

COMMUNITY FOUNDATION OF SHELBY COUNTY

Combined Financial Statements
Years Ended December 31, 2017 and 2016

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McCrate, DeLaet & Co.
PO Box 339
Sidney, OH 45365

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Foundation of Shelby County

Report on the Financial Statements

We have audited the accompanying combined financial statements of Community Foundation of Shelby County and affiliate, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgements, 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 auditors consider 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 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of Shelby County and affiliate 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.

McCrate, DeLaet & Co.

Sidney, Ohio
March 30, 2018

COMMUNITY FOUNDATION OF SHELBY COUNTY
 Combined Statements of Financial Position
 December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 4,692,665	\$ 4,884,134
Pledges receivable	-	5,500
Pledges receivable-assets held on behalf of others	644,368	803,630
Investments	28,991,054	23,301,734
Property and equipment, net	64,881	68,426
Other assets	195	-
	\$ 34,393,163	\$ 29,063,424
LIABILITIES AND NET ASSETS		
Grants payable	\$ 194,917	\$ 180,685
Accrued liabilities	17,823	12,062
Assets held on behalf of others	10,738,732	9,368,420
Total Liabilities	\$ 10,951,472	\$ 9,561,167
Net Assets:		
Unrestricted	\$ 1,003,659	\$ 922,335
Funds with stated intent	22,438,032	18,579,922
Total Net Assets	\$ 23,441,691	\$ 19,502,257
TOTAL LIABILITIES AND NET ASSETS	\$ 34,393,163	\$ 29,063,424

See accompanying notes

COMMUNITY FOUNDATION OF SHELBY COUNTY
 Combined Statements of Activities
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues, Gains, & Support:		
Contributions	\$ 2,812,399	\$ 1,495,411
Investment income/(loss)	2,741,918	1,313,167
Fund management fees	<u>196,131</u>	<u>177,556</u>
Total Revenue	<u>\$ 5,750,448</u>	<u>\$ 2,986,134</u>
Expenses:		
Grants	\$ 1,224,436	\$ 942,703
Personnel costs	227,017	214,763
Professional fees	25,115	17,445
Occupancy	9,552	10,120
Depreciation	3,545	4,159
Administrative	230,305	212,529
Federal Taxes	<u>91,044</u>	<u>-</u>
Total Expenses	<u>\$ 1,811,014</u>	<u>\$ 1,401,719</u>
Change in Net Assets	\$ 3,939,434	\$ 1,584,415
Net Assets, Beginning of the Year	<u>19,502,257</u>	<u>17,917,842</u>
NET ASSETS, END OF THE YEAR	<u>\$ 23,441,691</u>	<u>\$ 19,502,257</u>

See accompanying notes

COMMUNITY FOUNDATION OF SHELBY COUNTY
 Combined Statements of Cash Flows
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributions	\$ 1,772,867	\$ 735,266
Cash received from contributions for assets held in trust for others	1,784,314	1,535,587
Cash received from fund management	196,131	177,556
Interest and dividends received	660,929	494,917
Interest and dividends received for assets held in trust for others	201,716	111,253
Cash paid to grantees	(1,210,207)	(972,299)
Cash paid to grantees for assets held in trust for others	(1,131,636)	(1,689,248)
Cash paid to employees	(221,256)	(202,642)
Cash paid to suppliers	(356,017)	(240,096)
Cash paid to suppliers for assets held in trust for others	<u>(74,552)</u>	<u>(67,386)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,622,289</u>	<u>\$ (117,092)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	\$(10,967,159)	\$(5,428,610)
Proceeds from sale of investments	<u>9,153,401</u>	<u>5,708,203</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ (1,813,758)</u>	<u>\$ 279,593</u>
Net increase (decrease) in cash	\$ (191,469)	\$ 162,501
Cash, Beginning of the Year	<u>4,884,134</u>	<u>4,721,633</u>
CASH, END OF THE YEAR	<u><u>\$ 4,692,665</u></u>	<u><u>\$ 4,884,134</u></u>

See accompanying notes

COMMUNITY FOUNDATION OF SHELBY COUNTY
 Combined Statements of Cash Flows
 For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,939,434	\$ 1,584,415
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	3,545	4,159
Realized and unrealized (gain) loss on investment	(2,080,794)	(818,250)
Realized and unrealized (gain) loss on held in trust for others	(749,930)	(329,871)
Non-cash contribution	(1,045,033)	(765,644)
(Increase) decrease in operating assets:		
Pledges receivable	5,500	5,500
Pledges receivable-assets held in trust for other	159,262	179,888
Increase (decrease) in operating liabilities:		
Grants payable	14,232	(29,596)
Assets held in trust for others	1,370,312	40,186
Accrued expenses	5,761	12,121
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,622,289	\$ (117,092)

See accompanying notes

COMMUNITY FOUNDATION OF SHELBY COUNTY

Notes to Combined Financial Statements

NOTE 1 - NATURE OF ACTIVITIES:

The Community Foundation of Shelby County (Foundation) is a public foundation that hosts charitable funds established by local residents or organizations to provide support for favorite causes and charities.

Each charitable fund is given a name and purpose by the establishing individuals, families, or organizations. Foundation trustees and staff abide by the purpose of the charitable fund, making grants to specified causes or organizations in the name of the fund. They provide the administrative structure for funds including gift acceptance, asset investment, grant disbursements, and tax filing. Most funds are intended to be perpetuating endowments, but some have a defined life span such as the completion of a community project.

The Foundations's mission is to cultivate, administer, and distribute legacy gifts for the benefit of our community.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The combined financial statements include the accounts of the Foundation and its wholly owned subsidiary, CFSC I, LTD. Financial statement presentation follows generally accepted accounting principles (GAAP). Under GAAP, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Principles of Combination

The combined financial statements include the financial transactions of The Donald & Evelyn Bensman Foundation, Inc., which is a supporting foundation. All material inter-organizational accounts and transactions have been eliminated.

NOTE 2 - (Continued)

Net Asset Classifications

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) Topic 958-205, *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. FASB ASC Topic 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB Topic 958-205 also improves disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA.

The State of Ohio adopted UPMIFA effective June 1, 2009. The Foundation's net assets do not meet the definition of endowment under UPMIFA. While not an UPMIFA-defined endowment, the Foundation intends many of its funds to be permanent and manages them accordingly. Further reference to "endowment" or "endowed assets" in these notes relate to those intentions of the Foundation.

The Foundation is governed subject to its Articles of Incorporation and Bylaws and further by its adopted investment policy as well as individual gift instruments and agreements. Although the Foundation's mission is to build endowed assets, the Foundation has the ability, as required by Internal Revenue Service Regulations, to distribute all or any part of its net income, principal, or property, in accordance with determination made by the Foundation's Governing Board for the purposes set forth in its Articles of Incorporation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all short-term securities purchased with a maturity of three months or less to be cash equivalents. Cash includes checking and savings accounts, and money market funds.

	<u>2017</u>	<u>2016</u>
US Bank - checking and savings	\$ 3,487,658	\$ 2,858,435
Money market funds - brokerage firms	<u>1,205,007</u>	<u>2,025,699</u>
Total Cash	<u>\$ 4,692,665</u>	<u>\$ 4,884,134</u>

Notes to Financial Statements -

NOTE 2 - (Continued)

Concentration of Credit Risk

The Foundation maintains its cash deposit accounts with local financial institutions, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Investments

The Foundation carries investments in marketable securities with readily determinable fair values, and all investments in debt securities at their fair values, in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. The Foundation carries its real estate investments at fair market value as of the dates the investments were donated to the Foundation.

Investment Pools

The Foundation maintains pooled investment accounts for its endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000, and all expenditures for repairs, maintenance, and renewals that materially prolong the useful lives of assets, are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method.

Notes to Financial Statements -

NOTE 2 - (Continued)

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at the estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Grants Authorized But Unpaid

Grants are recorded as expenses when they are approved by the Board of Trustees for payment. Grants authorized but unpaid at year end are reported as liabilities in accordance with generally accepted accounting principles.

Refunds Due from Grants Awarded

Unexpended balances of grants awarded by the Foundation are required to be returned to the Foundation. Grant refunds to the Foundation are recorded when the amount of the refund due becomes known, normally when a final accounting by the grantee is submitted.

Contributions

The Foundation reports contributions as unrestricted support, except for assets held on behalf of others, which are reported as a liability. The bylaws of the Foundation include a variance provision and powers modification, giving the Governing Board the power to vary the use of funds. Based on these provisions, all contributions received by the Foundation are reported as unrestricted support when an unconditional promise to give is received. Contributions are recorded at fair value at the date of the donation.

Notes to Financial Statements -

NOTE 2 - (Continued)

Endowment Investment and Spending Policies

The Community Foundation of Shelby County follows investment and spending policies for endowment assets that attempt to provide a stream of funding to support grant awards by each endowment fund, while seeking to maintain the original value of endowment assets. Endowment assets include those assets of donor-restricted funds that the organization intends to hold in perpetuity or for a donor-specified period(s), as well as board designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in one of four model portfolios with varying asset allocations. Each model portfolio is intended to produce results that meet or exceed its benchmarks and assumes a corresponding level of risk and reward. The board of trustees expects the endowment funds to achieve returns for grant awards and to keep pace with inflation over time.

To satisfy its long-term rate-of-return objectives, the Community Foundation of Shelby County relies on a total return strategy in which investment returns are achieved through both realized and unrealized appreciation and interest and dividends. The Foundation targets diversified asset allocations in which endowment assets are invested in one of four model portfolios with varying asset allocations. This manner of investment achieves each model portfolio's long-term return objectives within prudent risk constraints.

The Community Foundation of Shelby County has a policy of appropriating for distribution each endowment's Total Return or Income, according to the Fund Agreement created between the Foundation and the establishing donor or organization. During the formation of the Fund Agreement, the establishing donor or organization representatives indicate the limitations or conditions regarding disbursement, including any that enable the disbursement of principal. In the absence of any language enabling disbursement of principal, the endowment is intended to be held in perpetuity. Unspent investment return is retained to grow the fund over time.

The Community Foundation board of trustees adopted a Spending Policy, that defines the total amount available from a fund in a given year as three (3) percent of the fund's average market value over the preceding sixteen (16) quarters.

Advertising

The Foundation uses advertising to promote its programs among the community it serves. The production costs of advertising are expensed as incurred. During 2017 and 2016 advertising costs totaled \$5,863 and \$5,130, respectively.

NOTE 2 - (Continued)

Donated Services

No amounts have been reflected in the financial statements for donated services. The Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs, campaign solicitations, and various committee assignments.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks and values of investment securities will occur in the near term and, that such changes could materially affect the amounts reported in the statement of financial position.

Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Foundation considers the accounting and recognition for income tax positions taken or expected to be taken in the Foundation's income tax returns. The Foundation's income tax filings are subject to audit by various taxing authorities. The years of filings open to these authorities and available for audit are the years ending December 31, 2014, 2015 and 2016. The Foundation's policy with regards to interest and penalties is to recognize interest through interest expense and penalties through other expense. In evaluating the Foundation's tax provision and tax exempt status, interpretations and tax planning strategies were considered. Management believes that the Foundation does not have income from activities subject to unrelated business income rules. The Foundation believes their estimates are appropriate based on the current facts and circumstances.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform to current year presentation.

Notes to Financial Statements -

NOTE 2 - (Continued)

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Subsequent Events

Subsequent events were evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

NOTE 3 - PROMISES TO GIVE:

Unconditional promises associated with assets held in trust at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 287,677	\$ 468,021
Receivable in one to five years	<u>356,691</u>	<u>335,609</u>
Total Unconditional Promises to Give Associated with Assets Held in Trust for Others	<u>\$ 644,368</u>	<u>\$ 803,630</u>

NOTE 4 - ENDOWMENT:

The Community Foundation of Shelby County administers 150 separate charitable funds. The board has adhered to the intention of each charitable fund's establishing donor or organization. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees 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 Community Foundation of Shelby County has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historical dollar amount of a donor-restricted endowment, and absent any donor restrictions, implementing a consistent, disciplined spending policy that enables both the disbursement and some retention of appreciation. The intended affect is to encourage long term growth of the endowment to preserve its buying power. While disbursements may continue in years of market decline, granting will be suspended to avoid depletion of the endowment should the market value fall below 85% of the historical dollar amount.

Notes to Financial Statements -

NOTE 4 - (Continued)

Endowment net asset composition by type of fund is as follows at December 31:

	<u>2017</u>	<u>2016</u>
Donor Advised	\$ 9,541,873	\$ 8,184,623
Designated	2,789,758	1,671,740
Field of Interest	3,320,796	2,990,263
Gift	839,796	751,346
Scholarship	5,941,521	4,977,678
All other	4,288	4,272
Total	<u>\$22,438,032</u>	<u>\$18,579,922</u>

NOTE 5 - INVESTMENTS:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in an active market. This level includes common stocks, corporate bonds and mutual funds based on the closing price reported in the active market where the securities are traded.

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

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

Mutual funds, common and preferred stocks, and limited partnerships are stated at fair value based on quoted prices in active markets (Level 1 inputs). The life insurance policy is stated at the cash surrender value as provided by the insurance company.

Notes to Financial Statements -

NOTE 5 - (Continued)

Fair values and unrealized appreciation (depreciation) at December 31, 2017 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds	\$24,620,029	\$27,055,516	\$ 2,435,487
Common stocks	1,004,521	1,923,450	918,929
Life insurance policy	<u>10,259</u>	<u>12,088</u>	<u>1,829</u>
Total Investments	<u>\$25,634,809</u>	<u>\$28,991,054</u>	<u>\$ 3,356,245</u>

Fair values and unrealized appreciation (depreciation) at December 31, 2016 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds	\$20,033,852	\$21,950,296	\$ 1,916,444
Common stocks	886,989	1,137,456	250,467
Limited partnerships	70,664	202,481	131,817
Life insurance policy	<u>8,706</u>	<u>11,501</u>	<u>2,795</u>
Total Investments	<u>\$21,000,211</u>	<u>\$23,301,734</u>	<u>\$ 2,301,523</u>

Investment returns at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Investment income	\$ 661,124	\$ 494,917
Net realized and unrealized gains (losses)	<u>2,080,794</u>	<u>818,250</u>
Total Investment Income	<u>\$ 2,741,918</u>	<u>\$ 1,313,167</u>

Notes to Financial Statements -

NOTE 5 - (Continued)

Expenses related to investment revenues, including custodial fees and investment advisory fees, amounted to \$47,779 and \$45,118 in 2017 and 2016, respectively. These expenses have been recorded as administrative expenses in the accompanying Statement of Activities.

NOTE 6 - PROPERTY AND EQUIPMENT:

	<u>2017</u>	<u>2016</u>
Building	\$ 104,668	\$ 104,668
Equipment & furnishings	35,903	35,903
Total	\$ 140,571	\$ 140,571
Less accumulated depreciation	<u>(75,690)</u>	<u>(72,145)</u>
Property & Equipment, Net	<u>\$ 64,881</u>	<u>\$ 68,426</u>

Depreciation expense was \$3,545 and \$4,159 for 2017 and 2016, respectively.

NOTE 7 - GRANTS PAYABLE:

Grants payable in more than one year are not discounted because they are not material to the financial statements. The following is a summary of grants authorized and payable at December 31, 2017:

2018	\$ 159,292
2019	24,125
2020	<u>11,500</u>
Total	<u>\$ 194,917</u>

NOTE 8 - ASSETS HELD ON BEHALF OF OTHERS:

Assets held on behalf of others at December 31, 2017 and 2016 of \$10,738,732 and \$9,368,420, respectively, recognized in the accompanying combined statements of financial position are for endowments held by the Foundation on behalf of Shelby County area not-for-profit agencies.

Notes to Financial Statements -

NOTE 9 - OPERATING LEASES:

The Organization has an office equipment lease until October 2021 for \$239 per month. Rental expense for the year ended December 31, 2017 totaled \$2,869 and for December 31, 2016 totaled \$717.

The minimum future lease payments under this agreement is as follows:

2018	\$ 2,869
2019	2,869
2020	2,869
2021	<u>2,391</u>
Total	<u>\$ 10,998</u>