SOLID GROUND

AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Solid Ground
White Bear Lake, Minnesota

We have audited the accompanying financial statements of Solid Ground (a non-profit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solid Ground as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Harrington Langer & Associates

March 27, 2018

SOLID GROUND

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 175,862	$ 194,502
Investments	1,094,542	1,028,717
Accounts receivable	60,900	40,980
Grants receivable	108,800	726
Current portion of pledges receivable, net of discounts and allowances of $4,148 and $9,086, respectively	60,072	59,745
Prepaid expenses and deposits	28,077	13,235
TOTAL CURRENT ASSETS	1,528,253	1,337,905
PROPERTY AND EQUIPMENT		
Leasehold improvements	130,209	12,522
Vehicles	20,000	20,000
Furniture and equipment	163,148	159,013
Less: accumulated depreciation	(158,180)	(130,689)
TOTAL PROPERTY AND EQUIPMENT, net	155,177	60,846
OTHER ASSETS		
Investments - beneficial interest in assets held by The Saint Paul Foundation	408,637	355,767
Pledges receivable, net of current portion, discounts and and allowances of $10,251 and $10,961, respectively	99,671	103,304
Notes receivable and construction advances, less loss reserves of $824,477 and $794,099, respectively	-	-
TOTAL OTHER ASSETS	508,308	459,071
TOTAL ASSETS	$ 2,191,738	$ 1,857,822

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 61,547	$ 51,748
NET ASSETS		
Unrestricted:		
Designated	915,293	787,654
Undesignated	899,856	739,007
Total unrestricted	1,815,149	1,526,661
Temporarily restricted	315,042	279,413
TOTAL NET ASSETS	2,130,191	1,806,074
TOTAL LIABILITIES AND NET ASSETS	$ 2,191,738	$ 1,857,822

SOLID GROUND
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
REVENUE AND SUPPORT				
Corporate and foundation grants	$ 464,770	$ 120,000	$ 584,770	$ 341,711
Contributions	112,235	47,770	160,005	201,742
United Way support	109,018	-	109,018	100,115
Government grants and contracts	264,521	68,500	333,021	318,814
Special events, net of 2017 and 2016 of direct expenses $43,332 and $29,858, respectively	188,919	50,075	238,994	395,162
Program services and other	53,722	-	53,722	44,995
Investment income	131,542	-	131,542	94,153
In-kind contributions	84,260	-	84,260	79,921
Net assets released	250,716	(250,716)	-	-
TOTAL REVENUE AND SUPPORT	1,659,703	35,629	1,695,332	1,576,613
EXPENSES				
Program services	1,189,916	-	1,189,916	1,176,479
Management and general	78,442	-	78,442	63,354
Fundraising	102,857	-	102,857	96,914
TOTAL EXPENSES	1,371,215	-	1,371,215	1,336,747
CHANGE IN NET ASSETS	288,488	35,629	324,117	239,866
NET ASSETS, BEGINNING	1,526,661	279,413	1,806,074	1,566,208
NET ASSETS, ENDING	$ 1,815,149	$ 315,042	$ 2,130,191	$ 1,806,074

SOLID GROUND
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Corporate and foundation grants	$ 290,576	$ 51,135	$ 341,711
Contributions	121,040	80,702	201,742
United Way support	100,115	-	100,115
Government grants and contracts	318,814	-	318,814
Special events, net of direct expenses $29,858	250,236	144,926	395,162
Program services and other	44,995	-	44,995
Investment income	94,153	-	94,153
In-kind contributions	79,921	-	79,921
Net assets released	191,022	(191,022)	-
TOTAL REVENUE AND SUPPORT	1,490,872	85,741	1,576,613
EXPENSES			
Program services	1,176,479	-	1,176,479
Management and general	63,354	-	63,354
Fundraising	96,914	-	96,914
TOTAL EXPENSES	1,336,747	-	1,336,747
CHANGE IN NET ASSETS	154,125	85,741	239,866
NET ASSETS, BEGINNING	1,372,536	193,672	1,566,208
NET ASSETS, ENDING	$ 1,526,661	$ 279,413	$ 1,806,074

See notes to financial statements

SOLID GROUND
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 324,117	$ 239,866
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,490	21,100
Donated securities	(776)	(20,031)
Donated software	-	(8,391)
Bad debts and notes receivable loss reserve	30,378	34,020
Accrued interest on pledges and notes receivable	(30,378)	(25,727)
Investment income reinvested	(37,313)	(33,227)
Unrealized investment (gains) losses, net	(8,699)	(1,719)
Decrease (increase) in:		
Accounts and grants receivable	(127,994)	64,082
Pledges receivable	3,306	(76,067)
Prepaid expenses and deposits	(14,842)	(6,597)
Increase (decrease) in:		
Accounts payable and accrued expenses	9,799	(7,465)
NET CASH PROVIDED BY OPERATING ACTIVITIES	175,088	179,844
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(121,821)	(8,500)
Purchase of investments	(96,907)	(141,665)
Proceeds from sale of investments	25,000	75,000
NET CASH USED IN INVESTING ACTIVITIES	(193,728)	(75,165)
NET INCREASE (DECREASE)	(18,640)	104,679
CASH AND CASH EQUIVALENTS, BEGINNING	194,502	89,823
CASH AND CASH EQUIVALENTS, ENDING	$ 175,862	$ 194,502

See notes to financial statements

SOLID GROUND

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

(With Comparative Totals for 2016)

	Program Services	Management and General	Fund-raising	Total 2017	Total 2016
Salaries	$ 689,713	$ 34,971	$ 68,409	$ 793,093	$ 740,087
Payroll taxes	51,212	2,623	5,140	58,975	54,859
Fringe benefits	74,046	2,621	6,128	82,795	78,673
Workers compensation	9,248	1,829	304	11,381	18,436
Total personnel expenses	824,219	42,044	79,981	946,244	892,055
Professional services	9,216	222	443	9,881	9,490
Contract services	37,179	7,143	5,636	49,958	46,304
Family assistance accounts	37,196	-	-	37,196	27,185
Health and wellness program	4,668	-	-	4,668	2,705
Evaluation	608	20	40	668	-
Office and program supplies	7,883	146	369	8,398	9,861
Postage	1,866	56	850	2,772	3,321
Telephone	11,151	196	402	11,749	12,202
Printing	8,271	259	3,294	11,824	11,669
Publications	-	-	-	-	100
Vehicle maintenance	706	18	36	760	798
Travel, meetings, and moving	14,909	63	935	15,907	13,820
Staff and board development	7,004	149	827	7,980	4,672
Memberships	1,739	53	133	1,925	2,458
Insurance and licensing	10,373	332	728	11,433	11,889
Rent, utilities, and maintenance	6,458	193	397	7,048	3,993
In-kind rents	75,260	-	-	75,260	75,260
Leasing subsidies	74,527	-	-	74,527	122,792
Scholarships	1,000	-	-	1,000	1,000
Office and program equipment	4,711	49	98	4,858	10,114
Family and youth activities	14,744	9	44	14,797	12,829
Childcare, tutoring and scholarshir	5,850	-	-	5,850	7,110
Depreciation	-	27,490	-	27,490	21,100
Bad debts	-	-	8,644	8,644	5,000
Loan loss reserve	30,378	-	-	30,378	29,020
Total other expenses	365,697	36,398	22,876	424,971	444,692
Total expenses	$ 1,189,916	$ 78,442	$ 102,857	$ 1,371,215	$ 1,336,747

See notes to financial statements

SOLID GROUND
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	Program Services	Management and General	Fund-raising	Total
Salaries	$ 648,609	$ 25,468	$ 66,010	$ 740,087
Payroll taxes	48,082	1,900	4,877	54,859
Fringe benefits	74,685	1,121	2,867	78,673
Workers compensation	9,589	8,546	301	18,436
Total personnel expenses	780,965	37,035	74,055	892,055
Professional services	8,892	103	495	9,490
Contract services	31,463	4,235	10,606	46,304
Family assistance accounts	27,185	-	-	27,185
Health and wellness program	2,705	-	-	2,705
Evaluation	-	-	-	-
Office and program supplies	9,233	72	556	9,861
Postage	2,608	50	663	3,321
Telephone	11,468	138	596	12,202
Printing	8,825	175	2,669	11,669
Publications	89	2	9	100
Vehicle maintenance	755	8	35	798
Travel, meetings, and moving	13,471	36	313	13,820
Staff and board development	4,283	35	354	4,672
Memberships	2,262	37	159	2,458
Insurance and licensing	10,846	193	850	11,889
Rent, utilities, and maintenance	3,729	57	207	3,993
In-kind rents	75,260	-	-	75,260
Leasing subsidies	122,792	-	-	122,792
Scholarships	1,000	-	-	1,000
Office and program equipment	9,689	78	347	10,114
Family and youth activities	12,829	-	-	12,829
Childcare, tutoring and scholarshir	7,110	-	-	7,110
Depreciation	-	21,100	-	21,100
Bad debts	-	-	5,000	5,000
Loan loss reserve	29,020	-	-	29,020
Total other expenses	395,514	26,319	22,859	444,692
Total expenses	$ 1,176,479	$ 63,354	$ 96,914	$ 1,336,747

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The mission of Solid Ground (the Organization) is to prevent and end homelessness for families with children through housing, resources and opportunity. The purpose of the Organization is to advocate, provide, and coordinate housing and services for families in transition and working towards self-sufficiency in the St. Paul, Minnesota metro area.

Contributions and Support:

Contributions received and unconditional promises to give are measured at their fair value and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as 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 a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, except those classified as investments. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents.

Investments:

Investments primarily consist of money market funds, debt and equity securities and beneficial interest in assets held by The Saint Paul Foundation and are valued at fair value. Donated investments are recorded at fair value on the date of donation. Investment expenses are not included in investment income. Dividends are recorded on an ex-dividend date.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable and Grants Receivable:

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. For the years ended December 31, 2017 and 2016 management provided no allowance for doubtful accounts.

Pledges Receivable:

Pledges receivable are contributions that are to be collected in future years and are recorded at net present value based on an 1.65% discounted cash flow rate which approximates the Federal Reserve five-year Treasury bill. The Organization uses the allowance method to determine uncollectible pledges based on prior years' experience and management's analysis of specific pledges. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Property and Equipment:

All major expenditures for property and equipment are capitalized at cost. Equipment and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date they are received and are recorded as restricted contributions. Depreciation is provided on the straight-line method over the estimated useful lives of the underlying assets.

Government Grants and Contracts:

Government grants and contract funds are recorded as revenue when earned as an exchange transaction. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the assessment is made.

Income Taxes:

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. It has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code and charitable contributions by donors are tax deductible. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification:

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. These amounts have no effect on previously reported net assets.

Functional Expenses:

Expenses are charged to each program based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to program support costs based on management's analysis and estimates of direct personnel hours and labor-related costs. These estimates are revised by management, as necessary, to reflect the current state of the Organization and to provide accurate expense allocations.

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 and disclosures in these financial statements. Actual results could differ from those estimates.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition for disclosure through March 27, 2018, the date the financial statements were available to be issued.

NOTE 2. PLEDGES RECEIVABLE

Outstanding pledge contributions from various foundations and individuals at December 31, 2017 and 2016 were as follows:

	2017	2016
Pledges due in:		
Less than one year	$ 64,220	$ 68,831
One to five years	109,922	114,265
	174,142	183,096
Less: allowance for uncollectible pledges	(8,707)	(13,905)
Less: discount to net present value	(5,692)	(6,142)
Net pledges receivable	$ 159,743	$ 163,049

NOTE 3. NOTES RECEIVABLE AND CONSTRUCTION ADVANCES

During 2005 and 2006 the Organization participated in the development of a real estate partnership known as EMP Limited Partnership (the Partnership). The Partnership has acquired and renovated office space and low income housing facilities for use by the Organization's staff and clients. The Organization has a .05% interest in the Partnership and has an option of obtaining the residual assets (real estate) of the Partnership in the year 2021.

In conjunction with the renovation and in consideration for the Organization's future use and potential acquisition of the real estate, the Organization has loaned and advanced money to the Partnership as follows:

	2017	2016
Note receivable from EMP Limited Partnership, non-interest bearing, principal due on December 31, 2035, secured by mortgage on property	$ 75,000	$ 75,000
Note receivable from EMP Limited Partnership, non-interest bearing, principal due on December 31, 2035, secured by mortgage on property	70,000	70,000
Note receivable from EMP Limited Partnership, annually compounded interest at 4.68%, principal and interest due on December 31, 2035, secured by mortgage on property (including accrued interest of $299,477 and $269,099, respectively)	679,477	649,099
	824,477	794,099
Less: loss reserve	(824,477)	(794,099)
	$ -	$ -

Management has established a loss reserve for the full amount of the notes receivable to the Partnership due to the Organization's subordinated position in the property and the potential contingency requiring the Organization to refund federal grants (source of funds borrowed to the Partnership) in the event the property owned by the Partnership ceases to be qualified low income housing.

NOTE 4. RETIREMENT PLAN

The Organization offers to its employees a tax deferred 403(b) defined contribution plan. The plan covers substantially all employees of the Organization with a minimum of 1,000 hours of service per year. The Organization made $15,577 and $13,709 contributions to the plan for the years ended December 31, 2017 and 2016, respectively.

NOTE 5. IN-KIND CONTRIBUTIONS

The Organization recognized in-kind contributions for the years ended December 31, 2017 and 2016 of the following:

	2017	2016
Contributed:		
Services	$ -	$ 320
Video	8,800	2,500
Printing	200	250
Rents	75,260	75,260
Software	-	8,391
	$ 84,260	$ 86,721

The Organization utilizes office facilities for its transitional housing programs owned by EMP Limited Partnership and the Washington County HRA. Fair market rents valued at $75,260 have been recorded by management for 2017 and 2016, based upon the prevailing local real estate rates for similar properties.

The Organization's success is also based in part by individuals who contributed approximately 6,478 and 6,644 hours of volunteer service for the years ended December 31, 2017 and 2016, respectively. The accompanying financial statements do not reflect the value of these volunteer services.

NOTE 6. LEASE COMMITMENTS

The Organization leases certain office equipment under various non-cancelable operating leases expiring through December 2018. Total rent expense on the office equipment leases reflected in the Organization's activities amounted to $3,492 and $3,720 for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments on the office equipment operating leases at December 31, 2017 are $3,636 for the year ending December 31, 2018.

NOTE 7. INVESTMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used for when Level 1 inputs are not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available.

Following is the description of the valuation methodologies used for investments measured at fair value at a recurring basis. There were no changes in the valuation methodologies.

- *Mutual funds:* Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.
- *Corporate bonds:* Valued on yield currently available on comparable securities of issues with similar credit ratings.
- *Mortgage back securities issued by federal agencies:* Valued using quoted market prices, recent marked transaction and spread data from similar instruments.
- *Beneficial interest in assets held by The Saint Paul Foundation (community foundation):* Valued by the fair value of assets transferred.

A summary of the fair values of investments by type at December 31, 2017 and 2016 is as follows:

2017	Cost	Fair Market Value	
Mortgage backed securities issued by various federal government agencies	$ 807,216	$ 818,897	Level 2
Corporate bonds	103,871	103,564	Level 2
Mutual funds	57,303	55,399	Level 1
Cash and cash equivalents	116,682	116,682	Level 1
Beneficial interest in assets held by The Saint Paul Foundation	408,637	408,637	Level 3
Total investments	$ 1,493,709	$ 1,503,179	

NOTE 7. INVESTMENTS (continued)

2016

	Cost	Fair Market Value	
Mortgage backed securities issued by various federal government agencies	$ 791,778	$ 791,778	Level 2
Corporate bonds	132,428	134,147	Level 2
Mutual funds	53,657	53,657	Level 1
Cash and cash equivalents	49,135	49,135	Level 1
Beneficial interest in assets held by The Saint Paul Foundation	355,767	355,767	Level 3
Total investments	$ 1,382,765	$ 1,384,484	

Investment income for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Interest and dividends on investments	$ 37,614	$ 33,529
Interest income - note receivable	30,378	29,020
Realized gain (losses), net	54,851	29,885
Unrealized gain (losses), net	8,699	1,719
Total investment income	$ 131,542	$ 94,153

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2017 and 2016:

	2017	2016
Youth	$ 18,587	$ 45,820
Program restricted	120,842	118,207
Direct assistance	3,983	7,505
Education scholarship	3,459	4,577
Leasehold improvement	68,500	-
Time restricted - pledges	99,671	103,304
	$ 315,042	$ 279,413

NOTE 9. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Board designated unrestricted net assets consisted of the following at December 31, 2017 and 2016:

	2017	2016
Operating reserve	$ 450,497	$ 431,887
Unemployment trust	2,159	-
Landlord mitigation fund	54,000	-
Board-designated endowment fund	408,637	355,767
	$ 915,293	$ 787,654

NOTE 10. BOARD-DESIGNATED ENDOWMENT FUND

On September 17, 2015, Organization's board of directors approved a resolution to establish the Solid Ground Endowment Fund ("Fund") as a board-designated endowment fund. According to the resolution the purpose of the endowment is to secure long term and stable support for the Organization; enhance the Organization's ability to carry out its exempt purposes to prevent and end homelessness; provide donors with an additional way to give to the Organization; and to provide funds to improve the Organization's facilities and services.

Beneficial interest in assets held by The Saint Paul Foundation:

During 2015 the Organization transferred $250,000 of its unrestricted net assets to The Saint Paul Foundation ("Foundation"). According to the Organization's *Agreement Establishing the Solid Ground Fund under the Plan for the Saint Paul Foundation* ("Agreement"), the Saint Paul Foundation will administer the Fund and has ultimate authority and control over the Fund and all distributions from the Fund. The Saint Paul Foundation will distribute to Solid Ground the Fund's net income or principal or both as determined by the spending policy adopted by The Saint Paul Foundation. Upon the request of Solid Ground, The Saint Paul Foundation may, in its discretion, distribute principal of the Fund to Solid Ground. It is the general intent of the Agreement that the Fund be administered as an endowment fund except to the extent The Saint Paul Foundation determines that the long-term interests of Solid Ground and the community would be better served by a distribution of principal from the Fund.

The Foundation's Investment and Spending Policies:

The Foundation has adopted investment and spending policies for endowment assets that seek to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. Actual returns in any given year may vary from this amount.

NOTE 10. BOARD-DESIGNATED ENDOWMENT FUND (continued)

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic equities, international equities, private capital, fixed income, real assets and absolute return strategies. The majority of assets are invested in equity or equity like securities. Fixed income, real assets and absolute return strategies are used to lower short-term volatility. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than the Foundation's spending policy payout rate plus inflation over long periods of time.

The spending policy determines the amount of money in a given year that will be distributed from the Foundation's various endowment assets, which includes donor advised, nonprofit, designated, scholarship, community, field of interest and unrestricted. The current spending policy is to distribute an amount equal to 5.25% of a moving twenty-one quarter average but not less than 4.5% or greater than 6.0% of current market value. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment assets to grow at the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets and seek to maximize the amount available to meet the charitable needs of communities.

Changes in the beneficial interest in assets held by The Saint Paul Foundation for the year ending December 31, 2017 and 2016, respectively, consist of the following:

	2017	2016
Beginning of the year	$ 355,767	$ 250,000
Investment return:		
Investment income	6,088	4,324
Net appreciation, (realized and unrealized)	51,832	17,953
Investment expenses	(5,050)	(3,390)
Total investment return	52,870	18,887
Grants distributed	(13,604)	(10,346)
New gifts	-	-
Transfers per board of directors' resolution:		
Grant distribution reinvested	13,604	10,346
Board authorized transfers	-	86,880
Total board of directors' transfers	13,604	97,226
End of the year	$ 408,637	$ 355,767