MADISON COMMUNITY FOUNDATION AND SUPPORTING ORGANIZATIONS

Madison, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

MADISON COMMUNITY FOUNDATION AND SUPPORTING ORGANIZATIONS

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INDEPENDENT AUDITORS' REPORT

Board of Governors
Madison Community Foundation and Supporting Organizations
Madison, Wisconsin

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, 2018 and 2017, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2018 and 2017, 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.

Emphasis-of-Matter

As discussed in Note 1 to the consolidated financial statements, the Foundation adopted Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 4, 2019

MADISON COMMUNITY FOUNDATION AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2018 and 2017

ASSETS

	2018	2017
Cash and cash equivalents	$ 12,315,167	$ 10,303,929
Certificates of deposit	750,000	500,000
Interest and dividends receivable	2,346,453	2,947,380
Notes receivable	28,750,938	37,006,198
Prepaid expenses	30,514	26,320
Property, furnishings and equipment - at cost (less accumulated depreciation of $326,026 in 2018 and $234,691 in 2017)	355,746	389,563
Operating lease right-of-use asset	949,919	1,043,822
Land held for sale	400,000	400,000
Cash value of life insurance	51,592	50,300
Investments	201,283,975	196,266,381
TOTAL ASSETS	$ 247,234,304	$ 248,933,893

LIABILITIES AND NET ASSETS

	2018	2017
LIABILITIES		
Accounts payable	$ 95,732	$ 91,124
Accrued expenses	31,358	25,083
Gift annuity liability	1,009,288	1,111,371
Funds held for other organizations for agency endowments	21,526,848	20,916,364
Grant commitments	1,354,660	1,655,186
Operating lease liability	991,931	1,073,334
Deferred compensation	163,644	166,075
Total Liabilities	25,173,461	25,038,537
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Madison Community Foundation	166,710,178	169,645,349
Supporting organizations	55,350,665	54,250,007
Total Net Assets Without Donor Restrictions	222,060,843	223,895,356
TOTAL LIABILITIES AND NET ASSETS	$ 247,234,304	$ 248,933,893

See accompanying notes to consolidated financial statements.

MADISON COMMUNITY FOUNDATION AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2018 and 2017

	Without Donor Restrictions 2018	Without Donor Restrictions 2017
REVENUES, GAINS AND OTHER SUPPORT		
Total contributions	$ 16,186,166	$ 11,252,687
Less amounts received for agency endowments	1,686,910	825,702
Contributions	14,499,256	10,426,985
Total investment return (loss)	(1,049,407)	32,146,515
Less investment return (loss) from agency endowments	(236,901)	3,180,904
Investment return (loss)	(812,506)	28,965,611
Other income related to agency endowments	198,441	180,620
Total Revenues, Gains and Other Support	13,885,191	39,573,216
EXPENSES		
Grants	14,375,374	12,089,009
Less grants made from agency endowments	641,084	615,640
Grants	13,734,290	11,473,369
Personnel	1,385,173	1,229,741
Professional development	28,965	20,049
Office facilities and equipment	231,437	182,975
Office operations	75,060	77,678
Professional fees and dues	104,947	108,038
Communications and marketing	130,793	165,701
Meetings, events and travel	29,039	24,968
Total Expenses	15,719,704	13,282,519
CHANGE IN NET ASSETS	(1,834,513)	26,290,697
NET ASSETS - Beginning of Year	223,895,356	197,604,659
NET ASSETS - END OF YEAR	$ 222,060,843	$ 223,895,356

See accompanying notes to consolidated financial statements.

MADISON COMMUNITY FOUNDATION AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (1,834,513)	$ 26,290,697
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	93,104	52,076
Realized and unrealized (gains) losses on investments	9,710,905	(24,501,999)
Lease costs	12,500	29,512
Changes in assets and liabilities		
Interest and dividends receivable	600,927	(2,702,758)
Prepaid expenses	(4,194)	(13,661)
Accounts payable	4,608	8,718
Accrued expenses	6,275	(16,162)
Gift annuity liability	(102,083)	88,389
Funds held for other organizations for agency endowments	610,484	3,210,344
Grant commitments	(300,526)	527,548
Deferred compensation	(2,431)	(2,495)
Net Cash Flows from Operating Activities	8,795,056	2,970,209
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, furnishings and equipment	(59,287)	(341,132)
Increase in cash value of life insurance	(1,292)	(1,373)
Proceeds from sales and maturities of investments	66,285,600	24,404,005
Payments received on notes receivable	8,255,260	407,946
Purchases of investments	(81,014,099)	(26,229,622)
Purchase of certificates of deposits	(250,000)	-
Net Cash Flows from Investing Activities	(6,783,818)	(1,760,176)
Net Change in Cash and Cash Equivalents	2,011,238	1,210,033
CASH AND CASH EQUIVALENTS - Beginning of Year	10,303,929	10,303,929
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 12,315,167	$ 10,303,929

Noncash investing activities		
Note receivable received from sale of investments	$ -	$ 35,782,354

See accompanying notes to consolidated financial statements.

NOTE 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. 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

For purposes of the consolidated statements of cash flows, 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.

NOTE 1 - Summary of Significant Accounting Policies (continued)

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 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 market 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 $1,000. Furniture and fixtures are depreciated by the straightline method over the estimated service lives of the related assets which range from 3 to 5 years. Leasehold improvements are depreciated by the straightline method over the remaining term of the lease.

Land Held for Sale

During 2014, land was received by the Foundation as a contribution. 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 October 2018, the Foundation accepted an offer to sell the land held for sale for an amount in excess of the carrying value. The offer is subject to various contingencies related to the buyer verifying the suitability of the property for residential development and ability to obtain rezoning and building permits.

Grant Commitments

Grants made from funds without donor restrictions and 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. Challenge grants are reported as expenses when all conditions have been met by the grantees. Grant commitments as of December 31, 2018 are payable in 2019 and 2020.

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 not designated any amounts as of December 31, 2018 and 2017.

NOTE 1 - Summary of Significant Accounting Policies (continued)

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. The Foundation currently does not have any net assets with donor restrictions.

Contributions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when 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.

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.

Administrative Fee

The Foundation assesses an administrative fee to each component 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. These fees are eliminated in the consolidated financial statements.

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, 2018 and 2017, 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.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Reclassification

For comparability, certain 2017 amounts have been reclassified to confirm with classifications adopted in 2018. The reclassifications have no effect on reported amounts of net assets or changes in net assets.

New Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The Foundation has adopted the provisions of this standard during the year ending December 31, 2018, with retrospective application for the year ending December 31, 2017. The adoption of the standard changes the terminology used to describe categories of net assets throughout the consolidated financial statements, nets expenses for managing investment portfolios with investment revenue, and includes new disclosures regarding functional expenses (Note 10) and the liquidity and availability of financial assets (Note 14). The adoption of ASU No. 2016-14 caused a reclassification of expenses and investment income but did not cause a restatement of net assets balances or change in net assets. The Foundation opted to exclude disclosure information regarding functional expenses and liquidity and availability of financial assets as of December 31, 2017, which is permitted under the ASU in the year of adoption.

During June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for contributions received during fiscal years beginning after December 15, 2018 (2019) and contributions made during fiscal years beginning after December 15, 2019 (2020). The Foundation is currently assessing the impact that ASU No. 2018-08 will have on its results of operations, financial position and cash flows.

NOTE 2 - Notes Receivable

The Foundation is the holder of two notes receivable acquired in exchange for the sale of private corporate stock in 2017 and 2016. The notes are unsecured and valued at the selling price of the private corporate stock less principal payments received.

Annual payments on Note 1 and Note 2 plus interest at 10% and 8.8%, respectively, will be paid over a four year period. The notes require the following principal payments during the years ended December 31:

	Note 1	Note 2	Total
2019	$ 407,948	$ 8,538,068	$ 8,946,016
2020	407,948	9,289,629	9,697,577
2021	-	10,107,345	10,107,345
Totals	$ 815,896	$ 27,935,042	$ 28,750,938

NOTE 2 - Notes Receivable (continued)

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, 2018 and 2017. Management's estimate for the allowance on the notes receivable is based on historical collections, current economic conditions and other relevant factors.

NOTE 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 per share or its equivalent as a practical expedient have not been categorized within the fair value hierarchy.

NOTE 3 - Fair Value of Financial Instruments (continued)

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

	2018			
	Total	Level 1	Level 2	Level 3
Mutual fund securities	$ 7,529,040	$ 7,529,040	$ -	$ -
Marketable equity securities	14,992,310	14,992,310	-	-
Marketable debt securities	7,418,716	-	7,418,716	-
Totals	29,940,066	$ 22,521,350	$ 7,418,716	$ -
Investments valued at NAV				
Equity funds	76,621,342			
Bond funds	34,191,511			
Real asset funds	5,788,073			
Hedge funds	19,171,303			
Limited partnerships	35,571,680			
Total investments	$ 201,283,975			

	2017			
	Total	Level 1	Level 2	Level 3
Mutual fund securities	$ 6,634,997	$ 6,634,997	$ -	$ -
Marketable equity securities	10,687,659	10,687,659	-	-
Marketable debt securities	2,295,604	-	2,295,604	-
Totals	19,618,260	$ 17,322,656	$ 2,295,604	$ -
Investments valued at NAV				
Equity funds	112,985,019			
Bond funds	28,270,635			
Real asset funds	7,737,891			
Limited partnerships	27,654,576			
Total investments	$ 196,266,381			

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.

NOTE 3 - Fair Value of Financial Instruments (continued)

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.

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 net asset value (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.

NOTE 4 - Investments

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

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Equity funds	$ 76,621,342	$ 56,131,281	$ 112,985,019	$ 75,252,173
Bond funds	34,191,511	34,994,500	28,270,635	28,318,256
Real asset funds	5,788,073	6,161,106	7,737,891	7,105,627
Mutual fund securities	7,529,040	7,488,371	6,634,997	5,747,754
Marketable equity securities	14,992,310	15,291,625	10,687,659	9,125,124
Marketable debt securities	7,418,716	7,581,334	2,295,604	2,309,858
Hedge funds	19,171,303	19,274,020	-	-
Limited partnerships	35,571,680	20,883,958	27,654,576	16,958,201
Totals	$ 201,283,975	$ 167,806,195	$ 196,266,381	$ 144,816,993

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

NOTE 4 - Investments (continued)

	Investment Objective	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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% 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.	$13,500,000	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.	$800,000	n/a	n/a
Real estate partnerships	Invest in a diversified pool of real estate investments in key U.S. and international markets.	$5,200,000	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.

NOTE 5 - Liquidity

Financial assets available for grants and other expenses within one year of the consolidated statement of financial position date December 31, 2018 are comprised of the following:

Cash and cash equivalents	$	12,315,167
Certificates of deposit		750,000
Interest and dividends receivable		2,346,453
Notes receivable		8,946,016
Redeemable investments net of unfunded commitments		146,212,295
Total	$	170,569,931

The assets above include:

- $138,462,935 held in component 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 2019 will be 4.25% of the trailing 20 quarter average balance of each individual fund; totaling $6,926,968 for all of those funds.

- $4,075,289 held in component funds governed by fund agreements that provide that, under normal circumstances, grant distributions will be limited to 20% of the beginning of the year fund balance which is $815,057 for 2019.

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.

NOTE 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, 2018 and 2017 the Foundation was the owner of 240 and 236 agency endowment funds with a combined fair value of $21,526,848 and $20,916,364, 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.

NOTE 7 - 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 3.75 to 6.00 percent for the years ended December 31, 2018 and 2017. 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, 2018 and 2017 was $17,916 and $117,702, respectively. The total assets for charitable gift annuities were $1,529,178 and $1,784,409, as of December 31, 2018 and 2017, respectively and are included in Investments on the consolidated statements of financial position.

NOTE 8 - 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 5.25% and 4.50% at December 31, 2018 and 2017, respectively). The amount charged to expense under these agreements was $18,719 for 2018 and $17,586 for 2017. Monthly payments under the agreement with the former President began in 2013.

NOTE 9 - 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 of service and makes a voluntary contribution of at least 1% of annual compensation to the plan, the Foundation makes a contribution to the plan. The Foundation's contribution was equal to 6% of the employee's annual compensation in 2018 and 2017. 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 $65,469 and $48,220 for the years ended December 31, 2018 and 2017, respectively.

NOTE 10 - Related Organizations

The Evjue Foundation and Terry Family Foundation are supporting organizations to 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 $70,845 to the Foundation during 2018 and 2017, respectively.

NOTE 11 - 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, 2018:

	Program Services	Management and General	Fundraising	Total
Grants	$ 13,734,290	$ -	$ -	$ 13,734,290
Personnel	222,266	655,447	507,460	1,385,173
Professional development	4,240	17,256	7,469	28,965
Office facilities and equipment	40,887	114,947	75,603	231,437
Office operations	11,755	33,049	30,256	75,060
Professional fees and dues	3,230	92,836	8,881	104,947
Communications and marketing	6,662	38,272	85,859	130,793
Meetings, events and travel	4,048	7,418	17,573	29,039
Totals	$ 14,027,378	$ 959,225	$ 733,101	$ 15,719,704

NOTE 12 - 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%.

NOTE 12 - Leases (continued)

Future rent payments required under the lease as of December 31, 2018 are:

2019	$ 108,714
2020	111,975
2021	115,334
2022	118,974
2023	112,358
2024-2027	537,077
Total	1,104,432
Less: present value discount	(112,501)
Operating lease liability	$ 991,931

Operating lease expense was $118,000 and $93,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE 13 - 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 51% and 33% of total contributions were from the five highest donors during the years ended December 31, 2018 and 2017, respectively.

NOTE 14 - Subsequent Events

The Foundation has evaluated subsequent events through April 4, 2019, which is the date that the consolidated financial statements were approved and available to be issued.