THE MIAMI FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

MORRISON BROWN ARGIZ & FARRA, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

THE MIAMI FOUNDATION, INC.

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MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Miami Foundation, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Miami Foundation, Inc., which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and 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 Consolidated Financial Statements

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

Auditor's 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Miami Foundation, Inc. as of December 31, 2018 and 2017, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Morrison, Brown, Argiz & Farra

Miami, Florida
May 22, 2019

THE MIAMI FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

ASSETS	2018	2017
Cash and cash equivalents	$ 4,781,147	$ 12,736,998
Accounts receivable, prepaid expenses and other assets	377,837	301,506
Contributions receivable, net	2,371,329	2,581,728
Investments	322,374,466	347,807,029
Properties held for sale	-	1,348,000
Property and equipment, net	567,916	654,366
TOTAL ASSETS	**$ 330,472,695**	**$ 365,429,627**

LIABILITIES AND NET ASSETS	2018	2017
LIABILITIES		
Accounts payable, accrued expenses and other liabilities	$ 1,892,215	$ 1,202,965
Line of credit	-	3,694,000
Liabilities under annuity agreements	12,586,986	32,471,389
Funds held on behalf of others	18,300,763	18,945,574
TOTAL LIABILITIES	32,779,964	56,313,928
NET ASSETS		
Without donor restrictions	265,708,276	269,687,576
With donor restrictions	31,984,455	39,428,123
TOTAL NET ASSETS	297,692,731	309,115,699
TOTAL LIABILITIES AND NET ASSETS	**$ 330,472,695**	**$ 365,429,627**

The accompanying notes are an integral part of these consolidated financial statements.

THE MIAMI FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Contributions	$ 19,825,024	$ 40,672,330	$ 60,497,354	$ 64,442,634	$ 40,633,304	$ 105,075,938
Change in value - annuities (NOTE 7)	-	7,823,961	7,823,961	-	246,624	246,624
Administration fees	52,880	-	52,880	67,410	-	67,410
Fundraising and other revenue	1,234,522	-	1,234,522	1,482,835	-	1,482,835
Dividends and interest	5,650,329	79,655	5,729,984	6,162,865	28,588	6,191,453
Net realized and unrealized (loss) gain on investments	(19,946,905)	-	(19,946,905)	25,456,249	-	25,456,249
Net assets released from restrictions	56,019,614	(56,019,614)	-	30,874,456	(30,874,456)	-
TOTAL REVENUES	62,835,464	(7,443,668)	55,391,796	128,486,449	10,034,060	138,520,509
EXPENSES						
Grants and services to beneficiaries	63,428,675	-	63,428,675	54,067,552	-	54,067,552
Management and general	2,383,964	-	2,383,964	2,118,781	-	2,118,781
Fundraising	1,002,125	-	1,002,125	1,326,175	-	1,326,175
TOTAL EXPENSES	66,814,764	-	66,814,764	57,512,508	-	57,512,508
CHANGES IN NET ASSETS	(3,979,300)	(7,443,668)	(11,422,968)	70,973,941	10,034,060	81,008,001
NET ASSETS - BEGINNING OF YEAR	269,687,576	39,428,123	309,115,699	198,713,635	29,394,063	228,107,698
NET ASSETS - END OF YEAR	**$ 265,708,276**	**$ 31,984,455**	**$ 297,692,731**	**$ 269,687,576**	**$ 39,428,123**	**$ 309,115,699**

The accompanying notes are an integral part of these consolidated financial statements.

THE MIAMI FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31,

	2018				2017			
	Grants and Services to Beneficiaries	Management and General	Fundraising	Total	Grants and Services to Beneficiaries	Management and General	Fundraising	Total
Wages and salaries	$ 525,077	$ 1,051,773	$ 579,693	$ 2,156,543	$ 383,270	$ 1,030,515	$ 480,753	$ 1,894,538
Employee benefits and taxes	159,306	470,509	119,137	748,952	102,518	307,635	120,800	530,953
TOTAL SALARIES AND BENEFITS	684,383	1,522,282	698,830	2,905,495	485,788	1,338,150	601,553	2,425,491
Audit and accounting services	-	62,000	-	62,000	-	71,675	-	71,675
Direct support payments	4,427,192	-	-	4,427,192	4,346,467	-	-	4,346,467
General administrative	20,804	1,064	-	21,868	32,168	400	-	32,568
Banking fees	15,296	21,647	-	36,943	26,203	19,924	-	46,127
Board meetings	-	4,650	-	4,650	-	3,920	-	3,920
Conferences and travel	61,375	41,704	-	103,079	51,448	47,539	9,362	108,349
Local meetings and travel	261,302	34,257	-	295,559	120,602	2,069	15,554	138,225
Consulting	2,074,217	97,908	-	2,172,125	488,927	12,991	-	501,918
Depreciation and amortization	-	109,370	-	109,370	-	110,695	-	110,695
Disposal loss on property and equipment	-	-	-	-	-	37,592	-	37,592
Give Miami Day grants	2,284,600	-	-	2,284,600	1,430,662	-	-	1,430,662
Grants	53,477,238	-	-	53,477,238	46,817,153	-	-	46,817,153
Grants returned	(75,517)	-	-	(75,517)	(5,900)	-	-	(5,900)
Information technology	22,437	120,761	-	143,198	28,839	114,525	-	143,364
Insurance, interest and taxes	-	79,174	-	79,174	-	123,236	-	123,236
Legal fees	75,095	75,278	-	150,373	36,223	-	-	36,223
Marketing and advertising	-	-	256,304	256,304	-	-	651,978	651,978
Memberships	22,850	6,698	1,085	30,633	30,850	10,297	565	41,712
Newsletter and annual report expenses	-	4,313	-	4,313	-	1,644	-	1,644
Office supplies	2,950	35,936	-	38,886	5,372	31,766	-	37,138
Other program expenses	13,773	2,579	-	16,352	128,825	12,306	-	141,131
Postage and delivery	3,153	6,160	-	9,313	2,046	7,280	-	9,326
Printing and copying	-	28,744	-	28,744	-	27,962	-	27,962
Publications	13,276	6,544	-	19,820	6,551	6,386	-	12,937
Rent and occupancy	34,616	69,338	38,216	142,170	30,895	83,068	38,753	152,716
Special events	-	10,427	3,770	14,197	-	11,449	5,050	16,499
Telephone	4,320	35,729	3,920	43,969	3,360	36,659	3,360	43,379
Website	5,315	7,401	-	12,716	1,073	7,248	-	8,321
TOTAL FUNCTIONAL EXPENSES	**$ 63,428,675**	**$ 2,383,964**	**$ 1,002,125**	**$ 66,814,764**	**$ 54,067,552**	**$ 2,118,781**	**$ 1,326,175**	**$ 57,512,508**

The accompanying notes are an integral part of these consolidated financial statements.

THE MIAMI FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (11,422,968)	$ 81,008,001
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	109,370	110,695
Loss on sale of properties	99,000	-
Loss on disposal of property and equipment	-	37,592
Non-cash contribution - stock and property	(5,028,034)	(30,009,678)
Unrealized gain from annuities	(7,823,961)	(246,624)
Net unrealized loss (gain) on investments	32,709,051	(20,459,470)
Pension adjustment	78,606	(38,630)
(Increase) decrease in operating assets:		
Accounts receivable, prepaid expenses and other assets	(85,115)	(58,341)
Contributions receivable	210,399	209,223
Increase (decrease) in operating liabilities:		
Accounts payable, accrued expenses and other liabilities	610,644	(293,714)
Funds held on behalf of others	(644,811)	2,043,825
TOTAL ADJUSTMENTS	20,235,149	(48,705,122)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,812,181	32,302,879
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(22,920)	(17,696)
Proceeds from properties held for sale	1,249,000	-
Purchases of investments	(196,182,369)	(172,046,196)
Proceeds from sale of investments	194,628,015	146,622,709
NET CASH USED IN INVESTING ACTIVITIES	(328,274)	(25,441,183)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments to annuitants	(12,745,758)	(4,604,970)
Repayments on line of credit	(3,694,000)	(1,000,000)
NET CASH USED IN FINANCING ACTIVITIES	(16,439,758)	(5,604,970)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,955,851)	1,256,726
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,736,998	11,480,272
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 4,781,147**	**$ 12,736,998**
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	**$ 55,627**	**$ 86,882**
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Contribution of stock and property	**$ 5,028,034**	**$ 30,009,678**

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL

The Miami Foundation, Inc. (the "Foundation") is a community foundation created to build long term charitable support for Miami-Dade County. The Foundation administers individual charitable funds, each established with an instrument of gift describing either the general or specific purposes for which grants are to be made.

The Foundation supports arts and emerging charitable and social justice activities through fiscal sponsorships by acting as a sponsor for a project seeking support from individuals, foundations, corporations and/or government agencies. The Foundation also actively manages a mature annuity program that it agreed to undertake in mid-2015.

The consolidated financial statements include the accounts of The Miami Foundation, Inc. and The College Assistance Program ("CAP") of Miami-Dade County, Inc., as well as its supporting organization DadeFund, Inc. (collectively referred to as the "Foundation").

CAP seeks to assist the diverse multi-cultural, economically disadvantaged population of Miami-Dade County Public High School graduates, who have exhausted all available means of financial assistance (institutional, federal, and state) to attend the college of their choice through the award of grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Financial Statement Presentation

Net assets and revenues, gains and losses are classified into two classes of net assets based on the existence or absence of donor-imposed restrictions. The two classes of net asset categories are as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

Management Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The consolidated financial statements include certain amounts that are based on management's best estimates and judgments. The most significant estimates include the fair value of financial instruments, the liabilities under annuity agreements and the discount on contributions receivable. These estimates may be adjusted as more current information becomes available, and any adjustments could significantly impact the consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions, and the differences may be material.

Concentrations

The majority of the Foundation's donors are located in South Florida. One donor accounted for 43% and two donors accounted for 52% of contributions during the years ended December 31, 2018 and 2017, respectively. A decrease in the contributions from these donors could have a significant impact on the Foundation's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents and investments. The Foundation places its deposits with quality financial institutions and has not experienced losses in any such accounts. The Foundation places its investments in a variety of financial instruments and, by policy, limits the amount of credit exposure through diversification to achieve a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category. The Foundation's Investment Committee is responsible for oversight of the Foundation's investing activities.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when acquired are considered cash equivalents. Cash and cash equivalents temporarily held by financial institutions for investment purposes are included within investments in the consolidated statements of financial position.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the consolidated statements of activities as increases or decreases in net assets without donor restriction unless the income or loss is restricted by donor or law. Investments in alternative investments are valued using the most recent valuation available from the respective external fund manager.

Investments in commercial fixed annuity contracts are measured at fair value. Accumulated values are provided by insurance carriers on a periodic basis as reported by the insurance companies. The majority of the contracts have surrender charges. The Foundation expects to realize the fair value of these contracts. Additionally, changes in accumulated values are recorded annually.

Properties Held for Sale

During the year ended December 31, 2017, the Foundation received two properties located in Miami, Florida as noncash gifts, which were recorded at their fair market value of $1,348,000. The properties were listed for sale and both of the properties were sold in 2018.

Furniture, Equipment and Leasehold Improvements, Net

Furniture, equipment and leasehold improvements are stated at cost, if purchased, or at the estimated market value at date of receipt if acquired by donation. Fixed assets with a value in excess of $1,000 and with a useful life in excess of one year are capitalized. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the respective assets.

The estimated useful lives of the assets are as follows:

Computer and office equipment	3 years
Furniture	5 years
Leasehold improvements	Shorter of useful life or lease term

Funds Held on Behalf of Others

The Foundation accepts funds from unrelated nonprofit organizations who desire to have the Foundation provide efficient investment management. A liability is recorded at the estimated fair value of the assets deposited with the Foundation. The nonprofit organization may request a partial or total distribution at any time. Assets are invested in investment pools offered by the Foundation. U.S. GAAP requires that a recipient organization recognize the fair value of the assets as a liability. Balances under the Foundation's fiscal agency program are included in "Funds Held on Behalf of Others" in the consolidated statements of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions

The Foundation recognizes contributions received as revenue in the period received. The Foundation considers all contributions to be available for use unless they are received with donor stipulations that limit the use of the assets. When a donor restriction is satisfied, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as “Net assets released from restrictions.”

Administration Fees

Administration fees are charged to funds in accordance with the fund agreements and are recognized quarterly over the term of the fund agreement. Administrative fees transferred from these funds for support services totaled approximately $3,413,000 and $3,545,000 during the years ended December 31, 2018 and 2017, respectively. The fees are eliminated in the accompanying consolidated financial statements.

Fundraising and Other Revenue

Fundraising and other revenue is recognized in the period the event occurs, or cash is received from fiscal agents.

Fiscal Agencies

Give Miami Day – The Foundation sponsors a 24-hour online donation event annually, in which the Foundation matches, on a percentage basis, the total donations made during the donation period. Donations received by the Foundation for Give Miami Day are specified for other beneficiaries and are not recognized in the consolidated statements of activities. Total contributions raised on behalf of others under this program totaled approximately $11,317,000 and $10,133,000 during the years ended December 31, 2018 and 2017, respectively.

The Foundation also operates as a fiscal agent for certain grants by providing fiscal expenditure responsibility services for the organization making the grant. Revenue under these arrangements is based on a percentage of receipts.

Variance Power

U.S. GAAP provides that if the governing body of an organization has the unilateral power to redirect the use of donor contributions to another beneficiary, such contribution must be classified as net assets without donor restrictions.

Pursuant to the Foundation’s By-laws, the Board of Trustees of the Foundation (“Board”) has the ability known as variance power, however, the Board would generally intend to exercise this authority only if the stated purpose of a contribution becomes no longer applicable and incapable of fulfillment. Accordingly, the Foundation's consolidated financial statements classify the majority of funds, including the corpus of certain donor advised, field of interest and designated funds, as net assets without donor restrictions. Net assets encumbered by a time stipulation are classified as net assets with donor restrictions and released to net assets without donor restrictions when the time restriction expires.

The Financial Accounting Standards Board (“FASB”) provides guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). The subtopic also provides for enhanced disclosures about endowment funds (both donor-restricted endowment funds and board designated endowment funds). The Foundation has determined its net assets do not meet the definition of an endowment under UPMIFA. However, the Foundation manages funds established by donors as endowed funds in accordance with terms set forth in the individual agreements and the Foundation’s internal spend policy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liabilities Under Annuity Programs

The Foundation records a liability for the present value of the annuities payable using a discount rate of 4.5%. An adjustment is made to the liability to record the gain or loss due to recomputation of the liability based upon the revised life expectancy and amounts due to beneficiaries. These are reflected in the accompanying consolidated statements of activities as "Change in value - annuities." Upon the occurrence of certain events, including the death of annuitants or early termination of a contract, the Foundation records an adjustment for the remaining liability and resulting gain.

Split-Interest Agreements

Charitable lead trusts and charitable remainder trusts, in which the Foundation is not the trustee, are recorded in the net assets with donor restrictions class as a receivable at the present value of the expected future cash inflows and contribution revenue is recognized for the same amount. In the event that the trust has an income beneficiary other than the Foundation, the contribution revenue is reduced by the amount of the present value of the estimated liability due to the income beneficiary.

Grants and Services to Beneficiaries

Grants are recognized when all significant conditions are met by grantees, all due diligence has been completed and the grants are approved by the Foundation's staff or Board Committee. Grant refunds are recorded as a reduction of grant expense at the time the Foundation receives or is notified of the refund. Services to beneficiaries represent expenses associated with fiscal sponsorships and are recognized when service is performed.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. Expenses that can be directly identified with the program or supporting service are reported as expenses of those functional areas. Other expenses are allocated among program and supporting services based on a reasonable basis that is consistently applied. Personnel expenses are allocated on the basis of estimated time and effort.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs incurred were $94,536 and $99,455 for the years ended December 31, 2018 and 2017, respectively. In addition. The Foundation expensed $651,978 in marketing and advertising costs during the year ended December 31, 2017 for its 50th anniversary fundraising campaign.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively. The Foundation is subject to unrelated business income tax on net income from certain investment activities. There is no material unrelated business income for the years ended December 31, 2018 and 2017. The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Foundation files income tax returns. The Foundation is generally no longer subject to U.S. Federal or state examinations by tax authorities for years before 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncements

Presentation of Financial Statements of Not-for-Profit Entities

During the year ended December 31, 2018, the Foundation adopted Accounting Standards Update 2016-14, Not-for- Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The Foundation has applied the update retrospectively to all periods presented and adjusted the presentation of these consolidated financial statements accordingly. As a result, the Foundation has reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions, as well as, temporarily restricted and permanently restricted net assets to net assets with donor restrictions. The adoption of this update has no other material effect on the Foundation’s consolidated financial position and changes in net assets. In addition, the Foundation has elected to continue to present the consolidated statements of cash flows using the indirect method and has included separate consolidated statements of functional expenses in its financial statements.

Fair Value Measurement

In May 2015, the FASB issued an accounting standard update that removes the requirement to include investments in the fair value hierarchy for which fair value is measured at net asset (“NAV”) using the practical expedient. The update also changes certain disclosure requirements. The update is effective retrospectively for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Foundation has applied the provisions retrospectively. The adoption of this update did not have a material effect on the Foundation’s consolidated financial statements. The adoption is reflected in the fair value footnote (NOTE 6) to the consolidated financial statements and certain disclosures that are no longer required have been removed.

Recent Accounting Pronouncements

Revenue From Contracts With Customers

In May 2014, the FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements but expects upon adoption that the update will have a material effect on the Foundation’s financial condition due to the recognition of a right-of-use asset and related lease liability. The Foundation does not anticipate the update having a material effect on its results of operations or cash flows, though such an effect is possible. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease Accounting (Continued)

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the Foundation's presentation of comparative periods in the consolidated financial statements will continue to be in accordance with current lease accounting. The Foundation is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued an accounting standard update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Foundation is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its consolidated financial statements.

Reclassifications

Certain items in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

Subsequent Events

The Foundation has evaluated subsequent events through May 22, 2019, which is the date the consolidated financial statements were available to be issued.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The Foundation maintains an informal policy of structuring its financial assets to be available as general expenditures, liabilities and other obligations come due. The Foundation engages qualified third party investment advisors to invest excess cash net of working capital in instruments as stipulated under the Investment policy. The policy is reviewed quarterly by the Investment Committee. Market performance is monitored continuously including review of quarterly reports and watch list of invested funds. Furthermore, the Executive Committee as well as the Board reviews the consolidated statements of financial position and consolidated statements of activities results periodically.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES (CONTINUED)

The Foundation's financial assets available within one year of the consolidated statement of financial position date for general expenditures as of December 31, 2018 are as follows:

Cash and cash equivalents	$	4,781,147
Accounts receivable		253,155
Investments		322,374,466
Financial assets		327,408,768
Less: Board designated funds		121,729,915
Available financial assets		205,678,853
Less: Investments held for others		18,300,763
Investments not immediately redeemable		871,351
Total financial assets available within one year	**$**	**186,506,739**

As discussed in Note 4, the Foundation has contributions receivable not included in the table above since these will not be collected within the next year. In managing its liquidity needs and in accordance with policies established by the Board, the Foundation's investment managers invests largely in mutual funds, equities and fixed income securities which are considered highly liquid as there are no preventative lockups or restrictions and can be readily liquidated to cover operating needs.

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consist of the following as of December 31,:

		2018		**2017**
Charitable remainder trust	$	1,858,045	$	1,858,045
Contributions receivable		803,341		913,740
Other receivables		-		100,000
Present value discount		(290,057)		(290,057)
Contributions receivable, net	**$**	**2,371,329**	**$**	**2,581,728**

Under the terms of the charitable remainder trust, the Foundation will receive a 28.5% remainder interest in a residence in Coconut Grove, Florida, upon termination of the grantors life estate in the residence. The amount reflected in the consolidated financial statements is 28.5% of management's estimate of the fair value of the property at the date of receipt.

Contributions receivable consist of three unitrusts, a charitable lead trust and the net cash surrender value of three life insurance policies which name the Foundation as a remainder beneficiary. Under the terms of the unitrusts, the Foundation is to receive 50% of the trust's assets upon the death of the last surviving beneficiary. The present value discount of future distributions has been estimated using a single life and last survivor expectancy and totaled approximately $290,000 as of December 31, 2018 and 2017. The Foundation has not set up reserves for these contributions receivable as management anticipates they are fully collectible.

5. INVESTMENTS

The Investment Committee of the Foundation has the responsibility to ensure that the assets of the Foundation's various funds are managed in a manner consistent with its policies and objectives. The Investment Committee has established five investment pools for the investment management of the Foundation's assets. Donors that establish funds with the Foundation recommend one of the investment pools based on their investment objectives and risk tolerance level. The Investment Committee will permit the investment pools to experience an overall level of risk consistent with the risk generally associated with the Investment Committee's policy asset allocation and similar to that of the market opportunity available to institutional investors with similar return objectives. The Foundation permits the establishment of externally managed funds for donors meeting certain criteria. Under this program, the donor may recommend a financial advisor.

The Foundation's general investment philosophy is as follows:

> Asset allocation is a crucial factor in the ongoing management of risks facing the investment funds. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is expected. Therefore, the general policy is to diversify investments to achieve a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and the factors that influence them. A globally diversified portfolio, with uncorrelated returns from various asset classes, should reduce the variability of returns over time. In determining the appropriate asset allocation, the inclusion or exclusion of asset classes and investments within each class is based on the impact on the funds, rather than judging asset classes and investments on a standalone basis. At all times, liquidity within the pools will be maintained at a level that will minimize the possibility of a loss occasioned by the sale of an investment vehicle forced by the need to meet a required distribution.

The following is a description of the Foundation's investment pools as of December 31, 2018 and 2017:

The Long-Term Pool – This pool is the most broadly diversified. It is designed to accept more downside short-term risk to achieve a higher level of long-term growth. The primary financial objective is to preserve the purchasing power of the investments after withdrawals are taken. The pool has adopted a total return investment approach including capital appreciation, dividends and interest income. The objective is based on a ten-year time horizon.

The Balanced Pool – The Balanced Pool is designed to achieve moderate risk adjusted returns with an emphasis on total returns, which is the aggregate return from capital appreciation, dividend and interest income.

The Social Impact Pool – The investment strategy for the Social Impact Pool is similar to the Balanced Pool. The Social Impact concept is intimately linked to responsible investing and is designed to invest in companies that strive to have a positive societal impact, including, but not limited to, mitigating climate change, reducing waste, using clean energy and employing sound corporate governance and labor practices.

The Income Pool – The objective of the Income Pool is to achieve low to moderate risk adjusted returns, with an emphasis on total returns. As such, investment parameters will be limited to short and intermediate term, high-quality, fixed-income instruments or cash equivalents. The Income Pool may invest in other types of securities, including stocks, provided that the corporation is organized under U.S. laws and is publicly traded.

The Cash Pool – The objective of the Cash Pool is to preserve principal value and maintain a high degree of liquidity while providing current income.

5. INVESTMENTS (CONTINUED)

Cash and cash equivalents subject to investment management direction are reported as investments rather than cash equivalents. Investments are presented in the consolidated financial statements at fair market values. The Foundation invests in marketable equity securities which, inherent in the fair market value determination, include the risk factor of credit worthiness for each individual equity security.

Investments consist of the following as of December 31,:

	2018	2017
Fixed income	$ 38,579,998	$ 38,664,105
Domestic equity	63,458,928	56,369,857
International equity	59,538,429	65,824,983
Alternative investments	38,283,651	36,715,760
Cash equivalents	55,048,256	77,491,776
Diversified mutual funds	31,407,481	29,039,182
Mutual funds	7,572,706	8,587,086
Private equity	524,778	595,976
Insurance contracts	27,960,239	34,518,304
	$ 322,374,466	**$ 347,807,029**

Investment (loss) income consists of the following for the years ended December 31,:

	2018	2017
Dividends and interest	$ 5,729,984	$ 6,191,453
Net realized and unrealized (loss) gain on investments	(18,865,929)	26,350,945
Investment management and consulting fees	(1,080,976)	(894,696)
Total investment (loss) income	**$ (14,216,921)**	**$ 31,647,702**

Investment earnings from annuity assets were approximately $500,000 and $1,000,000 during the years ended December 31, 2018 and 2017, respectively, and are included in the consolidated statements of activities within the caption “Change in value – annuities”.

6. FAIR VALUE MEASUREMENTS

The FASB Accounting Standards Codification established a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2018 and 2017.

Fixed income, domestic equity and international equity: Valued at the closing price reported in the active market in which the individual securities are traded.

Alternative investments (hedge funds and private equity): Valued at NAV per share on a monthly or quarterly basis by the investment managers. These investments include private capital limited partnerships, which are illiquid, and hedge fund limited partnerships, which can be withdrawn in accordance with the funds redemption notice period. These investments are funded not just by an initial contribution but also by periodic capital calls.

Cash equivalents: Valued at cost, which approximates fair value.

Diversified mutual funds: Valued at the closing price reported in the active market in which the individual securities are traded.

Mutual funds: Valued at the closing price reported in the active market in which the individual securities are traded.

Insurance contracts: Accumulated values are provided by insurance carriers on a periodic basis. The values approximate the fair value of these policies. The values assigned to the individual policies, which are not actively traded on any exchange, are not observable and are considered to be Level 3 of the valuation hierarchy.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The values assigned to certain investments are based upon currently available information and do not necessarily represent amounts that may ultimately be realized. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be material.

The following tables represent the Foundation's financial instruments measured at fair value on a recurring basis as of December 31, for each of the fair value hierarchy levels:

		Fair Value Measurements at December 31, 2018		
Description	**Fair Value 12/31/2018**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets:				
Fixed income	$ 38,579,998	$ 38,579,998	$ -	$ -
Domestic equity	63,458,928	63,458,928	-	-
International equity	59,538,429	59,538,429	-	-
Cash equivalents	55,048,256	55,048,256	-	-
Diversified mutual funds	31,407,481	31,407,481	-	-
Mutual funds	7,572,706	7,572,706	-	-
Insurance contracts	27,960,239	-	-	27,960,239
Total assets in the fair value heirarchy	283,566,037	255,605,798	-	27,960,239
Assets measured at NAV	38,808,429	-	-	-
Total assets at fair value	**$ 322,374,466**	**$ 255,605,798**	**$ -**	**$ 27,960,239**

		Fair Value Measurements at December 31, 2017		
Description	**Fair Value 12/31/2017**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets:				
Fixed income	$ 38,664,105	$ 38,664,105	$ -	$ -
Domestic equity	56,369,857	56,369,857	-	-
International equity	65,824,983	65,824,983	-	-
Cash equivalents	77,491,776	77,491,776	-	-
Diversified mutual funds	29,039,182	29,039,182	-	-
Mutual funds	8,587,086	8,587,086	-	-
Insurance contracts	34,518,304	-	-	34,518,304
Total assets in the fair value heirarchy	310,495,293	275,976,989	-	34,518,304
Assets measured at NAV	37,311,736	-	-	-
Total assets at fair value	**$ 347,807,029**	**$ 275,976,989**	**$ -**	**$ 34,518,304**

6. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended December 31, 2018:

		Insurance Contracts
Balance, beginning of year	$	34,518,304
Withdrawals and payments		(7,252,165)
Change in value		694,100
Balance, end of year	**$**	**27,960,239**

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended December 31, 2017:

		Insurance Contracts
Balance, beginning of year	$	39,618,338
Withdrawals and payments		(6,283,697)
Change in value		1,183,663
Balance, end of year	**$**	**34,518,304**

Alternative Investments

Alternative investments include investments in hedge funds and limited partnerships where the Foundation has the right to withdraw its investments after the expiration of "lock-up" periods of one to two years pursuant to the respective offering memorandums. The underlying investments of the funds are valued at fair value on a quarterly basis by the partnership or fund. As part of the private equity investment structure, initial capital call commitments are required.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Alternative Investments (Continued)

The following summary represents the funds reported at NAV as of December 31, 2018:

	Fair Value as of 12/31/2018	Unfunded Commitments as of 12/31/2018	Redemption Frequency	Redemption Notice Period
SEI Structured Credit (a)	$ 8,560,580	$ -	Bi-annually	95 days
SEI Core Property Fund (b)	9,030,653	-	Quarterly	65 days
Portfolio Advisors Private Equity Fund IV (c)	140,787	113,353	Illiquid	None
Portfolio Advisors Private Equity Fund VI (c)	383,991	237,245	Illiquid	None
Vintage European Opportunity Fund (d)	346,573	-	Illiquid	None
SEI Energy Fund (e)	8,429,275	-	Bi-annually	95 days
SEI Hedge Fund (f)	11,916,570	-	Monthly, quarterly, annually - subject to restrictions	30 to 180 days
Total	**$ 38,808,429**	**$ 350,598**		

The following is a summary of the investment strategies of the investments valued at net asset value:

(a) The fund's objective is to seek to generate high total returns by investing in a portfolio of collateralized debt obligations. The fund primarily invests in collateralized debt, limited partnerships and asset backed securities.

(b) The objective of the fund is to seek to generate income and capital appreciation through a diversified strategy of property funds.

(c) The fund's objective is to achieve long-term returns through investments in a diversified portfolio of private equity limited partnerships.

(d) The fund seeks to provide aggregate long-term compounded returns in excess of those available from a portfolio of conventional investments in the public equity.

(e) The fund seeks to generate high total returns.

(f) The fund seeks to produce returns comparable to those of the equity markets over a full market cycle targeting substantially less volatility than equities by investing in a diversified portfolio of hedge funds.

7. ANNUITIES

In 2015, the Foundation agreed to take over an established annuity program with assets primarily related to commercial fixed annuity contracts and liabilities for payments due to annuitants. The Foundation manages the assets and makes distributions to the annuitants under the terms of the original and any subsequent agreements. The assets are held as general assets of the Foundation.

The following presents the fair value of the annuity assets and present value of the liabilities as of December 31,:

	2018	2017
Cash and cash equivalents	$ 213,278	$ 318,820
Investments including insurance contracts and receivables	28,034,919	39,993,503
Total assets	**$ 28,248,197**	**$ 40,312,323**
Total liabilities	**$ 14,482,465**	**$ 32,471,389**
Net assets	**$ 13,765,732**	**$ 7,840,934**

During the years ended December 31, 2018 and 2017, the net change in value of annuity assets and liabilities was $7,823,961 and $246,624, respectively. In 2018, these non-cash benefits included a gain of approximately $8.6m due to early settlement of annuity liability contracts and are shown in the consolidated statements of activities as "Change in value – annuities" and in the consolidated statements of cash flows as "Unrealized gain from annuities."

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following as of December 31,:

	2018	2017
Computer and office equipment	$ 225,744	$ 202,824
Furniture	174,276	174,276
Leasehold improvements	699,955	699,955
	1,099,975	1,077,055
Accumulated depreciation and amortization	(532,059)	(422,689)
	$ 567,916	**$ 654,366**

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 totaled $109,370 and $110,695, respectively.

9. LINE OF CREDIT

On April 1, 2013, the DadeFund, Inc. (the “Fund”), a supporting organization of The Miami Foundation, Inc., entered into a $5,000,000 line of credit agreement with a financial institution secured by substantially all of the Fund’s assets. Below are the statements of financial position of the Fund as of December 31,:

	2018	2017
Assets:		
Cash and cash equivalents	$ 13,963	$ 293
Investments	2,366,053	6,266,065
Total assets	**$ 2,380,016**	**$ 6,266,358**
Liabilities:		
Accounts payable	$ 5,579	$ -
Line of credit	-	3,694,000
Total liabilities	5,579	3,694,000
Net assets without donor restrictions	2,374,437	2,572,358
	$ 2,380,016	**$ 6,266,358**

The line of credit expired in April 2014. The Fund entered into an amended agreement in April 2014 which increased the line of credit to $6,000,000. The amended line bears interest at LIBOR plus 1.25% (approximately 2.8% as of December 31, 2018 and 2017) and expires on February 28, 2019. Interest expense totaled $55,627 and $86,882 for the years ended December 31, 2018 and 2017, respectively. During the year ended December 31, 2018, the Foundation paid in full the principal balance on the line of credit. The line of credit was not renewed.

10. FUNDS HELD ON BEHALF OF OTHERS

Funds held on behalf of others are comprised of cash and investments held at financial institutions and amounted to $18,300,763 and $18,945,574 as of December 31, 2018 and 2017, respectively.

11. NET ASSETS

Net assets without donor restrictions consist of the following as of December 31,:

	2018	2017
Administration	$ 9,710,969	$ 11,729,006
Supporting organizations	6,150,530	6,750,958
Undesignated	132,148,123	121,406,992
Designated funds	117,698,654	129,800,620
	$ 265,708,276	**$ 269,687,576**

11. NET ASSETS (CONTINUED)

Net assets without donor restrictions are used to support the operating activities of the Foundation. Of these funds, the Board of the Foundation designated $117,698,654 and $129,800,620 as of December 31, 2018 and 2017, respectively. The major fund categories are as follows:

Administration: Operating assets used to cover administrative costs and support services of the Foundation.

Supporting organizations: Component funds for CAP and DadeFund described in Note 1 and Note 9.

Undesignated: General funds geared towards the overall mission and needs of Miami-Dade County through grant making and other community projects.

Designated: Funds designated for specific donor fields of interests and other initiatives. Some funds are operated as endowments with the intention of preserving the fund value in perpetuity. The Foundation follows spending policies per agreements or applies an internal spending policy maintained by the Board.

Net assets with donor restrictions consist of the following as of December 31,:

	2018	2017
Restricted by donors with specific purpose/time restrictions		
General programs	$ 30,416,467	$ 30,019,201
Charitable remainder and lead trusts	1,567,988	1,567,988
Annuities	-	7,840,934
	$ 31,984,455	**$ 39,428,123**

Net assets with donor restrictions consist of the fiscal sponsorship funds, annuities (NOTE 7), four charitable trusts and three life insurance policies in which the Foundation is beneficiary (NOTE 4).

Net assets released from restrictions due to time and purpose is as follows during the years ended December 31,:

	2018	2017
General programs	$ 40,275,063	$ 30,490,715
Annuities	15,744,551	383,741
	$ 56,019,614	**$ 30,874,456**

12. RETIREMENT PLANS

Pension Plan

The Foundation sponsors a non-contributory defined benefit pension plan for all full-time employees. In November 2010, the Foundation froze this plan. During each of the years ended December 31, 2018 and 2017, the Foundation contributed $35,000.

12. RETIREMENT PLANS (CONTINUED)

Pension Plan (Continued)

Information related to the Foundation's obligation, which is included within "Accounts payable, accrued expenses and other liabilities" in the consolidated statements of financial position is as follows as of December 31,:

	2018	2017
Fair value of plan assets	$ 869,791	$ 907,089
Projected benefit obligation*	(959,599)	(953,291)
Unfunded projected benefit obligation	**$ (89,808)**	**$ (46,202)**

*The projected benefit obligation is the amount the pension plan needs now to cover future pension obligations to its participants.

Net periodic pension benefit under the plan was $(28,543) and $(19,701) for the years ended December 31, 2018 and 2017, respectively. The components of the net periodic pension benefit are as follows for the years ended December 31,:

	2018	2017
Service cost	$ 5,203	$ 4,933
Interest cost	33,538	35,988
Expected return on plan assets	(68,032)	(62,022)
Amount of recognized actuarial loss	748	1,400
Net periodic pension benefit	**$ (28,543)**	**$ (19,701)**

Changes in plan assets as of the actuarial valuation date of December 31,:

	2018	2017
Fair value of plan assets at beginning of the year	$ 907,089	$ 775,276
Actual return on plan assets	(50,368)	118,473
Contributions	35,000	35,000
Annuities purchased or benefits paid, including expense charges	(21,930)	(21,660)
Fair value of plan assets at the end of the year	**$ 869,791**	**$ 907,089**

Changes in the plan benefit obligation as of the actuarial valuation date of December 31,:

	2018	2017
Benefit obligation at the beginning of the year	$ 953,291	$ 895,108
Service cost	5,203	4,933
Interest cost	33,538	35,988
Assumption changes	(9,734)	42,826
Actuarial gain	(769)	(3,904)
Expense charges	(5,203)	(4,933)
Annuities purchased or benefits paid	(16,727)	(16,727)
Benefit obligation at the end of the year	**$ 959,599**	**$ 953,291**

The assumptions used in the accounting for the defined benefit plan for the years ended December 31, 2018 and 2017 were 4.15% and 3.5% for the discount rate, respectively, 7.0% and 7.5% for expected long-term return on assets, respectively, and no increase in compensation levels.

12. RETIREMENT PLANS (CONTINUED)

Pension Plan (Continued)

Pension assets were allocated in the following manner as of December 31,:

	2018		2017	
	Amount	Percent	Amount	Percent
Equity	$ 381,806	44%	$ 450,226	50%
Fixed income and other	487,773	56%	446,084	49%
General account	212	0%	10,779	1%
Plan assets	**$ 869,791**	**100%**	**$ 907,089**	**100%**

As of December 31, 2018, the expected payout of pension benefits is approximately as follows for the years ending December 31,:

2019	$ 17,000
2020	17,000
2021	130,000
2022	16,000
2023	16,000
2024 - 2028	80,000
	$ 276,000

The Foundation’s expected long-term return on plan assets assumption of 7.0% was selected using the “building block” approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection Economic Assumptions for Measuring Pension Obligations. Based upon the investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 4.15% was selected and added to the real rate of return range to arrive at a best estimate range of 6.74% - 9.40%. A rate within the best estimate range of 7.0% was selected.

The Foundation’s investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plan’s actuarial assumptions and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The Foundation’s overall investment strategy is to achieve a mix of approximately 65-75% of investments for long-term growth and 25-35% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are between 30-70% equity securities, 30-70% corporate bonds, with a long term asset mix guideline of 50% equity and 50% fixed income. Equity securities primarily include investments in large-cap and small-cap companies primarily located in the United States of America and developing and emerging international markets. Fixed income securities include corporate bonds with various durations. The investment policy is periodically reviewed by the Foundation. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

Defined Contribution Plan

In December 2010, the Foundation started a 403(b) contributory retirement plan. The Foundation contributes 1% of an employee's salary once the employee has completed one year of service with the Foundation. The Foundation will also match up to an additional 4% of a qualified employee's voluntary contribution to the plan. Total employer contributions to this plan were approximately $102,000 and $83,000 for the years ended December 31, 2018 and 2017, respectively.

13. OPERATING LEASE

In January 2015, the Foundation entered into an operating lease agreement for office space. The lease expires on December 31, 2024 and the Foundation has the option to renew the lease for an additional term of five years. Monthly rent payments are approximately $12,400, subject to an annual increase of 3%. The Foundation records rent expense on a straight-line basis over the lease term. As part of the agreement, the Foundation received an allowance of approximately $485,000 in consideration for the improvements made to the new office space. Tenant allowances received are deferred when received and amortized on a straight-line basis over the life of the lease term. As of December 31, 2018 and 2017, the deferred rent liability balance was approximately $366,000 and $409,000, respectively, and is reflected within the caption "Accounts payable, accrued expenses and other liabilities" in the consolidated statements of financial position. During December 2018, the Foundation executed an amendment to the original lease agreement for the remainder of the term. Additional monthly payments are approximately $5,800, also subject to an annual increase of 3%. The agreement has a provision for a tenant allowance of approximately $201,000 in consideration for the improvements made to the new office space.

Rent expense amounted to $119,515 for the years ended December 31, 2018 and 2017.

Future minimum payments under the operating lease are as follows for the years ending December 31,:

2019	$ 237,747
2020	244,880
2021	252,226
2022	259,793
2023	267,587
Thereafter	275,614
	$ 1,537,847