Madison Community Foundation and Supporting Organizations

Consolidated Financial Statements

December 31, 2020 and 2019

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Independent Auditors' Report

To the Board of Governors of
Madison Community Foundation and Supporting Organizations

We have audited the accompanying consolidated financial statements of Madison Community Foundation and Supporting Organizations (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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 the Foundation as of December 31, 2020 and 2019, 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.

Baker Tilly US, LLP

Madison, Wisconsin
July 12, 2021

Consolidated Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 37,185,343	$ 36,327,059
Certificates of deposit	1,750,000	1,000,000
Interest and dividends receivable	918,364	1,571,081
Notes receivable	10,107,345	19,804,922
Prepaid expenses	16,714	21,764
Beneficial interest in charitable lead annuity trust	656,537	744,647
Property, furnishings and equipment, at cost (less accumulated depreciation of $467,116 in 2020 and $405,107 in 2019)	222,782	283,236
Operating lease right-of-use asset	756,067	854,042
Land held for sale	40,000	79,000
Cash value of life insurance	53,720	52,805
Investments	303,283,003	230,802,504
Total assets	$ 354,989,875	$ 291,541,060
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 25,213	$ 110,355
Accrued expenses	32,891	33,265
Gift annuity liability	1,178,833	1,190,341
Funds held for other organizations for agency endowments	27,365,730	25,062,396
Grant commitments	831,150	1,575,160
Operating lease liability	813,483	905,386
Deferred compensation	157,135	161,373
Total liabilities	30,404,435	29,038,276
Net Assets		
Net assets without donor restrictions	323,928,903	261,758,137
Net assets with donor restrictions	656,537	744,647
Total net assets	324,585,440	262,502,784
Total liabilities and net assets	$ 354,989,875	$ 291,541,060

Madison Community Foundation and Supporting Organizations

Consolidated Statements of Activities
Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Revenues, Gains and Other Support						
Total contributions	$ 72,062,518	$ 7,503	$ 72,070,021	$ 29,762,864	744,647	$ 30,507,511
Less amounts received for agency endowments	1,219,249	-	1,219,249	1,501,330	-	1,501,330
Contributions	70,843,269	7,503	70,850,772	28,261,534	744,647	29,006,181
Total investment return net of expenses	22,739,861	-	22,739,861	35,364,253	-	35,364,253
Less investment return from agency endowments	2,067,955	-	2,067,955	3,421,329	-	3,421,329
Investment return	20,671,906	-	20,671,906	31,942,924	-	31,942,924
Other income related to agency endowments	226,860	-	226,860	220,962	-	220,962
Gain (loss) on sale of land held for sale	(24,375)	-	(24,375)	215,692	-	215,692
Net assets released from time restrictions	95,613	(95,613)	-	-	-	-
Total revenues, gains and other support	91,813,273	(88,110)	91,725,163	60,641,112	744,647	61,385,759
Expenses						
Grants	28,254,171	-	28,254,171	20,047,398	-	20,047,398
Less grants made from agency endowments	757,010	-	757,010	1,171,149	-	1,171,149
Grants	27,497,161	-	27,497,161	18,876,249	-	18,876,249
Personnel	1,451,071	-	1,451,071	1,458,633	-	1,458,633
Professional development	15,816	-	15,816	40,863	-	40,863
Office facilities and equipment	193,159	-	193,159	211,541	-	211,541
Office operations	178,717	-	178,717	79,747	-	79,747
Professional fees and dues	176,391	-	176,391	133,450	-	133,450
Communications and marketing	92,350	-	92,350	88,077	-	88,077
Meetings, events and travel	37,842	-	37,842	55,258	-	55,258
Total expenses	29,642,507	-	29,642,507	20,943,818	-	20,943,818
Change in net assets	62,170,766	(88,110)	62,082,656	39,697,294	744,647	40,441,941
Net assets, Beginning	261,758,137	744,647	262,502,784	222,060,843	-	222,060,843
Net assets, Ending	$ 323,928,903	$ 656,537	$ 324,585,440	$ 261,758,137	$ 744,647	$ 262,502,784

See notes to consolidated financial statements

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	$ 62,082,656	$ 40,441,941
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	65,879	84,243
Realized and unrealized gains on investments	(18,375,828)	(27,337,362)
Beneficial interest in charitable lead annuity trust	88,110	(744,647)
Private corporate stock received as donation	(37,582,400)	-
Land received as donation	-	(79,000)
Lease costs	6,072	9,332
Increase in cash value of life insurance	(915)	(1,213)
Loss (gain) on sale of land held for sale	24,375	(215,692)
Changes in assets and liabilities:		
Interest and dividends receivable	652,717	775,372
Prepaid expenses	5,050	8,750
Accounts payable	(85,142)	14,623
Accrued expenses	(374)	1,907
Gift annuity liability	(11,508)	181,053
Funds held for other organizations for agency endowments	2,303,334	3,535,548
Grant commitments	(744,010)	220,500
Deferred compensation	(4,238)	(2,271)
Net cash flows from operating activities	8,423,778	16,893,084
Cash Flows From Investing Activities		
Purchases of property, furnishings and equipment	(5,425)	(11,733)
Proceeds from sales and maturities of investments	75,839,442	44,593,236
Payments received on notes receivable	9,697,577	8,946,016
Purchases of investments	(92,361,713)	(46,774,403)
Purchase of certificates of deposit	(750,000)	(250,000)
Proceeds from sale of land held for sale	14,625	615,692
Net cash flows from investing activities	(7,565,494)	7,118,808
Net change in cash and cash equivalents	858,284	24,011,892
Cash and Cash Equivalents, Beginning	36,327,059	12,315,167
Cash and Cash Equivalents, Ending	$ 37,185,343	$ 36,327,059

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Nature of Activities

Madison Community Foundation works with individuals, nonprofits, businesses and other organizations to enhance the common good through philanthropy.

The activities of the Madison Community Foundation include the creation of charitable endowment funds, the investment and management of those funds, and the distribution of grants to charitable entities, primarily in the metropolitan area of Madison, Wisconsin.

Basis of Presentation

The consolidated financial statements include the accounts of Madison Community Foundation and the following supporting organizations, collectively referred to as the Foundation:

- Colony Brands Foundation, Inc.
- It's Possible Foundation, Inc.
- Everything's Possible Foundation, Inc.

The Foundation has both an economic interest in the supporting organizations and control of the supporting organizations through the appointment of the majority of the members, voting control of their governing boards or through other means. This provides the basis for consolidation of the organizations' financial statements. All inter-organizational transactions and accounts have been eliminated.

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Revenues are recognized in the accounting period in which they are earned. Expenses are recognized in the period incurred.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these instruments.

Certificates of Deposit

Certificates of deposit, which have maturities longer than three months from the original acquisition date, are not considered to be cash equivalents and are reflected separately on the consolidated statements of financial position. Certificates of deposit are reflected in the consolidated financial statements at cost, which approximates fair value due to the short-term nature of the certificates.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost adjusted by observable price changes or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Foundation records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities net of internal and external investment expenses as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Investment securities are exposed to the risk of market volatility. Due to this risk, it is possible that changes in the fair values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the consolidated statements of financial position.

Property, Furnishings and Equipment

The Foundation follows the practice of capitalizing all expenditures for property, furnishings and equipment in excess of $2,500. Furniture and fixtures are depreciated by the straight-line method over the estimated useful lives of the related assets which range from 3 to 7 years. Leasehold improvements are depreciated by the straight-line method over the remaining term of the lease.

Land Held for Sale

Periodically the Foundation will receive donations of land. At December 31, 2020, land held for sale represents one parcel of land that management expects to be sold within one year and is recorded at fair value at date of gift less expected costs to sell. In August 2020, the Foundation sold a parcel of land held for sale for an amount less than the carrying value. Land held for sale as of December 31, 2020 and 2019 was $40,000 and $79,000, respectively.

Beneficial Interest in Charitable Lead Annuity Trust

The Foundation is a specified beneficiary of assets held by a third party trustee and has recorded its beneficial interest in these assets. Assets received under the beneficial interest are recorded at their fair value. The discount rate used to estimate the fair value was 2.25 percent at December 31, 2020 and 2019.

Grant Commitments

Grants made from funds without donor restrictions, including field of interest funds, are approved by the Board of Governors on a semi-annual basis and are reported as expenses of the Foundation at that time. Grant commitments as of December 31, 2020 are payable in 2021.

The Foundation has grant commitments of $660,000 at December 31, 2020 that are deemed conditional due to the grant having a right of return and a barrier. The grant will not be expensed until all barriers have been overcome. Challenge grants are reported as expenses when all restrictions and barriers have been overcome by the grantees.

Board Designated Net Assets

The Foundation's Board of Governors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Governors at any time. The Foundation's Board of Governors has designated amounts.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Net Assets Without Donor Restrictions. Net assets available for general use and not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions. Net assets subject to donor-imposed restrictions contingent upon specific performance of a future event, a specific passage of time or required to be held in perpetuity.

Net assets with donor restrictions at December 31, 2020 and 2019 represent the fair value of the beneficial interest in a charitable lead annuity trust. Fixed annuity payments will be received from the charitable lead annuity trust. In accordance with current authoritative guidance, future payments are reported as restricted net assets. When annuity payments are collected, the restrictions will have been met and net assets with donor restrictions are released from restrictions and reclassified to net assets without donor restrictions.

Generally, contributions made to the Foundation are recorded as contributions without donor restrictions and are free of donor-imposed restrictions. The Trust Agreement of the Foundation includes a variance provision and powers of modification giving the Board of Governors the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations if in the sole judgment of the Board of Governors such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community.

Notwithstanding the net assets without donor restrictions classification, the Foundation consistently follows the policy of respecting donors' grant making preferences.

The Foundation’s component funds, which have been combined for presentation purposes, are of various types reflecting the purposes of the donors who have contributed to them and are described as follows:

Undesignated Funds. Undesignated funds are those without donor restrictions over which the Board has full discretion in making distributions for charitable purposes to meet community needs.

Community Impact (CI) Funds. CI funds are those without donor restrictions over which the Board has full discretion in making distributions for charitable purposes to meet community needs.

Field of Interest (FOI) Funds. FOI funds are funds without donor restrictions used at the Board’s discretion to meet a general field of charitable need specified by the donor.

Donor-Designated Funds. Donor-designated funds are funds where the donor has designated an agency or institution for which support will be provided and are classified as without donor restrictions by virtue of the variance power of the Foundation Board.

Donor-Advised Funds. Donor-advised funds are funds without donor restrictions for which the donor has reserved the right to make nonbinding distribution recommendations to the Board of Governors.

Administrative Endowment Funds. Administrative endowment funds are funds established by the Board of Governors to support the annual operating budget and provide a source of funding for extraordinary or nonrecurring operating expenses.

Net assets without restrictions consist of the following a December 31:

	2020	2019
Undesignated	$ 1,270,931	$ 695,294
Community impact	29,834,062	28,871,568
Field of interest	32,497,616	27,982,140
Donor-designated	108,581,974	95,455,653
Donor-advised	45,056,159	43,448,045
Administrative endowment	7,811,072	6,892,605
Supporting organizations - undesignated	98,877,089	58,412,832
Totals	$ 323,928,903	$ 261,758,137

Contributions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Administrative Fee

The Foundation assesses an administrative fee on each fund held within the Foundation. The fee is collected at the end of each month, based on the prior month-end fair value of the fund. Fees from component funds are eliminated in the consolidated financial statements. The administrative fee charged to the agency endowments is shown as other income related to agency endowments.

Income Tax Status

Madison Community Foundation has received a determination letter from the Internal Revenue Service, classifying the foundation as a tax-exempt organization under Internal Revenue Code Section 501(c)(3). Madison Community Foundation is a tax-exempt community trust which is further classified as a public charity and is eligible to receive tax deductible charitable donations. The supporting organizations are also tax-exempt organizations under Internal Revenue Code Section 501(c)(3).

Management has analyzed the tax positions taken by the Foundation and has concluded that, as of December 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods.

Related-Party Transactions

The Foundation has conflict of interest and duality of interest policies designed to avoid any conflict between Board members and staff personnel and their own individual interests and the interests of the Foundation. Board members and staff personnel must advise the Board and management of any direct or indirect interest in any transaction or relationship with the Foundation. Board members must abstain from voting for the approval or denial of any grants or expenditures that affect their individual, professional or business interests.

Adopted Accounting Pronouncements

In 2020, the Foundation adopted Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820)*. The new guidance removes and/or modifies the disclosure requirements on fair value measurements, specifically the three levels of hierarchy (Levels 1, 2 and 3) that prioritizes the inputs to valuation techniques used to measure fair value and the timing of transfers between levels. There was no change to the presentation of the consolidated financial statements by adopting ASU No. 2018-13.

New Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its consolidated financial statements.

2. Notes Receivable

The Foundation was the holder of two notes receivable from one company acquired in exchange for the sale of private corporate stock in 2017 and 2016. The note receivable, received in 2016 and referred to as Note 1, was paid in full in 2020. The remaining Note 2 is unsecured.

Annual payments on Note 2 plus interest at 8.8 percent, will be paid over a four year period. Note 2 requires principal payment of $10,107,345 during the year ending December 31, 2021.

Note 2 includes a provision that, at the option of the borrower and with respect to up to two annual payments, the borrower will make the annual payment and the Foundation will immediately lend back to the borrower the amount of the payment. This provision will apply in the event the borrower determines that it cannot make an annual payment under the note without violating or breaching legal or contractual covenants or conditions applicable to the borrower (including loan documents) or otherwise jeopardizing the borrower’s ability to deliver products and services to its customers. There is no allowance for uncollectible notes receivable at December 31, 2020 and 2019. Management's estimate for the allowance on the notes receivable is based on historical collections, current economic conditions and other relevant factors.

3. Fair Value of Financial Instruments

In accordance with current authoritative accounting guidance, the Foundation discloses and recognizes the fair value of its assets using a 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 guidance establishes three levels of fair value hierarchy as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does correspond to the Foundation's perceived risk of that investment.

As permitted under current authoritative guidance, equity, bond, hedge and real asset funds and limited partnerships for which fair value is measured using net asset value (NAV) per share or its equivalent as a practical expedient have not been categorized within the fair value hierarchy.

The tables below present the balances of investments measured at fair value on a recurring basis as of December 31:

	2020			
	Total	Level 1	Level 2	Level 3
Mutual fund securities	$ 8,164,044	$ 8,164,044	$ -	$ -
Marketable equity securities	31,285,954	31,285,954	-	-
Marketable debt securities	18,673,395	-	18,673,395	-
Private corporate stock	37,582,400	-	-	37,582,400
Total	95,705,793	$ 39,449,998	$ 18,673,395	$ 37,582,400
Investments valued at NAV:				
Equity funds	92,669,772			
Bond funds	40,007,783			
Real asset funds	9,597,357			
Hedge funds	19,008,814			
Limited partnerships	46,293,484			
Total investments	$ 303,283,003			

	2019			
	Total	Level 1	Level 2	Level 3
Mutual fund securities	$ 8,023,256	$ 8,023,256	$ -	$ -
Marketable equity securities	19,019,267	19,019,267	-	-
Marketable debt securities	8,815,406	-	8,815,406	-
Total	35,857,929	$ 27,042,523	$ 8,815,406	$ -
Investments valued at NAV:				
Equity funds	88,914,262			
Bond funds	38,436,480			
Real asset funds	4,987,667			
Hedge funds	20,491,988			
Limited partnerships	42,114,178			
Total investments	$ 230,802,504			

The beneficial interest in charitable lead annuity trust where the Foundation is not the trustee but is named as a specified beneficiary is considered a Level 3 item as the valuation is based on significant unobservable inputs that are not corroborated by market data. The fair value of the beneficial interest in charitable lead annuity trust is based on the present value of the future cash flows expected to be received based on an appropriate discount rate.

The Foundation received a contribution of a beneficial interest in charitable lead annuity trust of $744,647 during the year ended December 31, 2019. The Foundation received $95,613 from the beneficial interest in charitable lead annuity trust during the year ended December 31, 2020.

Valuation is the responsibility of the Foundation's management, which reports financial results and valuation changes to the Board of Governors on a quarterly basis. Management relies on the investment custodian and investment managers to provide valuation and pricing data for most classes of investments. The investment managers provide reports to management each month and to the Foundation's investment committee each quarter. Investment performance results and summaries are also reported to the Board of Governors after each quarterly investment committee meeting. Management evaluates pricing information provided by the investment managers through various processes: including comparison to public market data; purchases or sales of assets at the reported values; back testing with reference to reported and market performance data; review of audited financial statements and net asset values of fund holdings; and review of tax filings provided by fund managers.

The following methods were used to estimate the fair value of each class of financial instrument:

Mutual fund securities and marketable equity securities. These securities consist entirely of publicly-traded securities that are priced by an investment manager or custodian with reference to available quotations for identical assets. Management is able to verify the pricing by referencing publicly available market data.

Marketable debt securities. Many fixed income securities do not trade on a daily basis so, in the absence of available quotations for identical assets, must be valued using other methods. These securities are valued by the investment custodian through the use of outside pricing services. Such services employ pricing models and applications incorporating inputs such as: security quality, cash flow, maturity and coupon, supplemental research and evaluation, and review of recent broker-dealer market price quotations for similar securities.

Private corporate stock. The stock is valued by an independent appraiser each year based on the company's audited financial results. The fair value estimate uses the discounted cash flow method under the income approach and is based on a five-year projection of net cash flows. The Foundation also applies discounts for a lack of control and lack of marketability. There are also transactions at the appraised value during the year and subsequent to year end. The stock has restrictions on the resale and the company has the right of first refusal.

Investments valued at NAV:

Equity funds, bond funds and real asset funds. These funds hold traded securities priced by independent sources. The investment manager provides a high level of transparency into the holdings of the funds, which provides the basis for the NAV calculation for each fund. The NAV is used to provide the valuation for these funds. The Foundation and the investment manager have had investments into and redemptions out of these funds at the NAV price on a regular basis throughout the year.

Hedge funds. The Foundation uses the reported NAV of its shares in these funds as a practical expedient to determine the fair value of this class of investments. The Foundation and investment manager can document investments into and redemptions out of these funds, at the reported NAV, at various times throughout the year. However, transparency is not provided into these funds or to the underlying assets on which the NAV is based.

Limited partnerships. These partnerships invest primarily in other limited partnerships formed for the purpose of making investments in underlying companies. These investments do not have the liquidity to provide for regular observable redemption activity. They also do not provide transparency into the underlying holdings of the funds. The inputs in the valuation of these funds are unobservable. The Foundation uses the capital balances of its interests in these partnerships as a practical expedient to determine the fair value of these funds. The capital balance represents the Foundation's proportionate share of its percentage of the capital of the partnerships as reported by their general partners. Due to a one quarter lag in reporting results, most partnerships are valued as of September 30 adjusted by cash flows that occurred from the valuation date to December 31. The difference is not considered to be material.

4. Investments

The following summarizes the Foundation's investments at December 31:

	2020		2019	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Equity funds	$ 92,669,772	$ 50,319,498	$ 88,914,262	$ 53,345,978
Bond funds	40,007,783	36,303,105	38,436,480	36,731,826
Real asset funds	9,597,357	8,978,390	4,987,667	4,333,963
Mutual fund securities	8,164,044	6,136,453	8,023,256	6,705,448
Marketable equity securities	31,285,954	24,341,995	19,019,267	15,421,298
Marketable debt securities	18,673,395	9,144,553	8,815,406	8,511,103
Private corporate stock	37,582,400	37,582,400	-	-
Hedge funds	19,008,814	17,876,489	20,491,988	20,051,429
Limited partnerships	46,293,484	42,083,331	42,114,178	26,931,339
Totals	$ 303,283,003	$ 232,766,214	$ 230,802,504	$ 172,032,384

The Foundation's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the global equity, fixed-income, real asset and private equity markets. This strategy provides the Foundation with a long-term asset mix that is most likely to meet the Foundation's long-term return goals with the appropriate level of risk.

The investments valued at NAV were entered into to diversify the Foundation's portfolio. The Foundation's management, the investment committee of the Board of Governors and the Foundation's external investment consultants review reports provided by general partners. The Foundation's external investment consultants attend meetings of the various general partners in order to evaluate the risk associated with these investments. In addition, the Foundation monitors its portfolio mix to ensure that it is in accordance with Board policy. For all of the alternative investments, the Foundation utilizes funds of funds to diversify the risk inherent in such investments.

The following provides additional information about the attributes of certain investments which do not have daily liquidity.

	Investment Objective	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Funds	Provide an actively managed, multi-manager investment program that will provide broad exposure to the global equity markets.	None	Weekly and Monthly	5 days
Bond funds	Add value above the return of the broad U.S. bond market over a full market cycle while reducing risk through diversification of manager allocations.	None	Daily, Weekly and Monthly	2-30 days
Real asset funds	Allocate assets across a broad spectrum of natural resource or real asset categories based on a multi-manager approach, allocating assets to sub-advisors or sub-funds managed by sub-advisors.	None	Daily	2 days
Hedge funds	Provide a marketable alternative strategies investment program capable of producing consistently positive returns regardless of the direction of the broader markets.	None	Quarterly, subject to 25 percent investor level gate	65 days
Private equity partnerships	Invest in private limited partnerships which, in turn, make investments in equity securities, warrants or other options that are generally not actively traded at time of investment. Investee companies include U.S., international and emerging markets.	$19,796,000	n/a	n/a
Distressed debt investment partnerships	Pursue a global program of turnaround and distressed investing by pursing active trading and financing strategies on a global basis.	$803,000	n/a	n/a
Real estate partnerships	Invest in a diversified pool of real estate investments in key U.S. and international markets.	$5,006,200	n/a	n/a

The investments in partnerships can never be redeemed. Rather distributions are made by the general partner as the underlying assets are sold, generally after 5 to 15 years.

5. Liquidity

The following summarizes the Foundation's financial assets available for grants and other expenses within one year of the consolidated statement of financial position date at December 31:

	2020	2019
Cash and cash equivalents	$ 37,185,343	$ 36,327,059
Certificates of deposit	1,750,000	1,000,000
Interest and dividends receivable	918,364	1,571,081
Notes receivable	10,107,345	9,697,577
Redeemable investments less private corporate stock net of unfunded commitments	193,801,919	156,388,326
Total	$ 243,762,971	$ 204,984,043

The assets above include:

- $166,498,775 held in funds governed by fund agreements which provide that, under normal circumstances, grant distributions will be made in accordance with an annual spending policy approved by the Foundation's Board of Governors; the policy for 2021 will be 4.25 percent of the trailing 20 quarter average balance of each individual fund; totaling $7,690,199 for all of those funds.

- $5,339,210 held in funds governed by fund agreements that provide that, under normal circumstances, grant distributions will be limited to 20 percent of the beginning of the year fund balance which is $1,067,842 for 2021.

As part of the Foundation's liquidity management, it structures its financial assets to be available as grant distributions, general expenditures, liabilities and other obligations become due. The Foundation holds cash in excess of daily requirements in money market accounts and certificates of deposit.

6. Funds Held For Other Organizations For Agency Endowments

Current authoritative accounting guidance establishes standards for transactions in which a recipient entity accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to an entity that is specified by the donor. This guidance specifically requires that if a not-for-profit organization establishes a fund at the recipient entity with its own funds and specifies itself as the beneficiary of that fund, the recipient entity must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with current authoritative accounting guidance, a liability has been established for the present value of the future payments expected to be made to the not-for-profit organizations, which is generally equivalent to the fair value of the funds.

At December 31, 2020 and 2019 the Foundation was the owner of 243 and 242 agency endowment funds with a combined fair value of $27,365,730 and $25,062,396, respectively. All financial activity for the years then ended related to these funds is segregated in the consolidated statements of activities and has been classified as a liability in the consolidated statements of financial position.

7. Endowments

The Foundation has set up endowment funds which comply with and follow current authoritative literature, which provides guidance on classifying net assets associated with endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the guidance is a requirement to classify the donor-restricted endowment fund as net assets with donor restrictions until appropriated for expenditure. The State of Wisconsin adopted a version of UPMIFA effective August 4, 2009.

The Foundation's endowment funds consist of funds established for the purpose of providing a consistent and reliable source of operational funding. Its endowment includes quasi-endowment funds. The Foundation's first administrative endowment fund was established through a challenge grant, followed by the establishment of additional funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted UPMIFA enacted in the State of Wisconsin as requiring the creation of an endowment of permanent duration with the original value of a donor's gift when a donor's gift instrument evidences such intent by use of terminology consistent with UPMIFA, unless other language in the gift instrument limits the duration or purpose of the fund. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of the gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and (d) earnings that have not been appropriated.

The Board designated quasi-endowment funds are classified as net assets without donor restrictions at December 31:

	2020	2019
Administrative endowment fund	$ 4,958,274	$ 4,270,808
Dr. Margaret C. Winston fund	1,499,513	1,395,985
Lussier fund for MCF	244,982	139,341
Administrative operating reserve	780,548	728,703
Administrative relocation fund	327,755	357,768
Total administrative endowments	$ 7,811,072	$ 6,892,605

Changes in endowment net assets for the years ended December 31, 2020 and 2019:

Endowment net assets, December 31, 2018	$ 5,820,162
Investment gain	932,184
Contributions	308,730
Appropriations/payout	(168,471)
Endowment net assets, December 31, 2019	6,892,605
Investment gain	538,557
Contributions	533,028
Appropriations/payout	(153,118)
Endowment net assets, December 31, 2020	$ 7,811,072

The endowment funds are governed by the endowment policy established and approved by the Board of Governors. The endowment policy follows the investment policy guidelines established by the Board investment committee and approved by the full Board of Governors. The investment policy seeks to achieve investment returns that cover annual spending, fees and anticipated inflation. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Foundation endowment assets are governed by a spending policy that seeks to distribute a specific payout rate from the endowment base to support the Foundation's programs. The endowment base is defined as the rolling average of market value for the most recent 20 quarters. The payout rate is 4.25 percent of the endowment base quarterly.

8. Gift Annuities

The Foundation records gift annuity assets received at their fair value. The actuarially-determined present value of the future annuity cash flows required to be paid to the annuitants is recorded as a liability in the consolidated statements of financial position. The Foundation used discount rates ranging from 3.25 to 6.00 percent for the years ended December 31, 2020 and 2019. The Foundation records the difference between the fair value of the gift annuity assets and the actuarially-determined present value of future cash flows as contribution revenue in the year the gift annuity is received.

Contribution revenue for charitable gift annuities received during the years ended December 31, 2020 and 2019 was $23,802 and $75,242, respectively. The total assets for charitable gift annuities were $1,953,438 and $1,875,512, as of December 31, 2020 and 2019, respectively, and are included in investments on the consolidated statements of financial position.

9. Deferred Compensation

The Foundation has entered into deferred compensation agreements with its President and former President. The agreements call for the Foundation to accrue an amount, determined annually by the Board of Governors subject to the limitations of Section 457 of the Internal Revenue Code, to the plan each year. Earnings on the deferred compensation funds accumulate at the prime rate (effective rate of 3.25 percent and 4.75 percent at December 31, 2020 and 2019, respectively). The amount charged to expense under these agreements was $15,345 for 2020 and $20,234 for 2019. Monthly payments under the agreement with the former President began in 2013.

10. Retirement Plan

The Foundation has a tax deferred retirement plan available to substantially all of its employees. Any benefits-eligible employee may make voluntary contributions to this plan. For an employee who has attained 21 years of age, completed at least 12 months and 1,000 hours of service and makes a voluntary contribution of at least 1 percent of annual compensation to the plan, the Foundation makes a contribution to the plan. The Foundation's contribution was equal to 6 percent of the employee's annual compensation in 2020 and 2019. The plan is funded through the purchase of mutual fund securities. The plan is intended to qualify under Section 403(b) of the Internal Revenue Code and is subject to the provisions of the Employee Retirement Income Security Act. Contributions to the plan totaled $62,357 and $64,120 for the years ended December 31, 2020 and 2019, respectively.

11. Related Organizations

The Evjue Foundation and Terry Family Foundation are supporting organizations to the Madison Community Foundation. The Foundation appoints board representatives to each of these supporting organizations but does not appoint the majority of the board. Due to lack of control, these organizations are not included in the consolidated financial statements. These supporting organizations paid contributions of $48,000 and $24,325, respectively, to the Foundation during 2020 and $48,000 and $23,659 respectively, during 2019.

12. Functional Expenses

Functional expenses are those expenses incurred by the Foundation in the accomplishment of its stated mission. They can be further categorized as follows:

- Program services, including awarded grants, support and education to other nonprofits, research on the local nonprofit field and philanthropic leadership;
- Management and general, including expenses that benefit the Foundation as an entity, governance, and the management and administration of component funds;
- Development and fundraising, including originating and stewarding relationships with donors and fundholders.

The consolidated financial statements report categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel expenses are allocated on the basis of estimates of time or effort. Facilities, supplies and other expenses are allocated on the basis of headcount or other reasonable bases.

Expenses of the Foundation by function are as follows for the year ended December 31:

	2020			
	Program Services	**Management and General**	**Fundraising**	**Total**
Grants	$ 27,497,161	$ -	$ -	$ 27,497,161
Personnel	243,233	671,604	536,234	1,451,071
Professional development	2,134	9,398	4,284	15,816
Office facilities and equipment	36,564	88,986	67,609	193,159
Office operations	14,124	34,376	130,217	178,717
Professional fees and dues	7,502	57,122	111,767	176,391
Communications and marketing	3,639	48,540	40,171	92,350
Meetings, events and travel	2,191	10,425	25,226	37,842
Totals	$ 27,806,548	$ 920,451	$ 915,508	$ 29,642,507

	2019			
	Program Services	**Management and General**	**Fundraising**	**Total**
Grants	$ 18,876,249	$ -	$ -	$ 18,876,249
Personnel	296,059	646,882	515,692	1,458,633
Professional development	8,141	19,725	12,997	40,863
Office facilities and equipment	37,020	102,465	72,056	211,541
Office operations	12,168	33,677	33,902	79,747
Professional fees and dues	8,200	100,122	25,128	133,450
Communications and marketing	3,827	36,683	47,567	88,077
Meetings, events and travel	5,862	12,722	36,674	55,258
Totals	$ 19,247,526	$ 952,276	$ 744,016	$ 20,943,818

13. Leases

In 2017, the Foundation entered into a lease for new office space at 111 North Fairchild Street, Madison, Wisconsin. The lease term began on October 1, 2017 and ends on December 31, 2027. Rent payments commenced on January 1, 2018 at the monthly rate of $8,796 and will increase 3 percent each successive January 1. The Foundation has the option to extend the lease for two successive periods of five years each, at the “prevailing market rent” to be negotiated with the landlord prior to the extension. As it is not reasonably certain that the options will be exercised, they have not been included in the calculation of the right-of-use asset.

The lease is accounted for as an operating lease under authoritative accounting guidance. The operating lease right-of-use asset and operating lease liability of $1,067,000 were recognized based on the present value of the future lease payments over the lease term at commencement date. The Foundation elected to use the risk-free rate for a period comparable to the lease term, 2.35 percent.

Future rent payments required under the lease as of December 31, 2020 are:

Years ending December 31:	
2021	$ 115,334
2022	118,794
2023	122,358
2024	126,029
2025	129,810
2026-2027	271,419
Total	883,744
Less present value discount	(70,261)
Operating lease liability	$ 813,483

Operating lease expense was approximately $118,000 for the years ended December 31, 2020 and 2019.

14. Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and short-term investments. The Foundation places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Approximately 85 percent and 69 percent of total contributions were from the five highest donors during the years ended December 31, 2020 and 2019, respectively.

15. Subsequent Events

The Foundation has evaluated subsequent events through July 12, 2021, which is the date that the consolidated financial statements were approved and available to be issued.