

**PRELIMINARY  
DRAFT**

**New Hampshire Charitable Foundation  
and Affiliated Organization**

**FOR REVIEW AND  
DISCUSSION**  
Consolidated Financial Statements

*Years Ended December 31, 2018 and 2017  
With Independent Auditors' Report*

**PURPOSES ONLY**

**SUBJECT TO  
CHANGE**

**NOT TO BE  
REPRODUCED**

# PRELIMINARY DRAFT

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
New Hampshire Charitable Foundation

We have audited the accompanying consolidated financial statements of New Hampshire Charitable Foundation and Affiliated Organization (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities, functional expenses 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 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 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 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 financial position of New Hampshire Charitable Foundation and Affiliated Organization as of December 31, 2018 and 2017, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Board of Directors  
New Hampshire Charitable Foundation

**Emphasis of Matter**

As discussed in Note 2 to the consolidated financial statements, in 2018, the Foundation adopted the accounting guidance under Accounting Standards Update (ASU) 2016-14, *Not for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, and applied the guidance retrospectively to all periods presented. Our opinion is not modified with respect to these matters.

Manchester, New Hampshire  
\_\_\_\_\_, 2018

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NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>ASSETS</u>	
	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ 55,831,396	\$ 28,556,778
Restricted cash	1,087,120	1,071,959
Accrued investment income	209,398	44,227
Grants receivable	-	302,703
Contributions receivable	7,885,968	10,600,978
Notes receivable, less allowance for uncollectible amounts of \$37,197 in 2018 and \$56,358 in 2017	1,500,954	1,509,814
Other assets	971,718	4,971,751
Investments, at fair value	655,707,842	697,211,118
Investments held in trust	3,052,972	3,590,457
Receivable from trusts	5,258,544	6,225,124
Property, plant and equipment:		
Land and improvements	338,050	338,050
Building and improvements	1,926,388	1,899,731
Equipment and furniture	<u>1,437,763</u>	<u>1,419,637</u>
	3,702,201	3,657,418
Less accumulated depreciation	<u>2,416,235</u>	<u>2,230,652</u>
Net property, plant and equipment	1,285,966	1,426,766
	<hr/>	<hr/>
Total assets	\$ <u>732,791,878</u>	\$ <u>755,511,675</u>

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## LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 997,854	\$ 919,103
Grants payable	7,771,004	6,636,165
Income beneficiaries payable	1,371,618	1,404,186
Unearned contributions	2,444,654	2,724,755
Funds held as agency funds	40,444,531	43,528,748
Other liabilities	<u>4,662,496</u>	<u>7,940,325</u>
Total liabilities	57,692,157	63,153,282
Net assets:		
Without donor restrictions:		
Designated to fund grants, scholarships and initiatives	541,263,055	541,203,993
Designated to fund operations	3,454,874	1,803,752
Designated by the Board for operating and capital reserves	5,271,252	4,531,562
Invested in property and equipment	<u>1,285,966</u>	<u>1,426,766</u>
	551,275,147	548,966,073
With donor restrictions:		
Restricted to the passage of time	8,855,203	19,129,685
Restricted endowment appreciation	36,452,403	46,226,420
Restricted in perpetuity – endowment	79,041,667	78,036,215
Underwater endowments	<u>(524,699)</u>	<u>—</u>
	<u>123,824,574</u>	<u>143,392,320</u>
Total net assets	<u>675,099,721</u>	<u>692,358,393</u>
Total liabilities and net assets	<u>\$ 732,791,878</u>	<u>\$ 755,511,675</u>

See accompanying notes.

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NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31, 2018 and 2017

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenues and investment gains (losses):			
Contributions	\$ 55,453,859	\$ 8,905,105	\$ 64,358,964
Net investment return	(23,581,931)	(4,144,434)	(27,726,365)
Change in value of split interest agreements	9,388	(1,969,524)	(1,960,136)
Other	(3,298)	—	(3,298)
Total revenues and investment gains	31,878,018	2,791,147	34,669,165
Net assets released from restrictions:			
Satisfaction of donor restrictions	398,989	(398,989)	—
Time restriction expired	14,001,492	(14,001,492)	—
Pursuant to endowment spending rate appropriation	7,840,707	(7,840,707)	—
Other	—	—	—
Total net assets released from restrictions	22,241,188	(22,241,188)	—
Total revenues, gains and other support	54,119,206	(19,450,041)	34,669,165
Expenses:			
Grants, scholarships and program initiatives	44,375,608	—	44,375,608
Administrative expenses:			
Program service expenses	3,431,942	—	3,431,942
Management and general expenses	2,361,596	—	2,361,596
Fundraising expenses	1,640,986	—	1,640,986
Total administrative expenses	7,434,524	—	7,434,524
Total expenses	51,810,132	—	51,810,132
Increase (decrease) in net assets before effects of discontinued operations	2,309,074	(19,450,041)	(17,140,967)
(Loss) gain from discontinued operations	—	(117,705)	(117,705)
Total increase (decrease) in net assets	2,309,074	(19,567,746)	(17,258,672)
Net assets at beginning of year	548,966,073	143,392,320	692,358,393
Net assets at end of year	\$ 551,275,147	\$ 123,824,574	\$ 675,099,721

See accompanying notes.

# PRELIMINARY

## DRAFT

2017		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 44,116,268	\$ 12,992,612	\$ 57,108,880
62,113,216	14,097,691	76,210,907
(29,514)	739,802	710,288
<u>13,410</u>	<u>—</u>	<u>13,410</u>
106,213,380	27,830,105	134,043,485
836,781	(836,781)	—
(1,367,360)	1,367,360	—
8,146,756	(8,146,756)	—
<u>638,028</u>	<u>(638,028)</u>	<u>—</u>
<u>8,254,205</u>	<u>(8,254,205)</u>	<u>—</u>
114,467,585	19,575,900	134,043,485
45,993,901	—	45,993,901
3,041,774	—	3,041,774
2,141,457	—	2,141,457
<u>1,640,350</u>	<u>—</u>	<u>1,640,350</u>
<u>6,823,581</u>	<u>—</u>	<u>6,823,581</u>
<u>52,817,482</u>	<u>—</u>	<u>52,817,482</u>
61,650,103	19,575,900	81,226,003
<u>—</u>	<u>942,838</u>	<u>942,838</u>
61,650,103	20,518,738	82,168,841
<u>487,315,970</u>	<u>122,873,582</u>	<u>610,189,552</u>
<u>\$ 548,966,073</u>	<u>\$ 143,392,320</u>	<u>\$ 692,358,393</u>

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**NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

Years Ended December 31, 2018 and 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<u>2018</u>				
Grants, scholarships and program initiatives	\$44,375,608	\$ –	\$ –	\$44,375,608
Salaries and wages	1,980,271	1,306,730	943,638	4,230,639
Employee benefits	463,425	334,176	220,916	1,018,517
Payroll taxes	139,404	100,525	66,454	306,383
Information technology	179,179	129,207	85,415	393,801
Communications and marketing	128,349	92,553	61,184	282,086
Fees for services	94,604	68,219	45,098	207,921
Depreciation	99,948	72,073	47,646	219,667
Office expenses	76,677	55,291	36,552	168,520
Occupancy	83,949	60,535	40,019	184,503
Travel and conferences	74,797	53,935	35,656	164,388
Meetings	50,401	36,345	24,026	110,772
Professional fees	48,847	35,222	23,286	107,355
Insurance	17,775	12,818	8,474	39,067
Change in provision for uncollectible notes receivable	(11,184)	–	–	(11,184)
Other expenses	<u>5,500</u>	<u>3,967</u>	<u>2,622</u>	<u>12,089</u>
 Total expenses	 <u>\$47,807,550</u>	 <u>\$2,361,596</u>	 <u>\$1,640,986</u>	 <u>\$51,810,132</u>
 <u>2017</u>				
Grants, scholarships and program initiatives	\$45,993,901	\$ –	\$ –	\$45,993,901
Salaries and wages	1,676,998	1,139,691	908,313	3,725,002
Employee benefits	408,363	302,498	221,049	931,910
Payroll taxes	119,710	88,676	64,800	273,186
Information technology	172,052	127,449	93,133	392,634
Communications and marketing	129,335	95,806	70,010	295,151
Fees for services	114,182	84,581	61,807	260,570
Depreciation	86,571	64,129	46,862	197,562
Office expenses	83,809	62,082	45,366	191,257
Occupancy	72,585	53,768	39,291	165,644
Travel and conferences	64,610	47,860	34,973	147,443
Meetings	34,901	25,853	18,892	79,646
Professional fees	42,695	31,627	23,112	97,434
Insurance	17,264	12,788	9,345	39,397
Change in provision for uncollectible notes receivable	12,423	–	–	12,423
Other expenses	<u>6,276</u>	<u>4,649</u>	<u>3,397</u>	<u>14,322</u>
 Total expenses	 <u>\$49,035,675</u>	 <u>\$2,141,457</u>	 <u>\$1,640,350</u>	 <u>\$52,817,482</u>

See accompanying notes.



**NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (17,258,672)	\$ 82,168,841
Adjustments to reconcile (decrease) increase in net assets to net cash used by operating activities:		
Net loss (gain) from discontinued operations	117,705	(942,838)
Depreciation	219,667	197,562
Net unrealized and realized investment losses (gains)	31,781,418	(72,272,011)
Contributions of securities and real estate	(24,698,597)	(11,931,536)
Contributions with donor restrictions	(8,905,105)	(12,992,612)
Changes in:		
Investments held in trust	537,485	43,971
Accrued investment income	(165,171)	(30,274)
Receivable from trust	966,580	(4,302,317)
Contributions receivable	3,617,671	1,417,293
Grants receivable	302,703	47,285
Other assets	4,000,033	(54,217)
Grants payable	1,134,839	21,132
Income beneficiaries payable	(32,568)	118,775
Unearned contributions	(280,101)	113,164
Accounts payable, accrued expenses and other liabilities	(3,199,078)	(306,715)
Funds held as agency funds	<u>(3,084,217)</u>	<u>7,665,570</u>
Net cash used by operating activities	(14,945,408)	(11,038,927)
Cash flows from investing activities:		
Proceeds from sale of investments	73,203,682	51,291,216
Purchase of investments	(38,900,932)	(44,765,257)
Principal collected from notes receivable	127,610	166,334
Principal disbursed for notes receivable	(118,750)	(123,000)
Purchase of property, plant and equipment, net	<u>(78,867)</u>	<u>(260,880)</u>
Net cash provided by investing activities	34,232,743	6,308,413
Cash flows from financing activities:		
Proceeds from contributions with donor restrictions	<u>8,002,444</u>	<u>6,774,217</u>
Net cash provided by financing activities	<u>8,002,444</u>	<u>6,774,217</u>
Net increase in cash and cash equivalents and restricted cash	27,289,779	2,043,703
Cash and cash equivalents and restricted cash at beginning of year	<u>29,628,737</u>	<u>27,585,034</u>
Cash and cash equivalents and restricted cash at end of year	<u>\$ 56,918,516</u>	<u>\$ 29,628,737</u>

See accompanying notes.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

1. **Organization**

The New Hampshire Charitable Foundation (the Foundation) is a nonprofit community foundation that provides grant and loan assistance to nonprofit organizations primarily in New Hampshire and to students who are residents of the State. The Foundation is comprised of 1,943 individual funds, primarily including unrestricted, field of interest, designated, agency, scholarship, donor advised, annuities, trusts and pooled income funds. Resources for various purposes are classified into funds established according to their nature and purpose.

In 2013, the Foundation created a wholly-owned LLC (the LLC) for the purposes of managing potential risks and exposures related to a gift of 100% of the outstanding shares of a multi-national and diverse corporation (the Corporation). See note 8 for more information.

2. **Summary of Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements of the Foundation include the accounts of the Foundation and its wholly-owned LLC, which consolidates its 100% owned corporate subsidiary. Operating results for the corporate subsidiary (which are accounted for as discontinued operations) have been consolidated from the date of acceptance of the corporate stock. Significant intercompany accounts and transactions have been eliminated in consolidation.

*Concentration of Credit Risk*

Financial instruments which subject the Foundation to credit risk consist of cash equivalents, notes and contributions receivable, and investments. The risk with respect to cash equivalents is minimized by the Foundation’s policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Foundation’s cash and cash equivalents are currently held at six institutions, which at times may exceed federal depository insurance limits. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant risks at December 31, 2018. To further secure balances, the Foundation’s cash accounts are collateralized by U.S. Treasuries and other securities totaling over \$10 million held at Bank of New York Mellon. The Foundation’s notes and contributions receivable are presented net of estimated uncollectible amounts.

The Foundation’s investment portfolio consists of diversified investments, which are subject to market risk, but are not subject to concentrations in any sector. At December 31, 2018, investment concentrations of 5% or greater of the investment portfolio (excluding investments held in trust) were as follows:

Adage Capital Partners, L.P.	\$57,028,752	8.7%
Forester Partners, L.P.	39,075,663	6.0

*Cash and Cash Equivalents and Restricted Cash*

Cash and cash equivalents includes investments in liquid debt instruments. The carrying value of cash and cash equivalents approximates market value. The Foundation classifies financial instruments with an original maturity of less than three months as cash equivalents.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

The Foundation has been awarded grants from unaffiliated charitable organizations that were paid to the Foundation through 2018 and are to be expended through 2020. Each grant is to be used for specific programs as outlined in the grant awards. Included in restricted cash in the accompanying consolidated statements of financial position is \$764,501 and \$541,661 at December 31, 2018 and 2017, respectively, in regard to these awards.

Investments

Investment securities are stated at fair value. The fair value of debt securities and marketable equity securities are based on quoted market prices. The Foundation carries alternative investments at net asset value (NAV), which estimates fair value as determined by management based upon valuations provided by the respective fund managers or general partners. Alternative investments include private equity, venture capital, hedge funds, natural resources, and real estate. The Foundation invests in various investment classes, including international capital markets and alternative investments. The Foundation's investments are subject to various risks, such as interest rate, credit, and overall market volatility, which may substantially impact the value of such investments at any given time.

The Foundation's management is responsible for the fair value measurement of investments reported in the financial statements. The Foundation has implemented policies and procedures to assess the reasonableness of the fair values provided. Because of the inherent uncertainty of valuation for these investments, the estimate of the fund manager or general partner may differ from actual values, and the differences could be significant. The Foundation believes that reported fair values of its alternative investments at the balance sheet dates are reasonable.

Investment income is allocated to the various funds based upon fair value.

The Foundation has commitments to forty-five limited partnerships that draw down capital as the partnerships make investments. As the commitments are called, the Foundation reallocates resources from current investments to fulfill the commitment, thus the capital calls are asset allocation shifts within the investment portfolio. As of December 31, 2018, the Foundation had approximately \$55 million of uncalled capital commitments through 2024, of which it is estimated approximately \$17 million will be called in 2019.

Subsequent to December 31, 2018, the Foundation decided in the first quarter of 2019 to redeem \$18 million from two marketable alternative managers, invest \$24 million in two new marketable alternative managers and commit \$10 million to two private investment managers.

Receivable from Trusts

The Foundation is the sole or partial beneficiary of charitable remainder trusts. The Foundation does not act as trustee and has recorded an asset at the present value of the estimated revenue to be received from the trusts using a discount rate ranging from 2.4% to 7.4%.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Notes Receivable

The Foundation provides low-interest rate loans, currently ranging from 0% to 4%, to students and certain nonprofit organizations. The interest rates range from 0% to 7% on outstanding loans. Interest on student loans is recognized for financial statement purposes when amounts are received which does not significantly differ from the accrual basis. The Foundation evaluates collectibility of its notes receivable and provides reserves for uncollectible amounts based upon specific requirements and historical write offs for loans which are deemed uncollectible. The student loan default rate was 0.33% for 2018 and 0.53% for 2017.

Property, Plant and Equipment

Property, plant and equipment is stated at cost or, if donated, at fair market value determined at the date of donation, less accumulated depreciation. The Foundation's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures that do not extend the lives of the related assets. Depreciation is provided by the straight-line method in a manner which is intended to amortize the cost of the assets over their estimated useful lives.

Contributions, Unearned Contributions, and Income Beneficiaries Payable

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restriction. Contributions received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restrictions is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at appraised value on the date of the gift and is generally made available for sale as soon as practicable. Contributions of public stock are recorded at the average market price on the date of donation.

Conditional contributions depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the contribution becomes unconditional or irrevocable.

The Foundation has recorded a liability for grants awarded but not paid and for the amount due to income beneficiaries of pooled income funds (unearned contributions) and charitable gift annuities (income beneficiaries payable). For charitable gift annuities, the present value of the estimated future payments to be distributed during the beneficiary's expected life is recorded as a liability using a discount rate ranging from 1.0% to 8.2%.

Unconditional contributions expected to be collected within one year are reported at their net realizable value. The fair value of contributions receivable and grants payable is initially determined as the present value of expected future cash flows using a discount rate. Income beneficiaries payable are initially reported at fair value based on the life expectancy of the beneficiaries and the present value of expected cash flows using a discount rate established at the time of the gift.

# NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 2. Summary of Significant Accounting Policies (Continued)

#### Grants, Scholarships, and Program Initiative Expenses

Grant, scholarships, and program initiative expenses are recorded when all due diligence has been completed and they are approved by the Foundation's staff or Board of Directors. Grant refunds are recorded as a reduction of grant expense at the time the Foundation receives or is notified of the refund.

During the year, grants have been approved and disbursed to organizations in which some of the board members may be involved through board or other advisory relationships. It is the Foundation's policy to have each board member disclose the conflict of interest. These board members are prohibited from voting on grants to these organizations in those instances.

#### Agency Funds

Agency funds are funds that are established and funded by a not-for profit organization for its own benefit. In exchange, the Foundation agrees to provide periodic distributions to the not-for-profit organization. Accounting rules require the Foundation to account for transfers of assets from not-for-profit organizations into agency funds as an asset with a corresponding liability.

#### Classification of Net Assets

The following provides a description of the net asset classifications represented in the Foundation's consolidated statement of financial position:

Net Assets With Donor Restrictions include contributions and endowment investment earnings subject to donor-imposed restrictions, as well as irrevocable trusts and contributions receivable. Some donor-imposed restrictions are temporary in nature that are expected to be met either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2018 and 2017, the Foundation's net assets with donor restrictions are restricted for funding various community needs as specified by the donors, as well as the endowment corpus and unspent endowment investment earnings.

Net Assets Without Donor Restrictions include net assets available but designated to fund grants, scholarships and initiatives not subject to donor restrictions, which includes amounts appropriated for expenditure from net assets with donor restrictions. Net assets designated to fund operations are cash reserves designated for future operating needs (see note 3). The Board of Directors has designated, from net assets without donor restrictions, net assets for operations and capital reserves. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

# NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 2. Summary of Significant Accounting Policies (Continued)

The Foundation reports gifts of property, plant, and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. The Foundation reports expirations of donor's restrictions when the donated or acquired long-lived assets are placed in service.

The Foundation maintains the following types of funds within its net assets:

**Agency funds** are established by 501(c)(3) organizations that transfer ownership of funds to the Foundation. Nonprofit organizations establish agency funds to ensure they will be able to fulfill their missions now and in the future. The agency fund is owned by the Foundation and is held as an asset on its statement of financial position with a corresponding liability, which totals \$40,444,531 and \$43,528,748 at December 31, 2018 and 2017, respectively.

**Designated funds** are established by a donor(s) to support specific nonprofit organizations. The Foundation has the ongoing fiduciary responsibility to make grants to the nonprofit organizations donor(s) have selected. If the selected nonprofit organization ceases to exist, the Foundation's Board of Directors will identify another nonprofit that most closely resembles the original charitable intent.

**Donor Advised funds** are established to fulfill the donor's charitable goals, which may vary over time. The donor may recommend grants from the fund to any 501(c)(3) organization(s) or may partner with Foundation staff to identify opportunities for grant making.

**Field of Interest funds** are established to provide grants in a particular field of charitable interest but not to specific charitable organizations. Examples of field of interest include arts, education, environment, and health.

**Scholarship funds** are established to help students meet their educational or career goals. They provide access to educational opportunities for a wide variety of students. A scholarship fund may benefit a particular community, a particular educational institution, or a particular field of study.

**Unrestricted funds** are established to provide broad charitable support for community well-being in a wide variety of areas of interest. They provide the most flexibility in meeting the changing needs of communities by allowing the Foundation to direct grants where they will have the greatest impact.

Under the terms of the Foundation's bylaws, the Board has the ability to distribute as much of the corpus of any trust or separate gift, bequest, or fund as the Board in its sole discretion shall determine. As a result, all contributions not classified as with donor restrictions are classified as net assets without donor restrictions designated to fund grants, scholarships and initiatives for financial statement purposes. In general, the bylaws of the Foundation provide for variance power which allows the redirection of spending and the reduction of principal, if necessary.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

2. **Summary of Significant Accounting Policies (Continued)**

The State of New Hampshire adopted *Uniform Prudent Management of Institutional Funds Act of 2006* (UPMIFA) effective July 1, 2008. The Foundation has determined that many of the Foundation’s net assets do not meet the definition of endowment under UPMIFA. The Foundation is governed subject to its bylaws and most contributions are subject to the terms of the bylaws. Certain contributions are received subject to other gift instruments.

Net assets are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation classifies contributions received with donor stipulations that restrict the timing or purpose of expending the donated assets as revenues with donor restrictions and are reported as net assets with donor restrictions depending upon specific language in the gift instrument. The Board has interpreted UPMIFA as requiring the preservation of the value of the original gift only where there is explicit donor stipulation. As a result of this interpretation, the Foundation classifies the original value of gifts donated to the endowment as well as subsequent gifts to the endowment as net assets with donor restrictions. The remaining portion of the donor-restricted endowment fund that is not classified as endowment is subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purpose of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

Spending Policy for Appropriation of Assets for Expenditure

The spending policy calculates the amount of money distributed annually from the Foundation’s various funds for grant making and administration. The Board adopted a spending rate of 5.05% for 2018 and 2019 of the investment fund’s average market value over the prior 20 quarters (4.00% for charitable disbursement and 1.05% for Foundation fees ranging from 0.2% – 2.0%). The spending policy for 2017 was 5.25% of the investment fund’s average market value over the prior 20 quarters (4.20% for charitable disbursement and approximately 1.05% for Foundation fees ranging from 0.2% – 2.0%). The fee varies based on the fund type, and in some cases, the fund size. Effective in 2011, the Board adopted a sliding scale spending policy to address underwater funds, defined as those endowment funds with balances below historic gift value. The rate varies based on the percentage that the endowment fund is below historic gift value. The table below illustrates the spending policy for charitable disbursements for endowment funds with balances that are under historic gift value.

<u>Amount Underwater</u>	<u>Reduction in Spending</u>	<u>Charitable Disbursement Rate</u>		
		<u>2019</u>	<u>2018</u>	<u>2017</u>
10% or less	No reduction	4.00%	4.00%	4.20%
Over 10% up to and including 15%	33.3% reduction	2.67	2.67	2.80
Over 15% up to and including 20%	66.7% reduction	1.33	1.33	1.40
Over 20%	100% reduction	0.00	0.00	0.00

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

In establishing this policy, the Foundation considered the long-term expected return on its investments. Over the long term, the Foundation's objective is to maintain the purchasing power of its investments as well as to provide growth through new gifts and investment return.

Investment Policies

The Foundation has adopted investment and spending policies for its investments that attempt to provide a stream of funding to support programs defined by its component funds while seeking to maintain the purchasing power of the assets. The Foundation's spending and investment policies work together to achieve this objective. Under the investment policy, as approved by the Board, the assets are invested in a manner that is intended to produce results that meet the spending policy plus the rate of inflation while assuming a moderate level of investment risk. The Foundation expects its investments, over time, to provide an average rate of return of approximately 8.0% annually. Actual returns in any given year may vary from this amount. To satisfy its long-term 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 targets a diversified asset allocation that places an emphasis on achieving its long-term return objectives within prudent risk constraints.

Net Investment Return

Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized investment gains and losses, less external and direct internal investment expenses.

Income Taxes

The Foundation and its wholly-owned LLC are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The consolidated Corporation accounts for income taxes under the liability method in accordance with provisions of Accounting Standards Codification Topic 740, *Income Taxes* (ASC 740). Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The consolidated Corporation maintains a valuation allowance for deferred tax assets for which recovery is uncertain.



NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

2. **Summary of Significant Accounting Policies (Continued)**

The Corporation also accounts for uncertain income tax positions under ASC 740. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. Generally, the Corporation's preceding three years are open for examination by federal and state taxing agencies. In addition to being subject to U.S. and various state taxes, the Corporation is also subject to tax in foreign jurisdictions. The affiliated corporation accounts for uncertain tax positions using a "more-likely-than-not" threshold for recognizing and resolving uncertain tax positions. The evaluation of uncertain tax positions is based on factors that include, but are not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. Any related interest and penalties would be recorded within income tax expense.

Management has evaluated the Foundation's tax positions and concluded that the Foundation has maintained its tax-exempt status, does not have any significant unrelated business income and has taken no uncertain tax positions that require adjustment to the financial statements.

**Retirement Plans and Deferred Compensation Agreements**

The Foundation has a defined contribution 403(b) thrift plan covering substantially all of its employees. Under this plan, the Foundation annually contributes 10% of each eligible employee's annual salary. The total cost of the plan charged to operations amounted to \$409,068 in 2018 and \$369,359 in 2017. Contributions are used to purchase group annuity contracts with a life insurance company in order to fund future benefit payments. Such employer contributions are 100% vested.

The plan also includes supplemental employee "Taxable and Tax-Deferred Annuity Plan" provisions designed to afford eligible employees the opportunity to make contributions to the plan not to exceed amounts legislated under *Employee Retirement Income Security Act of 1974*. Such employee contributions are 100% vested.

The Foundation adopted a 457(b) deferred compensation plan during 2010 for certain key employees. The purpose of the plan is to provide supplemental retirement income and the retention of key employees by offering benefits comparable with similar organizations. The plan calls for set annual contributions and the cost is expensed when each contribution is made. The total cost of the plan charged to operations amounted to \$29,000 in both 2018 and 2017. At December 31, 2018 and 2017, \$214,828 and \$195,216, respectively, was accrued for this obligation.

Total compensation including the deferred compensation plan is evaluated and approved annually by the Board. This process is documented in the Board minutes.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

2. **Summary of Significant Accounting Policies (Continued)**

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of activities and the consolidated statements of functional expenses. The consolidated financial statements report certain expenses that are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated on the basis of estimates of time and effort. See note 7.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

New Accounting Pronouncements

On August 8, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation implemented ASU 2016-14, as it is effective for the Foundation for the year ended December 31, 2018, and has adjusted the presentation in these consolidated financial statements accordingly. The most significant effects relate to the change in net asset classification from unrestricted, temporarily restricted and permanently restricted to net assets with and without donor restrictions, as well as the addition of the consolidated statements of functional expenses and liquidity disclosures (see note 3). The ASU has been applied retrospectively to all periods presented, and had no impact on previously reported net assets.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (230): Restricted Cash* (ASU 2016-18). The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for the Foundation's fiscal year ending December 31, 2019, with early adoption permitted, on a retrospective basis. The Foundation early adopted ASU 2016-18 and the ASU has been applied retrospectively to all periods presented.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

2. **Summary of Significant Accounting Policies (Continued)**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Foundation on January 1, 2020, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Foundation is currently evaluating the impact of the pending adoption of ASU 2016-02 on the consolidated financial statements but does not expect significant changes as a result of adoption.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). Due to diversity in practice, ASU 2018-08 clarifies the definition of an exchange transaction as well as the criteria for evaluating whether contributions received or made are unconditional or conditional. ASU 2018-08 is effective for the Foundation as the resource recipient on January 1, 2019 and as the resource provider on January 1, 2020, with early adoption permitted. The Foundation is currently evaluating the impact that ASU 2018-08 will have on the consolidated financial statements.

**Subsequent Events**

Events occurring after the statement of financial position date are evaluated by management to determine whether such events should be recognized or disclosed in the consolidated financial statements. Management has evaluated subsequent events through \_\_\_\_\_, 2019, which is the date the consolidated financial statements were available to be issued.

3. **Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date (December 31, 2018), comprise the following:

Cash and cash equivalents	\$6,391,870
Investments, at fair value	914,615
Contributions receivable	<u>22,975</u>
	<u>\$7,329,460</u>

The Foundation's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditures.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

3. **Liquidity and Availability (Continued)**

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds. Occasionally, the Board will designate a portion of any operating surplus to its operating reserve. Included in net assets without donor restrictions designated by the Board for operating reserves is \$3,874,586 as of December 31, 2018, and is included in the cash and cash equivalents noted above.

4. **Investments**

The major categories of investments, at fair value, at December 31 are as follows:

	2018		2017	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Equity:				
Domestic	\$ 140,548,889	21.4%	\$ 151,544,759	21.7%
Global (excluding U.S.)	<u>162,056,905</u>	<u>24.7</u>	<u>162,869,228</u>	<u>23.4</u>
Total equity	302,605,794	46.1	314,413,987	45.1
Fixed income	66,912,974	10.2	84,579,141	12.1
Marketable alternatives	131,624,797	20.1	135,962,739	19.5
Inflation hedging	40,708,138	6.2	46,717,522	6.7
Non-marketable alternatives	82,828,485	12.6	71,405,807	10.2
Cash equivalents	<u>31,027,654</u>	<u>4.8</u>	<u>44,131,922</u>	<u>6.4</u>
	<u>\$ 655,707,842</u>	<u>100.0%</u>	<u>\$ 697,211,118</u>	<u>100.0%</u>

The major categories of investments held in trust at December 31, are as follows:

	2018		2017	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Equity – domestic	\$ 139,651	4.6%	\$ 196,378	5.5%
Balanced funds	2,831,242	92.7	3,367,305	93.8
Cash equivalents	<u>82,079</u>	<u>2.7</u>	<u>26,774</u>	<u>0.7</u>
	<u>\$3,052,972</u>	<u>100.0%</u>	<u>\$3,590,457</u>	<u>100.0%</u>

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

4. **Investments (Continued)**

The tables below set forth additional disclosures for investment funds to further understand the nature and risk of the investments by category at December 31, 2018 and 2017:

	<u>Fair value as of December 31, 2018</u>	<u>Unfunded Commit- ments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Equity investments	\$ 110,035,818	\$ —	Daily	0 – 6 days
Equity investments	91,898,718	—	Monthly	10– 60 days
Equity investments	85,818,482	—	Quarterly	30 – 90 days
Equity investments	<u>14,852,776</u>	<u>—</u>	Annually	60 days
Total equity investments	302,605,794	—		
Fixed income investments	66,912,974	—	Daily	0 – 1 day
Marketable alternative investments	22,608,988	—	Monthly	17 days
Marketable alternative investments	57,931,829	—	Quarterly	45 – 65 days
Marketable alternative investments	39,075,663	—	Annually	95 days
Marketable alternative investments	11,900,690	—	Biennially	45 days
Marketable alternative investments	<u>107,627</u>	<u>—</u>	Illiquid	N/A
Total marketable alternative investments	131,624,797	—		
Inflation hedging investments	12,797,234	—	Daily	0 – 1 day
Inflation hedging investments	<u>27,910,904</u>	<u>5,587,581</u>	Illiquid	N/A
Total inflation hedging investments	40,708,138	5,587,581		
Non-marketable alternative investments	82,828,485	49,195,955	Illiquid	N/A
Cash equivalents	29,527,863	—	Daily	0 – 1 day
Cash equivalents	<u>1,499,791</u>	<u>—</u>	Monthly	30 days
Total cash equivalents	<u>31,027,654</u>	<u>—</u>		
	<u>\$ 655,707,842</u>	<u>\$54,783,536</u>		

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

4. Investments (Continued)

	Fair value as of December 31, 2017	Unfunded Commit- ments	Redemption Frequency	Redemption Notice Period
Equity investments	\$ 158,596,561	\$ –	Daily	0 – 6 days
Equity investments	67,489,854	–	Monthly	10– 60 days
Equity investments	71,986,330	–	Quarterly	60 – 90 days
Equity investments	<u>16,341,242</u>	<u>–</u>	Annually	60 days
Total equity investments	314,413,987	–		
Fixed income investments	84,579,141	–	Daily	0 – 1 day
Marketable alternative investments	21,492,643	–	Monthly	17 days
Marketable alternative investments	50,654,015	–	Quarterly	45 – 65 days
Marketable alternative investments	54,722,392	–	Annually	95 days
Marketable alternative investments	8,903,236	–	Biennially	45 days
Marketable alternative investments	<u>190,453</u>	<u>–</u>	Illiquid	N/A
Total marketable alternative investments	135,962,739	–		
Inflation hedging investments	18,241,603	–	Daily	0 – 1 day
Inflation hedging investments	<u>28,475,919</u>	<u>9,715,964</u>	Illiquid	N/A
Total inflation hedging investments	46,717,522	9,715,964		
Non-marketable alternative investments	71,405,807	43,837,724	Illiquid	N/A
Cash equivalents	41,312,174	–	Daily	0 – 1 day
Cash equivalents	<u>2,819,748</u>	<u>–</u>	Monthly	0 – 30 days
Total cash equivalents	<u>44,131,922</u>	<u>–</u>		
	<u>\$ 697,211,118</u>	<u>\$53,553,688</u>		

The illiquid investments noted above generally are investments which require a long-term investment commitment, are not publicly traded, and are intended to be held for the life of the investment fund or partnership. Accordingly, any attempt to sell these investments before the end of their investment period could result in the Foundation realizing less than fair value at the time of any early redemptions. The Foundation intends to hold the investments until maturity.

# NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 4. Investments (Continued)

#### Equity Investments

The purpose of the equity allocation (broadly defined to include domestic stocks and foreign stocks) is to provide appreciation of principal that more than offsets inflation over the long run. It is recognized that pursuit of this objective could entail the assumption of greater return variability and risk within individual asset classes. However, the diversification benefits of combining various equity components should enhance the overall portfolio risk-return profile.

#### Fixed Income Investments

The purpose of the fixed income allocation is to provide a hedge against deflation, to increase current income relative to an all-equity fund, and to reduce overall volatility of the portfolio. The purpose of including opportunistic fixed income assets such as, but not limited to, global and high yield securities in the portfolio is to enhance the overall risk-return characteristics of the portfolio. Global fixed income managers may hold domestic, international, and non-dollar fixed income securities.

#### Marketable Alternative Investments

The role of marketable alternative (MALT) investments, often referred to as “hedge funds,” is to increase portfolio diversification through offering sources of return that are not generally correlated with traditional equity and fixed income markets. Also, MALT investments provide relatively consistent returns and principal protection in significantly down equity markets, while reducing overall volatility of the portfolio. Investments in the MALT program may take the form of direct investment in a single manager or fund-of-funds manager. MALT managers may engage in the use of derivatives (options/futures/forwards) as part of their investment strategy. MALT investments are generally less liquid than their traditional equity counterparts as most MALT managers have entry/exit terms and capital lockup periods that range from monthly to two years.

#### Inflation Hedging Investments

The purpose of inflation hedging investments such as, but not limited to, private real estate, real estate investment trusts (REITs), oil and gas partnerships, TIPS, and commodities is to protect the purchasing power of the Fund against unexpected or severe inflation. Inflation hedging investments in REITs, TIPS and commodities are significantly more liquid than investments in oil and gas partnerships and private real estate.

#### Non-Marketable Alternative Investments

The purpose of “alternative” assets such as, but not limited to, venture capital, private equity, and distressed securities investments is to provide increased return potential and to reduce overall volatility of the Fund through greater diversification. These investments can be made either in the form of direct investment, partnerships, fund-of-funds or with an investment manager. These assets are less liquid and require a longer investment horizon. Most require a multi-year commitment of capital.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

4. **Investments (Continued)**

The principal components of net investment return include:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 6,128,258	\$ 5,857,881
Net unrealized and realized (losses) gains on investments	(31,781,418)	72,272,011
External and direct internal investment expenses	<u>(2,073,205)</u>	<u>(1,918,985)</u>
Net investment return	<u>\$(27,726,365)</u>	<u>\$76,210,907</u>

The Foundation classifies its investments measured at fair value on a recurring basis into Level 1, which refers to investments traded in an active market; Level 2, which refers to investments not traded in an active market but for which observable market inputs are readily available; and Level 3, which refers to investments not traded in an active market and for which no significant observable market inputs are available. Generally, Level 3 investments are valued based upon information provided by fund managers or general partners, including audited financial statements of the investment funds. The levels relate to valuation only and do not necessarily indicate a measure of risk. At December 31, 2018 and 2017, the Foundation's investments measured at fair value on a recurring basis were classified as follows, based on fair values:

<u>Description</u>	<u>2018</u>				<u>Total</u>
	<u>Investments Measured at NAV <sup>(1)</sup></u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Domestic equity	\$ 88,881,528	\$ 51,096,661	\$ 570,700	\$ –	\$ 140,548,889
Global equity	145,409,341	16,647,564	–	–	162,056,905
Fixed income	–	37,401,158	29,511,816	–	66,912,974
Marketable alternatives	131,624,797	–	–	–	131,624,797
Inflation hedging – natural resources	23,708,450	–	–	–	23,708,450
Inflation hedging – real estate	4,202,454	86,882	–	–	4,289,336
Inflation hedging – marketable	–	12,710,352	–	–	12,710,352
Non-marketable alternatives	82,828,485	–	–	–	82,828,485
Cash equivalents	<u>–</u>	<u>16,961,306</u>	<u>14,066,348</u>	<u>–</u>	<u>31,027,654</u>
Total investments	<u>\$ 476,655,055</u>	<u>\$ 134,903,923</u>	<u>\$44,148,864</u>	<u>\$ –</u>	<u>\$ 665,707,842</u>
Investments held in trust	<u>\$ –</u>	<u>\$ 3,052,972</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 3,052,972</u>



NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

4. **Investments (Continued)**

Description	2017				
	Investments Measured at NAV <sup>(1)</sup>	Level 1	Level 2	Level 3	Total
Domestic equity	\$ 77,768,954	\$ 72,040,834	\$ 1,734,971	\$ –	\$ 151,544,759
Global equity	128,130,363	33,964,739	774,126	–	162,869,228
Fixed income	–	83,366,237	1,212,904	–	84,579,141
Marketable alternatives	135,962,739	–	–	–	135,962,739
Inflation hedging – natural resources	23,061,861	–	73,532	–	23,135,393
Inflation hedging – real estate	5,414,058	125,084	–	–	5,539,142
Inflation hedging – marketable	–	18,042,987	–	–	18,042,987
Non-marketable alternatives	71,405,807	–	–	–	71,405,807
Cash equivalents	–	38,476,316	5,655,606	–	44,131,922
Total investments	\$ 441,743,782	\$ 246,016,197	\$ 9,451,139	\$ –	\$ 697,211,118
Investments held in trust	\$ –	\$ 3,590,457	\$ –	\$ –	\$ 3,590,457

(1) In accordance with ASC Subtopic 820-10, investments measured using the NAV per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

5. **Changes in Endowment Net Assets**

The major categories of endowment funds at December 31 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>2018</u>			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 3,999,702	\$ 79,041,667	\$ 83,041,369
Accumulated investment gains	–	35,927,704	35,927,704
Total endowment net assets	\$ 3,999,702	\$ 114,969,371	\$ 118,969,073

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

5. Changes in Endowment Net Assets (Continued)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2017</u>			
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	\$3,983,080	\$ 78,036,215	\$ 82,019,295
Accumulated investment gains	—	<u>46,226,420</u>	<u>46,226,420</u>
Total endowment net assets	<u>\$3,983,080</u>	<u>\$ 124,262,635</u>	<u>\$ 128,245,715</u>

In the year 2018, the Foundation had the following endowment-related activities:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$3,983,080	\$ 124,262,635	\$ 128,245,715
Investment return:			
Investment income	—	1,065,716	1,065,716
Change in value of split interest agreements	—	30,731	30,731
Net depreciation (realized and unrealized)	—	(4,815,035)	(4,815,035)
Investment fees	—	<u>(413,453)</u>	<u>(413,453)</u>
Total net investment return	—	(4,132,041)	(4,132,041)
Contributions	—	565,111	565,111
Transfers between net asset classes and releases from endowment net assets including maturing pooled income funds	16,622	409,610	426,232
Appropriated for expenditure	—	<u>(6,135,944)</u>	<u>(6,135,944)</u>
Endowment net assets, end of year	<u>\$3,999,702</u>	<u>\$ 114,969,371</u>	<u>\$ 118,969,073</u>

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5. **Changes in Endowment Net Assets (Continued)**

In the year 2017, the Foundation had the following endowment-related activities:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,696,205	\$ 106,992,292	\$ 110,688,497
Investment return:			
Investment income	—	1,005,171	1,005,171
Change in value of split interest agreements	—	322,081	322,081
Net appreciation (realized and unrealized)	—	14,248,799	14,248,799
Investment fees	—	(416,777)	(416,777)
Total net investment return	—	15,159,274	15,159,274
Contributions	—	7,112,264	7,112,264
Transfers between net asset classes and releases from endowment net assets including maturing pooled income funds	286,875	530,874	817,749
Appropriated for expenditure	—	(5,532,069)	(5,532,069)
Endowment net assets, end of year	<u>\$ 3,983,080</u>	<u>\$ 124,262,635</u>	<u>\$ 128,245,715</u>

The Foundation reclassifies certain funds with donor restrictions and without donor restrictions to reflect donor intent when funds are released from restrictions or additional information surrounding intent is obtained.

6. **Net Asset Composition by Type of Fund**

The major categories of endowment funds at December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Agency	\$ —	\$ 5,538,281	\$ 5,538,281
Designated	161,306	19,372,928	19,534,234
Donor advised	162,585	8,289,607	8,452,192
Field of interest	821,522	28,089,419	28,910,941
Scholarship	2,709,394	43,078,026	45,787,420
Unrestricted	144,895	9,152,058	9,296,953
Other	—	1,449,052	1,449,052
Total endowment net assets	<u>\$ 3,999,702</u>	<u>\$ 114,969,371</u>	<u>\$ 118,969,073</u>

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

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6. Net Asset Composition by Type of Fund (Continued)

The major categories of endowment funds at December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Agency	\$ –	\$ 6,014,501	\$ 6,014,501
Designated	199,987	20,487,988	20,687,975
Donor advised	199,594	8,923,077	9,122,671
Field of interest	894,824	30,360,966	31,255,790
Scholarship	2,620,749	46,816,692	49,437,441
Unrestricted	67,926	9,963,293	10,031,219
Other	<u>–</u>	<u>1,696,118</u>	<u>1,696,118</u>
Total endowment net assets	<u>\$ 3,983,080</u>	<u>\$ 124,262,635</u>	<u>\$ 128,245,715</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of permanent duration. Deficiencies of this nature are reported in net assets with donor restrictions. The aggregate deficiency between the fair value of the investments of the endowment fund at December 31, 2018 and the level required by donor stipulation was \$524,699. The aggregate fair value of funds with deficiencies was \$16,700,204 and the amount of the original endowment donations required to be maintained was \$17,224,903 at December 31, 2018. At December 31, 2017, there were no deficiencies in individual donor-restricted endowment funds. In addition, the aggregate deficiency between the fair value of the Foundation's charitable gift annuities at December 31, 2018 and 2017 and the level required for contracted payouts totaled \$33,273 and \$41,218, respectively. These deficiencies resulted from unfavorable market fluctuations as well as continued appropriation for expenditures that were deemed prudent by the Board under the currently adopted spending policy.

Non-Endowment Net Asset Composition by Type of Fund

In addition to endowment net assets, the Foundation also maintains non-endowed funds. The major categories of non-endowment funds at December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Non- Endowment Net Assets</u>
Agency	\$ (1,774,164)	\$ (3,764,132)	\$ (5,538,296)
Designated	69,461,530	100,000	69,561,530
Donor advised	303,232,462	–	303,232,462
Field of interest	84,677,516	541,159	85,218,675
Scholarship	54,550,950	1,232,000	55,782,950
Unrestricted	26,683,824	–	26,683,824
Other	<u>10,443,327</u>	<u>10,746,176</u>	<u>21,189,503</u>
Total non-endowment net assets	<u>\$ 547,275,445</u>	<u>\$ 8,855,203</u>	<u>\$ 556,130,648</u>

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6. Net Asset Composition by Type of Fund (Continued)

The major categories of non-endowment funds at December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Non- Endowment Net Assets</u>
Agency Designated	\$ (2,034,615)	\$ (3,979,901)	\$ (6,014,516)
Donor advised	75,087,296	105,000	75,192,296
Field of interest	283,679,662	1,641,420	285,321,082
Scholarship	86,373,392	72,500	86,445,892
Unrestricted	58,391,779	-	58,391,779
Other	35,378,448	412,500	35,790,948
	<u>8,107,031</u>	<u>20,878,166</u>	<u>28,985,197</u>
Total non-endowment net assets	<u>\$ 544,982,993</u>	<u>\$ 19,129,685</u>	<u>\$ 564,112,678</u>

Organizational Components

The organizational components of net assets at December 31 are as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
New Hampshire Charitable Foundation, excluding regions	\$ 295,071,723	43.7%	\$ 320,411,100	46.3%
Regions:				
Piscataqua	99,507,296	14.8	82,555,607	11.9
Upper Valley	50,929,694	7.5	49,596,346	7.2
Manchester	46,941,862	7.0	49,571,788	7.2
Monadnock	43,515,364	6.5	46,708,817	6.7
North Country	43,447,346	6.4	44,359,362	6.4
Lakes	35,833,116	5.3	36,514,617	5.3
Capital	33,971,614	5.0	35,361,970	5.1
Nashua	<u>25,881,706</u>	<u>3.8</u>	<u>27,278,786</u>	<u>3.9</u>
	<u>\$ 675,099,721</u>	<u>100.0%</u>	<u>\$ 692,358,393</u>	<u>100.0%</u>

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7. Allocation of Joint Costs

The Foundation’s activities include program, management, and fund raising components. The Financial Accounting Standards Board requires the Foundation to allocate all costs to one of these three categories. Most costs can be directly attributed to one of these categories, but some costs associated with joint activities cannot be allocated accurately and fully between the three activities. It would be impractical and cost prohibitive to track the individual usage of costs such as telephone, supplies, photocopying, utilities, etc. These costs are referred to as joint costs. The Foundation allocates joint costs to program service, management and general, and fundraising based on time spent on the activities by various personnel. There are no personnel costs included in joint costs because all personnel costs are directly attributable to either program, management or fund raising. Joint costs were allocated as follows:

	<u>2018</u>	<u>2017</u>
Program service	\$451,975	\$428,319
Management and general	226,115	217,971
Fundraising	<u>249,314</u>	<u>261,901</u>
	<u>\$927,404</u>	<u>\$908,191</u>

8. Affiliated Organization

OCG, LLC is a wholly-owned nonprofit affiliated entity which was formed under the laws in the State of Minnesota for the purpose of managing risk associated with a gift of the outstanding shares of Tillotson Corporation and subsidiaries. On August 8, 2013, the Foundation’s Board of Directors accepted a gift of 100% of the outstanding shares of Tillotson Corporation, a multi-national and diverse corporation formerly in the latex and luxury resort businesses, but now undergoing liquidation of its remaining assets and settlements of its remaining liabilities anticipated to be liquidated in the near future. All activity in relation to the operations of Tillotson Corporation has been recorded as discontinued operations within the consolidated statements of activities.

Given the 100% ownership of the LLC and in turn its ownership of 100% of Tillotson Corporation, the Corporation’s assets, liabilities and results of operations have been consolidated within the accompanying 2018 and 2017 financial statements of the Foundation. The net assets contributed at the date of donation totaled \$11,884,640, based on management’s estimates which were supported by independent appraisals and third party valuations. In 2018, Tillotson Corporation sold one of their properties. In response to the sale, management recorded the resulting gain of \$2,482,927 as a contribution with donor restrictions. Additionally, management decreased the estimated environmental liabilities by \$2,685,000 and recorded this as a contribution with donor restrictions. No amounts were recognized in 2017. The gift has been recorded as a contribution with donor restrictions until future contingencies are resolved. In 2018, \$12,500,000 was released from net assets with donor restrictions to net assets without donor restrictions as management believes certain contingencies have been resolved.

NEW HAMPSHIRE CHARITABLE FOUNDATION AND AFFILIATED ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

8. **Affiliated Organization (Continued)**

Condensed aggregate information related to the LLC and Tillotson Corporation follows as of and for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Cash	\$ 197,224	\$ 178,841
Investments, at fair value	7,907,549	14,690,609
Assets held for sale, at estimated fair value:		
Property, plant and equipment	156,236	4,056,236
Prepaid expenses	77,512	195,534
Other receivables	<u>87,123</u>	<u>39,994</u>
Total assets held for sale	<u>320,871</u>	<u>4,291,764</u>
Total assets	<u>\$ 8,425,644</u>	<u>\$19,161,214</u>
Other liabilities:		
Accounts payable and accrued expenses	\$ 403,719	\$ 483,429
Estimated litigation settlements	2,000,000	2,013,246
Estimated environmental liabilities	<u>2,258,777</u>	<u>5,445,257</u>
Total liabilities	4,662,496	7,941,932
Net assets (reflected in net assets with donor restrictions)	<u>3,763,148</u>	<u>11,219,282</u>
Total liabilities and net assets	<u>\$ 8,425,644</u>	<u>\$19,161,214</u>

The property, plant and equipment held for sale at December 31, 2018 and 2017 consist of buildings, land and equipment that were recorded at fair value as of the date of contribution and are recorded in other assets in the accompanying consolidated statements of financial position. Management has evaluated the carrying value of the buildings, land and equipment and believes there is no impairment at December 31, 2018. The litigation liabilities relate to uncertainties relating to potential legal settlements. The environmental liabilities consist of estimated potential remediation liabilities for properties still owned by the Corporation as well as the estimated potential liability for properties no longer owned by the Corporation but for which the Corporation retained potential environmental liability. The Foundation has obtained independent appraisals of the potential liability relating to these environmental contingencies.

A summary of the Corporation's operations is as follows:

	<u>2018</u>	<u>2017</u>
Net sales	\$ 123,651	\$ 123,725
Cost of sales	(55,065)	(48,648)
Operating expenses	(868,650)	(850,923)
Other income and expense	<u>682,359</u>	<u>1,718,684</u>
Net (loss) gain from discontinued operations	<u>\$(117,705)</u>	<u>\$ 942,838</u>