

CHAUTAUQUA FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Chautauqua Foundation, Inc.

We have audited the accompanying statements of financial position of Chautauqua Foundation, Inc. (the Foundation) as of December 31, 2019 and March 31, 2019, and the related statements of activities and cash flows for the nine month period April 1, 2019 through December 31, 2019 and the year ended March 31, 2019, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 the Foundation as of December 31, 2019 and March 31, 2019 and the results of its operations, changes in net assets and cash flows for the nine month period April 1, 2019 through December 31, 2019 and the year ended March 31, 2019, in accordance with accounting principles generally accepted in the United States of America.



April 24, 2020

Statements of Financial Position

	December 31, 2019	March 31, 2019
Assets:		
Cash	\$ 1,240,824	\$ 1,978,465
Contributions receivable (Note 2)	2,820,471	3,612,803
Investments (Note 3)	101,252,805	94,167,163
Split-interest agreements	4,194,626	4,027,619
Other assets	395,000	726,662
	<u>\$ 109,903,726</u>	<u>\$ 104,512,712</u>
Liabilities and Net Assets:		
Liabilities:		
Payable to the Institution (Note 4)	\$ 2,020,247	\$ 4,211,504
Accounts payable and accrued expenses	245,968	215,252
	<u>2,266,215</u>	<u>4,426,756</u>
Net Assets (Note 5):		
Without donor restrictions	4,703,274	4,391,263
With donor restrictions	102,934,237	95,694,693
	<u>107,637,511</u>	<u>100,085,956</u>
	<u>\$ 109,903,726</u>	<u>\$ 104,512,712</u>

CHAUTAUQUA FOUNDATION, INC.

Statements of Activities

Nine Months Ended December 31, 2019

	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions:			
Chautauqua Fund	\$ -	\$ 4,291,683	\$ 4,291,683
Endowment	49,936	1,192,855	1,242,791
Other	-	6,145	6,145
Change in value of split interest agreements	-	167,007	167,007
Investment income	349,314	7,810,413	8,159,727
Total revenues	<u>399,250</u>	<u>13,468,103</u>	<u>13,867,353</u>
Expenses:			
Direct support:			
Chautauqua Fund	4,291,683	-	4,291,683
Endowment direct support	-	-	-
Support from other funds	22,199	-	22,199
Indirect support	1,680,492	-	1,680,492
General and administrative	321,424	-	321,424
Total expenses	<u>6,315,798</u>	<u>-</u>	<u>6,315,798</u>
Net assets released from restrictions	<u>6,228,559</u>	<u>(6,228,559)</u>	<u>-</u>
Change in net assets	<u>312,011</u>	<u>7,239,544</u>	<u>7,551,555</u>
Net assets - beginning	<u>4,391,263</u>	<u>95,694,693</u>	<u>100,085,956</u>
Net assets - ending	<u>\$ 4,703,274</u>	<u>\$ 102,934,237</u>	<u>\$ 107,637,511</u>

See accompanying notes.

Year Ended March 31, 2019

Net Assets		
Without Donor Restrictions	With Donor Restrictions	Total
\$ -	\$ 4,962,944	\$ 4,962,944
14,294	8,247,390	8,261,684
-	-	-
-	180,869	180,869
112,103	2,002,200	2,114,303
126,397	15,393,403	15,519,800
4,962,944	-	4,962,944
4,383,407	-	4,383,407
48,583	-	48,583
1,284,906	-	1,284,906
419,202	-	419,202
11,099,042	-	11,099,042
8,925,584	(8,925,584)	-
(2,047,061)	6,467,819	4,420,758
6,438,324	89,226,874	95,665,198
\$ 4,391,263	\$ 95,694,693	\$ 100,085,956

CHAUTAUQUA FOUNDATION, INC.

Statements of Cash Flows

	Nine Months Ended December 31, 2019	Year Ended March 31, 2019
Operating activities:		
Change in net assets	\$ 7,551,555	\$ 4,420,758
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net realized and unrealized gains	(6,736,377)	(755,852)
Changes in other operating assets and liabilities:		
Contributions receivable	792,332	(2,250,745)
Receivable from split interest agreements	(167,007)	(180,869)
Other assets	331,662	44,650
Payable to the Institution	(2,191,257)	1,237,263
Accounts payable and accrued expenses	30,716	15,976
Amounts held in custody for others	-	(195,203)
Net operating activities	(388,376)	2,335,978
Investing activities:		
Purchases of investments	(7,410,566)	(7,642,573)
Proceeds from sales of investments	7,061,301	5,564,493
Net investing activities	(349,265)	(2,078,080)
Net change in cash	(737,641)	257,898
Cash - beginning	1,978,465	1,720,567
Cash - ending	\$ 1,240,824	\$ 1,978,465

See accompanying notes.

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Chautauqua Foundation, Inc. (the Foundation) was established in 1937 to raise, invest and reinvest funds to support the mission of Chautauqua Institution (the Institution) to provide cultural, educational, religious and other programs to a large and diverse audience.

Effective December 31, 2019, the fiscal year-end of the Foundation was changed from March 31 to December 31. Accordingly, the accompanying financial statements include comparative activity for the nine months ended December 31, 2019 and the year ended March 31, 2019.

Subsequent Events:

The Foundation has evaluated events and transactions for potential recognition or disclosure through April 24, 2020, the date the financial statements were available to be issued.

Tax Status:

The Foundation is a 501(c)(3) corporation exempt from income taxes under Section 501(a) of the Internal Revenue Code.

Cash:

At various times, cash in financial institutions may exceed federally insured limits and subject the Foundation to concentrations of credit risk.

Investments:

Investments are stated at estimated fair value. The fair value of marketable securities is determined by quoted prices in active markets. The Foundation uses net asset value (NAV) per share (or its equivalent) as a practical expedient to determine the fair value of investments that (i) do not have a readily determinable fair value predicated upon quoted prices in active markets, and (ii) have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company (Note 8).

Contributions:

Contributions, including unconditional promises to give, are reported at fair value at the date received. Gifts are reported as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions that are expected to be collected in future years are recorded at net realizable value. The discounts on those amounts are computed using an interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contributions revenue in the statements of activities.

Conditional promises to give to the Foundation are not recorded as revenue until such time as the conditions are substantially met, and totaled \$41,963,000 and \$40,262,000 at December 31, 2019 and March 31, 2019.

Split-Interest Agreements:

The Foundation receives contributions in the form of split-interest agreements which consist primarily of charitable remainder trusts and pooled life income funds. The estimated receivable under these agreements are recorded at the net present value of the estimate future benefits to be received based upon the life expectancy of the income beneficiaries using an appropriate discount rate. Subsequent changes in value are recorded as change in value of split-interest agreements in the statements of activities. The value of underlying assets of the split interest agreements were approximately \$10,814,000 and \$10,373,000 at December 31, 2019 and March 31, 2019.

Support to the Institution:

Chautauqua Fund contributions are distributed to the Institution in the same year they are received by the Foundation. Distributions from the restricted endowment funds are made pursuant to the Foundation's spending policy guidelines and donor stipulations. All other distributions are made in accordance with donor restrictions and for purposes approved by the Foundation's Board. For the period ended December 31, 2019, no endowment direct support was recognized.

Use of Estimates:

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

Reclassifications:

The financial statements for the year ended March 31, 2019 have been reclassified to conform with the presentation adopted for the period ended December 31, 2019.

2. Contributions Receivable:

	December 31, 2019	March 31, 2019
Gross unconditional promises to give	\$ 3,029,507	\$ 3,967,566
Less unamortized discount	209,036	354,763
	<u>\$ 2,820,471</u>	<u>\$ 3,612,803</u>

Contributions receivable at December 31, 2019 are expected to be received over the periods shown below:

Less than one year	\$ 840,729
One to five years	2,188,778
	<u>\$ 3,029,507</u>

3. Investments:

	December 31, 2019	March 31, 2019
Cash	\$ 1,440,549	\$ 2,923,593
Equities	45,155,065	44,904,739
Fixed income	18,395,627	16,538,288
Hedge fund	21,664,595	20,060,321
Private equity	10,596,969	9,740,222
Select equity	4,000,000	-
	<u>\$ 101,252,805</u>	<u>\$ 94,167,163</u>

Investment activity reported in the Statements of Activities is as follows:

Nine Months Ended December 31, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest, net	\$ 72,056	\$ 1,351,294	\$ 1,423,350
Net realized and unrealized gains	277,258	6,459,119	6,736,377
	<u>\$ 349,314</u>	<u>\$ 7,810,413</u>	<u>\$ 8,159,727</u>

Year Ended March 31, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest, net	\$ 76,200	\$ 1,282,251	\$ 1,358,451
Net realized and unrealized gains	35,903	719,949	755,852
	<u>\$ 112,103</u>	<u>\$ 2,002,200</u>	<u>\$ 2,114,303</u>

The Foundation has committed capital of approximately \$21,750,000 to private equity investments. As of December 31, 2019, the remaining obligation under these commitments totaled approximately \$8,930,000. These investments generally cannot be redeemed. Distributions from these investments are received as underlying investments are liquidated. At December 31, 2019, it is estimated the underlying assets will be liquidated over a period of approximately 5 to 15 years.

Liquidity for the Foundation's investments is as follows:

	December 31, 2019	March 31, 2019
Redemption frequency:		
Daily	\$ 64,991,241	\$ 64,366,620
Semi-annually	12,215,787	11,297,217
Semi-annually after initial lock- up period expiring December 2020	13,448,808	8,763,104
Illiquid	10,596,969	9,740,222
	<u>\$ 101,252,805</u>	<u>\$ 94,167,163</u>

4. Transactions with the Institution:

Distributions to the Institution include Chautauqua Fund contributions, appropriations from donor restricted endowment funds where the underlying restriction has been met and for purposes approved by the Foundation's Board.

Pursuant to an agreement between the Foundation and the Institution, the Foundation reimburses the Institution regularly for various personnel and administrative expenses and from time to time the Foundation receives monies intended for the Institution.

Total amounts due to the Institution is as follows:

	December 31, 2019	March 31, 2019
Endowment direct support	\$ 661,911	\$ 2,058,506
Board-designated appropriations	1,000,000	2,000,000
Other	358,336	152,998
	<u>\$ 2,020,247</u>	<u>\$ 4,211,504</u>

For the year ended March 31, 2019, the Institution agreed to reimburse the Foundation in the amount of \$350,000 for indirect support provided by the Foundation on behalf of the Institution. This amount was included as a receivable in other assets and as a reduction of indirect support in the accompanying statements of financial position and activities, respectively. There was no such agreement for the nine months ended December 31, 2019.

In May 2016, the Foundation obtained a \$25,000,000 bank revolving credit note to facilitate financing the renovation of the Institution's amphitheater. The note is available until April 1, 2022 and has step down provisions to \$15,000,000 on April 1, 2020 and \$5,000,000 on April 1, 2021. The note bears interest at the LIBOR flex rate plus 1%, and contains a covenant requiring the Foundation to maintain a minimum balance in marketable securities or cash of \$25,000,000. Additionally, the Foundation provides a negative pledge on all of its assets, and the note is guaranteed by the Institution. No borrowings on the arrangement were outstanding at December 31, 2019 and March 31, 2019.

Pursuant to a promissory note entered into between the Foundation and Institution, all amounts advanced under the bank revolving credit note for the benefit of the Institution will be repaid to the Foundation with interest at the Internal Revenue Service's applicable federal rate for mid-term borrowings.

5. Net Assets:

The Foundation's financial position and activities are reported according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are those whose use has been limited by donors for a specified time period, purpose or to be maintained by the Foundation in perpetuity.

The composition of net assets without donor restrictions is as follows:

	December 31, 2019	March 31, 2019
Board-designated endowments	\$ 3,706,438	\$ 3,431,848
Unrestricted gifts	996,836	959,415
	<u>\$ 4,703,274</u>	<u>\$ 4,391,263</u>

Net assets with donor restrictions that are purpose or time restricted are comprised of unappropriated endowment gains and restricted gifts as follows:

	December 31, 2019	March 31, 2019
Gains - specified endowments	\$ 12,328,732	\$ 7,825,300
Gains - unspecified endowments	3,849,586	2,465,964
Other restricted gifts	320,713	744,323
	<u>\$ 16,499,031</u>	<u>\$ 11,035,587</u>

Net assets with donor restrictions that represent the accumulated principal of endowment gifts that have been restricted by donors to be maintained by the Foundation in perpetuity are comprised of the following endowment gift categories:

	December 31, 2019	March 31, 2019
Specified endowments	\$ 63,579,054	\$ 62,074,028
Unspecified endowments	22,856,152	22,585,078
	<u>\$ 86,435,206</u>	<u>\$ 84,659,106</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Foundation to retain as a fund of perpetual duration. The Foundation permits spending from underwater endowment funds unless otherwise precluded by donor intent or relevant laws. Deficiencies of this nature exist in two donor restricted endowment funds, which together have an original gift value of \$42,885 and a deficiency of \$9,615 as of December 31, 2019.

6. Retirement Plan:

The Foundation participates in a 403(b) retirement plan for substantially all employees, subject to plan conditions. The Foundation contributes 10% of the employee's gross pay each year. Funded contributions and costs totaled approximately \$68,000 for the nine months ended December 31, 2019 and \$93,000 for the year ended March 31, 2019.

7. Financial Assets Available for Operating Purposes:

The Foundation obtains financial assets primarily through contributions and investment income. The financial assets are acquired throughout the year to help meet the Foundation's cash needs to provide direct and indirect support to the Institution and for general expenditures in accordance with the Foundation's spending policy.

8. Fair Value Measurements:

As described in Note 1, the Foundation's investments are stated at estimated fair value. The fair values of these assets are determined as follows:

	December 31, 2019		March 31, 2019	
	Quoted Prices in Active Markets	Net Asset Value	Quoted Prices in Active Markets	Net Asset Value
Cash	\$ 1,440,549	\$ -	\$ 2,923,593	\$ -
Equities	45,155,065	-	44,904,739	-
Fixed income	18,395,627	-	16,538,288	-
Hedge fund	-	21,664,595	-	20,060,321
Private equity	-	10,596,969	-	9,740,222
Select equity	-	4,000,000	-	-
	<u>\$ 64,991,241</u>	<u>\$ 36,261,564</u>	<u>\$ 64,366,620</u>	<u>\$ 29,800,543</u>

9. Endowment Assets:

The Foundation's endowment assets are comprised of board-designated endowments and donor restricted endowments to be held in perpetuity. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide returns sufficient to address the purposes of the assets over the long term. According to the Foundation's spending policy for direct and indirect support to the Institution, as well as general and administrative expenses, total spending should range from 3% to 6.5% of the beginning of year market value of the Foundation's endowment investment assets. Distributions from the board-designated endowment funds are made at the discretion of the Foundation's Board.

The Foundation's Board has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to be maintained in perpetuity, (b) the original value of subsequent gifts to the endowment fund, and (c) accumulations to the endowment fund made in accordance with the direction of a donor gift instrument at the time the accumulation is added to the fund. In accordance with NYPMIFA, the Foundation considers the following factors to appropriate or accumulate donor restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the Foundation and the fund
- General economic conditions
- Possible effects of inflation and deflation
- Expected total return from income and appreciation of investments
- Other Foundation resources
- Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Foundation
- Investment policy of the Foundation

Investment activity is allocated among the endowment assets based upon their proportionate share of the investment portfolio. Investment activity related to the board-designated endowment is shown as an increase (decrease) in net assets without donor restrictions. Investment income related to the donor-restricted endowments is reported as an increase (decrease) to net assets with donor restrictions until appropriated in accordance with the Foundation's spending policy.

The Foundation's endowment investment assets activity for the nine months ended December 31, 2019 and the year ended March 31, 2019 is as follows:

	Without Donor Restrictions		With Donor Restrictions		Total
	Board-Designated	Unappropriated Earnings on Perpetual Endowments	Accumulated Principal of Perpetual Endowments		
Nine Months Ended December 31, 2019					
Endowment assets – beginning of period	\$ 3,431,848	\$ 10,291,264	\$ 77,434,922	\$ 91,158,034	
Investment income	308,524	7,804,230	-	8,112,754	
Contributions	49,936	-	1,996,943	2,046,879	
Appropriated	(83,870)	(1,917,176)	-	(2,001,046)	
Endowment assets – end of period	\$ 3,706,438	\$ 16,178,318	\$ 79,431,865	\$ 99,316,621	
Year Ended March 31, 2019					
Endowment assets – beginning of year	\$ 5,508,969	\$ 12,210,738	\$ 71,401,989	\$ 89,121,696	
Investment income	77,613	1,994,581	-	2,072,194	
Contributions	14,294	-	6,032,933	6,047,227	
Appropriated	(2,169,028)	(3,914,055)	-	(6,083,083)	
Endowment assets – end of year	\$ 3,431,848	\$ 10,291,264	\$ 77,434,922	\$ 91,158,034	

10. Expenses by Nature and Function:

Nine Months Ended December 31, 2019	Program		General and	Total
	Direct Support	Indirect Support	Administrative	
Fund appropriations	\$ 4,313,882	\$ -	\$ -	\$ 4,313,882
Personnel costs	-	1,213,072	234,081	1,447,153
Travel and hospitality	-	144,427	21,414	165,841
Professional and consulting	-	134,884	37,862	172,746
Other	-	188,109	28,067	216,176
	\$ 4,313,882	\$ 1,680,492	\$ 321,424	\$ 6,315,798
Year Ended March 31, 2019				
Fund appropriations	\$ 9,394,934	\$ -	\$ -	\$ 9,394,934
Personnel costs	-	1,071,711	304,629	1,376,340
Travel and hospitality	-	179,155	43,791	222,946
Professional and consulting	-	207,952	43,480	251,432
Other	-	176,088	27,302	203,390
Reimbursement by the Institution	-	(350,000)	-	(350,000)
	\$ 9,394,934	\$ 1,284,906	\$ 419,202	\$ 11,099,042

The financial statements report certain categories of expenses that are attributable to program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel costs, which are allocated based on estimates of time and effort.

11. Risks and Uncertainties:

On January 31, 2020 the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World of Health Organization in February 2020. As a result, the financial markets and the Foundation's investments experienced a significant decline in value. The extent of the impact of COVID-19 on the Foundation's financial performance will depend on further developments, including the duration and spread of the outbreak, and the impact on the financial markets, the Foundation's donors and the Institution, all of which cannot be predicted.