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**CARNEGIE COUNCIL FOR ETHICS
IN INTERNATIONAL AFFAIRS, INC. AND AFFILIATE**
Combining Audited Financial Statements

June 30, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Carnegie Council for Ethics in International Affairs, Inc. and Affiliate

Report on the Combining financial statements

We have audited the accompanying combining financial statements of Carnegie Council for Ethics in International Affairs, Inc. and Affiliate (the "Council and Affiliate"), which comprise the combining statements of financial position as of June 30, 2018, and the related combining statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Combining financial statements

Management is responsible for the preparation and fair presentation of these combining 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 combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

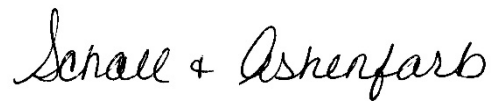
Our responsibility is to express an opinion on these combining financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the combining 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 organization'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 combining 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 combining financial statements referred to above present fairly, in all material respects, the financial position of Carnegie Council for Ethics in International Affairs, Inc. and Affiliate and Carnegie Council Fund, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Schall & Ashenfarb
Certified Public Accountants, LLC

January 10, 2019

CARNEGIE COUNCIL FOR ETHICS IN INTERNATIONAL AFFAIRS, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018

	Carnegie Council for Ethics in International Affairs, Inc.	Carnegie Council Fund, Inc.	Total	Eliminations	Total
Assets					
Cash and cash equivalents	\$452,863	\$1,713,356	\$2,166,219		\$2,166,219
Cash and cash equivalents - board designated fund	229,168		229,168		229,168
Pledges receivable	473,355		473,355		473,355
Other receivable	3,494		3,494		3,494
Due from affiliated organization	230,189		230,189	(\$230,189)	0
Investments at fair value - board designated fund (Note 3)	32,739,458		32,739,458		32,739,458
Investments in limited partnerships and private equity - board designated fund (Note 3)	3,764,355		3,764,355		3,764,355
Fixed assets, net (Note 4)	593,021		593,021		593,021
Works of art	91,850		91,850		91,850
Total assets	\$38,577,753	\$1,713,356	\$40,291,109	(\$230,189)	\$40,060,920
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$82,370		\$82,370		\$82,370
Due to related parties		\$230,189	230,189	(\$230,189)	0
Total liabilities	82,370	230,189	312,559	(230,189)	82,370
Net assets:					
Unrestricted	3,924,713	45,584	3,970,297		3,970,297
Unrestricted - board designated (Note 7)	33,492,371		33,492,371		33,492,371
Total Unrestricted	37,417,084	45,584	37,462,668	0	37,462,668
Temporarily restricted (Note 5)	1,078,299	1,437,583	2,515,882		2,515,882
Total net assets	38,495,383	1,483,167	39,978,550	0	39,978,550
Total liabilities and net assets	\$38,577,753	\$1,713,356	\$40,291,109	(\$230,189)	\$40,060,920

The attached notes and auditor's report are an integral part of these financial statements.

CARNEGIE COUNCIL FOR ETHICS IN INTERNATIONAL AFFAIRS, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Carnegie Council for Ethics in International Affairs, Inc.			Carnegie Council Fund, Inc.			Eliminations	Total
	Unrestricted	Unrestricted Board Designated	Temporarily Restricted	Unrestricted	Temporarily Restricted	Total		
Revenue and other support:								
Dividend and interest income	\$902	733,121		734,023	\$1,504	1,504		735,527
Contributions for programs	54,500		450,000	504,500		583,084		1,087,584
Trustee and individual contributions	125,135			125,135		0		125,135
Program and membership fees	83,235			83,235		0		83,235
Royalties	108,810			108,810		0		108,810
Other income	46,057			46,057	2,302	2,302		48,359
Management fee	509,192			509,192		0	(\$509,192)	0
Net assets released from board designation (Note 7)	1,750,000	(1,750,000)		0		0		0
Net assets released from restriction (Note 5)	1,118,450		(1,118,450)	0	1,860,934	(1,860,934)		0
Total revenue and other support	3,796,281	(1,016,879)	(668,450)	2,110,952	1,864,740	(1,277,850)	(509,192)	2,188,650
Expenses:								
Program services:								
Education	485,976			485,976		0		485,976
Public affairs	347,906			347,906		0		347,906
Studio and internet	1,050,823			1,050,823		0		1,050,823
Print publications	325,593			325,593		0		325,593
Climate Geoengineering governance	382,832			382,832	1,665,152	1,665,152	(441,288)	1,606,696
Total program services	2,593,130	0	0	2,593,130	1,665,152	0	(441,288)	3,816,994
Supporting services:								
Management and general	726,035			726,035	135,606	135,606	(49,506)	812,135
Fundraising	405,804			405,804	18,398	18,398	(18,398)	405,804
Total supporting services	1,131,839	0	0	1,131,839	154,004	0	(67,904)	1,217,939
Total expenses	3,724,969	0	0	3,724,969	1,819,156	0	(509,192)	5,034,933
Change in net assets from operating activities	71,312	(1,016,879)	(668,450)	(1,614,017)	45,584	(1,277,850)	(1,232,266)	0
Non-operating activities:								
Net realized and unrealized gains on investments (Note 3)	1,738,950	404,818		2,143,768		0		2,143,768
Total non-operating activities	1,738,950	404,818	0	2,143,768	0	0	0	2,143,768
Change in net assets	1,810,262	(612,061)	(668,450)	529,751	45,584	(1,277,850)	(1,232,266)	0
Net assets - beginning of year	3,114,451	33,104,432	1,746,749	37,965,632		2,715,433	2,715,433	40,681,065
Net transfer to board designated (Note 7)	(1,000,000)	1,000,000		0		0	0	0
Net assets - end of year	\$3,924,713	\$33,492,371	\$1,078,299	\$38,495,383	\$45,584	\$1,437,583	\$1,483,167	\$0

The attached notes and auditor's report are an integral part of these financial statements.

CARNEGIE COUNCIL FOR ETHICS IN INTERNATIONAL AFFAIRS, INC. AND AFFILIATE
COMBINING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

Carnegie Council for Ethics in International Affairs, Inc.										
	Program Services					Supporting Services				
	Education	Public Affairs	Studio and Internet	Print Publications	Climate Geoengineering Governance Project	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and wages	\$176,700	\$173,220	\$659,043	\$174,304	\$209,020	\$1,392,287	\$270,032	\$224,520	\$494,552	\$1,886,839
Payroll taxes and fringe benefits	43,954	43,088	163,936	43,356	51,993	346,327	67,170	55,849	123,019	469,346
Professional fees	12,445	5,411	100,285		627	118,768	134,313	82,500	216,813	335,581
Office expenses	16,111	15,795	60,090	15,894	19,059	126,949	30,117	20,471	50,588	177,537
Insurance	2,873	2,817	10,717	2,834	3,399	22,640	4,391	3,651	8,042	30,682
Repairs and maintenance	3,348	3,282	12,484	3,302	3,960	26,376	139,801	4,252	144,053	170,429
Retirees expenses						0	8,991		8,991	8,991
Program expenses	15,974	46,326	6,325	4,887	85,160	158,672	38,280	4,235	42,515	201,187
Hotel and travel	3,920	3,843	14,622	3,866	4,638	30,889	5,992	4,981	10,973	41,862
Stipends	206,444	50,000	7,630	73,000		337,074			0	337,074
Bad debts						0	20,519		20,519	20,519
Management fee expense						0			0	0
Total expenses before depreciation	481,769	343,782	1,035,132	321,443	377,856	2,559,982	719,606	400,459	1,120,065	3,680,047
Depreciation expense	4,207	4,124	15,691	4,150	4,976	33,148	6,429	5,345	11,774	44,922
Total expenses	\$485,976	\$347,906	\$1,050,823	\$325,593	\$382,832	\$2,593,130	\$726,035	\$405,804	\$1,131,839	\$3,724,969

The attached notes and auditor's report are an integral part of these financial statements.

CARNEGIE COUNCIL FOR ETHICS IN INTERNATIONAL AFFAIRS, INC. AND AFFILIATE
COMBINING STATEMENT OF FUNCTIONAL EXPENSES (CON'T)
FOR THE YEAR ENDED JUNE 30, 2018

Carnegie Council Fund, Inc.						Organization Totals					
Program Services	Supporting Services										
Climate Geoengineering Governance Project	Management and General	Fundraising	Total Supporting Services	Total	Eliminations	Total Program Services	Total Management and General	Total Fundraising	Total Supporting Services	Total Expenses	
Salaries and wages			\$0	\$0		\$1,392,287	\$270,032	\$224,520	\$494,552	\$1,886,839	
Payroll taxes and fringe benefits			0	0		346,327	67,170	55,849	123,019	469,346	
Professional fees	\$819,648		0	819,648		938,416	134,313	82,500	216,813	1,155,229	
Office expenses	6,259	\$2,485	2,485	8,744		133,208	32,602	20,471	53,073	186,281	
Insurance			0	0		22,640	4,391	3,651	8,042	30,682	
Repairs and maintenance			0	0		26,376	139,801	4,252	144,053	170,429	
Retirees expenses			0	0		0	8,991	0	8,991	8,991	
Program expenses	123,540		0	123,540		282,212	38,280	4,235	42,515	324,727	
Hotel and travel	274,417		0	274,417		305,306	5,992	4,981	10,973	316,279	
Stipends			0	0		337,074	0	0	0	337,074	
Bad debts		83,615	83,615	83,615		0	104,134	0	104,134	104,134	
Management fee expense	441,288	49,506	\$18,398	67,904	509,192	(\$509,192)	0	0	0	0	
Total expenses before depreciation	1,665,152	135,606	18,398	154,004	1,819,156	(509,192)	3,783,846	805,706	400,459	1,206,165	4,990,011
Depreciation expense			0	0		33,148	6,429	5,345	11,774	44,922	
Total expenses	\$1,665,152	\$135,606	\$18,398	\$154,004	\$1,819,156	(\$509,192)	\$3,816,994	\$812,135	\$405,804	\$1,217,939	\$5,034,933

The attached notes and auditor's report are an integral part of these financial statements.

**CARNEGIE COUNCIL FOR ETHICS IN INTERNATIONAL AFFAIRS, INC. AND AFFILIATE
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	Carnegie Council for Ethics in International Affairs, Inc.	Carnegie Council Fund, Inc.	Total
Cash flows from operating activities:			
Change in net assets	\$529,751	(\$1,232,266)	(\$702,515)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation expense	44,922	0	44,922
Realized gains	(404,818)	0	(404,818)
Unrealized gains	(1,738,950)	0	(1,738,950)
Changes in assets and liabilities:			
Pledges receivable	354,130	2,492,307	2,846,437
Accounts payable and accrued expenses	30,114	(26,003)	4,111
Total adjustments	<u>(1,714,602)</u>	<u>2,466,304</u>	<u>751,702</u>
Net cash (used for)/provided by operating activities	<u>(1,184,851)</u>	<u>1,234,038</u>	<u>49,187</u>
Cash flows from investing activities:			
Transfers to operations	2,710,000		2,710,000
Transfers from operations	(1,520,000)		(1,520,000)
Purchase of investments	2,273,357		2,273,357
Proceeds from sales of investments	(2,977,673)		(2,977,673)
Net cash provided by investing activities	<u>485,684</u>	<u>0</u>	<u>485,684</u>
Net (decrease)/increase in cash and cash equivalents	(699,167)	1,234,038	534,871
Cash and cash equivalents - beginning of year	<u>1,152,030</u>	<u>479,318</u>	<u>1,631,348</u>
Cash and cash equivalents - end of year	<u><u>\$452,863</u></u>	<u><u>\$1,713,356</u></u>	<u><u>\$2,166,219</u></u>
Supplemental data:			
Interest and taxes paid	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

**CARNEGIE COUNCIL FOR ETHICS IN INTERNATIONAL AFFAIRS, INC. AND AFFILIATE
AND CARNEGIE COUNCIL FUND, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 1 - Organization

The accompanying combining financial statements include Carnegie Council for Ethics in International Affairs, Inc. (the "Council") and Affiliate and Carnegie Council Fund, Inc. ("the Fund") (collectively, the "Council and Affiliate").

The Council is an independent, nonpartisan, nonprofit organization dedicated to increasing understanding of the relationship between ethics and international affairs.

The Fund is a not-for-profit corporation, incorporated on August 15, 2001 as the supporting organization for the Council.

The companies are related through common control. All intercompany accounts have been eliminated in combining the entities.

Note 2 - Significant Accounting Policies

a. Basis of Accounting

The combining financial statements of the Council and Affiliate have been prepared on the accrual basis of accounting, which is the process of recording revenue and expenses when earned or incurred, rather than received or paid.

b. Basis of Presentation

The Council and Affiliate report information regarding its financial position and activities according to the following specific classes of net assets:

- *Unrestricted* – relates to all activity without donor-imposed restrictions.
- *Unrestricted – Board Designated* – relates to net assets consisting of all assets contributed to the Council and Affiliate which are designated for future programs by the Board of Trustees of the Council and Affiliate.
- *Temporarily restricted* – relates to contributions of cash and other assets with donor stipulations that make clear the assets' restriction, either due to a program nature or by the passage of time.
- *Permanently restricted* – relates to contributions of cash and other assets whereby the assets must remain intact due to restrictions placed by the donor. There were no permanently restricted net assets at June 30, 2018.

c. Revenue Recognition

Contributions are recorded as unrestricted or restricted support depending on the existence and/or nature of any donor stipulations. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Support

that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires within the same reporting period in which it was recognized.

Program and membership fees are charged to the general public to attend the Council and Affiliate's events and recognized when received.

Operating costs are recorded as expenses when incurred. Contribution related costs are treated as expenses when incurred.

d. Cash and Cash Equivalents

The Council and Affiliate consider all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

e. Concentration of Credit Risk

Financial instruments which potentially subject the Council and Affiliate to concentration of credit risk consist of cash, money market accounts and investment securities which have been placed with high-quality financial institutions that management deems to be creditworthy. Investments are subject to market value fluctuations and principal is not guaranteed. At times, balances may exceed federally insured limits. While at year end there were material uninsured balances, management feels they have little risk and has not experienced any losses due to bank failure.

f. Investments

Investments are recorded at fair value, which refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Unrealized gains and losses are included as non operating income.

g. Fair Market Measurements

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Council and Affiliate has the ability to access.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

h. Grants and Pledges Receivable

Contributions that are expected to be received in less than one year are recorded at net realizable value. Those pledges that are due in greater than one year are recorded at fair value which is calculated using a risk-adjusted rate of return. Long-term pledges are treated as implied time restricted until the period they are due, at which time they will be released from restriction and transferred to the unrestricted class

of net assets. All grants and pledges receivable at June 30, 2018 are expected to be received within one year.

i. Allowance for Doubtful Accounts

The Council and Affiliate evaluate for potential doubtful accounts related to grants and pledges receivable. There was no allowance for doubtful accounts for the year ended June 30, 2018.

j. Fixed Assets

Fixed assets that the Council and Affiliate retains title to and which benefit future periods are capitalized at cost, or if donated, at the estimated fair value at the time of donation. Depreciation is recorded using the straight-line method over the assets estimated useful life.

k. Works of Art

Works of art are stated at their appraisal value at the time of purchase or donation. The Council and Affiliate do not depreciate these items.

Works of art consisted of paintings, antique furniture and rugs that were received in past years have a recorded value of \$91,850 at June 30, 2018.

l. In-Kind Services

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of tasks that assist the Council and Affiliate. These services do not meet the criteria of in-kind services and have not been recorded in the combining financial statements.

m. Management Estimates

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

n. Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the combining financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

o. Accounting for Uncertainty of Income Taxes

The Council and the Fund have both been notified by the Internal Revenue Service that they are not-for-profit organizations exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and have not been determined to be a private foundation.

The Council and the Fund do not believe its combining financial statements include any material, uncertain tax positions. Tax filings for years ended June 30, 2015 and later are subject to examination by applicable taxing authorities.

p. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through January 10, 2019, the date the combining financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date, through our evaluation date that would require adjustment to or disclosure in the combining financial statements.

q. New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Consolidated Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the June 30, 2019 year, focuses on improving the current net asset classification requirements and information presented in the consolidated financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

On June 21, 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU which becomes effective for the June 30, 2020 year, with early implementation permitted, provides guidance on whether a receipt from a third-party resource provider should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the June 30, 2020 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2021 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

The Council and Affiliate are in the process of evaluating the impact these standards will have on future combining financial statements.

Note 3 - Investments and Fair Value Measurements

The following summarizes the composition of investments:

Investments at fair value – board designated:

Level 1 securities:	
U.S. Mutual Funds	\$8,213,146
U.S. Equities - Stock	14,000,162
Foreign Equities	<u>9,026,029</u>
Total Level 1 Securities	<u>\$31,239,337</u>

Level 2 securities:	
U.S. Treasury Securities	<u>1,500,121</u>
Total Level 2 Securities	<u>\$1,500,121</u>

Total Investments at fair value – board designated	<u>\$32,739,458</u>
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Investments in limited partnerships and private equity – board designated:

Investments measured at net asset value:	
Limited partnerships and private equity	<u>\$3,764,355</u>

Level 1 securities are valued at the closing price reported on the active market that they are traded on. Level 2 securities are valued using observable market inputs for securities that are similar to those owned.

Level 3 securities are valued using values provided by the investment custodian. The Council and Affiliate's investments carried at NAV included entities that invest in various domestic and international types of securities and derivative financial instruments. Redemptions of the Council and Affiliate's investments in these investment entities vary, but are primarily available at month-end, quarter-end, or year-end with appropriate notice.

There can be no assurance that the Council and Affiliate will continue the same level of returns on its investments in limited partnerships that it has received during the past periods or that it will achieve any returns on such investments at all. In addition, there can be no assurance that the Council and Affiliate will receive a return of all or any portion of its current or future capital investments in limited partnerships. The failure of the Council and Affiliate to receive the return of a material portion of its capital investments could have a material adverse effect on the Council and Affiliate's financial condition and results of operations.

Management fees and incentive fees are charged by these investment entities at annual rates. These fees are embedded in the net realized and unrealized gains on investments in the accompanying combining statement of activities.

Those methods produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

The following summarizes net gain on investments:

Realized gain on sale of investments	\$404,818
Unrealized gain on investments	<u>1,738,950</u>
Total	<u>\$2,143,768</u>

Note 4- Fixed Assets, Net

Fixed assets for the year ended June 30, 2018 consists of the following:

Land	\$19,500
Buildings (25 years)	4,234,281
Building improvements (25 years)	1,457,824
Furniture and fixtures (8 years)	220,767
Equipment (5 years)	<u>375,946</u>
	6,308,318
Less: depreciation and amortization	<u>(5,715,297)</u>
Total	<u>\$593,021</u>

Note 5- Temporarily Restricted Net Assets

At June 30, 2018, net assets were restricted for the following:

Education	\$279,875
Climate Geoengineering Governance Project	1,437,583
Time restricted	<u>798,424</u>
Total	<u>\$2,515,882</u>

During the year ended June 30, 2018, temporarily restricted net assets of \$2,979,384 were released from donor-imposed restrictions as support for the general activities of the Council and Affiliate.

Note 6- Pension Plan

The Council and Affiliate maintain a defined contribution – money purchase pension plan for all employees having more than one year of service. The employees contribute 6% of their annual salary and the Council and Affiliate contribute 10%. Employee benefits under the plan are vested immediately and consist of annuities bought with the contributions to the employees account. Pension expense for the year ended June 30, 2018 was \$155,852 has been included in payroll taxes and fringe benefits expense on the combining statement of functional expenses.

Note 7- Endowment/Board Designated Net Assets

The Council and Affiliate have adopted investment and spending policies for endowment assets that attempt to provide a stream of returns that would be utilized to fund the operations of the Council and Affiliate while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets that are Board designated, as approved by the Board of Trustees of the Council and Affiliate. The endowment funds are

invested in a diversified portfolio of investments which includes cash, mutual funds, hedge fund of funds, limited partnerships and private equity funds.

Endowment funds consisted of the following:

Cash and cash equivalents – board designated fund	\$229,168
Investments at fair value – board designated fund	32,739,458
Investments in limited partnerships and private equity – board designated fund	<u>3,764,355</u>
Total	<u>\$36,732,981</u>

The following table provides a reconciliation of the change in the Council and Affiliate's Endowment Fund net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Board Designated - Operations</u>	<u>Board Designated Capital Improvements</u>	<u>Total</u>
Endowment net assets, beginning of year	\$1,897,890	\$33,104,432	\$0	\$35,002,322
Repurpose of funds by board	(1,000,000)	0	1,000,000	0
Net transfers	677,958	0	0	677,958
Dividend and interest income	0	733,121	0	733,121
Investment fees	(74,188)	0	0	(74,188)
Realized gain	0	404,818	0	404,818
Unrealized gain	1,738,950	0	0	1,738,950
Appropriation for expenditure	<u>0</u>	<u>(1,750,000)</u>	<u>0</u>	<u>(1,750,000)</u>
Endowment net assets, end of year	<u>\$3,240,610</u>	<u>\$32,492,371</u>	<u>\$1,000,000</u>	<u>\$36,732,981</u>

The Council and Affiliate have adopted investment and spending policies for endowment assets that attempt to provide sufficient income to meet various program and operational expenses, and to extend the pursuit of the Council and Affiliate's mission in perpetuity. The minimum targeted rate of return on the Council and Affiliate's investment assets is 6% plus the average rate of U.S. inflation.

To satisfy its long-term rate of return objectives, the Council and Affiliate target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve their long-term return objectives with prudent risk.

The Council and Affiliate's asset allocation also includes alternative equity investments. Within the alternative equity investment categories, the Council and Affiliate are mindful of each investment manager's strategies and the liquidity of each manager's investment portfolio.