



THE TOPEKA COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

**YEARS ENDED DECEMBER 31,
2017 AND 2016**



THE TOPEKA COMMUNITY FOUNDATION

Financial Statements
December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Topeka Community Foundation
Topeka, Kansas

We have audited the accompanying financial statements of The Topeka Community Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Topeka Community Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Topeka, Kansas
November 2, 2018

THE TOPEKA COMMUNITY FOUNDATION

Statements of Financial Position

December 31,

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,943,133	\$ 1,671,736
Certificates of deposit	3,520,670	3,239,810
Pledges receivable	-	7,395
Cash surrender value of life insurance	277,235	258,675
Office equipment, net of accumulated depreciation of \$114,619 and \$114,001, respectively	6,222	7,924
Investments	66,626,399	44,670,823
Beneficial interest	<u>384,366</u>	<u>355,826</u>
Total assets	<u>\$72,758,025</u>	<u>\$50,212,189</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Agency funds	\$20,545,735	\$16,848,943
Total liabilities	<u>20,545,735</u>	<u>16,848,943</u>
Net assets:		
Unrestricted	18,572,233	15,414,320
Temporarily restricted	11,548,603	9,127,437
Permanently restricted	<u>22,091,454</u>	<u>8,821,489</u>
Total net assets	<u>52,212,290</u>	<u>33,363,246</u>
Total liabilities and net assets	<u>\$72,758,025</u>	<u>\$50,212,189</u>

The accompanying summary of significant accounting policies
and notes are an integral part of these statements

THE TOPEKA COMMUNITY FOUNDATION

Statements of Activities

December 31,

2017

2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Contributions	\$4,239,436	\$2,574,255	\$13,269,965	\$20,083,656	\$2,573,532	\$2,158,453	\$ 77,300	\$4,809,285
Administrative fees income charged	522,504	-	-	522,504	453,270	-	-	453,270
Administrative fees expense - Foundation	(187,933)	(196,983)	-	(384,916)	(170,113)	(152,649)	-	(322,762)
Return on investments, net of expenses of \$81,293 and \$67,467 in 2017 & 2016	2,784,080	2,140,560	-	4,924,640	1,706,368	930,098	-	2,636,466
Change in beneficial interest	-	28,540	-	28,540	-	(203)	-	(203)
Net assets released from restrictions	<u>2,556,472</u>	<u>(2,556,472)</u>	<u>-</u>	<u>-</u>	<u>2,609,859</u>	<u>(2,609,859)</u>	<u>-</u>	<u>-</u>
Total revenues, returns and other support	<u>9,914,559</u>	<u>1,989,900</u>	<u>13,269,965</u>	<u>25,174,424</u>	<u>7,172,916</u>	<u>25,840</u>	<u>77,300</u>	<u>7,576,056</u>
Expenses:								
Program services:								
Grants made	5,532,967	-	-	5,532,967	4,303,536	-	-	4,303,536
Other fund activities	<u>575,208</u>	<u>-</u>	<u>-</u>	<u>575,208</u>	<u>577,113</u>	<u>-</u>	<u>-</u>	<u>577,113</u>
Total program expenses	<u>6,108,175</u>	<u>-</u>	<u>-</u>	<u>6,108,175</u>	<u>4,880,649</u>	<u>-</u>	<u>-</u>	<u>4,880,649</u>
Support services:								
Administration	493,715	-	-	493,715	476,979	-	-	476,979
Development	<u>15,605</u>	<u>-</u>	<u>-</u>	<u>15,605</u>	<u>25,605</u>	<u>-</u>	<u>-</u>	<u>25,605</u>
Total support expenses	<u>509,320</u>	<u>-</u>	<u>-</u>	<u>509,320</u>	<u>502,584</u>	<u>-</u>	<u>-</u>	<u>502,584</u>
Total expenses	<u>6,617,495</u>	<u>-</u>	<u>-</u>	<u>6,617,495</u>	<u>5,383,233</u>	<u>-</u>	<u>-</u>	<u>5,383,233</u>
Transfers	<u>(139,151)</u>	<u>431,266</u>	<u>-</u>	<u>292,115</u>	<u>(130,168)</u>	<u>104,995</u>	<u>-</u>	<u>(25,173)</u>
Change in net assets	3,157,913	2,421,166	13,269,965	18,849,044	1,659,515	430,835	77,300	2,167,650
Net assets, beginning of year	<u>15,414,320</u>	<u>9,127,437</u>	<u>8,821,489</u>	<u>33,363,246</u>	<u>13,754,805</u>	<u>8,969,602</u>	<u>8,744,189</u>	<u>31,195,596</u>
Net assets, end of year	<u>\$ 18,572,233</u>	<u>\$11,548,603</u>	<u>\$22,091,454</u>	<u>\$ 52,212,290</u>	<u>\$ 15,414,320</u>	<u>\$ 9,127,437</u>	<u>\$ 8,821,489</u>	<u>\$ 33,363,246</u>

The accompanying summary of significant accounting policies and notes are an integral part of these statements

THE TOPEKA COMMUNITY FOUNDATION

Statements of Cash Flows December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Contributions received	\$20,091,051	\$ 4,809,785
Less permanently restricted contributions	(13,269,965)	(77,300)
Agency contributions received	2,691,222	1,984,968
Interest and dividends received, net of fees	1,623,001	998,054
Cash paid to employees and vendors	(524,471)	(533,640)
Direct grant expenses	(575,208)	(577,116)
Grants disbursed	(5,532,967)	(4,303,536)
Agency disbursements	<u>(884,721)</u>	<u>(1,150,602)</u>
Net cash provided by (used in) operating activities	<u>3,617,942</u>	<u>1,151,019</u>
Cash flows from investing activities:		
Investment purchases	(19,781,695)	(5,202,695)
Proceeds from sales of investments	3,166,892	3,656,080
Purchase of property and equipment	<u>(1,707)</u>	<u>(3,010)</u>
Net cash used in investing activities	<u>(16,616,510)</u>	<u>(1,549,625)</u>
Cash flows from financing activities:		
Permanently restricted contributions	13,269,965	77,300
Net change in cash and cash equivalents	271,397	(321,306)
Cash and cash equivalents at beginning of year	<u>1,671,736</u>	<u>1,993,042</u>
Cash and cash equivalents at end of year	<u>\$ 1,943,133</u>	<u>\$ 1,671,736</u>
Reconciliation of change in net assets to cash used in operating activities:		
Change in net assets	<u>\$18,849,044</u>	<u>\$ 2,167,650</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized loss (gain) on investments	(5,621,633)	(3,059,271)
Depreciation	3,409	4,746
Permanently restricted contributions	(13,269,965)	(77,300)
Changes in assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	7,395	500
Beneficial interest	(28,540)	203
Cash surrender value of life insurance	(18,560)	(35,802)
Increase (decrease) in:		
Agency funds	<u>3,696,792</u>	<u>2,150,293</u>
Total adjustments	<u>(15,231,102)</u>	<u>(1,016,631)</u>
Net cash provided by (used in) operating activities	<u>\$ 3,617,942</u>	<u>\$ 1,151,019</u>

The accompanying summary of significant accounting policies
and notes are an integral part of these statements

THE TOPEKA COMMUNITY FOUNDATION

Summary of Significant Accounting Policies December 31, 2017 and 2016

Organization

The Topeka Community Foundation (the Foundation) is a community-based nonprofit organization founded in 1983 to benefit the people of Topeka and Shawnee County by building and managing a permanent grant-making foundation. Charitable contributions are received from many individuals, families and organizations, and are pooled and invested together to provide a continuing resource for the community.

Basis of Presentation

The Foundation provides information regarding its financial position and activities according to three classes of fund balances: unrestricted, temporarily restricted, and permanently restricted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Certificates of Deposit

Certificates of deposit are with commercial banks and credit unions and generally have maturities ranging from 12 to 24 months.

Investments

Investments consist principally of mutual funds and investment partnerships purchased through various investment managers and are stated at fair value based on quoted market prices or at estimated fair value as reported by fund managers. Investment income, including realized and unrealized gains and losses are included in Return on Investment in the statement of activities.

Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the statements of financial position.

Pledges Receivable - Promises to Give

Unconditional promises to give that are expected to be received within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

Conditional promises to give are not recorded until such time as the conditions are substantially met.

THE TOPEKA COMMUNITY FOUNDATION

Summary of Significant Accounting Policies December 31, 2017 and 2016

Property and Equipment

Property and equipment are recorded at cost. Major improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Management annually reviews fixed assets to determine whether carrying values have been impaired. Depreciation is provided on the straight-line basis over the estimated useful lives of the related assets.

Agency Funds

The Foundation acts as an agent for various donors who wish to make grants to specific beneficiaries. Contributions are classified as a liability until remitted to the specified recipient.

Contributions and Bequests

Contributions and bequests received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any restrictions.

Donor-restricted contributions and bequests are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, either due to time or because the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Grants and investment losses in excess of gains on permanently restricted funds are applied against permanently restricted net assets where allowable under donor agreements.

Non-cash contributions are recorded at the estimated fair value at the time of donation.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Grant expenses that are directly associated with a specific program are charged to that program. Other expenses and administrative costs are paid out of unrestricted net assets and are primarily funded by administrative fees to donor-established funds.

Statement of Cash Flows

For purposes of the statement of cash flows, all interest-bearing deposits at commercial banks and money market funds at commercial banks and brokerage houses, purchased with initial maturity dates of three months or less, are considered to be cash equivalents.

THE TOPEKA COMMUNITY FOUNDATION

Summary of Significant Accounting Policies December 31, 2017 and 2016

Income Taxes

The Foundation has been organized as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. As such, revenues related to its exempt purposes are exempt from income taxes.

The Foundation's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, management believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Foundation.

The Foundation files income tax returns in the U.S. federal and Kansas jurisdictions. There are currently no examinations of the Foundation's income tax returns in progress.

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Notes to Financial Statements December 31, 2017 and 2016

1. Cash and Cash Equivalents

The Foundation's policy is to maintain deposits with various high-quality financial institutions. Cash balances at commercial banks are insured by the Federal Deposit Insurance Corporation; however, balances may occasionally exceed the insured amount.

Cash and cash equivalents as of December 31, are as follows:

	<u>2017</u>	<u>2016</u>
Deposits with commercial banks	\$ 991,019	\$ 1,223,542
Money market funds	<u>952,114</u>	<u>448,194</u>
Total cash and cash equivalents	<u>\$ 1,943,133</u>	<u>\$ 1,671,736</u>

2. Investments and Fair Value Measurements

Assets recorded at fair value are categorized based upon the level of observability associated with the inputs used to measure their fair value. Fair value is defined as the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The availability of observable inputs is affected by a variety of factors, including the type of asset and the transparency of market transactions. To the extent that fair value is based on inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date.
- Level 2 – Inputs are other than quoted prices in active markets that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs are unobservable and significant to the asset and include situations where there is little, if any, market activity.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants used to make valuation decisions, including assumptions about risk. Inputs may include market price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. The classification of a financial asset within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment of management. Management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of a fund within the hierarchy is based upon the pricing transparency of that fund and does not necessarily correspond to management's perceived risk of that fund.

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Notes to Financial Statements December 31, 2017 and 2016

The following tables set forth carrying amounts and estimated fair values for financial instruments at December 31:

<u>2017</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments-Actively Traded				
Equities – Domestic	\$ 28,921,757	\$ 28,921,757	\$ -	\$ -
Equities - International	10,559,702	10,559,702	-	-
Equities – Energy/Natural Res.	3,965,774	3,965,774	-	-
Real estate	3,760,020	3,760,020	-	-
Fixed income	11,856,689	11,856,689	-	-
Other	<u>540,798</u>	<u>540,798</u>	-	-
Total Actively Traded	\$ 59,604,740	\$ 59,604,740	\$ -	\$ -
Investments at Net Asset Value				
Equities – Private	<u>7,021,659</u>			
Total Investments	<u>\$ 66,626,399</u>			
<u>2016</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments-Actively Traded				
Equities – Domestic	\$ 18,843,016	\$ 18,843,016	\$ -	\$ -
Equities - International	6,240,741	6,240,741	-	-
Equities – Energy/Natural Res.	1,495,976	1,495,976	-	-
Real estate	2,297,796	2,297,796	-	-
Fixed income	6,219,521	6,219,521	-	-
Other	<u>1,609,463</u>	<u>1,609,463</u>	-	-
Total Actively Traded	\$ 36,706,513	\$ 36,706,513	\$ -	\$ -
Investments at Net Asset Value				
Equities – Private	<u>7,964,310</u>			
Total Investments	<u>\$ 44,670,823</u>			

Beneficial Interest in Trusts

The beneficial interest in trusts represents trust arrangements in which the Foundation does not exercise control over the trust assets. The Foundation's interest in the trust is recorded at the present value of the estimated future cash flows from each trust, \$384,366 and \$355,826 at December 31, 2017 and 2016, respectively. Beneficial interest in trusts are classified as Level 3 assets. The underlying assets in these trusts consist of cash and marketable debt and equity securities. A discount rate of 5% was used in determining the present value of the estimated future cash flows for the trusts. Changes in the value of the trust have been reported in the statement of activities in temporarily restricted net assets.

THE TOPEKA COMMUNITY FOUNDATION

Notes to Financial Statements
December 31, 2017 and 2016

For the years ended December 31, the change in investments classified as Level 3 is as follows:

	<u>2017</u>		<u>2016</u>
Beginning fair value	\$ 355,826		\$ 356,029
Change in beneficial interest	<u>28,540</u>		<u>(203)</u>
Ending fair value	\$ <u><u>384,366</u></u>		\$ <u><u>355,826</u></u>

Venture Capital Partnership

The Foundation invests in four venture capital partnerships. Interest in venture capital partnerships are based on valuations per share provided by the general partners of the respective partnership as of December 31, 2017 and 2016, adjusted for cash receipts, cash disbursements, and securities distributions through December 31, 2017 and 2016. These investments have redemption restrictions that limit the liquidity of the investment portfolio. As of December 31, 2017 and 2016, the Foundation held investments in these partnerships totaling \$6,564,492 and \$7,455,929, respectively and these are included in the investments reported in the above tables as investments at net asset value.

Investments at Net Asset Value

The Foundation invests in various other investments totaling \$457,167 and \$508,381 respectively that are classified as Investments at Net Asset Value based on the net asset valuations provided to the Foundation. These investments include private equity funds, fixed income and other alternative investments. The fair values of these investments have been estimated using the net asset value per share of the investments as provided by the audited financial statements provided by the managers of the investment funds. Some investments have redemption restrictions which may limit the liquidity of the investment portfolio.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments with the fair value hierarchy. Changes in economic conditions or more 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.

Components of return on investments, are as follows for the years ended December 31:

	<u>2017</u>				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Agency</u>
Interest and dividend income	\$ 691,606	\$ 531,746	\$ -	\$ 1,223,352	\$ 576,321
Realized and unrealized gains	2,138,432	1,644,149	-	3,782,581	1,781,971
Investment expense	<u>(45,958)</u>	<u>(35,335)</u>	<u>-</u>	<u>(81,293)</u>	<u>(38,297)</u>
Total	\$ <u><u>2,784,080</u></u>	\$ <u><u>2,140,560</u></u>	\$ <u><u>-</u></u>	\$ <u><u>4,924,640</u></u>	\$ <u><u>2,319,995</u></u>

THE TOPEKA COMMUNITY FOUNDATION

Notes to Financial Statements
December 31, 2017 and 2016

	2016				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Agency</u>
Interest and dividend income	\$ 463,370	\$ 252,571	\$ -	\$ 715,941	\$ 385,949
Realized and unrealized gains	1,286,664	701,328	-	1,987,992	1,071,683
Investment expense	<u>(43,666)</u>	<u>(23,801)</u>	<u>-</u>	<u>(67,467)</u>	<u>(36,370)</u>
Total	<u>\$ 1,706,368</u>	<u>\$ 930,098</u>	<u>\$ -</u>	<u>\$ 2,636,466</u>	<u>\$ 1,421,262</u>

3. Agency Funds

The following summarizes the Foundation's agency fund activity during 2017 and 2016. Agency activity is recorded in the Foundation's liability accounts.

	<u>2017</u>	<u>2016</u>
Fair market value of agency funds, beginning of year	\$ 16,848,942	\$ 14,698,649
Contributions	2,691,222	1,984,968
Net investment return	2,319,995	1,421,262
Distributions	(884,720)	(1,150,602)
Expense allocation for administration	(137,588)	(130,508)
Classification changes and transfers	<u>(292,116)</u>	<u>25,173</u>
Fair market value of agency funds, end of year	<u>\$ 20,545,735</u>	<u>\$ 16,848,942</u>

4. Net Assets

Unrestricted net assets at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Unrestricted resources available for general operations and grants at the full discretion of the Board	\$16,118,981	\$13,488,693
Family funds donations available for grants at Board discretion within the donor's field of interest	2,116,779	2,034,933
Accumulated deficit on permanently restricted funds which is available for grants, the purposes of which are at the discretion of the Board	(611,936)	(975,107)
Funds for which the Board has designated a specific purpose	<u>948,409</u>	<u>865,801</u>
	<u>\$18,572,233</u>	<u>\$15,414,320</u>

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December 31, 2017 and 2016

Temporarily restricted net assets at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Funds restricted to a variety of specific purposes designated by the donor	\$ 7,358,170	\$ 6,115,966
Scholarship funds designated by donors for students meeting predetermined qualifications	2,363,323	2,128,601
Temporarily restricted funds from beneficial interest in Charitable remainder trusts (Note 2)	384,366	355,826
Accumulated income on permanently restricted funds which is available for grants, the purposes of which are designated by the donor	1,442,744	519,649
Pledges receivable – time restricted	<u>-</u>	<u>7,395</u>
	<u>\$ 11,548,603</u>	<u>\$ 9,127,437</u>

Permanently restricted net assets at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Permanently restricted funds for which income can be expended at the discretion of the Board, and principal is to be invested in perpetuity	\$ 292,200	\$ 292,200
Permanently restricted funds for which income is to be expended for purposes designated by the donor, and principal is to be invested in perpetuity	<u>21,799,254</u>	<u>8,529,289</u>
	<u>\$22,091,454</u>	<u>\$ 8,821,489</u>

5. Endowment funds

The Foundation's endowment funds have been established for a variety of purposes to provide income in support of certain designated activities. Endowments include both Board and donor-designated funds, and are classified and reported in net assets based on the existence or absence of donor-imposed restrictions.

The State of Kansas has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which provides guidance and authority to charitable organizations regarding the management and investment of endowment funds.

THE TOPEKA COMMUNITY FOUNDATION

Notes to Financial Statements December 31, 2017 and 2016

The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation generally classifies as permanently restricted net assets (a) the original value of the gifts donated to permanent endowments, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net assets as of December 31 are as follows:

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ 1,923,728	\$ 3,294,736	\$22,091,454	\$27,309,918
Board designated	943,850	-	-	943,850
Total endowment funds	<u>\$ 2,867,578</u>	<u>\$ 3,294,736</u>	<u>\$22,091,454</u>	<u>\$28,253,768</u>
<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ 1,348,983	\$ 2,199,362	\$ 8,821,489	\$12,369,834
Board designated	861,796	-	-	861,796
Total endowment funds	<u>\$ 2,210,779</u>	<u>\$ 2,199,362</u>	<u>\$ 8,821,489</u>	<u>\$13,231,630</u>

Changes in endowment net assets are as follows for years ending December 31:

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,210,779	\$ 2,199,362	\$ 8,821,489	\$13,231,630
Investment return:				
Net appreciation (realized and unrealized)	761,655	1,457,604	-	2,219,259
Contributions	6,114	16,293	13,269,965	13,292,372
Transfers to (from) endowment funds	(55,042)	(42,108)	-	(97,150)
Appropriations for expenditure	(55,928)	(336,415)	-	(392,343)
Endowment net assets, end of year	<u>\$ 2,867,578</u>	<u>\$ 3,294,736</u>	<u>\$22,091,454</u>	<u>\$28,253,768</u>

THE TOPEKA COMMUNITY FOUNDATION

Notes to Financial Statements December 31, 2017 and 2016

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,821,513	\$ 2,136,711	\$ 8,744,189	\$12,702,413
Investment return:				
Net appreciation (realized and unrealized)	264,456	716,190	-	980,646
Contributions	28,427	20,533	77,300	126,260
Transfers to (from) endowment funds	144,046	(230,609)	-	(86,563)
Appropriations for expenditure	<u>(47,663)</u>	<u>(443,463)</u>	<u>-</u>	<u>(491,126)</u>
Endowment net assets, end of year	\$ <u>2,210,779</u>	\$ <u>2,199,362</u>	\$ <u>8,821,489</u>	<u>\$13,231,630</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature that are reported in net assets were \$1,225,796 and \$1,669,586 as of December 31, 2017 and 2016. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs as deemed prudent by the Board of Directors.

The Foundation has adopted investment and spending policies for endowment assets that provide for a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment funds are pooled with other investment funds held by the Foundation. Investment gains and losses are allocated in proportion to the endowment funds' portion of the investment pool. The Foundation investment policy includes both a growth component and an income component. The long-term investment objective of the growth component is to earn a rate of return, net of all fees, in excess of commonly used endowment benchmarks over rolling five and ten-year periods. The income component objective is to earn a competitive short-term interest rate. The spending policy allows for a percentage distribution based on the average three year September 30 balance. The percent for 2017 and 2016 was 4.5%.

On a case by case basis, the Foundation's policy is to appropriate for expenditure of the endowment earnings in accordance with the donor restrictions and/or as approved by the Board of Directors. The Board designated unrestricted endowment assets represent a fund established to support the operations of the Foundation.

6. Capital Commitments

The Foundation has investments in certain limited partnerships for which have capital commitments are outstanding at December 31, 2017 as follows:

	<u>Amount</u>
Morgan Creek Partners II, LP	\$ 75,000
Morgan Creek Partners III, LP	280,000
Morgan Creek Partners IV, LP	125,000
Morgan Creek Partners V, LP	<u>337,500</u>
	<u>\$ 817,500</u>

THE TOPEKA COMMUNITY FOUNDATION

Notes to Financial Statements December 31, 2017 and 2016

7. Operating Lease

The Foundation entered into a commercial lease agreement for office space for a three-year term. The lease is set to expire on January 31, 2021. Lease payments are due each month for an annual lease expense during 2017 and 2016 of \$65,237 and \$63,645 respectively. Annual increases of 2% are built into the lease agreement. Minimum future rental payments under the non-cancelable operating office lease as of December 31, 2017 are as follows:

<u>Year ended December 31</u>	<u>Amount</u>
2018	\$ 66,548
2019	67,899
2020	69,258
2021	<u>5,781</u>
	<u>\$ 209,486</u>

8. Pension Plan

The Foundation matches each employee's IRA contributions up to 3% of the participant's salary. All employees are eligible to participate in the plan. During 2017 and 2016, the Foundation's matching IRA contributions were \$8,206 and \$8,372 respectively.

9. Classification changes and transfers

Management has reclassified certain fund balances in the amounts of \$292,115 and \$(25,173) as of December 31, 2017 and 2016, respectively. The effect of these reclassifications is to increase (decrease) net assets and decrease (increase) agency funds liability. These classifications and transfers were made to reflect changes in the restrictions and nature of the funds held by the Foundation.

10. Subsequent Events

The Foundation has evaluated subsequent events through November 2, 2018, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
The Topeka Community Foundation
Topeka, Kansas

We have audited the financial statements of the Topeka Community Foundation as of and for the years ended December 31, 2017 and 2016 and our report thereon dated November 2, 2018, which expressed an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Topeka, Kansas
November 2, 2018



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THE TOPEKA COMMUNITY FOUNDATION

Schedule of Administrative Expenses
December 31,

	<u>2017</u>	<u>2016</u>
Salaries	\$310,785	\$295,539
Rent	65,237	63,645
Payroll taxes	23,805	22,774
Professional fees	24,305	21,746
Depreciation	3,409	4,746
Insurance	11,256	11,073
Postage and delivery	2,323	4,990
IRA match	8,206	8,372
Conferences and meetings	705	1,073
Printing	4,236	5,155
FIMS support and maintenance	9,785	9,140
Telephone	4,707	4,381
Dues and subscriptions	8,700	9,000
Maintenance agreements	5,000	4,945
Other	2,575	2,641
Office supplies	2,457	2,295
Janitorial services	2,964	2,964
Board expense	<u>3,260</u>	<u>2,500</u>
	<u>\$493,715</u>	<u>\$476,979</u>