

McKENZIE RIVER GATHERING FOUNDATION

FINANCIAL STATEMENTS

Year Ended June 30, 2017

With

Independent Auditor's Report

McKENZIE RIVER GATHERING FOUNDATION
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
McKenzie River Gathering Foundation
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying statement of financial position of McKenzie River Gathering Foundation (a not-for-profit organization) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McKenzie River Gathering Foundation as of June 30, 2017, 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.

Report on Summarized Comparative Information

We have previously audited McKenzie River Gathering Foundation's financial statements as of and for the year ended June 30, 2016, and our report dated December 9, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

James E. Richman, CPA, PC

Portland, Oregon
December 7, 2017

McKENZIE RIVER GATHERING FOUNDATION
STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With comparative totals for 2016)

	2017	2016
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,359,002	\$ 632,266
Investments	4,079,868	4,946,314
Pledges and grants receivable	204,536	441,281
Property and equipment	4,671	6,383
Other assets	14,565	30,963
TOTAL ASSETS	\$ 5,662,642	\$ 6,057,207
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Grants payable	\$ 100,999	\$ 45,000
Workplace giving designations payable	4,959	3,614
Accounts and other payables	53,630	41,220
Total Liabilities	159,588	89,834
NET ASSETS:		
Unrestricted:		
General Fund	85,713	47,084
Investment in Property and Equipment	4,671	6,383
Board Designated, Operating Reserve	500,500	550,500
Board Designated, Movement Building	34	6,526
Board Designated, Donor Advised Funds	749,998	401,383
Board Designated, Endowment	735,191	732,900
	2,076,107	1,744,776
Temporarily Restricted:		
Maud T. Kernan Fund	120,654	219,504
L'Chaim Fund	90,292	121,655
Capacity Building Grant	-	65,494
CBI Grant	382,267	797,739
Immigrant and Refugee Fund	30,000	-
Endowment Fund	437,981	741,832
FEX Endowment Fund	81,035	8,810
Michael Smith Fund	88,683	75,174
Lilla Jewel Fund	91,984	88,338
	1,322,896	2,118,546
Permanently Restricted:		
Endowment Fund	1,257,703	1,257,703
FEX Endowment Fund	621,541	621,541
Michael Smith Fund	116,249	116,249
Lilla Jewel Fund	108,558	108,558
	2,104,051	2,104,051
Total Net Assets	5,503,054	5,967,373
TOTAL LIABILITIES AND NET ASSETS	\$ 5,662,642	\$ 6,057,207

See accompanying notes to financial statements.

McKENZIE RIVER GATHERING FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017
(With comparative totals for 2016)

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
PUBLIC SUPPORT AND REVENUE:					
Public Support:					
Grants and contributions	\$ 336,405	\$ 63,000	\$ -	\$ 399,405	\$ 397,346
Donor Advised Funds contributions	398,054	-	-	398,054	162,091
Funding Exchange contributions	27,672	-	-	27,672	28,464
Indirect public contributions	14,803	-	-	14,803	16,723
	<u>776,934</u>	<u>63,000</u>	<u>-</u>	<u>839,934</u>	<u>604,624</u>
Revenue:					
Investment gains	38,600	301,994	-	340,594	33,195
Interest and dividends	23,615	100,184	-	123,799	128,002
Other revenue	32,677	-	-	32,677	29,160
	<u>94,892</u>	<u>402,178</u>	<u>-</u>	<u>497,070</u>	<u>190,357</u>
Net Assets Released From Restrictions:					
Satisfaction of grant purpose restrictions	513,964	(513,964)	-	-	-
Satisfaction of Maud T. Kernan Fund restrictions	100,288	(100,288)	-	-	-
Satisfaction of Lilla Jewel Fund restrictions	16,990	(16,990)	-	-	-
Satisfaction of L'Chaim Fund restrictions	32,159	(32,159)	-	-	-
Satisfaction of Michael Smith Fund restrictions	8,589	(8,589)	-	-	-
Satisfaction of Endowment Fund restrictions	542,919	(542,919)	-	-	-
Satisfaction of FEX Endowment Fund restrictions	45,919	(45,919)	-	-	-
	<u>1,260,828</u>	<u>(1,260,828)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	2,132,654	(795,650)	-	1,337,004	794,981
EXPENSES:					
Program services:					
Grants and Grantmaking	461,351	-	-	461,351	606,282
Donor Advised Grantmaking	107,159	-	-	107,159	283,859
Community Education	306,097	-	-	306,097	255,682
Capacity Building Initiative	552,258	-	-	552,258	529,844
	<u>1,426,865</u>	<u>-</u>	<u>-</u>	<u>1,426,865</u>	<u>1,675,667</u>
Administrative	141,172	-	-	141,172	94,802
Fund raising	233,286	-	-	233,286	202,509
	<u>1,801,323</u>	<u>-</u>	<u>-</u>	<u>1,801,323</u>	<u>1,972,978</u>
CHANGE IN NET ASSETS	331,331	(795,650)	-	(464,319)	(1,177,997)
NET ASSETS AT BEGINNING OF YEAR	1,744,776	2,118,546	2,104,051	5,967,373	7,145,370
NET ASSETS AT END OF YEAR	<u>\$ 2,076,107</u>	<u>\$ 1,322,896</u>	<u>\$ 2,104,051</u>	<u>\$ 5,503,054</u>	<u>\$ 5,967,373</u>

See accompanying notes to financial statements.

McKENZIE RIVER GATHERING FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2016
(With comparative totals for 2015)

	2017								
	Program Services								
	Grants & Grantmaking	Donor Advised Grantmaking	Community Education	Capacity Building Initiative	Total	Admini- strative	Fund Raising	Total	2016
Direct Grants:									
Funding cycle grants	\$ 348,500	\$ -	\$ -	\$ -	\$ 348,500	\$ -	\$ -	\$ 348,500	\$ 450,000
Travel & Critical Response grants	26,700	-	-	-	26,700	-	-	26,700	20,000
Micro grants	8,200	-	-	-	8,200	-	-	8,200	-
Lilla Jewel grants	2,500	-	-	-	2,500	-	-	2,500	6,750
Donor advised grants	-	101,612	-	-	101,612	-	-	101,612	275,100
Other grants and sponsorships	-	-	-	350,000	350,000	-	-	350,000	350,000
	<u>385,900</u>	<u>101,612</u>	<u>-</u>	<u>350,000</u>	<u>837,512</u>	<u>-</u>	<u>-</u>	<u>837,512</u>	<u>1,101,850</u>
Personnel:									
Wages	48,458	3,827	138,826	94,566	285,677	64,861	132,149	482,687	483,607
Payroll taxes	5,001	366	13,497	8,966	27,830	6,816	12,618	47,264	43,948
Employee benefits	7,316	476	18,885	15,345	42,022	9,601	15,479	67,102	63,189
	<u>60,775</u>	<u>4,669</u>	<u>171,208</u>	<u>118,877</u>	<u>355,529</u>	<u>81,278</u>	<u>160,246</u>	<u>597,053</u>	<u>590,744</u>
Other:									
Professional fees	3,178	154	23,878	53,425	80,635	40,866	16,259	137,760	121,856
Office rent & other occupancy	5,432	514	12,234	11,158	29,338	6,853	12,569	48,760	41,335
Copying & printing	163	12	9,082	414	9,671	185	6,175	16,031	11,753
Office supplies	644	25	1,002	649	2,320	443	881	3,644	3,304
Telephone	547	27	903	625	2,102	1,126	842	4,070	3,535
Postage	190	50	2,509	189	2,938	120	2,168	5,226	3,912
Equipment repair & lease	434	35	26,847	664	27,980	477	921	29,378	3,273
Technology	357	32	681	753	1,823	450	760	3,033	3,097
Insurance	-	-	-	-	-	2,578	-	2,578	2,638
Meetings & travel	2,764	19	7,831	9,779	20,393	734	3,920	25,047	29,840
Books & staff development	176	4	12,818	1,560	14,558	278	3,396	18,232	9,364
Event expense	220	-	29,268	2,745	32,233	-	20,946	53,179	34,937
Miscellaneous	571	6	7,836	1,420	9,833	2,634	3,144	15,611	7,930
Workplace giving costs	-	-	-	-	-	-	1,059	1,059	1,480
Depreciation	-	-	-	-	-	3,150	-	3,150	2,130
	<u>14,676</u>	<u>878</u>	<u>134,889</u>	<u>83,381</u>	<u>233,824</u>	<u>59,894</u>	<u>73,040</u>	<u>366,758</u>	<u>280,384</u>
Total Expenses	<u>\$ 461,351</u>	<u>\$ 107,159</u>	<u>\$ 306,097</u>	<u>\$ 552,258</u>	<u>\$ 1,426,865</u>	<u>\$ 141,172</u>	<u>\$ 233,286</u>	<u>\$ 1,801,323</u>	<u>\$ 1,972,978</u>

See accompanying notes to financial statements.

McKENZIE RIVER GATHERING FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017
(With comparative totals for 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from grantors, donors and others	\$ 1,103,075	\$ 1,086,129
Interest and dividends received	123,799	128,002
Cash paid to grantees	(781,513)	(1,115,099)
Cash paid to suppliers and employees	(924,227)	(890,844)
Net cash provided by (used in) operating activities	(478,866)	(791,812)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,330,163	531,989
Purchases of investments	(123,123)	(295,670)
Purchases of property and equipment	(1,438)	(5,440)
Net cash provided by (used in) investing activities	1,205,602	230,879
NET CHANGE IN CASH AND CASH EQUIVALENTS	726,736	(560,933)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	632,266	1,193,199
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,359,002	\$ 632,266
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Stock donations simultaneously received and liquidated	\$ 254,086	\$ 90,588

See accompanying notes to financial statements.

McKENZIE RIVER GATHERING FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – ORGANIZATION

Since 1976, McKenzie River Gathering Foundation (MRG) has funded grassroots social justice organizing in Oregon through leveraging support from a community of progressive donors and activist-led grantmaking. MRG's funding supports a broad range of social justice issues, including LGBTQ rights, economic justice, environmental protection, racial equity, international solidarity, and human rights. MRG grantees are community-led groups that organize and provide resources for progressive social change in Oregon, work towards systemic change by building leadership and community power, and have little access to more traditional funding sources. Funding is received principally from contributions from the general public.

NOTE 2 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

MRG is required to report information regarding its financial position and activities according to three classes of net assets based on the existence or absence of donor-imposed restrictions as unrestricted, temporarily restricted or permanently restricted net assets. Accordingly, the net assets of MRG and changes therein are classified and reported as follows:

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets include net assets for which the Board of Directors has imposed various internal stipulations as to usage. Among the unrestricted, board designated net assets are a series of donor advised accounts. Such accounts provide a means for donors to advise MRG as to the recipients of grants from the invested funds. In addition, the Board of Directors has established two designated funds: the “Movement Building Fund” to finance future growth in programs and operations and the “Board Designated Endowment Fund” to be operated in accordance with MRG’s standard policies for endowments.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of MRG or the passage of time. Temporarily restricted net assets consist of the earnings portion of the Lilla Jewel Fund, the Michael Smith Fund, and the Endowment Fund. It also includes the remaining balances of the Maud T. Kernan Fund, the L’Chaim Fund, and other contributions that are restricted as to purpose or time.

Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by MRG. Permanently restricted net assets consist of the contributions to the Endowment Fund, the FEX Endowment Fund, the Michael Smith Fund, and the Lilla Jewel Fund since inception of these endowment funds. The FEX Endowment Fund was established in 2015 upon receiving a permanently restricted contribution as part of the dissolution of the Funding Exchange.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, MRG considers all cash and other liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments and Investment Income

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

Donors and state law have temporarily restricted the use of certain investment income and gains and losses on investments as follows:

Under the terms of the Lilla Jewel Fund and the Michael Smith Fund, and under state law with respect to the Endowment Fund, investment income and gains and losses on investments are reported as increases or decreases in temporarily restricted net assets. However, losses that exceed previously accumulated income and gains are reported as decreases in unrestricted net assets; future gains that offset such losses are reported as increases in unrestricted net assets. Annually, MRG uses a portion of the accumulated investment earnings for purposes as stipulated by the donor or its operating budget, as appropriate, and releases such amounts from restrictions.

Under the terms of the Maud T. Kernan Fund and the L'Chaim Fund, losses that reduce the related investment portfolio below the original contributed amounts are reported as decreases in temporarily restricted net assets.

Concentrations of Credit Risk

MRG deposits its cash in high credit quality institutions. From time-to-time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation, and as such may subject MRG to concentrations of credit risk. As of June 30, 2017, deposits in one financial institution exceed the insured limit by \$1,061,665. MRG's investments in money funds are uninsured by the FDIC. Certain receivables may also subject MRG to concentrations of credit risk.

Property and Equipment

Office equipment, furniture and leasehold improvements are carried at cost, and at market value when acquired by gift. Depreciation on equipment and furniture is provided on the straight-line basis over the estimated useful lives of the respective assets, which is from three to 5 years. Amortization of leasehold improvements is included in depreciation expense and is provided on the straight-line basis over the lease term, which is 5 years. MRG follows the practice of capitalizing all expenditures for property and equipment in excess of \$500.

Restricted and Unrestricted Support

Grants and contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the commitment is received. Contributions received are recorded as either unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions. All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor and are recorded as support when received. Contributions of assets other than cash are recorded at their estimated fair value.

In-Kind Contributions

MRG recognizes the fair value of contributed services received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

MRG receives contributed services from volunteers who assist in a range of program activities. In accordance with FASB ASC 958-605-50, the value of such services, which the MRG considers not practicable to estimate, has not been recognized in the statement of activities.

In-kind contributions of equipment and other materials are recorded when there is an objective basis upon which to value the contribution and where the contribution is an essential part of the MRG's activities. During the year ended June 30, 2017, MRG received \$710 of donated materials.

During the year ended June 30, 2017, MRG received \$6,281 of in-kind contributed professional services.

Grant Expenses

Grant expenses are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions.

Advertising Expenses

Advertising costs are charged to expense as they are incurred. Advertising expense amounted to \$202 for the year ended June 30, 2017.

Income Taxes

MRG is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. In addition, MRG qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes, an organization must also evaluate its tax positions and provide for a liability for any positions that would not be considered “more likely than not” to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that it has no uncertain tax positions that meet this criterion.

MRG files Form 990 in the U.S. federal jurisdiction. MRG is subject to examination by U.S. federal tax authorities generally for three years from the filing of a tax return.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited in accordance with MRG’s cost allocation plan.

Use of Estimates

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

Summarized Financial Information for 2016

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Also, prior-year summarized comparative information on the statement of functional expenses is not presented in sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the agency’s financial statements for the year ended June 30, 2016, from which the summarized information was derived. Certain reclassifications have been made to 2016 amounts to conform to the 2017 presentation.

Subsequent Events

Subsequent events were evaluated through December 7, 2017, which is the date the financial statements were available to be issued.

NOTE 3 – PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable at June 30, 2017 total \$204,536 and are due within one year. Based on knowledge of the donors and grantors, management has determined that no allowance for uncollectible pledges is necessary.

NOTE 4 – INVESTMENTS

Investments, consisting primarily of money funds, certificates of deposit, debt securities and equity securities, have been classified, for disclosure purposes, based on the hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

At June 30, 2017, all of MRG's investments are measured at fair value on a recurring basis, and consist of the following:

	Fair Value	Fair Value Measurements At Reporting Date Using	
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Long-term CD	\$ 306,094	\$ 306,094	\$ -
Money market funds	314,639	-	314,639
Fixed income	1,305,006	-	1,305,006
Equities	2,154,129	2,154,129	-
	<u>\$ 4,079,868</u>	<u>\$ 2,460,223</u>	<u>\$ 1,619,645</u>

Investment gains are reported net of related investment expenses in the statement of activities. The amount of expenses netted with revenues was \$26,608 for the year ended June 30, 2017.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2017:

Equipment	\$ 27,879
Leasehold improvements	6,636
	<u>34,515</u>
Less accumulated depreciation	(29,844)
	<u>\$ 4,671</u>

NOTE 6 – ENDOWMENT FUNDS

MRG's endowment consists of 5 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of MRG has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MRG classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the funds. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by MRG in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, MRG considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 MRG, and (7) MRG's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. MRG has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a diversified asset mix, that includes equity and debt securities that meet MRG's criteria for socially responsible investments and that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions of 5%, while growing the funds if possible. Therefore, MRG expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. MRG has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value at the end of the prior 16 quarters through March 31 of the fiscal year preceding the fiscal year in which the distribution is planned. In establishing this policy, MRG considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. MRG expects the current spending policy to allow its endowment funds to grow at a nominal average rate of about 3% annually. This is consistent with MRG's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Endowment Fund	\$ -	\$ 437,981	\$ 1,257,703	\$ 1,695,684
FEX Endowment Fund	-	81,035	621,541	702,576
Michael Smith Fund	-	88,683	116,249	204,932
Lilla Jewel Fund	-	91,984	108,558	200,542
Board-designated endowment	735,191	-	-	735,191
Total all endowment funds	\$ 735,191	\$ 699,683	\$ 2,104,051	\$ 3,538,925

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 732,900	\$ 914,154	\$ 2,104,051	\$ 3,751,105
Restricted contributions	-	-	-	-
Investment income	19,670	91,968	-	111,638
Net appreciation (depreciation)	65,867	307,977	-	373,844
Amounts appropriated for expenditure	(83,246)	(614,416)	-	(697,662)
Endowment net assets, end of year	\$ 735,191	\$ 699,683	\$ 2,104,051	\$ 3,538,925

NOTE 7 – OPERATING LEASE COMMITMENTS

MRG leases its Portland office facilities under an operating lease that expires in August, 2018. MRG also leases a copy machine under an operating lease that expires in August, 2022.

Minimum required annual payments under these noncancelable leases are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 30,164
2019	5,164
2020	2,664
2021	2,664
2022	2,664
Thereafter	444
Total minimum required payments	<u>\$ 43,764</u>

Total rent and lease expense amounted to \$44,071 for the year ended June 30, 2017.

NOTE 8- RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets held at June 30, 2017 consist of \$2,104,051 in contributions for which donors have stipulated the amounts contributed are to remain intact indefinitely. Investment earnings generated from the *Endowment Fund*, the *FEX Endowment Fund* and the *Michael Smith Fund* are unrestricted by the donor, but recorded as temporarily restricted until appropriated for expenditure. See below for restrictions on investment earnings of the *Lilla Jewel Fund*.

In addition to \$607,699 in unappropriated investment earnings of the *Endowment Fund*, the *FEX Endowment Fund* and the *Michael Smith Fund*, temporarily restricted net assets held at June 30, 2017 consist of \$715,197 in contributions, grants, and investment income available for specific program purposes and future periods, including the following:

The *Maud T. Kernan Fund* is restricted for use in support of racial justice and environmental works. The duration of the restriction is no more than twenty-five years from January 2003, the date of the original contribution.

The earnings and income of the *Lilla Jewel Fund* are restricted for use in funding lesbian and women artists and organizations.

The *L'Chaim Fund* is restricted for use in the clean up of nuclear and chemical wastes, environmental protection, and other programs that promote and protect peace and democracy and improve the human condition. The purpose restriction is effective through May 2019 or sooner if stipulated in the future by the donor.

MRG's *Capacity Building Initiative (CBI)* is funded by a multi-year grant from Meyer Memorial Trust in which the grantor has stipulated that half of the CBI funds are to be re-granted to other organizations working to achieve social justice and half of the funds are to be used by MRG to staff the program and build those grantees' organizational capacity through a mix of coaching, consulting, and peer learning opportunities.

In addition, at June 30, 2017 the Board of Directors has designated \$1,985,723 of MRG's unrestricted net assets for various purposes including operating reserves, donor advised funds, an endowment fund, and an internal capacity building fund.

NOTE 9 – RETIREMENT PLAN

MRG has adopted a defined contribution retirement plan to cover essentially all employees who have been employed for one year or more. MRG's contributions to the plan amounted to \$7,445 for the year ended June 30, 2017.

NOTE 10 - STATEMENT OF CASH FLOWS RECONCILIATION

The following presents a reconciliation of the change in net assets (as reported on the statement of activities) to net cash used in operating activities (as reported on the statement of cash flows):

Change in net assets	\$ (464,319)
Adjustments to reconcile the change in net assets to net cash used in operating activities:	
Depreciation and amortization	3,150
Fixed assets disposition loss	
Investment gains	(340,594)
(Increase) decrease in:	
Pledges and grants receivable	236,745
Other assets	16,398
Increase (decrease) in:	
Grants payable	55,999
Accounts and other payables	13,755
Total adjustments	<u>(14,547)</u>
Net cash used in operating activities	<u>\$ (478,866)</u>