

**PELLA COMMUNITY FOUNDATION  
AND SUBSIDIARY**

Consolidated Financial Statements

June 30, 2017

## **PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**

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CPAs and Advisors

## 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, 2017 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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Burlington	Cedar Rapids	Centerville	Fairfield	Mt. Pleasant	Muscatine	Oskaloosa	Ottumwa	Pella	West Des Moines
319.753.9877	319.393.2374	641.437.4296	641.472.6171	319.385.9718	563.264.2727	641.672.2523	641.683.1823	641.628.9411	515.657.5800

## **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, 2017 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.

*TD&T CPAs and Advisors, P.C.*

Pella, Iowa  
October 13, 2017

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Consolidated Statement of Financial Position**  
**June 30, 2017**

**Assets:**

Cash and cash equivalents	\$ 362,250
Investments:	
Fixed income securities	784,211
Exchange traded funds	2,809,634
Mutual funds	933,091
Unit investment trusts	119,994
Private equity funds	94,431
	<u>4,741,361</u>
Fixed assets:	
Land	392,500
Improvements	16,349
Less accumulated depreciation	(817)
Net fixed assets	<u>408,032</u>
 Total assets	 <u><u>\$ 5,511,643</u></u>

**Liabilities:**

Agency funds:	
Crossroads of Pella	\$ 130,516
Dollars for Scholars	16,457
Jump for Kids	6,077
Pella Regional Health Center Foundation	1,486,426
Pella Christian High School	115,555
	<u>1,755,031</u>
 Deferred rent	 <u>8,663</u>
 Total liabilities	 <u>1,763,694</u>

**Unrestricted net assets:**

Board designated net assets	1,363,152
Unrestricted net assets	2,384,797
Total net assets	<u>3,747,949</u>
 Total liabilities and net assets	 <u><u>\$ 5,511,643</u></u>

See accompanying notes to consolidated financial statements.

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Consolidated Statement of Activities**  
**For the Year Ended June 30, 2017**

**Unrestricted revenues:**

Contributions	\$ 295,830
Investment income	85,208
Rental income	17,331
Miscellaneous income	14,352
Realized and unrealized gains (losses) on investments	<u>225,154</u>
Total unrestricted revenues	<u>637,875</u>

**Expenses:**

Program services:	
Grants	64,342
Donations	8,000
Support services:	
Office expenses	5,082
Professional fees	11,533
Advertising	301
Dues and subscriptions	3,475
Property taxes	1,617
Depreciation	<u>817</u>
Total expenses	<u>95,167</u>
Change in net assets	542,708

<b>Net assets, beginning of year</b>	<u>3,205,241</u>
<b>Net assets, end of year</b>	<u><u>\$ 3,747,949</u></u>

See accompanying notes to consolidated financial statements.

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended June 30, 2017**

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**Cash flows from operating activities:**

Contributions received	\$ 295,830
Rent collected	25,994
Investment income collected	85,208
Miscellaneous income collected	14,352
	<u>421,384</u>

Cash paid for grants and donations	(72,342)
Cash paid to suppliers	(22,008)
Net cash distributed to agency funds	16,505
	<u>(77,845)</u>

Net cash provided (used) by operating activities	<u>343,539</u>
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**Cash flows from investing activities:**

Investment proceeds	749,361
Purchases of investments	(1,735,486)
Purchase of fixed assets	<u>(16,349)</u>

Net cash provided (used) by investing activities	<u>(1,002,474)</u>
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<b>Net increase (decrease) in cash and cash equivalents</b>	(658,935)
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<b>Cash and cash equivalents, beginning of year</b>	<u>1,021,185</u>
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<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 362,250</u></u>
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See accompanying notes to consolidated financial statements.

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended June 30, 2017**

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

<b>Change in net assets</b>	\$ 542,708
<b>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:</b>	
Depreciation	817
Realized and unrealized gains on investments	(225,154)
Net cash distributed to agency funds	16,505
Increase in deferred rent	<u>8,663</u>
 Net cash provided (used) by operating activities	 \$ <u><u>343,539</u></u>

**Non-cash investing activity:**

Realized and unrealized losses on investments allocated to agency funds	\$ <u><u>124,191</u></u>
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See accompanying notes to consolidated financial statements.



**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017**

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**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.

*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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Contributions received are reported as unrestricted, temporarily restricted, or permanently restricted support, 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 unrestricted net assets. 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.

*Revenue Recognition* - Revenues are reported as increases in unrestricted net assets. 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 unrestricted revenues. Gains and losses on investments or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by donor stipulation or by law. Expenses are reported as decreases in net assets.

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017**

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**Note 1 - Significant Accounting Policies (Continued)**

*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.

*Date of Management's Review* - Management has evaluated subsequent events through October 13, 2017, 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).

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017**

**Note 2 - Fair Value Measurement (Continued)**

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, 2017. Assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

<b>Description</b>	<b>June 30, 2017</b>	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Investments				
Mutual funds	\$ 933,091	933,091	-	-
Fixed income securities	784,211	784,211	-	-
Unit investment trusts	119,994	119,994	-	-
Private equity	94,431	-	94,431	-
Exchange traded funds	2,809,634	2,809,634	-	-
Total investments	\$ 4,741,361	4,646,930	94,431	-

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.

**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 waived the administrative fee for the year ended June 30, 2017.

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017**

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**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's 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, 2017, the board of directors had designated \$1,363,152 of unrestricted net assets 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 unrestricted net assets.

Composition of and changes in board-designated endowment net assets for the year ended June 30, 2017 are as follows:

Board-designated endowment net assets, beginning of year	\$ 1,222,403
Additional board designations during year	9,100
Investment income	36,037
Net appreciation (depreciation)	95,612
Board-designated endowment net assets, end of year	\$ <u>1,363,152</u>

*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.

**PELLA COMMUNITY FOUNDATION AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017**

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**Note 5 - Board-Designated Endowment (Continued)**

*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, 2017 was approved at 2%.

*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, 2017, unrestricted net assets included \$536,941 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. At June 30, 2017, there were no excess deposits that were uninsured.

**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.