

**COMMUNITY FOUNDATION REALTY, INC.
AND SUBSIDIARIES
BATON ROUGE, LOUISIANA**

DECEMBER 31, 2017

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Independent Auditor's Report

To the Board of Directors
Community Foundation Realty, Inc.
and Subsidiaries
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Foundation Realty, Inc. (a nonprofit organization) and subsidiaries, which comprise the consolidated Statement of Financial Position as of December 31, 2017, and the related consolidated Statements of Activities and Cash Flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 financial position of Community Foundation Realty, Inc. and subsidiaries as of December 31, 2017, and the changes in their net assets and their 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 Community Foundation Realty, Inc. and subsidiaries' 2016 consolidated financial statements in accordance with auditing standards generally accepted in the United States of America, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, on our consideration of Community Foundation Realty, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Community Foundation Realty, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Foundation Realty, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Baton Rouge, Louisiana
June 29, 2018

COMMUNITY FOUNDATION REALTY, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|--|---------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 719,372 | \$ 1,629,488 |
| Accounts receivable | 6,221 | 10,616 |
| Investments, at fair value | 902,574 | 679,483 |
| Property and equipment, net | 4,745,340 | 5,157,941 |
| Notes receivable | 600,000 | 600,000 |
| Right-to-use - State of Louisiana, net | 3,236,363 | - |
| Right-to-use - City of Baton Rouge-Parish of East Baton Rouge, net | 1,467,153 | 869,281 |
| Other assets | 677 | 1,063 |
| Total assets | \$ 11,677,700 | \$ 8,947,872 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable | \$ 743,091 | \$ 327,950 |
| Deferred revenue and deposits | 3,200 | 1,500 |
| Total liabilities | 746,291 | 329,450 |
| NET ASSETS: | | |
| Unrestricted | 2,417,619 | 6,495,492 |
| Temporarily restricted | 8,513,790 | 2,122,930 |
| Total net assets | 10,931,409 | 8,618,422 |
| Total liabilities and net assets | \$ 11,677,700 | \$ 8,947,872 |

The accompanying notes are an integral part of this statement.

COMMUNITY FOUNDATION REALTY, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year ended December 31, 2017
(With Comparative Totals for 2016)

| | 2017 | | | 2016 |
|--|--------------|---------------------------|---------------|--------------|
| | Unrestricted | Temporarily Restricted | Total | Total |
| REVENUE AND SUPPORT: | | | | |
| Contributions | \$ 82,912 | \$ 1,000,100 | \$ 1,083,012 | \$ 202,256 |
| CEA - State of Louisiana | - | 3,269,387 | 3,269,387 | - |
| CEA - City of Baton Rouge, Parish of East Baton Rouge | - | 612,843 | 612,843 | - |
| Real estate rental income, net of rental expenses of \$14,638 in 2017 and \$15,751 in 2016 | 42,895 | - | 42,895 | 38,499 |
| Earnings on investments and cash balances | 209 | 6,452 | 6,661 | 42,630 |
| Total revenue | 126,016 | 4,888,782 | 5,014,798 | 283,385 |
| Net assets released from restrictions | 2,577,484 | (2,577,484) | - | - |
| Other transfers at donors request | (4,079,562) | 4,079,562 | - | - |
| Total revenue and reclassifications | (1,376,062) | 6,390,860 | 5,014,798 | 283,385 |
| EXPENSES: | | | | |
| Program: | | | | |
| Grants | 2,448,223 | - | 2,448,223 | 2,524,424 |
| Other program expenses | 121,118 | - | 121,118 | 320,874 |
| Total program | 2,569,341 | - | 2,569,341 | 2,845,298 |
| Management and general | 132,470 | - | 132,470 | 165,697 |
| Total expenses | 2,701,811 | - | 2,701,811 | 3,010,995 |
| CHANGE IN NET ASSETS | (4,077,873) | 6,390,860 | 2,312,987 | (2,727,610) |
| Net assets - beginning of year | 6,495,492 | 2,122,930 | 8,618,422 | 11,346,032 |
| Net assets - end of year | \$ 2,417,619 | \$ 8,513,790 | \$ 10,931,409 | \$ 8,618,422 |

The accompanying notes are an integral part of this statement.

COMMUNITY FOUNDATION REALTY, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended December 31, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|---|--------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 2,312,987 | \$ (2,727,610) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 49,480 | 1,404 |
| Recognition of prepaid right-of-use agreements | (3,882,230) | 130,719 |
| Grant of construction-in-progress to Wilbur Marvin Foundation | 1,953,178 | 1,411,014 |
| (Increase) Decrease in receivables | 4,395 | 1,161,519 |
| (Increase) Decrease in other assets | 386 | 5,737 |
| Increase (Decrease) in accounts payable | 415,141 | (1,666,860) |
| Increase (Decrease) in deposits | 1,700 | (1,000) |
| Share appreciation in investment pools | (4,621) | (337) |
| Net cash provided by (used in) operating activities | 850,416 | (1,685,414) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | - | (1,642) |
| Purchases of real estate | - | (57,630) |
| Construction-in-progress | (1,542,062) | - |
| Investment pools held by Baton Rouge Area Foundation: | | |
| Additional investments | (305,685) | (727,115) |
| Distributions | 87,215 | 145,452 |
| Net cash used in investing activities | (1,760,532) | (640,935) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments received on notes receivable | - | 2,180,000 |
| Net cash provided by financing activities | - | 2,180,000 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (910,116) | (146,349) |
| Cash and cash equivalents - beginning of year | 1,629,488 | 1,775,837 |
| Cash and cash equivalents - end of year | \$ 719,372 | \$ 1,629,488 |

The accompanying notes are an integral part of this statement.

COMMUNITY FOUNDATION REALTY, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

Note 1 – Summary of Significant Accounting Policies and Nature of Operations

Organization and nature of activities

Community Foundation Realty, Inc. (the Foundation) was organized on February 7, 2006 as a non-profit corporation to benefit, perform the functions of, and carry out the purposes of Baton Rouge Area Foundation (BRAAF) and is considered a supporting organization of BRAAF, specifically with respect to the acquisition, development, management and disposition of real estate assets donated to or otherwise acquired by the Foundation. These real estate assets are primarily engaged in economic development opportunities and the redevelopment of blighted areas of economically distressed communities. These entities are exempt from federal income tax under Section 501(c)(3) and qualify as non-private foundations under Sections 509(a)(1) and (2) of the Internal Revenue Code. The Foundation's office is located in Baton Rouge, Louisiana. The Foundation serves the needs of the community through charitable grants made and other Foundation projects carried out at the discretion of the Board of Directors.

In 2014, several new subsidiaries were created as listed in the principles of consolidation section below. The primary purpose of the subsidiaries is to engage in various real estate transactions and construction related activities in connection with the development of the Water Campus in Baton Rouge, Louisiana.

BRAAF provides significant administrative and advisory services to CFR.

Basis of presentation

The Foundation and its subsidiaries (collectively CFR) are required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets are resources that are free of donor-imposed or time restrictions and are available at the direction of the governing board. Temporarily restricted net assets are resources that are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of CFR pursuant to those stipulations. Permanently restricted net assets are those resources whose use by CFR is limited to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of CFR.

Note 1 – Summary of Significant Accounting Policies (Continued)

Principles of consolidation

These financial statements include the accounts of CFR and its wholly-owned subsidiaries as follows:

| <u>Name</u> | <u>Purpose</u> |
|-----------------------------|---|
| River Road Development, LLC | Land |
| 550 Oklahoma, LLC | Land |
| WC 1354 Gila, LLC | Land |
| WC 613 Oklahoma, LLC | Land |
| WC Aztec Redevelopment, LLC | Land |
| Water Campus, LLC | Construction and Right to Use Agreements |
| WC 204 Terrace, LLC | Land |
| WC 281 Terrace, LLC | Land |
| WC 665 Oklahoma, LLC | Land |
| WC 1347 Gila, LLC | Land |

All material interorganization transactions have been eliminated.

Contributions and expenses

Contributions received and unconditional promises to give are measured at their fair values and reported as an increase in net assets.

Grants and contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When donor restrictions expire, that is, when the stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 – Summary of Significant Accounting Policies (Continued)

Gifts of marketable securities and other items

Gifts of marketable securities and other noncash donations are recorded as contributions at their fair values at the date of the donation.

Donated services

No amounts have been reflected in the financial statements for donated services. CFR generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist CFR in the performance of its projects and various committee activities.

Cash and cash equivalents

Generally all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents for the purposes of the statement of cash flows.

Accounts receivable

Uncollectable accounts receivable are charged directly against earnings when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

Property and equipment

Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. The basis of property and equipment sold or otherwise disposed of and the accumulated depreciation thereon is eliminated and any gain or loss is reported in operations.

The estimated useful lives for office furniture and equipment range from three to ten years.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. With regard to the Water Campus, assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. In the absence of donor stipulations regarding how long the contributed assets must be used, CFR has adopted a policy of implying a time restriction on contributions of such donated or acquired assets that expires over the asset's useful lives. As a result, all contributions of property or equipment and of assets contributed to acquire property and equipment, are recorded as restricted support.

Real estate developments in process are recorded at cost of construction in process which includes acquisition costs, architectural and design fees, general contractor fees, and any other costs related directly to the construction of the property. Depreciation is not recorded until the property is placed in service, which occurs after the receipt of a certificate of occupancy.

Note 1 – Summary of Significant Accounting Policies (Continued)

Investments

The Foundation participates in the investment pools managed by Baton Rouge Area Foundation. The BRAF pools are currently managed by two investment advisors that are authorized to allocate the portion of the investment portfolio under their control within policy guidelines between equity, fixed income and cash, and alternative assets. These advisors select the various investment managers needed to accomplish the investment objectives that provide funding for current grant commitments, as well as providing income to fund future grant requests and to meet the operating needs of the Foundation. Investment held in pools are stated at fair value. Increases and decreases in market value are recognized in the period in which they occur. Stocks, bonds, mutual funds and similar securities traded in established markets are valued at their quoted market price. Other securities are valued based on estimates prepared by the investment managers. Upon disposition, the cost of the specific investment is used to compute the realized gain or loss to be recognized except with regards to mutual funds whose costs are removed on the first-in, first-out basis.

Grants

Grants are recorded as expenses at the time the recipient has met all the necessary qualifying conditions and has gained approval of the Board of Directors. Grants payable in future periods that do not require subsequent review and approval for continuance of payment are recorded as expenses and grants payable in the period the grant is approved.

Functional expenses

Functional expenses are allocated between program, grants and general and administrative on the following basis: (1) based on direct expenses incurred and (2) management and general expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of CFR.

CFR's other program expenses for the years ended December 31, 2017 and 2016 consist of the expenses incurred in conjunction with the Water Campus.

Advertising

CFR expenses advertising costs as incurred.

Income tax status

The Foundation is a not-for-profit organization that has qualified as a public charity under sections 501(c)(3) and 509(a)(2) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made, however, should the Foundation engage in activities unrelated to the purpose for which it was created, taxable income and related taxes could result.

The subsidiaries of the Foundation are considered disregarded entities for federal income tax purposes, and therefore, will not pay federal income taxes. The operations of these entities will be included in the consolidated tax return of the Foundation.

Note 1 – Summary of Significant Accounting Policies (Continued)

The Foundation files income taxes in the U.S. federal jurisdiction. With few exceptions, the Foundation is no longer subject to federal tax examinations by tax authorities for years before 2014. Any interest and penalties assessed by income taxing authorities are not significant and would be included in general and administrative expenses in these financial statements, as applicable.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, CFR may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended December 31, 2017.

Reclassifications

Certain reclassifications have been made to previously issued financial statements for them to conform to current reporting standards. Such reclassifications have no effect on previously reported change in net assets or net assets.

Note 2 – Investments

Investments held by CFR at December 31, 2017 and 2016 are presented below:

| | <u>2017</u> | <u>2016</u> |
|------------------------|-------------------|-------------------|
| BRAF Investment Pools: | | |
| Money market | \$ <u>902,574</u> | \$ <u>679,483</u> |

Changes in the BRAF investment pools for the years ended December 31, 2017 and 2016 are as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Balance, Beginning of Year | \$ 679,483 | \$ 97,483 |
| Additional amounts invested in the fund | 305,685 | 727,115 |
| Share of appreciation of the fund | 4,621 | 337 |
| Distributions received | <u>(87,215)</u> | <u>(145,452)</u> |
| Balance, End of Year | \$ <u>902,574</u> | \$ <u>679,483</u> |

Note 2 – Investments (Continued)

Earnings and losses on investments, cash balances, notes receivable, and other similar assets are as follows:

| | <u>2017</u> | <u>2016</u> |
|--|-----------------|------------------|
| Interest, dividends and other income | | |
| from investments and notes receivable | \$ 6,704 | \$ 42,569 |
| Net realized and unrealized gains (losses) | <u>50</u> | <u>78</u> |
| | 6,754 | 42,647 |
| Less trust and investment fees | <u>(93)</u> | <u>(17)</u> |
| | <u>\$ 6,661</u> | <u>\$ 42,630</u> |

Earnings on pooled investments and cash balances are allocated based upon the relative asset values of the participating funds.

Note 3 – Fair Value Measurements

CFR has determined the fair value of its investments through a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs to the valuation methodology are based on unadjusted quoted prices for identical assets in active markets that CFR has the ability to access. Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets and/or based on inputs that are derived principally from or corroborated by observable market data. Level 3 inputs are unobservable and are based on assumptions market participants would utilize in pricing the asset.

CFR uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. The asset's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. When available, valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, CFR's assets at fair value as of December 31, 2017 and 2016 which are measured on a recurring basis:

| | <u>Assets at Fair Value as of December 31, 2016</u> | | | |
|-----------------------------|---|----------------|----------------|--------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Baton Rouge Area Foundation | | | | |
| Investment Pools | \$ - | \$ 679,483 | \$ - | \$ 679,483 |

Note 3 – Fair Value Measurements (Continued)

| | Assets at Fair Value as of December 31, 2017 | | | |
|-----------------------------|--|-------------------|----------------|-------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Baton Rouge Area Foundation | | | | |
| Investment Pools | \$ <u>-</u> | \$ <u>902,574</u> | \$ <u>-</u> | \$ <u>902,574</u> |

The assets held by Baton Rouge Area Foundation in its investment pools have been valued, as a practical expedient, at the fair value of CFR's share of BRAF's investment pool as of the measurement date, utilizing valuations provided by the investment funds. BRAF values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of BRAF, which include private placements and other securities for which prices are not readily available, are determined by the management of BRAF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. BRAF's investments are composed of approximately 15 percent cash and cash equivalents, 7 percent fixed income, 21 percent US equity mutual funds, 14 percent non-US equity mutual funds, 17 percent fixed income mutual funds, 4 percent other mutual funds, and 22 percent alternative investments including hedge funds, real estate, venture capital funds, and private equity funds. The assets held by Baton Rouge Area Foundation in its investment pools are redeemable by CFR upon request and is therefore considered a Level 2 fair value measurement.

Other investments held by CFR may include investments in securities with readily determinable fair values including common and preferred stocks, mutual funds, U. S. government bonds, and U. S. Treasury notes that are recorded at fair value based on quoted market prices. For those investments where quoted prices are unavailable (Level 2), management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. For investments (Level 3) where quoted prices are often unavailable, and pricing inputs are generally unobservable, CFR relies on the valuation procedures and methodologies used by external parties hired specifically to value such assets.

The methods used to measure fair value 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 the 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.

Note 4 – Property and Equipment

Property and equipment as of December 31, 2017 and 2016 consists of the following:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|
| Office Furniture and Equipment | \$ 9,088 | \$ 9,088 |
| Leasehold Improvements | 6,200 | 6,200 |
| Less: Accumulated Depreciation | <u>(5,295)</u> | <u>(3,809)</u> |
| | 9,993 | 11,479 |
| Real Estate - Land | 2,663,106 | 2,663,106 |
| Construction-in-Progress | <u>2,072,241</u> | <u>2,483,356</u> |
| | <u>\$ 4,745,340</u> | <u>\$ 5,157,941</u> |
| | | |
| Depreciation Expense | <u>\$ 1,485</u> | <u>\$ 1,403</u> |

Construction-in-progress at December 31, 2017 and 2016, consists of costs incurred in connection with the ongoing development and construction of the Water Campus.

Note 5 – Net Assets

CFR's temporarily restricted net assets consist of funds available for grant recipients as restricted by donors, and with regard to the Water Campus, capital assets acquired with donor restricted contributions with implied time restrictions. In 2017 and 2016, \$2,577,484 and \$2,805,225, respectively, of net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

During 2017, unrestricted net assets of \$4,079,562 were transferred at the request of the original donor of the funds (BRAAF) into funds restricted for the construction and operation of the Water Campus.

Note 6 – Concentrations of Credit Risk and Revenue Sources

CFR deposits a portion of its cash in a national financial institution and at times the accrued balance may exceed the federally insured limits.

In addition, CFR had \$719,372 and \$1,629,488 of its cash and deposits in BRAAF's checking and money market accounts at December 31, 2017 and 2016, respectively. At times the balance of BRAAF's checking account may exceed the federally insured limit.

CFR maintains an interest in the BRAAF investment pool. The underlying holdings in this pool are described in Note 1. CFR's exposure to credit loss in the event of nonperformance is limited to CFR's cost in acquiring those instruments.

Note 7 – Related Parties

CFR utilizes facilities and personnel of the Baton Rouge Area Foundation for administrative assistance. CFR incurred an administrative assessment of \$10,912 and \$33,060 to BRAF for these services during 2017 and 2016, respectively.

In December 2014, CFR sold a parcel of land to a related party, 150 Terrace, LLC (a subsidiary of Commercial Properties Realty Trust) for \$600,000. In 2016, this amount was converted from an accounts receivable to a note receivable and is included in notes receivable at December 31, 2017 and 2016 in these financial statements. This receivable bears interest at 0.34% and has a maturity date of December 31, 2018.

See Note 6 for details of cash held in BRAF's checking and money market accounts.

See Note 8 for details of grant expense to WC Dock, LLC (a subsidiary of Commercial Properties Realty Trust).

Note 8 – Construction of the Water Campus

The Water Campus, a collaborative interdisciplinary campus on par with world-class research facilities, is located near downtown Baton Rouge with easy access to the Louisiana State Capitol Park Complex and Louisiana State University. It provides a strategic location for future interaction between both regional, national and international coastal, environmental and water-related stakeholders, such as state and federal agencies, educational and research institutions and engineering, environmental, planning and consulting firms, as well as nonprofit advocates.

Spearheaded by the Baton Rouge Area Foundation, stakeholders in The Water Campus include, but are not limited to, the following: the State of Louisiana, Office of the Governor, Department of Economic Development (State), Coastal Protection and Restoration Authority, Division of Administration; the City of Baton Rouge and Parish of East Baton Rouge (City-Parish); Community Foundation Realty, Inc.; the Wilbur Marvin Foundation; Commercial Properties Realty Trust; Housing Authority of the Parish of East Baton Rouge; Louisiana State University and Agricultural and Mechanical College; The Water Institute of the Gulf; Stantec Engineering; Deltares from The Netherlands; as well as numerous private engineering, environmental and consulting firms.

The approximately 35-acre campus is made up of a 15.3-acre tract of land being the Municipal Dock property located adjacent to River Road which is the subject of that certain Cooperative Endeavor and Right of Use Agreement between the City-Parish and Water Campus LLC; a 13.286-acre tract of land located on Brickyard Lane which is the subject of that certain Right of Use Agreement between the State of Louisiana, Division of Administration and Water Campus, LLC; a 3.282 acre tract on Oklahoma Street purchased from the East Baton Rouge Parish Housing Authority; and smaller, adjacent tracts of land purchased from private landowners.

Note 8 – Construction of the Water Campus (Continued)

Related Parties

As discussed in Note 1, Community Foundation Realty, Inc. (“CFR”) is a Louisiana nonprofit corporation exempt from federal income taxation under Section 501(a) of the Code, as a public charity as described in Section 501(c)(3) and 509(a)(3) of the Code. CFR was established as a Type I supporting organization of the Baton Rouge Area Foundation on February 7, 2006. The stated exempt purpose of CFR is to benefit, perform the functions of, and carry out the purposes of the Baton Rouge Area Foundation, specifically with respect to the acquisition, development, management and disposition of real estate assets donated to or otherwise acquired by the Foundation. These real estate assets, including the Water Campus, are primarily engaged in economic development opportunities and the redevelopment of blighted areas of economically distressed communities.

The Wilbur Marvin Foundation (“WMF”), is a Louisiana nonprofit corporation exempt from federal income taxation under Section 501(a) of the Code, as a public charity as described in Section 501(c)(3) and 509(a)(3) of the Code. WMF was established as a Type I supporting organization of the Baton Rouge Area Foundation on October 22, 1992. The stated exempt purpose of WMF is to benefit, perform the functions of, and carry out the purposes of the Baton Rouge Area Foundation, specifically with respect to real estate development, management, investment, and operations.

Commercial Properties Realty Trust (“CPRT”) was founded in 1951 by Baton Rouge businessman Wilbur Marvin as a commercial real estate company formed primarily to acquire, own, lease, redevelop and manage neighborhood and community shopping centers. Today, it is a successful real estate investment trust and, as an asset of WMF, provides invaluable community impact and benefits. CPRT currently owns and manages a portfolio of real estate assets that includes retail, commercial, office and multi-family housing developments in Louisiana, Mississippi, North Carolina, Texas and Puerto Rico.

Water Campus LLC is a Louisiana limited liability company established by Community Foundation Realty, Inc. solely for purposes of acquiring rights of use in the City-Parish Property and the State Property and, ultimately, planning, designing, developing and constructing the Water Campus.

The Water Conference and Education Center, sometimes referred to as the “Dock Building” or the “Center for Coastal and Deltaic Solutions”, is anticipated to be an approximately 31,475-square-foot, \$22.4 million iconic structure that will house exhibit areas, an interpretive gallery, offices, research labs and meeting and conference spaces. It is being constructed on that portion of the City-Parish Property known as the Baton Rouge Municipal Dock immediately south of the Interstate 10 Bridge on the east bank of the Mississippi River.

Note 8 – Construction of the Water Campus (Continued)

City of Baton Rouge-Parish of East Baton Rouge Cooperative Endeavor Agreement

On October 6, 2014, the City-Parish executed that certain Cooperative Endeavor and Right of Use Agreement (“City-Parish CEA”) between the City-Parish and Water Campus LLC, granting a 99-year right of use of that certain 15.3-acre tract of land being the Municipal Dock property located adjacent to River Road, together with all buildings, infrastructure and other improvements thereon (“City-Parish Property”), to Water Campus LLC, and authorizing the development of the Water Campus; specifically, the planning, design and construction of the Water Conference and Education Center.

From October 6, 2014 to February 16, 2016, the terms of the City-Parish CEA remained unchanged and as set forth therein.

Pursuant to Section 24 of the City-Parish CEA, the City-Parish CEA may be transferred and/or assigned in whole or in part to one or more “Successor Holders” (as defined in the City-Parish CEA); WC Dock, LLC is a Successor Holder.

On February 17, 2016, the original parties to the City-Parish CEA entered into that certain Assignment effective February 17, 2016, wherein Water Campus, LLC assigned, and WC Dock, LLC (a subsidiary of CPRT) assumed, any and all rights and obligations under the City-Parish CEA with respect to the “Dock Property”, as identified in said Assignment. The estimated value of the assigned right-to-use of the Dock Property was \$222,875 and was recorded as a grant expense in these financial statements for the year ended December 31, 2016. As a result of this Assignment, funding provided by LED and the corresponding construction expenditures were also transferred to WC Dock, LLC.

Construction of the Water Conference and Education Center on the Dock Property commenced on July 5, 2016 and was substantially complete at December 31, 2017.

During the year ended December 31, 2017, management of CFR determined that there were no further conditions required to be met for the right to use period to begin on the remaining City-Parish land. As a result, contribution revenue of \$612,843 was recognized in these financial statements for the year ending December 31, 2017. This amount represents the excess of the appraised value of this land compared to the amount paid for the right to use. The amount of the right to use is being amortized over 99 years. Amortization expense of \$14,971 for the right to use has been recorded as program service expense for the year ended December 31, 2017. This amount will be recorded as amortization expense each year over the term of the right to use agreement.

State Right of Use

On December 12, 2014, the State of Louisiana, acting through the Division of Administration, executed that certain Right of Use Agreement (“State Right of Use”) with Water Campus, LLC granting a 99-year right of use of that certain 13.286-acre tract of land located at 950 Brickyard

Note 8 – Construction of the Water Campus (Continued)

Lane, 1059 Brickyard Lane and 1255 Brickyard Lane, Baton Rouge, LA 70802, together with all buildings, infrastructure and other improvements thereon (“State Property”).

From December 12, 2014 through April 2, 2017, the terms of the State Right of Use remain unchanged and as set forth therein.

Pursuant to Article 14 of the State Right of Use, the State Right of Use may be transferred and/or assigned in whole or in part to one or more “Successor Holders” (as defined in the State CEA). Water Dock, LLC is a Successor Holder.

The original parties to the State Right of Use entered into that certain First Amendment to Right of Use Agreement effective April 3, 2017. Furthermore, pursuant to Section 4 of the First Amendment to Right of Use Agreement effective April 3, 2017, the State recognized and acknowledged that, as of April 1, 2017, the Company and/or WC Dock, LLC is not in default under the terms of the State Right of Use.

During the year ended December 31, 2017, management of CFR determined that all conditions necessary for recognition of a portion of the land described in the Right To Use Agreement with the State of Louisiana were met and that the right to use period had begun. As a result, contribution revenue of \$3,269,387 was recognized in the financial statements for the year ended December 31, 2017. This amount represents the pro-rata appraised value of the portion of the land described in the Right To Use Agreement for which all conditions necessary for recognition were met. The remaining land described in the Right To Use Agreement with the State of Louisiana is considered conditional in nature as of December 31, 2017. As a result the estimated value of this land has not been recorded in these financial statements. The amount of the right to use is being amortized over 99 years. Amortization expense of \$33,024 for the right to use has been recorded as program service expense for the year ended December 31, 2017. This amount will be recorded as amortization expense each year over the term of the right to use agreement.

State Cooperative Endeavor Agreement

On December 30, 2014, the State of Louisiana, acting through the Department of Economic Development (“LED”), DOA and CPRA, executed that certain Cooperative Endeavor Agreement (“State CEA”) with Water Campus LLC, granting a 99-year right of use of the State Property to Water Campus LLC and authorizing the development of the Water Campus; specifically, the planning, design and construction of the Water Conference and Education Center. Pursuant to the State CEA, LED will provide: (a) a Dock Building Grant in the amount of twenty million (\$20,000,000) dollars for capital expenditures related to the design and construction of the Dock Building and related infrastructure and improvements; and (b) an Improvements Grant in the amount of three million four hundred thousand (\$3,400,000) dollars for capital expenditures for the design and construction of parking lots, driveways, sidewalks, landscaping and other infrastructure.

Note 8 – Construction of the Water Campus (Continued)

From December 30, 2014 to May 30, 2015, the terms of the State CEA remained unchanged and as set forth therein.

Pursuant to Article 8 of the State CEA, the State CEA may be transferred and/or assigned in whole or in part to one or more “Successor Holders” (as defined in the State CEA). Water Dock, LLC is a Successor Holder.

The original parties to the State CEA entered into that certain First Amendment to Cooperative Endeavor Agreement effective May 31, 2015; that certain Second Amendment to Cooperative Endeavor Agreement effective September 30, 2015; that certain Third Amendment to Cooperative Endeavor Agreement effective March 31, 2016 wherein the original parties acknowledged the assignment by Water Campus, LLC and the assumption by WC Dock, LLC of any and all rights and obligations under the City-Parish CEA with respect to the Dock Property and incorporated WC Dock, LLC as a party to the State CEA with respect to the Dock Building; and that certain Fourth Amendment to Cooperative Endeavor Agreement effective April 3, 2017.

Subsequent to the date of the assignment of the State CEA by Water Campus, LLC to WC Dock, LLC, Water Campus, LLC is acting as an agent for WC Dock, LLC for the receipt and payment of funds under the State CEA relating to the Dock Building construction. Accordingly, all funds received and payments made under this agreement are included in the financial statements of WC Dock, LLC.

Pursuant to Section 3 of the Fourth Amendment to Cooperative Endeavor Agreement effective April 3, 2017, the State recognized and acknowledged that, as of April 1, 2017, the Company and/or WC Dock, LLC is not in default under the terms of the State CEA and/or the State Right of Use.

As described above, CFR, through Water Campus, LLC has served as the initial holder of the Right of Use with both the City-Parish and the State. Pursuant to the stated terms of the various agreements, Water Campus, LLC has assigned a portion of its rights under these agreements to WC Dock, LLC, as a successor holder, for construction, maintenance and management of individual components of the Water Campus project. As a result of these transfers to WC Dock, LLC, Water Campus, LLC has been and is released of any obligation and/or duties related to this agreement subsequent to the effective date of the transfer.

During the year ended December 31, 2017, the cost of construction in progress incurred by CFR for the Water Dock Building (not reimbursed by the CEA with the State of Louisiana) along with other infrastructure and design costs associated with Buildings 6A and 8A of the Water Campus project totaling \$2,448,223 has been recorded as a grant expense for the year ended December 31, 2017.

Note 8 – Construction of the Water Campus (Continued)

The cost of construction in progress incurred by CFR for the Water Dock Building prior to the date of the assignment to WC Dock, LLC noted above in the amount of \$2,251,548 was recorded as a grant expense for the year ended December 31, 2016.

Note 9 – Real Estate Rental Revenue and Expenses

Real estate rental revenue and expenses for the year ended December 31, 2017 and 2016 are as follows:

| | <u>Apartments</u> | <u>Other</u> | <u>Total</u> |
|-------------------------|-------------------|-------------------|------------------|
| | 2017 | | |
| Revenue: | | | |
| Base Rent | \$ 57,533 | \$ - | \$ 57,533 |
| Expenses: | | | |
| Maintenance and Repairs | 699 | 529 | 1,228 |
| Utilities | 4,112 | 1,436 | 5,548 |
| Property Taxes | 1,684 | 6,178 | 7,862 |
| Other | - | - | - |
| | <u>6,495</u> | <u>8,143</u> | <u>14,638</u> |
| | <u>\$ 51,038</u> | <u>\$ (8,143)</u> | <u>\$ 42,895</u> |
| | 2016 | | |
| Revenue: | | | |
| Base Rent | \$ 54,250 | \$ - | \$ 54,250 |
| Expenses: | | | |
| Maintenance and Repairs | 1,133 | - | 1,133 |
| Utilities | 4,783 | 41 | 4,824 |
| Property Taxes | - | 9,760 | 9,760 |
| Other | - | 34 | 34 |
| | <u>5,916</u> | <u>9,835</u> | <u>15,751</u> |
| | <u>\$ 48,334</u> | <u>\$ (9,835)</u> | <u>\$ 38,499</u> |

The rentals of the apartments are on a month-to-month basis.

Note 10 – Schedule of Compensation, Benefits and Other Payments to Agency Head

In accordance with Louisiana Revised Statute 24:513A, the following is a Schedule of Compensation and Benefits and Other Payments paid for with public funds received by Edmund Giering, President, who was the acting agency head for the year ended December 31, 2017:

| | | |
|-----------------------|----|-----------------|
| Salary | \$ | - |
| Per Diem | | - |
| Benefit Insurance | | - |
| Travel Reimbursements | | - |
| Conferences | | - |
| Meals | | - |
| Total Compensation | \$ | <u><u>-</u></u> |

Note 11 – Subsequent Events

The management of CFR evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through June 29, 2018, the date which the financial statements were available to be issued.

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Independent Auditor's Report on Internal
Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit
of the Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Directors
Community Foundation Realty, Inc.
and Subsidiaries
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Community Foundation Realty, Inc. (a nonprofit organization) and subsidiaries which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Community Foundation Realty, Inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community Foundation Realty, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the Community Foundation Realty, Inc. and Subsidiaries' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A

significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Community Foundation Realty, Inc. and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose; however, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Baton Rouge, Louisiana
June 29, 2018

**COMMUNITY FOUNDATION REALTY, INC.
AND SUBSIDIARIES**

SUMMARY SCHEDULE OF AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2017

None

**COMMUNITY FOUNDATION REALTY, INC.
AND SUBSIDIARIES**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2017

None