

WAYNE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017



DYER ROCHE & COMPANY, INC.

Certified Public Accountants and Consultants

WAYNE COUNTY COMMUNITY FOUNDATION
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Wayne County Community Foundation
Wooster, Ohio

We have audited the accompanying consolidated financial statements of Wayne County Community Foundation (a nonprofit organization) and affiliate, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined 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 auditors' 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 combined 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 combined 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 Wayne County Community Foundation and affiliate as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dyck Locke & Company, Inc.

Wooster, Ohio
August 31, 2018

WAYNE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents	\$ 14,847	\$ 20,555
Investments		
Assets in investment pool	75,484,539	62,352,716
Assets in real property	447,000	7,430
Assets in non-pooled investments	<u>-</u>	<u>981,920</u>
	75,931,539	63,342,066
Contributions and pledge receivables - current portion	<u>332,002</u>	<u>424,477</u>
Total current assets	<u>76,278,388</u>	<u>63,787,098</u>
Property and Equipment:		
Furniture and equipment	63,875	63,875
Less allowance for depreciation	<u>(58,308)</u>	<u>(58,308)</u>
Total property and equipment	<u>5,567</u>	<u>5,567</u>
Other Assets:		
Long-term contributions and pledge receivables - net of current portion	717,581	499,229
Insurance policies - cash value	<u>266,583</u>	<u>254,207</u>
Total other assets	<u>984,164</u>	<u>753,436</u>
Total assets	<u>\$ 77,268,119</u>	<u>\$ 64,546,101</u>

See accompanying independent auditors' report
and notes to the financial statements.

WAYNE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current Liabilities:		
Agency fund liability	\$ 11,353,800	\$ 9,507,128
Grants payable	5,500	113,200
Scholarships payable	567,500	573,000
Gift annuity obligation - current portion	<u>6,641</u>	<u>8,291</u>
 Total current liabilities	 <u>11,933,441</u>	 <u>10,201,619</u>
Long-Term Liabilities:		
Long-term gift annuity obligation - net of current portion	<u>28,172</u>	<u>42,516</u>
 Total long-term liabilities	 <u>28,172</u>	 <u>42,516</u>
 Total liabilities	 <u>11,961,613</u>	 <u>10,244,135</u>
 Net Assets:		
Unrestricted	7,122,796	6,266,450
Temporarily restricted	20,401,759	17,654,002
Permanently restricted	<u>37,781,951</u>	<u>30,381,514</u>
 Total net assets	 <u>65,306,506</u>	 <u>54,301,966</u>
 Total liabilities and net assets	 <u>\$ 77,268,119</u>	 <u>\$ 64,546,101</u>

See accompanying independent auditors' report
and notes to the financial statements.

WAYNE COUNTY COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Contributions	\$ 2,440,006	\$ 4,292,446	\$ 6,517,902	\$ 13,250,354
Investment income (loss)	817,159	2,018,347	732,912	3,568,418
Change in value of gift annuities	-	8,941	-	8,941
Other income	20,960	12,376	21,672	55,008
Total Contributions, Investment Income and Other Income	3,278,125	6,332,110	7,272,486	16,882,721
Other Changes in Net Assets				
Transfers of fund activity	(115,377)	(12,574)	127,951	-
Satisfaction of donor and program requirements in accordance with spending policy	3,143,082	(3,143,082)	-	-
Released for administrative fees	428,697	(428,697)	-	-
Total other changes in net assets	3,456,402	(3,584,353)	127,951	-
Total support and revenue	6,734,527	2,747,757	7,400,437	16,882,721
Expenses				
Grants and scholarships	5,387,226	-	-	5,387,226
Investment fees and general expenses	443,446	-	-	443,446
Development and communications	47,509	-	-	47,509
Total expenses	5,878,181	-	-	5,878,181
Change in net assets	856,346	2,747,757	7,400,437	11,004,540
Net assets, beginning of year	6,266,450	17,654,002	30,381,514	54,301,966
Net assets, end of year	\$ 7,122,796	\$ 20,401,759	\$ 37,781,951	\$ 65,306,506

See accompanying independent auditors' report and notes to the financial statements.

WAYNE COUNTY COMMUNITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Contributions	\$ 1,226,157	\$ 2,167,592	\$ 2,925,603	\$ 6,319,352
Investment income (loss)	1,274,795	988,653	3,279,779	5,543,227
Change in value of gift annuities	-	(5,739)	-	(5,739)
Other income	20,678	13,433	624	34,735
Total Contributions, Investment Income and Other Income	2,521,630	3,163,939	6,206,006	11,891,575
Other Changes in Net Assets				
Transfers of fund activity	(92,190)	1,987	90,203	-
Satisfaction of donor and program requirements in accordance with spending policy	1,694,209	(1,694,209)	-	-
Released for administrative fees	386,611	(386,611)	-	-
Total other changes in net assets	1,988,630	(2,078,833)	90,203	-
Total support and revenue	4,510,260	1,085,106	6,296,209	11,891,575
Expenses				
Grants and scholarships	3,484,931	-	-	3,484,931
Investment fees and general expenses	462,897	-	-	462,897
Development and communications	41,817	-	-	41,817
Total expenses	3,989,645	-	-	3,989,645
Change in net assets	520,615	1,085,106	6,296,209	7,901,930
Net assets, beginning of year	5,745,835	16,568,896	24,085,305	46,400,036
Net assets, end of year	\$ 6,266,450	\$ 17,654,002	\$ 30,381,514	\$ 54,301,966

See accompanying independent auditors' report and notes to the financial statements.

WAYNE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 6,436,682	\$ 3,532,622
Cash paid to grantees and scholarships	(5,831,502)	(3,617,820)
Cash paid to vendors and employees	<u>(562,278)</u>	<u>(572,729)</u>
Net cash provided (used) by operating activities	<u>42,902</u>	<u>(657,927)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	23,631,889	97,531,765
Purchase of investments	<u>(30,190,110)</u>	<u>(99,783,127)</u>
Net cash provided (used) by investing activities	<u>(6,558,221)</u>	<u>(2,251,362)</u>
Cash Flows from Financing Activities:		
Gift annuity obligations paid	(8,291)	(8,291)
Permanently restricted contributions	<u>6,517,902</u>	<u>2,925,603</u>
Net cash provided (used) by financing activities	<u>6,509,611</u>	<u>2,917,312</u>
Change in cash and cash equivalents	(5,708)	8,023
Cash and cash equivalents, beginning	<u>20,555</u>	<u>12,532</u>
Cash and cash equivalents, ending	<u><u>\$ 14,847</u></u>	<u><u>\$ 20,555</u></u>

-forwarded

See accompanying independent auditors' report
and notes to the financial statements.

WAYNE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

-Forwarded

	<u>2018</u>	<u>2017</u>
Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Changes in net assets	\$ 11,004,540	\$ 7,901,930
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Interest and dividends reinvested	(1,783,033)	(1,153,290)
Net realized (gain) loss in fair value of investments	(28,155)	(3,249,600)
Net unrealized (gain) loss on sale of investments	(2,377,163)	(2,119,553)
Investment gain (loss) on agency funds	619,933	979,215
Permanently restricted contributions	(6,517,902)	(2,925,603)
Change in cash surrender value of life insurance	(12,376)	(13,433)
Donated securities	(1,395,901)	(456,602)
Donation of real property	(447,000)	(7,430)
Change in gift annuity obligations value	(7,703)	5,739
Increase (decrease) in cash from changes in:		
Contributions and pledges receivable	(125,877)	120,186
Agency fund liability	1,226,739	39,314
Grants payable	(107,700)	101,200
Scholarships payable	(5,500)	120,000
	<hr/>	<hr/>
Total adjustments	(10,961,638)	(8,559,857)
	<hr/>	<hr/>
Net cash provided (used) by operating activities	\$ 42,902	\$ (657,927)

See accompanying independent auditors' report
and notes to the financial statements.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Description of the Foundation

Wayne County Community Foundation (the “Foundation”) is a tax-exempt public organization established in December 1978, with income from funds contributed by individuals, families, businesses and non-profit agencies. The Foundation works to improve the quality of life in greater Wayne County, Ohio by making grants to local nonprofit organizations and providing scholarships to benefit local students. The Foundation responds to the changing needs of the community and builds on local strengths in the areas of arts-culture, civic interests, conservation-environment, education, health, wellness, and human services.

Basis of Consolidation

The consolidated financial statements of the Foundation include the activity of Wayne County Community Foundation and WCCF Holdings, LLC. WCCF Holdings, LLC was formed as a single member nonprofit limited liability company to increase the Foundation’s capacity to evaluate, accept and manage gifts of real property. All accounts and transactions between the Organizations have been eliminated in the consolidated financial statements.

Fund Accounting

In order to maintain proper accounting for donor or board specified purposes, the Foundation maintains separate funds. The funds are then classified as held for others (liability) or unrestricted, temporarily or permanently restricted net assets. Contributions and grant distributions are recorded into the appropriate funds based on donor suggestions or board policies, as applicable. Investment activity and administrative fees are allocated to individual funds.

Classification of Net Assets

Contributions are classified as unrestricted, temporarily restricted and permanently restricted based on donor specifications. Assets, liabilities, net assets, revenues and gains are presented under these classifications. Designations by the Board of Trustees (“Board”), while separately stated, are considered unrestricted.

As of June 30, 2018, the net assets of the Foundation are comprised of a collection of 424 separate funds that were generously donated to benefit the various, charitable, and educational needs of the community. These funds have been pooled together and invested in a diverse set of assets, managed by professional investment administrators. The funds include both donor-restricted and unrestricted funds to be used by the Board to function as permanent and unrestricted endowments. Of the 424 total funds, 28% are permanently restricted, 34% temporarily restricted, 22% unrestricted and 16% Foundational funds.

Funds with similar characteristics have been combined in the following net asset groups:

Unrestricted net assets are used for continuing activities, grants, and operations of the Foundation at the discretion of the Foundation’s governing body.

Temporarily restricted net assets are subject to donor imposed restrictions that permit the Foundation to expend the donated assets as specified by the donor. The restriction remains in effect until satisfied by either the passage of time or by actions of the Foundation. Grants and contributions received with donor-imposed restrictions are recorded as unrestricted if the restrictions are expected to be met within the same period.

Permanently restricted net assets are subject to donor imposed restrictions that stipulate that resources be maintained permanently but permit the Foundation to expend part or all of the income or other economic benefit derived from the donated asset.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies (Continued)

Classification of Net Assets (Continued)

The Financial Accounting Standards Board (“FASB”) issued ASC 958-205 which provides guidance on the net asset classification of board-designated and donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The state of Ohio has enacted UPMIFA, effective as of June 1, 2009. The Foundation has determined it is subject to UPMIFA, which requires the Foundation to classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets, unless otherwise stated in the gift instrument by the donor. The gift instruments are donor-restricted assets until appropriated for expenditure by the Foundation.

Cash Equivalents

For the purposes of the Statements of Cash Flows, the Foundation considers all highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. However, cash maintained in the professionally managed investment accounts is considered an investment rather than a cash equivalent. At times during the year, the Foundation maintained funds on deposit at its banks in excess of FDIC insurance limits.

Investments

Investments in equity and debt securities are reported at fair value with any realized or unrealized gains and losses reported in the statement of activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur. Securities received by gift are recorded at market value at the date of donation and are immediately sold.

Most holdings are collectively invested in one portfolio, referred to as the “pooled investment fund.” Certain funds hold investments in separate accounts. The overall portfolio is directed by the Foundation’s Board’s investment committee in consultation with a professional investment advisor, Hartland & Co.. More than a dozen professional investment managers are utilized to diversify the portfolio. Huntington Bank, formerly FirstMerit Bank, acted as custodian of 100% of the portfolio for the fiscal year 2017 and part of 2018. During 2018, the Foundation switched custodial services to Fidelity Investments for 100% of the portfolio.

The income, gains and losses from the pooled investment account are allocated monthly to the individual funds based on each fund’s proportional fair market value.

Investments, Fair Value Measurements

As defined in FASB ASC 820, “Fair Value Measurements”, fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the examination of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Inputs to valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Fair Value Measurements (Continued)

Level 2: Inputs to the valuation methodology include:

- * Quoted prices for similar assets or liabilities in active markets;
- * Quoted prices for identical assets or similar assets or liabilities in inactive markets;
- * Inputs other than quoted prices that are observable for the asset or liability;
- * Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The financial instrument categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investment Policy

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a preferred diversified asset allocation. As of June 30, 2018, the target investment allocation was 55% Domestic and International Equities, 30% Fixed Income and Cash and 15% Alternative. The Foundation has set performance objective and risk guidelines they use to measure the performance of their portfolio.

Spending Policy

Unless otherwise indicated in the fund agreement or instrument, the Foundation will generally distribute a percentage of the value of each fund annually. The percentage is evaluated annually by the Foundation and can be revised from time to time, taking into account both preservation of principal, as well as investment, custodial and administrative costs. Currently, the spending policy, applied to permanently restricted funds, is calculated based on 4.5% of the average market value of the prior twelve quarter fund balances as of June 30, the Foundation's fiscal year-end. Payments in excess of annual spending policy are only allowable with special approval of the Board.

Funds with Deficiencies

Fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the State of Ohio's Prudent Management and Institutional Fund Act (SPMIFA) requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$146,204 and \$69,373 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

Insurance Policies

The Foundation is the beneficiary of several life insurance policies received from donors. The policies are stated at the cash surrender value net of any surrender charges. The value of these policies in the Consolidated Statement of Financial Position amount to \$266,583 (2018) and \$254,207 (2017).

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment purchased by the Foundation are carried at cost. Donated property and equipment are recorded at estimated fair value at the date of donation. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any gain or loss is reflected in the current year's activities. Depreciation is computed using straight line method over the estimated useful lives of the assets. There was no depreciation expense in 2018 or 2017.

Revenue Recognition

Contributions are recognized when awarded as unrestricted, temporarily restricted or permanently restricted in accordance with donor specifications. When a restriction expires through accomplishment of purpose or passage of time, the restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Although restricted contributions are typically reported as support that increases restricted net assets, they may be reported as unrestricted support if the restrictions are met in the same reporting period.

Income Tax Status

The Foundation is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code and operates as a public charity.

WCCF Holdings, LLC is a single member nonprofit limited liability company solely owned by Wayne County Community Foundation.

The Foundation is required to operate in conformity with the Code to maintain its tax-exempt status.

Accounting for Uncertainty in Income Taxes

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken certain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. The amount recognized is measured as the amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Foundation recognizes interest and penalties accrued related to unrecognized tax uncertainties in income tax expense, if any. The Foundation determined that there are no material uncertain tax positions.

The Foundation's federal income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

Vacation Pay

Vacation and personal leave compensation is expensed when paid. Accrual of these benefits as earned would not have a material effect on the consolidated financial statements.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies (Continued)

Marketing Costs

The Foundation participates in various advertising and marketing programs. All costs related to marketing and advertising the Foundation's services are expensed in the period incurred. Advertising costs charged to operations was \$2,649 (2018) and \$2,806 (2017).

Functional Expense Allocations

Expenses are charged to functional areas based on specific-identification when possible. Expenses that cannot be specifically identified to a function are allocated to the functional areas based on factors such as direct relationship of expense, time spent by employees and square footage of space used for various programs.

Donated Services

The Foundation received donated services (general assistance and fundraising events) which do not meet the criteria for recognition under FASB ASC 958-605 or cannot be objectively measured. These donations, while not recognized in the consolidated financial statements, provide valuable resources to the Foundation.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, which deals largely with financial statement presentation issues - how organizations convey how they spend and invest their resources. The standard requires an organization to classify its net assets into two categories- those with donor restrictions and those without. The update also aims to enhance information about an organization's expenses through a new expense analysis that shows expenses broken down by nature and function. Further, the update will require organizations to provide information that shows how they manage their access to cash over the twelve months following the issuance of financial statements and retain liquidity. The update goes into effect for the Foundation's financial statements beginning with the 2019 fiscal year.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those transferred goods and services. ASU 2014-09 establishes a five-step process to achieve this core principle and may require more judgment and estimates within the revenue recognition process than are necessary under existing U.S. GAAP. ASU 2014-09 is effective for annual periods beginning with the 2019 calendar year, using one of the following transition methods: (1) a full retrospective approach reflecting the standard's application each prior reporting period with the option to elect certain practical expedients, or (2) a retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which applies to all entities whom receive or make contributions. The core principles of ASU 2018-08 are to clarify whether a transfer of assets is a contribution or an exchange transaction as well as whether a contribution is conditional or unconditional. The objective of this ASU is to provide improved guidance on these types of transactions due to the current diversity in practice of reporting similar transactions. ASU 2018-08 is effective for annual periods beginning with the 2019 calendar year, with early adoption permitted.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which amends existing accounting standards for lease accounting, requires lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting. The new standard is effective for the Foundation for the 2021 fiscal year, with early adoption permitted.

Management is currently evaluating the impact of adopting the standards on Wayne County Community Foundation's financial statements and have not yet determined the method by which the Foundation will adopt the standards.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the consolidated financial statements.

Subsequent events have been evaluated through August 31, 2018, which is the date the financial statements were available to be issued.

Note 2: Investments

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Cash (Checking) Accounts

These cash funds are valued at principal plus interest at a variable rate.

Mutual Funds

These funds are based on quoted market prices.

Common Stock

These securities are valued at quoted market prices in active markets for identical assets.

Corporate and Foreign Bonds, Municipal Obligations, U.S. Government and U.S. Treasury

The fixed income securities value is based on valuation of market quotes from independent inactive market sources.

Real Property

These assets are reported at appraised values.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Investments (Continued)

The following table presents the financial instruments carried at fair value, on a recurring basis, as of June 30, 2018:

Investment Type	Level 1	Level 2	Level 3	Total
Cash	\$ 3,452,739	\$ -	\$ -	\$ 3,452,739
Mutual funds:				
Equity(Domestic)	41,129,407	-	-	41,129,407
Fixed income(Debt Securities)	19,325,982	-	-	19,325,982
Alternative(International)	11,576,411	-	-	11,576,411
Total Mutual Funds	72,031,800	-	-	72,031,800
Real property	-	447,000	-	447,000
Total assets at fair value	\$ 75,484,539	\$ 447,000	\$ -	\$ 75,931,539

The following table presents the financial instruments carried at fair value, on a recurring basis, as of June 30, 2017:

Investment Type	Level 1	Level 2	Level 3	Total
Cash	\$ 1,558,722	\$ -	\$ -	\$ 1,558,722
Mutual funds:				
Equity(International)	41,511,175	-	-	41,511,175
Fixed income(Index)	19,739,864	-	-	19,739,864
Total Mutual Funds	61,251,039	-	-	61,251,039
Common stocks:				
Industrial	61,014	-	-	61,014
Consumer	93,090	-	-	93,090
Health care	80,022	-	-	80,022
Energy	39,831	-	-	39,831
Financial	82,161	-	-	82,161
Information technology	138,298	-	-	138,298
Other	30,460	-	-	30,460
Total Common stock	524,876	-	-	524,876
Real property	-	7,430	-	7,430
Total assets at fair value	\$ 63,334,636	\$ 7,430	\$ -	\$ 63,342,066

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Investments (Continued)

Activity in Level 2 Investments for the years ended June 30, 2018 and 2017 was as follow:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 7,430	\$ -
Contributions	566,805	7,430
Sale	(127,235)	-
Ending balance	<u>\$ 447,000</u>	<u>\$ 7,430</u>

Investment income (loss) consists of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 1,783,033	\$ 1,153,290
Net realized gains	28,155	3,249,600
Net unrealized losses	2,377,163	2,119,553
Total investment Income (Loss)	<u>4,188,351</u>	<u>6,522,443</u>
Less: Earnings (Losses) allocated to agency fund liability	(619,933)	(979,215)
Total Net Investment Income (Loss)	<u>\$ 3,568,418</u>	<u>\$ 5,543,228</u>

Investment fees amounted to \$135,156 (2018) and \$165,340 (2017) and are included in the Consolidated Statement of Activities and Changes in Net Assets as investment fees and general expenses.

Note 3: Pledges and Contributions Receivable

Contributions and pledges receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Pledges receivable	\$ 716,919	\$ 564,000
Interest in charitable lead annuity trust	332,664	359,706
	<u>\$ 1,049,583</u>	<u>\$ 923,706</u>

Contributions and pledges receivable represent promises to give which have been made by donors to designated funds. A number of receivables have been promised in installments over several years. All receivables are considered collectible by the Foundation, and accordingly no allowance for uncollectibles has been established.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Pledges and Contributions Receivable (Continued)

The value of all material receivables and interest in charitable lead trusts with payments exceeding one year, have been discounted to net present value at a rate of 2%.

Payments are due in:	
One year	\$ 332,002
Two years	242,883
Three years	171,084
Four years	129,750
Five years	41,200
Thereafter	<u>200,000</u>
Gross Receivables	1,116,919
Less Net Present Value Discount	<u>(67,336)</u>
Total	<u><u>\$ 1,049,583</u></u>

Amounts presented in the Consolidated Statements of Financial Position are as follows:

	<u>2018</u>	<u>2017</u>
Current Portion:		
Pledges receivable	\$ 292,002	\$ 384,477
Charitable lead annuity trust	<u>40,000</u>	<u>40,000</u>
	<u>332,002</u>	<u>424,477</u>
Long-term Portion:		
Pledges receivable	424,917	179,523
Charitable lead annuity trust	<u>292,664</u>	<u>319,706</u>
	<u>717,581</u>	<u>499,229</u>
	<u><u>\$ 1,049,583</u></u>	<u><u>\$ 923,706</u></u>

Note 4: Endowment Funds

The Foundation's Endowments consist of numerous funds, established for a variety of purposes, which have been pooled together for investment purposes. The endowment includes both donor-restricted and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

The Board of Trustees of the Foundation has interpreted the "Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment absent explicit donor restrictions to the contrary.

As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gift donated to the permanent endowment, (b) the original values of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Endowment Funds (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1 The duration and preservation of the fund
- 2 The purpose of the Foundation and the endowment fund
- 3 General economic conditions
- 4 The possible effect of inflation and deflation
- 5 The expected total return from income and the appreciation of investments
- 6 Other resources of the Foundation
- 7 The investment policies of the Foundation

Endowment Net Assets Composition by Type of Fund and Changes Therein as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted				
permanent endowment funds	\$ (146,204)	\$ 1,005,034	\$ 37,781,951	\$ 38,640,781
Donor-restricted temporarily				
restricted endowment funds	-	19,396,725	-	19,396,725
Board-designated				
endowment funds	7,269,000	-	-	7,269,000
Total Funds	<u>\$ 7,122,796</u>	<u>\$ 20,401,759</u>	<u>\$ 37,781,951</u>	<u>\$ 65,306,506</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
beginning of year	\$ 6,266,450	\$ 17,654,002	\$ 30,381,514	\$ 54,301,966
Investment Return:				
Net appreciation(depreciation)	817,159	2,018,347	732,912	3,568,418
Contributions and other income	2,460,966	4,313,763	6,539,574	13,314,303
Transfers of fund activity	3,571,779	(3,571,779)	-	-
Satisfaction of donor and program				
requirements in accordance				
with spending policy	(115,377)	(12,574)	127,951	-
Disbursements	(5,878,181)	-	-	(5,878,181)
Net Change	<u>856,346</u>	<u>2,768,426</u>	<u>7,400,437</u>	<u>11,004,540</u>
Endowment net assets-				
end of year	<u>\$ 7,122,796</u>	<u>\$ 20,401,759</u>	<u>\$ 37,781,951</u>	<u>\$ 65,306,506</u>

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Endowment Funds (Continued)

Endowment Net Assets Composition by Type of Fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted				
permanent endowment funds	\$ (69,373)	\$ 4,538,822	\$ 30,381,514	\$ 34,850,963
Donor-restricted temporarily				
restricted endowment funds	-	13,115,180	-	13,115,180
Board-designated				
endowment funds	6,335,823	-	-	6,335,823
Total Funds	<u>\$ 6,266,450</u>	<u>\$ 17,654,002</u>	<u>\$ 30,381,514</u>	<u>\$ 54,301,966</u>

Change in Endowment Net Assets for the Year Ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
beginning of year	<u>\$ 5,745,835</u>	<u>\$ 16,568,896</u>	<u>\$ 24,085,305</u>	<u>\$ 46,400,036</u>
Investment Return:				
Net appreciation(depreciation)	1,274,795	988,653	3,279,779	5,543,227
Contributions and other income	1,246,835	2,175,286	2,926,227	6,348,348
Transfers of fund activity	2,080,820	(2,080,820)	-	-
Satisfaction of donor and program				
requirements in accordance				
with spending policy	(92,190)	1,987	90,203	-
Disbursements	<u>(3,989,645)</u>	<u>-</u>	<u>-</u>	<u>(3,989,645)</u>
Net Change	<u>520,615</u>	<u>1,085,106</u>	<u>6,296,209</u>	<u>7,901,930</u>
Endowment net assets -				
end of year	<u>\$ 6,266,450</u>	<u>\$ 17,654,002</u>	<u>\$ 30,381,514</u>	<u>\$ 54,301,966</u>

Note 5: Reclassification of Net Assets

The Foundation classifies contributions as accurately as possible based on information available as of the date of donation. Subsequently, new information may provide additional guidance on the intent of the donors and can result in the necessity to reclassify the contribution.

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Net Assets

Temporarily restricted net assets consist of contributions designated but not yet used for certain purposes.

	2018	2017
Grants	\$ 9,127,336	\$ 6,719,967
Scholarships	11,274,423	10,934,035
	<u>\$ 20,401,759</u>	<u>\$ 17,654,002</u>

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following:

	2018	2017
Grants	\$ 29,096,761	\$ 24,426,980
Scholarships	8,685,190	5,954,534
	<u>\$ 37,781,951</u>	<u>\$ 30,381,514</u>

Net assets were released from donor restrictions during the year ended June 30, 2018 and 2017, by incurring expenses satisfying the restricted purpose or the occurrence of other events specified by donors as follows:

	2018	2017
Grants and scholarships	\$ 3,143,082	\$ 1,694,209
Administrative fees	428,697	386,611
	<u>\$ 3,571,779</u>	<u>\$ 2,080,820</u>

The Foundation charges an administrative fee to all funds, except the Acorn Funds. These fees are reflected as assets released from restriction in the Statements of Activities. The following fee schedule was effective March 1, 2009:

Agency endowments	0.50%
Designated funds:	
During a campaign (under \$1,000,000)	1.00%
During a campaign (over \$1,000,000)	0.75%
Maintenance fund only	0.50%
	<i>Minimum charge of \$250</i>
Donor advised funds:	
Under \$100,000	1.00%
\$100,000 - \$500,000	0.75%
Over \$500,000	0.50%
Scholarship, Unrestricted and Field of Interest funds:	
Under \$1,000,000	1.00%
Over \$1,000,000	0.75%
	<i>Minimum charge of \$250</i>
Gift annuity funds	1.00%

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Net Assets (Continued)

Designated funds are divided into active and maintenance modes depending on whether the fund is in the midst of an active fundraising campaign or in a post campaign maintenance mode.

Total fees charged under this schedule amounted to \$428,697 (2018) and \$386,311 (2017). A portion of these fees are reported as management and general expenses on the Statements of Activities with the remainder of the fees being reported as a reduction in the liability for assets held on behalf of others in the Statement of Financial Position.

Note 7: Leases

The Foundation leases its office space through a relationship established in 2005. Rent is paid on a monthly basis ranging from \$2,100 to \$2,200 per month, with the current agreement commencing in October 1, 2014 and ending on September 30, 2017. The lease has been extended and is effective for October 1, 2017 through September 30, 2020. The landlord is responsible for real estate taxes, building fire insurance and repairs to the property. The Foundation is responsible for partial maintenance, utilities, and liability insurance on the property. Rent expense was \$26,400 (2018) and \$26,250 (2017).

The Foundation leases a copier with monthly lease payments of approximately \$481. Additional fees based on usage at a rate per month, are also assessed. The lease term is for 60 months ending February 2022. This lease replaced the previous lease with monthly lease payments of approximately \$230. Lease expense related to the office equipment was \$6,040 (2018) and \$5,672 (2017).

Minimum lease payments due under the operating lease agreements are due as follows:

	Real Estate	Equipment	Total
2019	\$ 26,400	\$ 5,772	\$ 32,172
2020	26,400	5,772	32,172
2021	6,600	5,772	12,372
2022 and thereafter	-	3,848	3,848
Total	<u>\$ 59,400</u>	<u>\$ 21,164</u>	<u>\$ 80,564</u>

Note 8: Charitable Gift Annuities

The Foundation is obligated under three annuity contracts, whereby the Foundation is the owner of the assets subject to a promise to pay the respective annuity amount to individuals. A fourth annuity contract expired during the year. The terms of the annuities are as follows:

	Date Established	Term	Payment Frequency	Payment Amount	Discount Factor	Interest Rate
Annuity 1	2004	Life	Quarterly	\$ 381.18	8.9%	4.2%
Annuity 2	2006	Life	Semi-Annual	\$ 716.15	6.8%	5.6%
Annuity 3	2008	Life	Quarterly	\$ 920.96	3.1%	4.2%
Annuity 4	2013	Life	Quarterly	\$ 412.50	8.7%	1.4%

WAYNE COUNTY COMMUNITY FOUNDATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Charitable Gift Annuities (Continued)

The change in the value of the gift annuity agreements on the Statement of Activities and Changes in Net Assets relates to the amortization of the discount on the annuities. The estimated amount due to the individual specified in those agreements (net of discount) was \$34,813 (2018) and \$50,807 (2017).

	2018	2017
Beginning balance	\$ 50,807	\$ 53,359
Net unrealized	8,941	5,739
Payments	(24,935)	(8,291)
Ending balance	<u>\$ 34,813</u>	<u>\$ 50,807</u>

Amounts presented in the Consolidated Statement of Financial Position are as follows:

	2018	2017
Current	\$ 6,641	\$ 8,291
Long-term	28,172	42,516
	<u>\$ 34,813</u>	<u>\$ 50,807</u>

Note 9: Conditional Promises to Give

The Foundation awards annual scholarships, some of which are renewable and conditioned upon the recipient staying in school, or maintaining a specific grade point average. Conditional promises to give are recognized when the conditions of the promise have been substantially met. Conditional promises that are substantially met are recorded in the Consolidated Statement of Financial Position and amounted to \$567,500 (2018) and \$573,000 (2017).

Note 10: Agency Fund Liability

Agency funds represent amounts held by the Foundation on behalf of other tax-exempt charitable organizations.

	2018	2017
Beginning agency funds	\$ 9,507,128	\$ 8,488,598
Contributions	1,622,807	458,428
Investment income - net	619,933	979,216
Foundation administrative fees	(51,934)	(43,785)
Investment fees	19,389	(24,230)
Distributions	(363,523)	(351,099)
Ending agency funds	<u>\$ 11,353,800</u>	<u>\$ 9,507,128</u>

Note 11: Retirement Plan

The Foundation has a 403(b) Deferred Compensation Plan and SEP Plan. The Foundation contributes an amount equal to 5.0% of each full-time employee's compensation to these plans. Contributions to these plans amounted to \$9,481 (2018) and \$9,334 (2017).