

**EASTERN WEST VIRGINIA
COMMUNITY FOUNDATION**

Martinsburg, West Virginia

FINANCIAL REPORT

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Eastern West Virginia Community Foundation
Martinsburg, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern West Virginia Community Foundation which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and cash flows 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 audit 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 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 Eastern West Virginia Community Foundation as of December 31, 2017 and 2016, and the change in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 16, 2018

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statements of Financial Position

December 31, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 94,247	\$ 200,180
Prepaid expense	2,454	1,840
Contributions receivable	56,639	--
Investments, at fair value	23,351,377	20,376,395
Beneficial interest in split-interest agreements	89,000	83,282
Beneficial interest in residual trust	863,350	777,673
Life insurance policy, cash surrender value	34,334	33,716
Property and equipment, net	<u>1,805</u>	<u>1,519</u>
 Total assets	 <u>\$ 24,493,206</u>	 <u>\$ 21,474,605</u>
 Liabilities		
Accounts payable and accrued expenses	\$ 11,345	\$ 9,408
Grants payable	1,020,145	106,211
Agency endowment funds	<u>1,941,142</u>	<u>1,610,966</u>
Total liabilities	<u>\$ 2,972,632</u>	<u>\$ 1,726,585</u>
 Net Assets		
Unrestricted net assets:		
Community endowment	\$ 904,056	\$ 803,916
Donor advised endowment	8,016,298	8,657,499
Designated endowment	3,831,690	3,206,968
Field of interest endowment	4,850,512	3,618,363
Scholarship endowment	2,601,351	2,302,922
Unrestricted endowment	21,440	17,363
Unrestricted funds not designated	<u>342,877</u>	<u>280,034</u>
Total unrestricted net assets	\$ 20,568,224	\$ 18,887,065
Temporarily restricted net assets	<u>952,350</u>	<u>860,955</u>
Total net assets	<u>\$ 21,520,574</u>	<u>\$ 19,748,020</u>
 Total liabilities and net assets	 <u>\$ 24,493,206</u>	 <u>\$ 21,474,605</u>

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Totals
Revenues and Gains:			
Contributions	\$ 857,450	\$ --	\$ 857,450
Special events	14,600	--	14,600
Interest and dividend income	440,291	--	440,291
Net unrealized and realized gain on investments	2,435,519	--	2,435,519
Miscellaneous income	3,540	--	3,540
Total revenues and gains	\$ 3,751,400	\$ --	\$ 3,751,400
Expenses:			
Grants and distributions	\$ 1,724,639	\$ --	\$ 1,724,639
Program expenses	209,506	--	209,506
Communications and outreach	18,627	--	18,627
Supporting services:			
Accounting and legal	30,400	--	30,400
Insurance	3,492	--	3,492
Fundraising	1,738	--	1,738
General and administrative	4,883	--	4,883
Occupancy	7,629	--	7,629
Investment fees	69,327	--	69,327
Total expenses	\$ 2,070,241	\$ --	\$ 2,070,241
Excess of revenues over expenses before other changes in net assets	\$ 1,681,159	\$ --	\$ 1,681,159
Other changes in net assets, split-interest actuarial adjustment	--	91,395	91,395
Change in net assets	\$ 1,681,159	\$ 91,395	\$ 1,772,554
Net assets, beginning of year	18,887,065	860,955	19,748,020
Net assets, end of year	\$ 20,568,224	\$ 952,350	\$ 21,520,574

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Totals
Revenues and Gains:			
Contributions	\$ 2,481,442	\$ --	\$ 2,481,442
Special events	15,680	--	15,680
Interest and dividend income	442,962	--	442,962
Net unrealized and realized gain on investments	913,847	--	913,847
Miscellaneous income	3,857	--	3,857
Total revenues and gains	\$ 3,857,788	\$ --	\$ 3,857,788
Expenses:			
Grants and distributions	\$ 450,605	\$ --	\$ 450,605
Program expenses	176,665	--	176,665
Communications and outreach	18,911	--	18,911
Supporting services:			
Accounting and legal	30,150	--	30,150
Insurance	3,369	--	3,369
Fundraising	1,694	--	1,694
General and administrative	5,897	--	5,897
Occupancy	7,600	--	7,600
Investment fees	58,301	--	58,301
Total expenses	\$ 753,192	\$ --	\$ 753,192
Excess of revenues over expenses before other changes in net assets	\$ 3,104,596	\$ --	\$ 3,104,596
Other changes in net assets, split-interest actuarial adjustment	--	23,446	23,446
Change in net assets	\$ 3,104,596	\$ 23,446	\$ 3,128,042
Net assets, beginning of year	15,782,469	837,509	16,619,978
Net assets, end of year	\$ 18,887,065	\$ 860,955	\$ 19,748,020

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 1,772,554	\$ 3,128,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	903	869
Actuarial (gain) on annuity obligations	(91,395)	(23,446)
Unrealized (gain) from life insurance policy	(618)	(632)
Net realized and unrealized (gain) on investments	(2,435,519)	(913,847)
Donated value of securities	(55,557)	(70,288)
Changes in assets and liabilities:		
(Increase) decrease in prepaid expenses	(614)	55
(Increase) in contributions receivable	(56,639)	--
Increase in accounts payable and accrued expenses	1,937	2,956
Increase (decrease) in grants payable	913,934	(160,082)
Increase in agency endowment funds	330,176	95,424
Net cash provided by operating activities	\$ 379,162	\$ 2,059,051
 Cash Flows from Investing Activities		
Proceeds from sale of investments	\$ 5,953,387	\$ 6,897,688
Purchase of investment securities	(6,437,293)	(8,857,825)
Purchase of property and equipment	(1,189)	--
Net cash (used in) investing activities	\$ (485,095)	\$ (1,960,137)
 Net (decrease) increase in cash and cash equivalents	\$ (105,933)	\$ 98,914
 Cash and Cash Equivalents		
Beginning	200,180	101,266
Ending	\$ 94,247	\$ 200,180
 Supplemental Disclosure of Cash Flow Information,		
in-kind contributions	\$ 18,271	\$ 18,290

See Notes to Financial Statements.

EASTERN WEST VIRGINIA COMMUNITY FOUNDATION

Notes to Financial Statements

Note 1. Nature of Business

Eastern West Virginia Community Foundation (the Foundation) is a nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a nonprivate foundation under Section 509(a)(1) of the Internal Revenue Code of 1986. The Foundation is responsible for charitable funds and the income generated by the funds of many donors. The Foundation is committed to improving the quality of life and to serving the general charitable and educational needs of the inhabitants of Eastern West Virginia and adjoining states through charitable grants at the discretion of the Board.

Note 2. Significant Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash and Cash Equivalents

The Foundation considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Foundation's cash is maintained in two commercial banks located in West Virginia which, at times, may exceed the federally insured limits. The Foundation has not experienced any losses in such accounts.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Realized and unrealized gains and losses are reflected in the statement of activities.

Property and Equipment

All purchases of property and equipment have been recorded at cost. Property and equipment that is donated to the Foundation is stated at its fair market value at the time of donation. Depreciation is determined by the straight-line method. The estimated useful life for furniture and fixtures is seven years. Estimated useful life for software is three years. Depreciation expense was \$903 and \$869 for the years ended December 31, 2017 and 2016, respectively.

Grants Payable

Grants are recorded as expenses when they are approved by the Board.

Notes to Financial Statements

Agency Endowment Funds

Agency endowment funds are established for transactions in which a community foundation accepts a contribution from a charitable agency donor and agrees to transfer those assets, the return on investment of those assets or both back to the charitable agency donor.

The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, continues to report the funds as assets of the Foundation. Corresponding liability accounts have been established for these funds.

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged.

Donor-restricted contributions whose restrictions are met in the same year as received are classified as unrestricted contributions in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurement

Accounting standards establish 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Notes to Financial Statements

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Beneficial Interest in Split-Interest Agreements

The fair value of split interest agreements is based on the present value of the future distributions to be received by the Foundation as a beneficiary.

Beneficial Interest in Residual Trust

The fair value of residual trusts is based on a specified percentage of the trust's fair market value as determined annually.

Life Insurance

The value of the life insurance is based on the cash surrender value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for recognizing revenue from contracts with customers. The core principle of ASU 2014-09 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. Generally, the ASU states that revenue should be recognized by following a five step process which include identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligation in the contract, and recognizing revenue as the entity satisfies a performance obligation. ASU 2014-09 is effective for the Foundation for the year ending December 31, 2019. The Foundation is currently evaluating the impact that the adoption of Topic 606 will have on its financial statements.

Notes to Financial Statements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Foundation for the year ending December 31, 2020. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Foundation for the year ending December 31, 2018. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

Note 3. Net Assets

Unrestricted net assets are funds for which the discretion of the use of these funds lies with the Board.

Temporarily restricted net assets are restricted by donors for designated purposes or due to the passage of time. When they are used or time restrictions are removed, they are recorded in the statement of activities as assets released from restrictions.

Permanently restricted net assets represent donor-restricted donations, that is, where donated assets are to remain restricted in perpetuity, and the Foundation does not have the right to invade the principal, except as permitted by governing instruments or applicable law. There are no permanently restricted net assets as of December 31, 2017 or 2016.

Notes to Financial Statements

Factors considered in the determination of net asset classification include:

- The Foundation's articles of incorporation, by-laws and the terms of various predecessor trusts, allow the respective Board the power to use the principal amount of gifts.
- The Foundation has been granted unilateral variance power to modify restrictions or conditions on the distribution of funds if, in its sole judgment, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the needs of the community.

Note 4. Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets as of December 31, 2017 and 2016 are:

	2017	2016
Beneficial interest in split-interest agreements	\$ 89,000	\$ 83,282
Beneficial interest in residual trust	863,350	777,673
	\$ 952,350	\$ 860,955

Note 5. Investments

Investments are carried at fair value, and realized and unrealized gains and losses are reported in the statement of activities. Investments received by gift are recorded at market value at the date of the donation. Long-term investments, including endowment as well as other funds, as of December 31, 2017 and 2016 were as follows:

Summary by Type of Investment	December 31, 2017		
	Cost	Fair Market Value	Unrealized Appreciation (Depreciation)
Cash	\$ 399,113	\$ 399,113	\$ --
Fixed income securities	6,941,073	6,933,406	(7,667)
Equities	5,916,912	8,487,564	2,570,652
Mutual funds	6,121,558	7,531,294	1,409,736
	\$ 19,378,656	\$ 23,351,377	\$ 3,972,721

Notes to Financial Statements

Summary by Type of Investment	December 31, 2016		
	Cost	Fair Market Value	Unrealized Appreciation (Depreciation)
Cash	\$ 659,574	\$ 659,574	\$ - -
Fixed income securities	5,781,194	5,713,363	(67,831)
Equities	5,704,733	7,228,753	1,524,020
Mutual funds	6,174,538	6,606,976	432,438
Other assets	170,386	167,729	(2,657)
	\$ 18,490,425	\$ 20,376,395	\$ 1,885,970

Note 6. Property and Equipment

At December 31, 2017 and 2016, the property and equipment consisted of the following:

	2017	2016
Software	\$ 40,945	\$ 40,945
Furniture and fixtures	14,142	12,953
Less accumulated depreciation	(53,282)	(52,379)
	\$ 1,805	\$ 1,519

Note 7. Funds Held as Agency Endowments

The following table summarizes activity in agency endowment funds for the years ended December 31, 2017 and 2016.

	2017	2016
Agency endowment fund balance at the beginning of the year	\$ 1,610,966	\$ 1,515,542
Amounts raised	130,335	14,239
Investment income	37,390	38,103
Realized and unrealized gain (loss)	205,908	81,587
Expenses	(43,457)	(38,505)
Agency endowment fund balance at the end of the year	\$ 1,941,142	\$ 1,610,966

Notes to Financial Statements

Note 8. Administrative Income

The Foundation's policy is to assess each component fund a total annual fee up to two percent. The fee is calculated and assessed monthly based on current fair market value. Such amounts are transferred to an unrestricted discretionary fund to offset administrative costs.

Note 9. Contributed Services

Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Foundation received the following contributed services and expenses during the years ended December 31, 2017 and 2016, which are included in the statements of activities:

	<u>2017</u>	<u>2016</u>
Legal services	\$ 18,000	\$ 18,000
Print/design	271	290
	<u>\$ 18,271</u>	<u>\$ 18,290</u>

Note 10. Legacies Not Yet Recognizable

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts will be recognized in the financial statements when clear title is established and the proceeds are measurable.

Note 11. Split-Interest Agreements and Residual Trusts

The Foundation is the named beneficiary of various split-interest agreements and trusts. The Foundation's policy is to record the present values of their remainder interest when they learn of the agreement, the terms of the agreement are irrevocable, and the value can be readily determined. Amortization of the discount associated with the contribution and other changes in actuarial assumptions or life expectancies are recognized as a split-interest actuarial adjustment in the statement of activities. For the years ended December 31, 2017 and 2016, the split-interest actuarial adjustment amounted to \$91,395 and \$23,446, respectively.

Notes to Financial Statements

A split-interest agreement (or charitable remainder trust) provides for the payment of distributions to the grantor or other non-charitable beneficiary for a term of years or designated beneficiary's lifetime. At the end of the trust term, the remaining assets are paid to the Foundation. These agreements are administered by third-party trustees. The portion of the trust attributable to the present value of the remainder interest is recorded in the statement of activities as temporarily or permanently restricted net assets, depending on the trust terms. There were no new agreements established in 2017 or 2016. The remainder value of these agreements as of December 31, 2017 and 2016 was \$89,000 and \$83,282, respectively, and is recorded in the statements of financial position as "Beneficial interest in split-interest agreements."

The Foundation is also a 50% beneficiary of an irrevocable residual trust whereby the income beneficiary is not entitled to any distributions of principal. The Foundation's beneficial interest in this residual trust is \$863,350 and \$777,673 as of December 31, 2017 and 2016, respectively, and is revalued annually.

Note 12. Life Insurance Policy

In November 2011, the Foundation received a contribution of a life insurance policy for which it is the beneficiary. The life insurance policy is reported at its cash surrender value. The value as of December 31, 2017 and 2016 was \$34,334 and \$33,716, respectively.

Note 13. Fair Value Measurements

The following table presents the balance of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016:

December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 399,113	\$ --	\$ --	\$ 399,113
Fixed income securities	6,933,406	--	--	6,933,406
Equities	8,487,564	--	--	8,487,564
Mutual funds	7,531,294	--	--	7,531,294
Beneficial interest in				
split-interest agreements	--	--	89,000	89,000
Beneficial interest in residual trust	--	863,350	--	863,350
Life insurance policy,				
cash surrender value	--	34,334	--	34,334
	<u>\$ 23,351,377</u>	<u>\$ 897,684</u>	<u>\$ 89,000</u>	<u>\$24,338,061</u>

Notes to Financial Statements

December 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 659,574	\$ --	\$ --	\$ 659,574
Fixed income securities	5,713,363	--	--	5,713,363
Equities	7,228,753	--	--	7,228,753
Mutual funds	6,606,976	--	--	6,606,976
Other assets	--	167,729	--	167,729
Beneficial interest in split-interest agreements	--	--	83,282	83,282
Beneficial interest in residual trust	--	777,673	--	777,673
Life insurance policy, cash surrender value	--	33,716	--	33,716
	<u>\$ 20,208,666</u>	<u>\$ 979,118</u>	<u>\$ 83,282</u>	<u>\$ 21,271,066</u>

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 investment assets:

	<u>2017</u>	<u>2016</u>
Balance - beginning of year	\$ 83,282	\$ 63,717
Other changes in beneficial interests	5,718	19,565
	<u>\$ 89,000</u>	<u>\$ 83,282</u>

Note 14. Commitments and Subsequent Events

The Foundation has evaluated all subsequent events through April 16, 2018, the date the financial statements were available to be issued. The Foundation has determined there are no subsequent events that require recognition or disclosure.