

**Lancaster County Community Foundation
and Affiliate**

**Consolidated Financial Statements and
Supplementary Information**

December 31, 2017 and 2016



Lancaster County Community Foundation and Affiliate

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December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors
Lancaster County Community Foundation
and Affiliate
Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lancaster County Community Foundation and Affiliate, which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years 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 these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lancaster County Community Foundation and Affiliate as of December 31, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

RKL LLP

July 18, 2018
Lancaster, Pennsylvania

Lancaster County Community Foundation and Affiliate

Consolidated Statement of Financial Position

	December 31,	
	2017	2016 (Restated)
Assets		
Cash and cash equivalents	\$ 10,468,739	\$ 9,580,269
Investments	57,502,522	47,126,960
Prepaid expenses	49,621	31,822
Contributions receivable	123,070	120,250
Property and equipment, at cost, net	140,360	158,796
Perpetual trusts and split-interest agreements	44,762,320	41,197,471
Total Assets	\$ 113,046,632	\$ 98,215,568
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 79,724	\$ 55,121
Grants payable	8,659,411	7,236,810
Accrued expenses	20,661	12,186
Charitable gift annuities	1,377,518	1,352,203
Liability to resource providers	3,793,738	3,245,615
Total Liabilities	13,931,052	11,901,935
Net Assets		
Unrestricted	54,353,260	45,116,162
Permanently restricted	44,762,320	41,197,471
Total Net Assets	99,115,580	86,313,633
Total Liabilities and Net Assets	\$ 113,046,632	\$ 98,215,568

Lancaster County Community Foundation and Affiliate

Consolidated Statement of Activities

	Year Ended December 31, 2017		
	Unrestricted	Permanently Restricted	Total
Revenues, Gains, and Other Support			
Contributions	\$ 15,760,693	\$ 5,890	\$ 15,766,583
Return on investments			
Net realized and unrealized gains	4,707,794	-	4,707,794
Distributions from perpetual trusts	2,481,706	-	2,481,706
Interest and dividends	1,504,593	-	1,504,593
Net change in value of perpetual trusts and split-interest agreements	-	3,558,959	3,558,959
Other income	105,049	-	105,049
Loss on disposal of property and equipment	-	-	-
Net change in value of charitable gift annuities	(50,783)	-	(50,783)
Total Revenues, Gains, and Other Support	24,509,052	3,564,849	28,073,901
Expenses			
Program - grants and scholarships	12,857,026	-	12,857,026
Program - other	1,250,889	-	1,250,889
Program - special projects	580,542	-	580,542
Management and general	359,768	-	359,768
Fundraising	223,729	-	223,729
Total Expenses	15,271,954	-	15,271,954
Change in Net Assets	9,237,098	3,564,849	12,801,947
Net Assets at Beginning of Year, as Restated (see Note 17)	45,116,162	41,197,471	86,313,633
Net Assets at End of Year	\$ 54,353,260	\$ 44,762,320	\$ 99,115,580

Lancaster County Community Foundation and Affiliate

Consolidated Statement of Activities (continued)

	Year Ended December 31, 2016 (Restated)		
	Unrestricted	Permanently Restricted	Total
Revenues, Gains, and Other Support			
Contributions	\$ 8,122,061	\$ -	\$ 8,122,061
Return on investments			
Net realized and unrealized gains	980,550	-	980,550
Distributions from perpetual trusts	1,876,444	-	1,876,444
Interest and dividends	1,120,149	-	1,120,149
Net change in value of perpetual trusts and split-interest agreements	-	260,059	260,059
Other income	31,552	-	31,552
Loss on disposal of property and equipment	(19,534)	-	(19,534)
Net change in value of charitable gift annuities	(50,945)	-	(50,945)
Total Revenues, Gains, and Other Support	12,060,277	260,059	12,320,336
Expenses			
Program - grants and scholarships	10,116,616	-	10,116,616
Program - other	1,117,091	-	1,117,091
Program - special projects	633,359	-	633,359
Management and general	381,339	-	381,339
Fundraising	201,520	-	201,520
Total Expenses	12,449,925	-	12,449,925
Change in Net Assets	(389,648)	260,059	(129,589)
Net Assets at Beginning of Year, as Restated (see Note 17)	45,505,810	40,937,412	86,443,222
Net Assets at End of Year	\$ 45,116,162	\$ 41,197,471	\$ 86,313,633

Lancaster County Community Foundation and Affiliate

Consolidated Statement of Cash Flows

	Years Ended December 31,	
	2017	2016 (Restated)
Cash Flows from Operating Activities		
Change in net assets	\$ 12,801,947	\$ (129,589)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	42,057	38,256
Net realized and unrealized gains on investments	(4,707,794)	(980,550)
In-kind contributions - investments	(877,160)	(337,473)
Restricted contribution - perpetual trusts and split-interest agreements	(5,890)	-
Net change in value of perpetual trusts and split-interest agreements	(3,558,959)	(260,059)
Net change in charitable gift annuities liability	25,315	41,916
Loss on disposal of property and equipment	-	19,534
Proceeds from sale of donated investments	877,160	337,473
Increase in assets		
Prepaid expenses	(17,799)	(4,558)
Contributions receivable	(2,820)	(90,250)
Increase in liabilities		
Accounts payable	24,603	7,195
Grants payable	1,422,601	1,045,623
Accrued expenses	8,475	7,012
Liability to resource providers	548,123	125,030
Net Cash Provided by (Used in) Operating Activities	6,579,859	(180,440)
Cash Flows from Investing Activities		
Purchase of investments	(22,847,032)	(11,445,007)
Proceeds from sale of investments	17,179,264	13,847,793
Purchase of property and equipment	(23,621)	-
Net Cash Provided by (Used in) Investing Activities	(5,691,389)	2,402,786
Net Increase in Cash and Cash Equivalents	888,470	2,222,346
Cash and Cash Equivalents at Beginning of Year	9,580,269	7,357,923
Cash and Cash Equivalents at End of Year	\$ 10,468,739	\$ 9,580,269

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 1 - Nature of Operations

The Lancaster County Community Foundation (Foundation) functions as a parallel organization to the Lancaster County Foundation (Trust), a Pennsylvania charitable trust. The Foundation functions as the primary operating entity for both organizations, and not only manages its own assets and fundraising, but also manages the various funds held by the Trust and administers distributions of the income from those funds. The Foundation engages in a variety of activities typically carried on by community foundations, including development, community outreach, events, speaking engagements, capacity building programs, investment management, and grant making.

The consolidated entity of the Lancaster County Community Foundation and the Lancaster County Foundation will be referred to as the Organization.

Note 2 - Summary of Significant Accounting Policies

A summary of significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting audit. Accordingly, actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the Trust. All significant interrelated balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly-liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Note 2 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded at cost. Donated assets are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments greater than \$2,000 in cost are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of activities.

Liability to Resource Providers

Liability to resource providers consists of assets transferred from nonprofit organizations that specified themselves or an affiliate as the beneficiary of the fund. It is a reciprocal agreement between the nonprofit organization and the Foundation.

Assets are transferred permanently to an endowed fund at the Foundation. The assets are invested in an appropriate endowment portfolio allocation and an annual spending policy is applied to determine the maximum amount available to grant to the nonprofit resource provider during the year. An administrative fee is charged to each fund based on the fund balance.

These endowed funds provide a steady and reliable annual income stream to the nonprofit resource provider.

Contributions and Restricted Resources

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions, grants, and investment income whose restrictions are met within the same year as received are reflected as unrestricted contributions or return on investments in the accompanying consolidated financial statements. The Organization reports receipts from trusts with donor stipulations as unrestricted revenue, with the corresponding disbursement to designated beneficiaries as restricted grants. Such amounts received, but not yet disbursed, are reported as grants payable.

There are three classes of net assets - permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets are net assets subject to donor-imposed stipulations that are required to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. Permanently restricted net assets consist of funds held in trust by others.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions and Restricted Resources (continued)

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. There were no temporarily restricted net assets at December 31, 2017 or 2016.

Unrestricted net assets are net assets not subject to donor-imposed stipulations.

Any rent, specialized skill services, investments, and supplies received as donations are recorded and reflected in the accompanying consolidated financial statements at their fair value on the date of receipt.

Income Taxes

The Foundation and the Trust are not-for-profit entities as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from income taxes on related activities pursuant to Section 509(a) of the code.

The Organization follows the standards for accounting for uncertainty in income taxes according to the principles of Accounting Standards Codification (ASC) 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the consolidated financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization, including whether the entity is exempt from income taxes. Management evaluated the tax positions taken and concluded that the Organization had taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years before 2014.

Functional Allocation of Expenses

Functional expenses are charged to program, management and general, and fundraising expenses in general categories based on specific identification and allocations made by management. Program expenses totaled \$14,688,457 and \$11,867,066 for the years ended December 31, 2017 and 2016, respectively.

Advertising Expenses

Advertising costs are charged to expense as incurred. Expense for the years ended December 31, 2017 and 2016 was \$230,715 and \$199,876, respectively.

Asset Management Fees

Asset management fees are charged to expense as incurred. Fees for the years ended December 31, 2017 and 2016 were \$171,435 and \$163,630, respectively.

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. This ASU will be effective for the Organization for fiscal years beginning after December 15, 2016. Early adoption is permitted and the amendments in ASU 2015-07 should be applied retrospectively to all periods presented. The Organization adopted this standard during the year ended December 31, 2017.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. This guidance is effective for annual periods beginning after December 15, 2017. The Organization is currently evaluating the impact of the pending adoption of this standard on the consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the impact of the pending adoption of this standard on the consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The guidance is effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact of the pending adoption of this standard on the consolidated financial statements.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 3 - Cash and Investments

Cash and investments are presented in the consolidated financial statements at fair value. Cash and investments are composed of the following at December 31:

	<u>2017</u>	<u>2016 (Restated)</u>
Cash and Cash Equivalents	\$ 10,468,739	\$ 9,580,269
Investments		
Fixed income		
Corporate bonds		
A2	\$ 2,206,590	\$ 1,870,700
A3	1,181,967	1,020,338
A1	768,791	1,878,540
Aa1	239,980	360,773
Aa3	199,996	603,917
Baa1	185,689	55,408
Baa2	77,948	53,047
Aa2	64,283	398,491
Baa3	15,000	14,968
Aaa	-	349,790
Corporate/taxable mutual funds	4,910,518	3,430,619
Government bonds		
Aaa	1,400,328	1,624,792
Treasury inflation-protected securities	620,101	-
International	1,369,911	1,679,824
High-yield debt	628,025	-
Certificates of deposit	38,062	116,547
	<u>13,907,189</u>	<u>13,457,754</u>
Equity securities		
Large cap	15,907,322	11,751,348
International	11,661,605	7,922,376
Small cap	1,507,988	1,707,919
Mid cap	68,921	107,965
	<u>29,145,836</u>	<u>21,489,608</u>
Alternative investments		
Absolute return	9,197,580	7,419,167
Private equity	1,977,525	1,915,168
Real estate	1,865,453	1,700,194
Commodities	1,408,939	1,145,069
	<u>14,449,497</u>	<u>12,179,598</u>
	<u>\$ 57,502,522</u>	<u>\$ 47,126,960</u>

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 4 - Contributions Receivable

At December 31, 2017 and 2016, contributions receivable consist of distributions from trusts due to the Organization as beneficiary of the trust, amounts due to the Organization through wills or estate agreements, or unconditional promises to give. The entire amount of contributions receivable is due within one year. The Organization evaluates all contributions receivable for collectability. No reserves were considered necessary as of December 31, 2017 and 2016.

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>	<u>Depreciable Lives</u>
Office equipment and software	\$ 372,512	\$ 423,990	3 to 11 years
Accumulated depreciation	<u>(232,152)</u>	<u>(265,194)</u>	
	<u>\$ 140,360</u>	<u>\$ 158,796</u>	

Depreciation expense amounted to \$42,057 and \$38,256 for the years ended December 31, 2017 and 2016, respectively.

Note 6 - Perpetual Trusts and Split-Interest Agreements

The Organization is the beneficiary of numerous perpetual trusts and split-interest agreements held by financial institutions. The trusts were established by persons, wills, living trust agreements, and court decrees with various restrictions and terms. Restrictions and terms placed on the income distributions are varied.

The Organization's interest in the perpetual trusts and split-interest agreements are valued at the present value of the future distributions of the trusts, which is calculated using the fair value of the underlying investments held in the trusts, or at the net present value of expected receipts from the trusts, using a discount rate of 6.00%.

The carrying value of perpetual trusts and split-interest agreements is as follows as of December 31:

	<u>2017</u>	<u>2016 (Restated)</u>
Perpetual trusts	\$ 37,552,838	\$ 34,678,200
Beneficial interest in perpetual trusts with multiple beneficiaries	5,726,125	5,187,901
Charitable remainder trusts	<u>1,483,357</u>	<u>1,331,370</u>
	<u>\$ 44,762,320</u>	<u>\$ 41,197,471</u>

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 6 - Perpetual Trusts and Split-Interest Agreements (continued)

Perpetual trusts are composed of the following as of December 31:

	<u>2017</u>	<u>2016 (Restated)</u>
Cash and cash equivalents	\$ 1,411,261	\$ 1,047,489
Equities	23,805,468	21,143,215
Fixed income	9,874,848	9,621,734
Alternative investments	2,461,261	2,865,762
	<u>\$ 37,552,838</u>	<u>\$ 34,678,200</u>

Equities include stocks and equity-based mutual funds. Fixed income includes bonds, fixed income investments, and fixed income-based mutual funds.

The return on investments includes \$2,481,706 and \$1,876,444 in distributions from perpetual trusts during the years ended December 31, 2017 and 2016, respectively. As discussed in Note 10, the Trust's perpetual trusts are included as permanently restricted net assets and the distributions represent net investment earnings on those trusts, which are available to the Trust for grant making and administration of the Trust.

Note 7 - Alternative Investments

The Organization invests in alternative investments to further diversify its investment portfolio. Alternative investments include various investment funds that are not readily marketable. These funds hold certain investments, which may be valued by a single market maker. The estimated values may differ significantly from the values that would have been used had a ready market for the investment existed; they may have been affected by the decline in liquidity and prices of investments and real estate, or by the lack of observable transaction data and inputs in certain transactions. Actual results could differ from those estimates, and the difference could be material. Additionally, certain investments in limited partnerships, investments funds, and other debt instruments may be restricted as to resale or may require advance notice of redemption or withdrawal (see Note 9).

Risks arise from changes in the value of the transactions, contracts, and agreements and the potential inability of the funds to timely liquidate individual funds or real estate in the portfolio. There are numerous factors, which may significantly influence the market value of these contracts and agreements, including interest rate and currency volatility and future adverse political and economic developments involving investments in foreign companies. These factors were considered by the Organization prior to making these investments and it was determined the investment would be beneficial to leverage risk in other areas of the investment portfolio.

Note 8 - Charitable Gift Annuities

The charitable gift annuities provide for periodic payment of distributions to designated individuals (the annuitants) over a specified period of time. At the end of the specified term, the remaining assets will remain at the Organization to benefit the donor-specified charity, the Foundation, or the Foundation's programs.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 8 - Charitable Gift Annuities (continued)

Contributions received under charitable gift annuity agreements totaled \$131,597 and \$126,237 for the years ended December 31, 2017 and 2016, respectively. The value of the gift annuities received over the calculated liability is recognized as unrestricted revenue, which amounted to \$54,721 and \$38,820 for the years ended December 31, 2017 and 2016, respectively. Present value of future annuity payments is recognized as a liability on the consolidated statement of financial position. As of December 31, 2017 and 2016, the charitable gift annuities liabilities totaled \$1,377,518 and \$1,352,203, respectively. As of December 31, 2017 and 2016, the value of the associated investments amounted to \$2,224,147 and \$1,918,746, respectively.

Note 9 - Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- 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; and
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following valuation techniques were used to measure fair value of assets on a recurring basis:

Fixed income and equity securities - Fair value of fixed income and equity securities was based on quoted market prices for the identical securities.

Alternative investments - Fair value of marketable alternative investments, including real estate funds, absolute return funds, and commodities funds was based on quoted market prices for the identical mutual fund or direct investment and interest in underlying assets, and are classified as Level 1. Fair value of nonmarketable alternative investments, including private equity funds and absolute return funds, was based on estimated fair values using the net asset value (NAV) provided by an independent administrator. Management reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of these funds.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 9 - Fair Value of Financial Instruments (continued)

Beneficial interest in perpetual trusts and split-interest agreements - The beneficial interest in perpetual trusts and split-interest agreements are valued at fair value based on the Organization's interest in the fair values of the underlying assets, which approximate the present value of estimated cash flows to be received from the trusts. The present value measured is utilized as the underlying assets of each individual trust are not in the control of the Organization.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables summarize investments by ASC 820 levels as of December 31:

	2017			Total
	Level 1	Level 2	Level 3	
Fixed Income				
Corporate bonds				
A2	\$ 2,206,590	\$ -	\$ -	\$ 2,206,590
A3	1,181,967	-	-	1,181,967
A1	768,791	-	-	768,791
Aa1	239,980	-	-	239,980
Aa3	199,996	-	-	199,996
Baa1	185,689	-	-	185,689
Baa2	77,948	-	-	77,948
Aa2	64,283	-	-	64,283
Baa3	15,000	-	-	15,000
Corporate/taxable mutual funds	4,910,518	-	-	4,910,518
Government bonds				
Aaa	1,400,328	-	-	1,400,328
Treasury inflation-protected securities	620,101	-	-	620,101
International	1,369,911	-	-	1,369,911
High-yield debt	628,025	-	-	628,025
Certificates of deposit	38,062	-	-	38,062
Equity Securities				
Large cap	15,907,322	-	-	15,907,322
International	11,661,605	-	-	11,661,605
Small cap	1,507,988	-	-	1,507,988
Mid cap	68,921	-	-	68,921
Alternative Investments				
Absolute return	2,794,634	-	-	2,794,634
Real estate	1,865,453	-	-	1,865,453
Commodities	1,408,939	-	-	1,408,939
	<u>\$ 49,122,051</u>	<u>\$ -</u>	<u>\$ -</u>	<u>49,122,051</u>

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 9 - Fair Value of Financial Instruments (continued)

	2017			Total
	Level 1	Level 2	Level 3	
Alternative Investments (a)				
Absolute return (b)				6,402,946
Private equity (c)				1,977,525
Total Investments				\$ 57,502,522
Perpetual Trusts and Split-Interest Agreements				
Perpetual trusts	\$ -	\$ -	\$ 37,552,838	\$ 37,552,838
Beneficial interest in perpetual trusts with multiple beneficiaries	-	-	5,726,125	5,726,125
Charitable remainder trusts	-	-	1,483,357	1,483,357
Total Perpetual Trusts and Split-Interest Agreements	\$ -	\$ -	\$ 44,762,320	\$ 44,762,320
	2016 (Restated)			
	Level 1	Level 2	Level 3	Total
Fixed Income				
Corporate bonds				
A2	\$ 1,870,700	\$ -	\$ -	\$ 1,870,700
A3	1,020,338	-	-	1,020,338
A1	1,878,540	-	-	1,878,540
Aa1	360,773	-	-	360,773
Aa3	603,917	-	-	603,917
Baa1	55,408	-	-	55,408
Baa2	53,047	-	-	53,047
Aa2	398,491	-	-	398,491
Baa3	14,968	-	-	14,968
Aaa	349,790	-	-	349,790
Corporate/taxable mutual funds	3,430,619	-	-	3,430,619
Government bonds				
Aaa	1,624,792	-	-	1,624,792
International	1,679,824	-	-	1,679,824
Certificates of deposit	116,547	-	-	116,547
Equity Securities				
Large cap	11,751,348	-	-	11,751,348
International	7,922,376	-	-	7,922,376
Small cap	1,707,919	-	-	1,707,919
Mid cap	107,965	-	-	107,965

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 9 - Fair Value of Financial Instruments (continued)

	2016 (Restated)			Total
	Level 1	Level 2	Level 3	
Alternative Investments				
Absolute return	350,071	-	-	350,071
Real estate	1,700,194	-	-	1,700,194
Commodities	1,145,069	-	-	1,145,069
	<u>\$ 38,142,696</u>	<u>\$ -</u>	<u>\$ -</u>	38,142,696
Alternative Investments (a)				
Absolute return (b)				7,069,096
Private equity (c)				<u>1,915,168</u>
Total Investments				<u><u>\$ 47,126,960</u></u>
Perpetual Trusts and Split-Interest Agreements				
Perpetual trusts	\$ -	\$ -	\$ 34,678,200	\$ 34,678,200
Beneficial interest in perpetual trusts with multiple beneficiaries	-	-	5,187,901	5,187,901
Charitable remainder trusts	-	-	1,331,370	1,331,370
Total Perpetual Trusts and Split-Interest Agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,197,471</u>	<u>\$ 41,197,471</u>

- (a) This class represents investments not on active markets that are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have, therefore, not been classified in the fair value hierarchy.
- (b) The Absolute Return class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. It offers exposure to a wide range of geographies, and includes long/short equity, event-driven, fixed income arbitrage, global macro (systematic and discretionary), and long/short credit opportunities. The class has no unfunded commitments. As of December 31, 2017 and 2016, approximately 70% and 95%, respectively, of the class is subject to up to a one-year lockup with quarterly or semi-annual redemption with 65 to 90 days' notice.
- (c) The Private Equity class invests in relatively mid-life primary, secondary, and direct partnerships with vintage years beginning in 2016 and earlier. It also invests in restructured debt, stressed and distressed debt in the U.S. and globally. There are unfunded commitments totaling \$1,540,701 and \$890,701 as of December 31, 2017 and 2016, respectively. There are no stated redemption terms for the class.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 9 - Fair Value of Financial Instruments (continued)

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the years ended December 31, 2017 and 2016, there were no transfers in or out of Level 3.

The following tables summarize the changes in fair values associated with ASC 820 Level 3 assets:

	Balance as of December 31, 2016 (Restated)	Net Contributions/ Purchases	Return on Split-Interest Agreements	Net Investment Activity	Balance as of December 31, 2017
Perpetual trusts (d)	\$ 34,678,200	\$ -	\$ 3,337,898	\$ (463,260)	\$ 37,552,838
Beneficial interest in perpetual trusts with multiple beneficiaries (d)	5,187,901	-	520,953	17,271	5,726,125
Charitable remainder trusts (d)	1,331,370	5,890	146,097	-	1,483,357
Total Perpetual Trusts and Split-Interest Agreements	\$ 41,197,471	\$ 5,890	\$ 4,004,948	\$ (445,989)	\$ 44,762,320
	Balance as of December 31, 2015 (Restated)	Net Contributions/ Purchases (Restated)	Return on Split-Interest Agreements (Restated)	Net Investment Activity (Restated)	Balance as of December 31, 2016 (Restated)
Perpetual trusts (d)	\$ 34,439,649	\$ -	\$ 256,836	\$ (18,285)	\$ 34,678,200
Beneficial interest in perpetual trusts with multiple beneficiaries (d)	5,217,787	-	(338,187)	308,301	5,187,901
Charitable remainder trusts (d)	1,279,976	-	51,394	-	1,331,370
Total Perpetual Trusts and Split-Interest Agreements	\$ 40,937,412	\$ -	\$ (29,957)	\$ 290,016	\$ 41,197,471

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 9 - Fair Value of Financial Instruments (continued)

Changes in Fair Value Levels (continued)

(d) Certain of the Organization's perpetual trusts and beneficial interests in perpetual trusts were invested in assets whose fair value was determined using net asset value of the respective fund's investments. Although the investments in these investment funds are exclusively identified as Level 3 in accordance with ASC 820, the underlying holdings of the investment funds are comprised of a combination of Level 1, 2, and 3 securities. The investment fund reports the net asset value of the fund's investment to the fund on a periodic basis. This net asset value is not necessarily the fair value of the fund's investment. The fund's sub-investment advisor performs comprehensive due diligence procedures in order to analyze various factors that may cause the fair value to be above or below the net asset value reported by the investment fund. If management is unable to obtain confidence in the reported net asset values, management may determine and implement an alternative method of valuation.

Return on split interest agreements and net investment activity in the table above are reflected in the accompanying consolidated statement of activities as net change in value of perpetual trusts and split interest agreements. Net unrealized gains (losses) relate to those investments held by the Organization at year end.

The carrying amounts of cash and cash equivalents, contributions receivable, prepaid expenses, accounts payable, grants payable, and accrued expenses in the accompanying consolidated statement of financial position approximate fair value given the short-term nature of these financial instruments.

Note 10 - Net Assets

At December 31, 2017 and 2016, permanently restricted net assets consist of approximately \$44.8 million and \$41.2 million, respectively, of investments in perpetuity, which includes assets held in perpetual trusts and split-interest agreements. The income of these assets is expendable to support the Organization's mission.

While the Organization retains variance power, it is the Organization's policy that the donors' intentions will be honored unless it is impossible, impractical, undesirable, or inadvisable to do so. Therefore, the principal of the endowment funds will remain intact.

Note 11 - Operating Leases

The Organization signed a ten-year office lease agreement on January 30, 2012, whose term began September 1, 2012. The lease agreement includes varying monthly payments that increase on an annual basis.

The amount of payments under the lease agreements, including CAM expenses and a lease provision for parking spaces, for the years ended December 31, 2017 and 2016 was \$80,377 and \$78,801, respectively.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 11 - Operating Leases (continued)

Future minimum annual lease payments, assuming no change in current terms, consist of the following for the remaining five years ending December 31:

2018	\$	81,984
2019		83,624
2020		85,297
2021		87,002
2022		58,770

The Organization also signed a three-year copier lease agreement on July 13, 2015. The lease agreement includes monthly payments of \$240.

Future minimum annual lease payments, assuming no change in current terms, consist of \$1,440 for the remaining year ending December 31, 2018.

Note 12 - Concentrations of Credit Risk

The Organization maintains its cash in bank deposit accounts in several financial institutions. The accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to certain limits. At various times during the year, balances may exceed insured limits; however, the Organization does not anticipate any losses.

Note 13 - Grants and Grants Payable

The Organization receives requests for grants from public charities. The Board of Directors determines which grant requests to approve. The grant monies are payable to the public charity upon Board approval and after any performance conditions are met, and the organization is notified. Approved grants are valid for one year, but the public charity may request that the grant be extended.

During the years ended December 31, 2017 and 2016, grant expense was \$12,857,026 and \$10,116,616, respectively. Grants payable at December 31, 2017 and 2016 totaled \$8,659,411 and \$7,236,810, respectively.

Note 14 - Retirement Plan

The Organization sponsors a 401(k) defined contribution plan, which is available to all eligible employees. Organization contributions to the plan are at the discretion of the Board of Directors. Contributions made by the Organization for the years ended December 31, 2017 and 2016 totaled \$34,373 and \$32,181, respectively.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 15 - Extraordinary Give

In 2012, the Foundation launched the Extraordinary Give. The event is a celebration of community philanthropy and gives individuals the opportunity to contribute through the Foundation's on-line giving portal to hundreds of qualified community benefit organizations that serve a wide array of needs in Lancaster County. The event occurs annually in November with grants paid to the various designated organizations in January of the following year.

During 2017 and 2016, the Extraordinary Give resulted in community contributions that allowed the Foundation to provide grants to local community benefit organizations of approximately \$8.6 million and \$7.1 million, respectively. Such amounts are recorded as contributions on the day of the event and held in cash and cash equivalents as of December 31, 2017 and 2016, respectively. Grants expense and grants payable are also recognized for such amounts as of December 31, 2017 and 2016, as such grants are approved, but not paid until January of the following year. The 2017 and 2016 grants each included over \$550,000 and \$400,000, respectively, of stretch pool funds and prizes from the Foundation.

Note 16 - Special Projects and Other Programs

Special projects of the Foundation include the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Extraordinary Give	\$ 542,467	\$ 516,010
Capacity building	18,337	7,771
Ah-Ha initiative	15,183	59,129
Baldwin Leadership program	4,555	6,265
At the table	-	44,184
	<u>\$ 580,542</u>	<u>\$ 633,359</u>

Special projects include the direct cost of the project.

Other program costs include allocations of organizational resources, including, but not limited to, payroll and employee benefits, marketing, rent and utilities, and other expenses related to effectively and efficiently operating programs and special projects.

Note 17 - Reclassification and Prior Period Adjustment

Certain information in the 2016 financial statements and related footnotes contain reclassifications necessary to make that information comparable to information presented in the 2017 financial statements.

Lancaster County Community Foundation and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 17 - Reclassification and Prior Period Adjustment (continued)

During the year ended December 31, 2017, the Organization noted transactions that were improperly presented on prior years' financial statements. The transactions and effect of restating the previously issued financial statements are as follows:

Reclassification of permanently restricted perpetual trust - the Organization previously and erroneously presented the balance of a permanently restricted perpetual trust as an unrestricted corporate investment. The Organization reclassified \$4,932,308 and \$4,929,591 from unrestricted corporate investments to permanently restricted perpetual trusts as of December 31, 2016 and 2015, respectively.

The effect of prior period adjustments on the net asset account balances is summarized as of and for the years ended December 31:

	2016		
	Unrestricted	Permanently Restricted	Total
Net Assets as of December 31, 2016 (as Previously Stated)	\$ 50,048,470	\$ 36,265,163	\$ 86,313,633
Prior period adjustment Reclassification of permanently restricted trust	(4,932,308)	4,932,308	-
Net Assets as of December 31, 2016 (as Restated)	<u>\$ 45,116,162</u>	<u>\$ 41,197,471</u>	<u>\$ 86,313,633</u>
	2015		
Net Assets as of December 31, 2015 (as Previously Stated)	\$ 50,435,401	\$ 36,007,821	\$ 86,443,222
Prior period adjustment Reclassification of permanently restricted trust	(4,929,591)	4,929,591	-
Net Assets as of December 31, 2015 (as Restated)	<u>\$ 45,505,810</u>	<u>\$ 40,937,412</u>	<u>\$ 86,443,222</u>

Note 18 - Subsequent Events

The Organization has evaluated subsequent events through July 18, 2018. This date is the date the consolidated financial statements were available to be issued. No material events subsequent to December 31, 2017 were noted.

Lancaster County Community Foundation and Affiliate

Consolidating Statement of Financial Position

	December 31, 2017		
	Lancaster County Community Foundation	Lancaster County Foundation	Total
Assets			
Cash and cash equivalents	\$ 10,468,739	\$ -	\$ 10,468,739
Investments	57,502,522	-	57,502,522
Prepaid expenses	49,621	-	49,621
Contributions receivable	123,070	-	123,070
Property and equipment, at cost, net	140,360	-	140,360
Perpetual trusts and split-interest agreements	-	44,762,320	44,762,320
Total Assets	\$ 68,284,312	\$ 44,762,320	\$ 113,046,632
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 79,724	\$ -	\$ 79,724
Grants payable	8,659,411	-	8,659,411
Accrued expenses	20,661	-	20,661
Charitable gift annuities	1,377,518	-	1,377,518
Liability to resource providers	3,793,738	-	3,793,738
Total Liabilities	13,931,052	-	13,931,052
Net Assets			
Unrestricted	54,353,260	-	54,353,260
Permanently restricted	-	44,762,320	44,762,320
Total Net Assets	54,353,260	44,762,320	99,115,580
Total Liabilities and Net Assets	\$ 68,284,312	\$ 44,762,320	\$ 113,046,632

Lancaster County Community Foundation and Affiliate

Consolidating Statement of Financial Position (continued)

	December 31, 2016 (Restated)		
	Lancaster County Community Foundation	Lancaster County Foundation	Total
Assets			
Cash and cash equivalents	\$ 9,580,269	\$ -	\$ 9,580,269
Investments	47,126,960	-	47,126,960
Prepaid expenses	31,822	-	31,822
Contributions receivable	120,250	-	120,250
Property and equipment, at cost, net	158,796	-	158,796
Perpetual trusts and split-interest agreements	-	41,197,471	41,197,471
Total Assets	\$ 57,018,097	\$ 41,197,471	\$ 98,215,568
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 55,121	\$ -	\$ 55,121
Grants payable	7,236,810	-	7,236,810
Accrued expenses	12,186	-	12,186
Charitable gift annuities	1,352,203	-	1,352,203
Liability to resource providers	3,245,615	-	3,245,615
Total Liabilities	11,901,935	-	11,901,935
Net Assets			
Unrestricted	45,116,162	-	45,116,162
Permanently restricted	-	41,197,471	41,197,471
Total Net Assets	45,116,162	41,197,471	86,313,633
Total Liabilities and Net Assets	\$ 57,018,097	\$ 41,197,471	\$ 98,215,568

Lancaster County Community Foundation and Affiliate

Consolidating Statement of Activities

	Year Ended December 31, 2017		
	Lancaster County Community Foundation	Lancaster County Foundation	Total
	Unrestricted	Permanently Restricted	
Revenues, Gains, and Other Support			
Contributions	\$ 15,760,693	\$ 5,890	\$ 15,766,583
Return on investments			
Net realized and unrealized gains	4,707,794	-	4,707,794
Distributions from perpetual trusts	2,481,706	-	2,481,706
Interest and dividends	1,504,593	-	1,504,593
Net change in value of perpetual trusts and split-interest agreements	-	3,558,959	3,558,959
Other income	105,049	-	105,049
Loss on disposal of property and equipment	-	-	-
Net change in value of charitable gift annuities	(50,783)	-	(50,783)
	<u>24,509,052</u>	<u>3,564,849</u>	<u>28,073,901</u>
Total Revenues, Gains, and Other Support			
Expenses			
Program - grants and scholarships	12,857,026	-	12,857,026
Program - other	1,250,889	-	1,250,889
Program - special projects	580,542	-	580,542
Management and general	359,768	-	359,768
Fundraising	223,729	-	223,729
	<u>15,271,954</u>	<u>-</u>	<u>15,271,954</u>
Total Expenses			
Change in Net Assets	9,237,098	3,564,849	12,801,947
Net Assets at Beginning of Year, as Restated (See Note 17)	<u>45,116,162</u>	<u>41,197,471</u>	<u>86,313,633</u>
Net Assets at End of Year	<u>\$ 54,353,260</u>	<u>\$ 44,762,320</u>	<u>\$ 99,115,580</u>

Lancaster County Community Foundation and Affiliate

Consolidating Statement of Activities (continued)

	Year Ended December 31, 2016 (Restated)		
	Lancaster County Community Foundation	Lancaster County Foundation	Total
	Unrestricted	Permanently Restricted	
	Unrestricted	Restricted	
Revenues, Gains, and Other Support			
Contributions	\$ 8,122,061	\$ -	\$ 8,122,061
Return on investments			
Net realized and unrealized gains	980,550	-	980,550
Distributions from perpetual trusts	1,876,444	-	1,876,444
Interest and dividends	1,120,149	-	1,120,149
Net change in value of perpetual trusts and split-interest agreements	-	260,059	260,059
Other income	31,552	-	31,552
Loss on disposal of property and equipment	(19,534)	-	(19,534)
Net change in value of charitable gift annuities	(50,945)	-	(50,945)
	<u>12,060,277</u>	<u>260,059</u>	<u>12,320,336</u>
Total Revenues, Gains, and Other Support			
Expenses			
Program - grants and scholarships	10,116,616	-	10,116,616
Program - other	1,117,091	-	1,117,091
Program - special projects	633,359	-	633,359
Management and general	381,339	-	381,339
Fundraising	201,520	-	201,520
	<u>12,449,925</u>	<u>-</u>	<u>12,449,925</u>
Total Expenses			
Change in Net Assets	(389,648)	260,059	(129,589)
Net Assets at Beginning of Year, as Restated (See Note 17)	<u>45,505,810</u>	<u>40,937,412</u>	<u>86,443,222</u>
Net Assets at End of Year	<u>\$ 45,116,162</u>	<u>\$ 41,197,471</u>	<u>\$ 86,313,633</u>

Lancaster County Community Foundation and Affiliate

Schedule of Expenses

	Years Ended December 31,	
	2017	2016 (Restated)
Classification of Expenses		
Salaries	\$ 871,401	\$ 804,479
Asset management fees	171,435	163,630
Insurance	124,047	113,770
Marketing	121,912	73,388
Conferences, meetings, and travel	89,658	69,188
Rent, utilities, and maintenance	82,081	79,241
Payroll taxes	61,004	56,942
Software license	56,431	53,373
Professional fees	56,208	92,488
Depreciation	42,057	38,256
Retirement	34,373	32,181
Office supplies and expense	31,091	34,595
Travel	22,357	29,855
Dues and subscriptions	21,403	16,845
Telephone and internet	19,478	17,296
Staff development	9,285	8,131
Equipment leases	6,513	2,936
Scholarship administration fees	5,873	5,299
Postage	3,978	3,861
Bank and administrative fees	3,801	3,926
Miscellaneous	-	270
Total Expenses before Grants and Scholarships and Special Projects	1,834,386	1,699,950
Grants and scholarships	12,857,026	10,116,616
Special projects	580,542	633,359
Total Expenses	\$ 15,271,954	\$ 12,449,925