor is reduced by payments made to the donor. Upon termination of the annuity contract, the remaining liability is removed and recognized as income. Each year, the Foundation reviews the annuity payable liability for reasonableness based on known information for each annuitant to determine if liability adjustments are necessary.

MCPHERSON COUNTY COMMUNITY FOUNDATION
McPherson, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020 and 2019

Note 1: Summary of Significant Accounting Policies (Continued)
Fair Value Measurement

The Foundation reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset or liability.

See Note 3 for more detailed disclosure of fair value information.

Organizational Endowment Liabilities and Net Assets

The Foundation maintains a series of funds which represent the collective resources to which the Foundation has custody. These funds are reported in one of the two following ways:

Agency Funds (Liabilities)

Certain funds operated by the Foundation are held purely in a custodial capacity whereby the Foundation's role is limited to managing the investment of the available resources and controlling the level of spending through the Foundation's spending policy.

These funds are facilitated through a fund agreement which is signed by the Foundation and a third party who retains decision power over the allowable use of the fund resources.

Because the Foundation does not have decision power over the use of these resources, the available balances within these funds are not reported as part of the net assets but rather as organizational endowments, which is a liability account reported on the statement of financial position. Additionally, the activity in these funds is reported directly as increases or decreases in this liability account and are not reflected on the statement of activities.

MCPHERSON COUNTY COMMUNITY FOUNDATION
McPherson, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020 and 2019

Note 1: Summary of Significant Accounting Policies (Continued)
Organizational Endowment Liabilities and Net Assets (Continued)

Foundation Funds (Net Assets)

The majority of the funds held by the Foundation are operated with both custody and decision making ability and are reported as part of the net assets of the Foundation. The decision making ability with respect to these funds ranges from unlimited to limited based upon the imposition of donor and grantor restrictions to which the Foundation is legally bound.

Accordingly, the Foundation reports the changes in its financial position according to two classes of net assets as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received and recognized in these financial statements for 2020 and 2019.

Functional Allocation of Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

MCPHERSON COUNTY COMMUNITY FOUNDATION
McPherson, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020 and 2019

Note 1: Summary of Significant Accounting Policies (Continued)
Income Taxes and Uncertain Tax Positions

The Foundation is organized as a Kansas nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3). Further, the Foundation qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi) and has been determined not to be a private foundation under IRC Sections 509(a)(1).

The Foundation is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS on an annual basis. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. For 2020 and 2019, the Foundation has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Returns filed by the Foundation are subject to IRS examination, generally for three years after each return is filed. No taxing authorities have commenced income tax examinations for open tax years.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Subsequent Events

Management has evaluated subsequent events through December 3, 2020, which is the date the financial statements were available to be issued.

Note 2: Liquidity and Availability

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund grants and programs. The Foundation's primary source of general operating revenue is derived through the assessment of fund management fees. The Foundation's Board of Directors annually approves the operating budget, which makes consideration for anticipated fund management fee revenues. Most donor gifts, both with and without restrictions, are directed to community philanthropy and grantwriting.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

MCPHERSON COUNTY COMMUNITY FOUNDATION
 McPherson, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020 and 2019

Note 2: Liquidity and Availability (Continued)

The Foundation's Grant Committee (the Committee) meets on an as needed basis to review and approve grant requests. Due to this timing, the Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for annual grant commitments approved by the Committee.

The table below presents financial assets which are liquid and available for general operating expenditures during 2021:

	Liquid Assets	Not Available Within 1 Year	Liquid And Available
Cash and cash equivalents	\$ 306,584	\$ (306,584)	\$ -
Investments	32,434,297	(31,686,777)	747,520
Insurance policies	384,412	(384,412)	-
	<u>\$ 33,125,293</u>	<u>\$ (32,377,773)</u>	<u>\$ 747,520</u>

Amounts not available within one year are attributable to board designated endowments, donor restrictions, and liabilities for agency funds.

Property and equipment balances on the statement of financial position represent cash outflows which have already occurred as of June 30, 2020 and are expected to be expensed, in whole or in part, during 2021. However, these assets are not expected to be converted to cash and as such are not included above in the list of liquid assets.

Note 3: Fair Value Measurements

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at June 30:

ASSETS	Fair Value Level	2020	2019
Investments			
Cash equivalent investments	Level 1	\$ 2,492,619	\$ 650,734
Equities	Level 1	294,255	318,350
Bonds	Level 1	3,755,570	4,757,081
Mutual Funds	Level 1	25,891,853	23,997,000
Total Investments		<u>\$ 32,434,297</u>	<u>\$ 29,723,165</u>
Life insurance policies	Level 3	384,412	405,506
Total Assets Measured at Fair Value		<u><u>\$ 32,818,709</u></u>	<u><u>\$ 30,128,671</u></u>
LIABILITIES			
Agency funds	Level 2	<u>\$ 3,326,461</u>	<u>\$ 3,312,118</u>

Life Insurance Policies - Insurance policies are carried at the cash surrender value as reported by the insurance companies acting as counterparties to the Foundation's life insurance policies. The cash surrender value is measured by the insurance companies using the contractual terms of the policy (level 3) and the fair market value of remaining policy assets (level 1). In accordance with the requirements of GAAP, the Foundation has classified the entire balance of insurance policies as level 3, which is the lowest level of input used in the valuation process. The change in fair value for 2020 was entirely attributable to unrealized valuation loss of \$21,094. The change in fair value for 2019 was entirely attributable to unrealized valuation gain of \$50,427.

MCPHERSON COUNTY COMMUNITY FOUNDATION
McPherson, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020 and 2019

Note 3: Fair Value Measurements (Continued)

Liability for Agency Funds - This liability account represents the balance of funds which are received from and held for the benefit of others. These liabilities are valued according to the net asset value of shares held by each agency fund of the Foundation's investments (level 2), which as previously detailed, derive their value principally from real-time quotes for transactions in active exchange markets involving identical assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2020 or 2019. There have been no transfers between the three levels of fair value classification during 2020 or 2019.

Note 4: Endowment

The endowment (the Endowment) consists of approximately 211 individual funds established by donors and the Foundation's Board of Directors to provide annual funding for specific activities and general operations.

The Board of Directors has interpreted the Kansas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization 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 organization
- The investment policies of the organization

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the Endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. The target minimum rate of return is the Consumer Price Index plus 2 percent for administrative fee growth plus the Board approved spending rate which may vary from 3 to 5% on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

The Foundation uses an endowment spending-rate formula to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the fair value of the Endowment investments based on a 12 quarter average of each fund. During 2020 and 2019, the spending rate maximum was 5.0 percent. In establishing this policy, the Foundation considered the long-term expected return on the Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

MCPHERSON COUNTY COMMUNITY FOUNDATION
 McPherson, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020 and 2019

Note 4: Endowment (Continued)

Changes in endowment funds are as follows:

	2020		
	Board Designated	Donor Restricted	Total
Beginning Fund Balance	\$ 1,077,695	\$ 24,209,477	\$ 25,287,172
Contributions	20,639	2,608,171	2,628,810
Net investment return	52,350	1,406,894	1,459,244
Other income, gains and (losses)	-	(20,509)	(20,509)
Grants and program expenses	(84,377)	(1,894,790)	(1,979,167)
Fund management fees	(11,356)	(305,710)	(317,066)
Ending Fund Balance	\$ 1,054,951	\$ 26,003,533	\$ 27,058,484

	2019		
	Board Designated	Donor Restricted	Total
Beginning Fund Balance	\$ 1,090,110	\$ 23,539,885	\$ 24,629,995
Contributions	63,195	1,831,054	1,894,249
Net investment return	20,594	575,548	596,142
Other income, gains and (losses)	-	25,973	25,973
Grants and program expenses	(86,707)	(1,528,005)	(1,614,712)
Fund management fees	(9,497)	(234,978)	(244,475)
Ending Fund Balance	\$ 1,077,695	\$ 24,209,477	\$ 25,287,172

Note 5: Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted by the following conditions:

	2020		2019	
Fully spendable for a specified purpose:				
Donor Advised	\$ 668,471	52%	\$ 552,365	
Designated	545,159	43%	199,410	
Other	65,387	5%	12,349	
	\$ 1,279,017		\$ 764,124	
Endowments:				
Field of Interest	\$ 12,157,768	45%	\$ 11,949,402	
Designated	6,124,059	24%	5,775,215	
Donor Advised	6,604,660	26%	5,352,010	
Other	1,117,046	5%	1,132,850	
	\$ 26,003,533		\$ 24,209,477	
Charitable gift annuities	\$ 477,499		\$ 10,211	
	\$ 27,760,049		\$ 24,983,812	

Amounts which are fully spendable for a specified purpose are available for expenditure but are subject to donor conditions as specified in the underlying agreement for each fund and must be processed in accordance with the Foundation's grantwriting policies.

Endowment funds are intended to be a permanent source of financing for a purpose specified by donors in each fund agreement. The portion of the fund which is in excess of the original gifts contributed to the fund are spendable, but are subject to the Foundation's spending policy. This policy and other relevant details related to endowments are described in more detail in Note 4.