

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

WITH

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To The Board of Trustees
The Greater Kanawha Valley Foundation and
Affiliated Supporting Organization
Charleston, West Virginia

We have audited the accompanying combined financial statements of The Greater Kanawha Valley Foundation and Affiliated Supporting Organization, which comprise the combined statements of financial position as of December 31, 2018 and 2017 and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 these combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of The Greater Kanawha Valley Foundation and Affiliated Supporting Organization as of December 31, 2018 and 2017, and the changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2018, the Foundation adopted new accounting guidance, FASB Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Seattle & Stalnakor, PLLC".

Charleston, West Virginia

May 13, 2019

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 212,108	\$ 192,201
Investments, at fair value	219,433,334	243,710,252
Accrued interest receivable	213,478	175,845
Contributions receivable	3,687,394	-
Prepaid expenses	52,310	61,857
Total current assets	223,598,624	244,140,155
PROPERTY AND EQUIPMENT		
Fixed assets, net of accumulated depreciation of \$31,017 and \$28,164, respectively	-	2,853
	-	2,853
NONCURRENT ASSETS		
Beneficial interest in trust	1,661,742	1,992,468
Cash surrender value of life insurance	37,946	195,479
Total noncurrent assets	1,699,688	2,187,947
Total assets	\$ 225,298,312	\$ 246,330,955
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of grants payable	\$ 1,390,370	\$ 715,146
Accounts payable and accrued expenses	13,691	10,135
Deferred revenue	775	5,031
Total current liabilities	1,404,836	730,312
LONG-TERM LIABILITIES		
Grants payable	134,758	323,438
Organization endowment funds held for others	6,422,355	7,111,029
Total liabilities	7,961,949	8,164,779
NET ASSETS		
Without donor restrictions:		
Donor advised	77,153,766	84,866,190
Donor designated	64,725,349	67,131,026
Scholarship	19,368,318	21,234,437
Unrestricted	27,710,480	32,099,383
Field of interest	26,678,762	30,647,193
Total without donor restrictions	215,636,675	235,978,229
With donor restrictions:		
Restricted until a specified event occurs	1,699,688	2,187,947
Total with donor restrictions	1,699,688	2,187,947
Total net assets	217,336,363	238,166,176
Total liabilities and net assets	\$ 225,298,312	\$ 246,330,955

See notes to combined financial statements.

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
COMBINED STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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	<u>2018</u>	<u>2017</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
SUPPORT, REVENUE, GAINS AND LOSSES		
Contributions, gross	\$ 4,929,151	\$ 2,815,523
Less contributions to organizational funds	<u>(73,267)</u>	<u>(19,354)</u>
Net contributions	4,855,884	2,796,169
Interest and dividends, net of bank fees	6,380,406	5,742,048
Net realized and unrealized gains (losses) on investments	(19,757,625)	26,480,635
Less interest, dividends and gains to organizational funds	<u>417,847</u>	<u>(928,393)</u>
Net interest, dividends and investment gains (losses)	(12,959,372)	31,294,290
Other income	7,469	19,760
Less other income to organizational funds	<u>-</u>	<u>(64)</u>
Net other income	7,469	19,696
NET ASSETS RELEASED FROM RESTRICTIONS		
Occurrence of specified event	<u>171,832</u>	<u>-</u>
Total net assets released from restrictions	171,832	-
Total support, revenue, gains (losses)	<u>(7,924,187)</u>	<u>34,110,155</u>
EXPENSES		
Grants, net of refunds	9,900,933	10,227,251
Scholarships, net of refunds	705,790	763,419
Less grants and scholarships from organizational funds	<u>(281,762)</u>	<u>(399,120)</u>
Net grants and scholarships	10,324,961	10,591,550
Investment consultant fees	136,648	114,363
Salaries and benefits	1,215,334	1,105,733
Other operating expenses	772,478	860,828
Other fund expenses	30,277	12,598
Less other fund and operating expenses from organizational funds	<u>(62,331)</u>	<u>(55,489)</u>
Total expenses	<u>12,417,367</u>	<u>12,629,583</u>
Change in net assets without donor restrictions	<u>(20,341,554)</u>	<u>21,480,572</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
SUPPORT, REVENUE, GAINS AND LOSSES		
Change in beneficial interest in trust	(330,726)	300,473
Other income	14,299	6,176
Net assets released from restrictions	<u>(171,832)</u>	<u>-</u>
Change in net assets with donor restrictions	(488,259)	306,649
INCREASE (DECREASE) IN TOTAL NET ASSETS	(20,829,813)	21,787,221
Net assets - beginning of year	<u>238,166,176</u>	<u>216,378,955</u>
Net assets - end of year	<u>\$ 217,336,363</u>	<u>\$ 238,166,176</u>

See notes to combined financial statements.

**THE GREATER KANAWHA VALLEY FOUNDATION
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions	\$ 1,168,490	\$ 3,018,692
Investment earnings, net of fees	6,760,620	4,825,154
Other income	7,469	56,046
Grants and scholarships paid	(9,838,417)	(10,474,726)
Cash paid to employees and suppliers	(2,080,706)	(2,078,439)
Net cash provided by (used in) operating activities	(3,982,544)	(4,653,273)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net of proceeds from sale of investments	4,519,293	3,986,671
Proceeds from life insurance	171,832	-
Net cash provided by (used in) investing activities	4,691,125	3,986,671
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash received for organization endowment funds held for others	(688,674)	493,203
Net cash provided by (used in) financing activities	(688,674)	493,203
Net change in cash and cash equivalents	19,907	(173,399)
Cash and cash equivalents, beginning of year	192,201	365,600
Cash and cash equivalents, end of year	\$ 212,108	\$ 192,201

See notes to combined financial statements.

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Greater Kanawha Valley Foundation is a charitable community trust organized in 1962 and operates under the laws of West Virginia. The Foundation accepts contributions, creates and administers funds, and makes grants for the benefit of the people of the Greater Kanawha Valley. The Foundation has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization as described in Section 501(c)(3) and 509(a)(1) of the Internal Revenue Code. The combined financial statements of The Greater Kanawha Valley Foundation and its Affiliate (the Foundation) are comprised of The Greater Kanawha Valley Foundation and TGKVF, Inc.

TGKVF, Inc., a supporting organization, was formed on December 9, 1986, primarily to operate for the benefit of, and to carry out the purposes of, the Foundation (see Note 19).

Basis of Presentation

The combined financial statements for the Foundation have been prepared on the accrual basis of accounting, which means that revenues are recognized as they are earned and expenses are recognized as they are incurred whether or not cash is received or paid out at that time.

Use of Estimates

The preparation of combined 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 disclosures of contingent assets and liabilities at the date of the combined financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations

In the regular course of business, the Foundation maintains cash balances at several financial institutions located in West Virginia that may exceed the federally insured amount. Accounts at each financial institution are insured to the limits established by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk with respect to its cash and cash equivalents.

Classification of Net Assets

Professional standards contained in the Not-for-Profit Entities - Presentation of Financial Statements topic of the FASB Codification provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006, (UPMIFA), including guidance pertaining to disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of West Virginia adopted UPMIFA effective March 5, 2008. The Board of Trustees, on the advice of legal counsel, has determined that the Foundation's net assets do not meet the definition of endowment under UPMIFA. The Foundation is governed subject to the Declaration of Trust and most contributions are subject to the terms of the Declaration of Trust. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation.

Under the terms of the Declaration of Trust, the Board of Trustees has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as net assets with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

Net assets with donor restrictions consist of irrevocable charitable trusts, lead trusts, restricted contributions receivable, and donor-restricted endowment funds. When donor restrictions expire, that is, when a stipulated time restriction ends, purpose restriction is fulfilled, or a specified event occurs, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies that seek to provide a predictable stream of funding to programs while maintaining the purchasing power of the assets. The Foundation's spending and investment policies work together to achieve this objective. Actual returns in any given year may vary from this amount.

The primary objective of the Foundation's investment policy is to preserve the real (after inflation) value of its current and subsequently acquired assets. A second objective, subject only to the first, is to provide the maximum flow of funds for grant making, operating expenses and fees (including investment management fees). The flow of funds should be reasonably predictable and rise at least as rapidly as inflation.

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic equities, international equities, fixed income, real assets and alternative hedge funds. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return.

The spending policy determines the amount that the Foundation makes available for grants from each Fund and will be calculated by multiplying a percentage by a base.

The base for grant distribution will be the twenty-quarter moving average of the market value of each Fund's total market value. It is the Foundation's present judgment that an annual percentage factor of 4.5% be distributed from the market value average. The Foundation recognizes that certain circumstances may call for a different base and/or percentage to be used. In such instances, the President of the Foundation, after consultation with the Investment Committee, may adjust the base and/or percentage used for grant distribution.

This computation will be made at the beginning of each fiscal year to include the last twenty quarters, estimating the last quarter, if necessary.

Should the total market value of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees as permitted by law. Additionally, it is the Foundation's practice to periodically recalculate spend for funds which total market value has fallen below total corpus as of the fiscal year end. This recalculation is performed at a subsequent quarter end on the average market value of twenty quarters and the same annual percentage factor is applied.

Income Taxes

The Foundation is classified as "an other than private foundation" and is exempt from income taxes on its exempt activities under the Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been recorded.

For the year ended December 31, 2018, the Foundation has no material uncertain tax positions to be accounted for in the financial statements. The Foundation recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. The Foundation returns for years ended on or after December 31, 2015 remain subject to examination.

Equipment

The Foundation capitalizes expenditures for property and equipment costing over \$2,500. Depreciation is computed utilizing the straight-line method over the estimated useful life of the asset. Depreciation expense for the years ended December 31, 2018 and 2017 was \$2,853 and \$2,854, respectively.

Statement of Cash Flows

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with an initial maturity of three months or less, which are not included as part of the investment portfolio, to be cash equivalents.

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Investments

Investments are stated at fair value as determined by quoted prices in active markets for marketable securities and at estimated fair value based on the net asset value per share for certain nonmarketable securities. The market value of publicly traded securities is based upon quotes from the principal exchanges on which the security is traded.

Nonmarketable securities include alternative investments, such as private equity, hedge funds, timber and real estate, which are valued using net asset value per share. Certain of the funds' underlying assets are based on estimates of fair value from models developed by the general partner or investment manager in the absence of readily determinable public market values.

Any change in the valuation of the investments is reported as realized and unrealized gains or losses in the combined statements of activity. Dividend and interest income from investments is accrued as the income is earned.

Contributions and Grants

Contributions received by the Foundation are reported at their fair values on the date of such gifts. Due to the nature of contributions receivable, the Foundation does not believe an allowance for doubtful accounts is necessary as of December 31, 2018 and 2017.

Grants made by the Foundation are recorded in the financial statements at the time the grants are approved by the Board of Trustees of the Foundation. Payments are made when requested by the grantee and any contingencies, such as obtaining matching funds, have been met by the grantee.

Contributed Services

Certain individuals have made significant contributions of their time to manage and operate the Foundation. The value of this contributed time is not reflected in these combined financial statements since it does not meet the criteria under generally accepted accounting principles for recording.

Endowment Funds Held for the Benefit of Others

In accordance with professional standards contained in FASB codification section 958-605-25, *Not-for-Profit Entities - Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* topic of the FASB Accounting Standards Codification, if a not-for-profit organization established a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as organization endowment funds held for others.

The Foundation maintains legal ownership of these funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with the professional standard identified above, a liability has been established for the fair value of the funds.

Fair Value of Financial Instruments

Professional standards contained in the Fair Value Measurements and Disclosures topic of the FASB Codification establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

The Foundation accounts for its investments at fair value and are recorded on the statement of financial position based on the inputs to the valuation techniques as follows:

Level 1

Financial assets are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2

Financial assets are valued using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3

Financial assets are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

Risks and Uncertainties

The Foundation invests in various investments, including fixed income, stocks, mutual funds, alternative investments and real assets that, in general, are exposed to various risks such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. The reclassifications had no impact on net income or total net assets.

Note 2 - Adoption of Accounting Standard

During 2018, the Foundation adopted FASB Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU is intended to improve the net asset classification requirements and the information presented in the financial statements and related notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Changes to the presentation of the financial statements and disclosures as a result of the adoption of ASU 2016-14 include:

- Net assets – Net assets are now presented in two classes, net assets without donor restrictions and net assets with donor restrictions, therefore \$235,978,229 and \$2,187,947, reported as unrestricted net assets and temporarily restricted net assets as of December 31, 2017, respectively, are now being reported as net assets without donor restrictions and net assets with donor restrictions, respectively.
- Statement of cash flows – A reconciliation of changes in net assets to net cash provided by (used in) operating activities is no longer required. Therefore, this reconciliation is not included for either year presented.
- Additional disclosures regarding liquidity and availability of financial assets are included (See Note 4).
- Expenses are reported by both natural and functional classifications in one location (See Note 17).

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Note 3 - Beneficial Interest in Trust

During 2013, the Foundation became aware that they were the beneficiary of a Charitable Remainder Unitrust whose assets are held by a third-party trustee. This amount is included as a noncurrent asset in the statements of financial position.

The trust provides for payments to be made to a specific beneficiary for the beneficiary's lifetime. Upon the death of the beneficiary, the remaining assets of the trust will be distributed to the Foundation. In accordance with professional accounting standards, the Foundation records the asset as a beneficial interest in trust. The trust is valued at its estimated fair value based on the value of the assets held by the trust and actuarial assumptions.

Note 4 - Liquidity and Availability of Financial Assets

The Foundation's financial assets available for general expenditure within one year after year end are as follows:

	2018	2017
Cash and cash equivalents	\$ 212,108	\$ 192,201
Investments, at fair value	7,135,196	9,731,974
Accrued interest receivable	213,478	175,845
	\$ 7,560,782	\$ 10,100,020

The Foundation's investments held at year end are considered available for expenditure based on the Foundation's approved spending policy which applies a 4.5% distribution rate to the twenty-quarter moving average of the market value of each individual fund. Should the total market value at the end of the fiscal year of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees as permitted by law.

As part of the Foundation's liquidity management, it has a policy to provide the maximum flow of funds for grant making, operating expenses and fees. The flow of funds should be reasonably predictable and rise at least as rapidly as inflation.

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Note 5 - Investments

The following summarizes the relationship between cost or donated values and the fair values of investments as of December 31:

Investments as of December 31, 2018:

	Fair Value	Cost or Donated Value	Net Unrealized Gain (Loss)
Money Market Funds	\$ 11,452,617	\$ 11,452,617	\$ -
US Core Equities	42,969,038	31,757,696	11,211,342
US Mid/Small Growth Equities	25,510,283	25,559,055	(48,772)
US Mid/Small Value Equities	20,715,503	20,409,728	305,775
International Core Equities	43,780,518	47,241,965	(3,461,447)
Alternative	25,778,007	23,364,374	2,413,633
Fixed income	33,434,574	36,004,316	(2,569,742)
Real assets	15,792,794	18,561,425	(2,768,631)
	<u>\$ 219,433,334</u>	<u>\$ 214,351,176</u>	<u>\$ 5,082,158</u>

Investments as of December 31, 2017:

	Fair Value	Cost or Donated Value	Net Unrealized Gain (Loss)
Money Market Funds	\$ 16,343,410	\$ 16,343,410	\$ -
US Core Equities	46,932,341	28,949,294	17,983,047
US Mid/Small Growth Equities	33,492,568	25,641,820	7,850,748
US Mid/Small Value Equities	22,458,794	17,743,904	4,714,890
International Core Equities	53,557,089	44,458,875	9,098,214
Alternative	21,636,688	17,235,714	4,400,974
Fixed income	34,537,373	36,471,772	(1,934,399)
Real assets	14,751,989	14,442,791	309,198
	<u>\$ 243,710,252</u>	<u>\$ 201,287,580</u>	<u>\$ 42,422,672</u>

Amounts reported above as alternative consist of investments in hedge funds, which consist of long/short-term global equity hedge funds and absolute return fund of funds hedge funds. Amounts reported as real assets consist of investments in common trust funds, which consists of multi-strategy real assets and real estate assets. The real assets segment is intended to provide the portfolio with a diversified hedge against inflation as well as long term real asset growth.

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Note 5 - Investments (Continued)

Investment returns for the year ended December 31, 2018 were as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Interest and dividends, net of fees	\$ 6,380,406	\$ -	\$ 6,380,406
Realized and unrealized gains (losses) on investments	(19,757,625)	-	(19,757,625)
Less amounts attributable to organizational funds	417,847	-	417,847
Total return on investments	<u>\$ (12,959,372)</u>	<u>\$ -</u>	<u>\$ (12,959,372)</u>

Investment returns for the year ended December 31, 2017 were as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Interest and dividends, net of fees	\$ 5,742,048	\$ -	\$ 5,742,048
Realized and unrealized gains (losses) on investments	26,480,635	-	26,480,635
Less amounts attributable to organizational funds	(928,393)	-	(928,393)
Total return on investments	<u>\$ 31,294,290</u>	<u>\$ -</u>	<u>\$ 31,294,290</u>

**THE GREATER KANAWHA VALLEY FOUNDATION
AND AFFILIATED SUPPORTING ORGANIZATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Note 6 - Fair Value Measurements

The Foundation uses fair value measurements of certain assets and liabilities to record fair value adjustments and to determine fair value disclosures. For additional information refer to Note 1 - Organization and Summary of Significant Accounting Policies.

Fair values of assets measured on a recurring basis at December 31, are as follows:

Fair Value Measurements at Reporting Date Using

<u>December 31, 2018</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money market funds	\$ 11,452,617	\$ 11,452,617	\$ -	\$ -
Equity funds	132,975,342	132,975,342	-	-
Fixed income	33,434,574	33,434,574	-	-
Alternative and real assets	10,853,312	10,853,312	-	-
Total investments at fair value	188,715,845	<u>\$ 188,715,845</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in privately offered investment funds (NAV) ^(a)	<u>30,717,489</u>			
Total investments	<u>\$ 219,433,334</u>			
Beneficial interest in trust	<u>\$ 1,661,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,661,742</u>
<u>December 31, 2017</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money market funds	\$ 16,343,410	\$ 16,343,410	\$ -	\$ -
Equity funds	156,440,792	156,440,792	-	-
Fixed income	34,537,373	34,537,373	-	-
Alternative and real assets	15,147,793	15,147,793	-	-
Total investments at fair value	222,469,368	<u>\$ 222,469,368</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in privately offered investment funds (NAV) ^(a)	<u>21,240,884</u>			
Total investments	<u>\$ 243,710,252</u>			
Beneficial interest in trust	<u>\$ 1,992,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,992,468</u>

(a) In accordance with FASB subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

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Note 6 - Fair Value Measurements (Continued)

Level 3 Assets

The following table provides a summary of changes of the Beneficial Interest in Trust measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 1,992,468	\$ 1,691,995
Change in beneficial interest in trust	<u>(330,726)</u>	<u>300,473</u>
Balance at end of year	<u>\$ 1,661,742</u>	<u>\$ 1,992,468</u>

Note 7 - Net Asset Value (NAV) Per Share

In accordance with the fair value measurements and disclosures guidance, the category, fair value, redemption frequency, and redemption notice period for investments, the fair value of which are estimated using the NAV per share, as of December 31, 2018 and 2017, are as follows. There were no unfunded commitments as of December 31, 2018 and 2017.

	<u>Fair Value</u>		<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
	<u>2018</u>	<u>2017</u>	<u>2018 and 2017</u>	
Real asset funds ^(b)	\$ 4,946,671	\$ 3,611,488	Daily	Daily
Alternative hedge funds ^(c)	<u>25,770,818</u>	<u>17,629,396</u>	Quarterly/monthly	Quarterly
Total	<u>\$ 30,717,489</u>	<u>\$ 21,240,884</u>		

- (b) Funds in this category invest in common trust funds which consist of multi-strategy real assets and real estate assets to provide a diversified hedge against inflation as well as long-term real asset growth.
- (c) Funds in this category invest in long/short-term global equity hedge funds and absolute return fund of funds hedge funds to achieve a long-term rate of return.

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Note 8 - Endowment by Net Asset Class

For the year ended December 31, 2018:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor designated endowment funds	\$ 52,930,560	\$ -	\$ 52,930,560
Other endowment funds			
Undesignated	21,879,262	1,661,742	23,541,004
Field of interest	26,195,155	-	26,195,155
Donor advised	73,046,781	37,946	73,084,727
Scholarship	17,307,272	-	17,307,272
Total endowment funds	<u>\$ 191,359,030</u>	<u>\$ 1,699,688</u>	<u>\$ 193,058,718</u>

For the year ended December 31, 2017:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor designated endowment funds	\$ 55,195,141	\$ -	\$ 55,195,141
Other endowment funds			
Undesignated	24,645,229	1,992,468	26,637,697
Field of interest	30,092,737	-	30,092,737
Donor advised	78,704,099	37,767	78,741,866
Scholarship	18,961,116	157,712	19,118,828
Total endowment funds	<u>\$ 207,598,322</u>	<u>\$ 2,187,947</u>	<u>\$ 209,786,269</u>

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Note 9 - Changes in Endowment Net Assets

For the year ended December 31, 2018:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 207,598,322	\$ 2,187,947	\$ 209,786,269
Interest and dividends, net of investment expense	5,585,283	14,299	5,599,582
Net appreciation (depreciation)	(16,809,626)	(330,726)	(17,140,352)
Contributions	4,146,443	-	4,146,443
Amounts appropriated for expenditure	(9,333,224)	-	(9,333,224)
Released from restrictions	171,832	(171,832)	-
Change in endowment net assets	(16,239,292)	(488,259)	(16,727,551)
Endowment net assets, end of year	\$ 191,359,030	\$ 1,699,688	\$ 193,058,718

For the year ended December 31, 2017:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 187,117,953	\$ 1,881,298	\$ 188,999,251
Interest and dividends, net of investment expense	5,044,641	6,176	5,050,817
Net appreciation (depreciation)	23,050,127	300,473	23,350,600
Contributions	1,039,033	-	1,039,033
Amounts appropriated for expenditure	(8,653,432)	-	(8,653,432)
Change in endowment net assets	20,480,369	306,649	20,787,018
Endowment net assets, end of year	\$ 207,598,322	\$ 2,187,947	\$ 209,786,269

In addition to endowment net assets, The Foundation also manages other non-endowment funds. The following table summarizes all Foundation net assets as of December 31:

	2018	2017
Endowment funds	\$ 193,058,718	\$ 209,786,269
Non-endowment funds	24,277,645	28,379,907
Total net assets	\$ 217,336,363	\$ 238,166,176

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Note 10 - Donor Restricted Net Assets

Net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Subject to appropriation and expenditure when a specified event occurs:		
Life insurance policy that will provide proceeds upon death of insured	\$ 37,946	\$ 195,479
Beneficial interest in trust that will provide proceeds upon death of beneficiary	1,661,742	1,992,468
Total net assets with donor restrictions	\$ 1,699,688	\$ 2,187,947

Note 11 - Cash Surrender Value of Life Insurance

As of December 31, 2018, the Foundation is the designated beneficiary of one life insurance policy owned on the life of the donor. The insurance policy has been recorded for the amount that will be paid to the Foundation or other organizations upon the death of the donor. The increase in cash surrender value has been recorded as donor restricted other income in the combined statements of activities for the years ended December 31, 2018 and 2017. The Foundation was previously the designated beneficiary on an additional life insurance policy that was paid out during 2018 upon the death of the donor in the amount of \$171,832.

Note 12 - Fixed Assets

Fixed assets consisted of the following as of December 31:

	2018	2017
Computer and office equipment	\$ 13,292	\$ 13,292
Software	17,725	17,725
	31,017	31,017
Less accumulated depreciation	(31,017)	(28,164)
Fixed assets, net	\$ -	\$ 2,853

Note 13 - Grants Payable

The Foundation has made unconditional promises to various charitable organizations to make grant payments over future years. These grants are recorded at the present value of their future cash flows. A discount rate equal to the treasury bill rate at December 31, 2018, or 2.54%, was used to arrive at the present value. At December 31, 2018 and 2017, the present value discount effect was \$13,398 and \$17,722, respectively. Unconditional grant commitments outstanding at December 31, 2018 are scheduled to be disbursed as follows:

2019	\$ 1,390,370
2020	66,555
2021	68,203
Grants payable, net	1,525,128
Less current portion	(1,390,370)
Net long-term grants payable	\$ 134,758

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Note 14 - Related Party Transactions

Certain members of the Board of Trustees of the Foundation also participate in the management of, or are members of, the boards of various organizations throughout West Virginia. During the years ended December 31, 2018 and 2017, the Foundation approved and paid grants with a net effect of approximately \$165,770 and \$354,147, respectively, to these organizations. At December 31, 2018 and 2017, the Foundation had grants payable, at net present value, of approximately \$392,537 and \$519,542, respectively, to these organizations.

Note 15 - Retirement Plan

The Foundation has a defined contribution retirement plan that covers all full-time employees having at least one year of service. For the years ended December 31, 2018 and 2017, contributions to the plan were computed at 8% of compensation. For the years ended December 31, 2018 and 2017, the Foundation recorded retirement plan expense of \$55,120 and \$41,792, respectively.

Note 16 - Administrative Fees

It is the policy of the Foundation that the administrative fee for the Foundation's operating expenses is calculated each year by multiplying 1% by a base. The base for the administrative fee will be the Foundation's total market value on September 30 of each year.

However, for the years ended December 31, 2018 and 2017, the Foundation assessed each fund only an administrative fee of 0.80% (affiliates at 1%), on the market value of each fund. These fees are used by the Foundation to pay for administrative costs incurred in managing the Foundation and administering the funds. Administrative fees for the years ended December 31, 2018 and 2017 were \$1,884,027 and \$1,741,924, respectively. For financial statement purposes, the administrative fee income assessed by the Foundation is netted against the administrative fee expense recognized by the funds. These amounts net to zero, and no income or expense is reported.

Note 17 - Natural Classifications with Functional Classifications

Expenses are allocated among program services, management and general, and fundraising based on the purposes for which the expenses have been incurred. The Foundation incurs certain joint costs which are not specifically attributable to a particular component of activities. These costs include salaries and benefits, depreciation, and certain office and occupancy expenses. Joint costs are allocated on the basis of estimates of time and effort, as well as, budgeted estimates of the purpose for which the expense is expected to be incurred. For the years ended December 31, 2018 and 2017, the following tables represent operating expenses within both natural and functional classifications:

<u>December 31, 2018</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants, net of refunds	\$ 9,619,171	\$ -	\$ -	\$ 9,619,171
Scholarships, net of refunds	705,790	-	-	705,790
Investment consultant fees	-	136,648	-	136,648
Salaries and benefits	573,798	487,767	153,769	1,215,334
Other operating expenses	238,474	366,788	104,885	710,147
Other fund expenses	-	30,277	-	30,277
Total expenses	<u>\$ 11,137,233</u>	<u>\$ 1,021,480</u>	<u>\$ 258,654</u>	<u>\$ 12,417,367</u>

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Note 17 - Natural Classifications with Functional Classifications (Continued)

<u>December 31, 2017</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants, net of refunds	\$ 9,828,131	\$ -	\$ -	\$ 9,828,131
Scholarships, net of refunds	763,419	-	-	763,419
Investment consultant fees	-	114,363	-	114,363
Salaries and benefits	522,052	443,779	139,902	1,105,733
Other operating expenses	270,441	415,954	118,944	805,339
Other fund expenses	-	12,598	-	12,598
Total expenses	<u>\$ 11,384,043</u>	<u>\$ 986,694</u>	<u>\$ 258,846</u>	<u>\$ 12,629,583</u>

Note 18 - Operating Lease

The Foundation leases its office space under an operating lease that expired in February 2019. The Foundation decided to forego renewal of the operating lease and is currently in a month-to-month agreement with the lessor. Rent expense for the years ended December 31, 2018 and 2017 was \$124,218 and \$123,603, respectively.

Minimum future rental payments under this operating lease as of December 31, 2018 are:

2019	<u>\$ 20,158</u>
Total	<u>\$ 20,158</u>

Note 19 - Affiliated Supporting Organization

As discussed in Note 1, the Foundation has an affiliated supporting organization, TGKVF, Inc. Summarized financial information for this supporting organization as of December 31 is as follows:

Financial Position	<u>2018</u>	<u>2017</u>
Assets		
Cash and short-term funds	\$ 5,562,789	\$ 9,875,543
Investments	96,093,946	101,013,393
Beneficial interest in trust	1,661,742	1,992,468
Contributions receivable	3,687,394	-
Total assets	<u>\$ 107,005,871</u>	<u>\$ 112,881,404</u>
Liabilities and net assets		
Grants payable	\$ 30,129	\$ 14,760
Organizational funds held for others	5,637,037	6,236,963
Total liabilities	<u>5,667,166</u>	<u>6,251,723</u>
Net assets without donor restrictions	99,676,963	104,637,213
Net assets with donor restrictions	1,661,742	1,992,468
Total net assets	<u>101,338,705</u>	<u>106,629,681</u>
Total liabilities and net assets	<u>\$ 107,005,871</u>	<u>\$ 112,881,404</u>

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Note 19 - Affiliated Supporting Organization (Continued)

Changes in Net Assets	2018	2017
Support, revenue, gains and losses		
Contributions, gross	\$ 4,800,080	\$ 2,476,533
Less contributions to organizational funds	(73,266)	(18,954)
Net contributions	4,726,814	2,457,579
Interest and dividends, net of bank fees	2,904,926	2,641,049
Net realized and unrealized gains (losses) on investments	(6,485,223)	11,485,244
Less interest, dividends, gains (losses) to organizational funds	361,123	(840,210)
Net interest, dividends, and investment gains (losses)	(3,219,174)	13,286,083
Transfers (to) from other funds	(867,779)	2,072,195
Total support, revenue, gains (losses)	639,861	17,815,857
Expenses		
Grants, net of refunds	4,987,659	4,996,816
Scholarships, net of refunds	4,730	7,572
Less grants and scholarships from organizational funds	(256,978)	(373,419)
Net grants and scholarships	4,735,411	4,630,969
Administrative fees	860,396	748,511
Other expenses	56,790	46,508
Less other fund expenses from organizational funds	(52,486)	(48,459)
Total expenses	5,600,111	5,377,529
Changes in net assets without donor restrictions	(4,960,250)	12,438,328
Support, revenue, gains and losses		
Change in beneficial interest in trust	(330,726)	300,473
Change in net assets with donor restrictions	(330,726)	300,473
Change in total net assets	\$ (5,290,976)	\$ 12,738,801

Note 20 - Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 13, 2019 the date the financial statements were issued. On March 19, 2019, the Foundation received court approval, under a trust conversion petition, to change funds currently held in trust form, with various banks serving as trustees, into funds held in custodial form. Court approval of the petition will not change the charitable uses of any individual fund accounts transferred from trust to custodial form. Additionally, the charitable uses, designated recipients, or limitations placed by the original donors of these funds will remain intact and subject to the Foundation's policies and procedures.