

THE WOODLANDS FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS

**YEAR ENDED
DECEMBER 31, 2018**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Woodlands Foundation, Inc.
Wexford, Pennsylvania

We have audited the accompanying financial statements of The Woodlands Foundation, Inc. (a Pennsylvania nonprofit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Woodlands Foundation, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McClintock & Associates, P.C.

Pittsburgh, Pennsylvania
April 1, 2019

The Woodlands Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

	December 31, 2018
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 496,000
CASH EQUIVALENTS , with donor restrictions	150,572
MARKETABLE SECURITIES	2,701,203
ACCOUNTS RECEIVABLE	40,848
PLEDGES RECEIVABLE	112,853
PREPAID EXPENSES	18,553
PROPERTY, PLANT AND EQUIPMENT	
Buildings and land improvements	3,533,543
Furniture and equipment	340,877
	<u>3,874,420</u>
Less accumulated depreciation and amortization	<u>(1,799,391)</u>
	2,075,029
Construction in progress	53,111
	<u>2,128,140</u>
Land	689,374
	<u>2,817,514</u>
TOTAL ASSETS	<u>\$ 6,337,543</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	\$ 143,970
Notes payable, net of deferred loan fees	381,702
Line of credit	206,000
Deferred support	8,146
TOTAL LIABILITIES	<u>739,818</u>
NET ASSETS	
Without donor restrictions	
Undesignated	2,196,020
Designated by the board	246,579
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,442,599</u>
With donor restrictions	
Purpose restrictions	549,930
Perpetual in nature	2,605,196
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>3,155,126</u>
TOTAL NET ASSETS	<u>5,597,725</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,337,543</u>

See accompanying notes to financial statements.

The Woodlands Foundation, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 129,399	\$ 222,624	\$ 352,023
Grants	167,105	286,045	453,150
Special events	585,205	1,729	586,934
Facility user fees	748,101	0	748,101
Investment return	(5,119)	(86,943)	(92,062)
Donated materials, assets and services	95,198	0	95,198
Miscellaneous income	3,770	0	3,770
Net assets released from restriction	537,540	(537,540)	0
TOTAL SUPPORT AND REVENUE	2,261,199	(114,085)	2,147,114
EXPENSES			
Program services			
Client services	997,071	0	997,071
Facility operations	767,292	0	767,292
Total Program Services	1,764,363	0	1,764,363
Support services			
Management and general	201,517	0	201,517
Marketing and fund development	584,994	0	584,994
Total Support Services	786,511	0	786,511
TOTAL EXPENSES	2,550,874	0	2,550,874
DECREASE IN NET ASSETS	(289,675)	(114,085)	(403,760)
Net assets at beginning of year	2,732,274	3,269,211	6,001,485
NET ASSETS AT END OF YEAR	\$ 2,442,599	\$ 3,155,126	\$ 5,597,725

See accompanying notes to financial statements.

The Woodlands Foundation, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2018				
	Program Services		Support Services		Totals
	Client Services	Facility Operations	Management and General	Marketing and Fund Development	
Salaries	\$ 641,112	\$ 247,229	\$ 91,353	\$ 217,856	
Special events - fund raising	0	0	63	213,913	213,976
Depreciation	0	160,504	3,162	0	163,666
Contract services	95,748	54,967	1,661	440	152,816
Utilities	0	111,937	0	0	111,937
Employer payroll taxes	53,953	19,189	7,179	16,673	96,994
Audit and professional fees	5,323	3,076	24,455	59,939	92,793
Health and life insurance	25,241	15,198	13,123	22,468	76,030
Food and beverage	50,769	569	5,287	3,017	59,642
Insurance	0	41,282	4,670	0	45,952
Program supplies	39,002	0	28	365	39,395
Building maintenance and repair	0	30,096	0	0	30,096
Interest	0	0	26,212	0	26,212
Workers' compensation insurance	13,666	5,403	2,067	4,772	25,908
Equipment repair and lease	6,890	12,021	2,538	3,959	25,408
Maintenance and repair	149	23,075	0	0	23,224
Noncapitalized furniture computers and equipment	12,301	3,674	2,046	857	18,878
403b employer match	6,943	4,044	2,141	4,674	17,802
Telephone	8,672	1,755	4,126	2,891	17,444
Supplies	0	17,398	0	0	17,398
Marketing	5,221	0	0	9,706	14,927
Travel	8,206	508	5,254	447	14,415
Staff recruitment and development	9,009	905	2,360	55	12,329
Printing and publication	2,074	95	0	9,950	12,119
Miscellaneous	3,967	4,851	1,030	537	10,385
Real estate taxes	0	9,192	0	0	9,192
Dues and subscriptions	3,369	0	185	3,764	7,318
Bank and credit card fees	2,436	121	78	4,248	6,883
Office supplies	2,286	53	1,945	875	5,159
Postage	734	150	554	3,588	5,026
Grand Total	<u>\$ 997,071</u>	<u>\$ 767,292</u>	<u>\$ 201,517</u>	<u>\$ 584,994</u>	<u>\$ 2,550,874</u>

See accompanying notes to financial statements.

The Woodlands Foundation, Inc.

STATEMENT OF CASH FLOWS

	Year Ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (403,760)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Loss on disposal of property, plant and equipment	607
Depreciation	163,666
Unrealized and realized (gains) losses on marketable securities	147,115
Amortization of deferred loan fees	1,255
(Increase) decrease in:	
Accounts receivable	(3,654)
Pledges receivable	23,680
Prepaid expenses	2,373
Increase (decrease) in:	
Accounts payable and accrued expenses	29,148
Deferred support	(3,703)
Total net operating adjustments	<u>360,487</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(43,273)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	(77,316)
Acquisition of marketable securities	(548,836)
Proceeds from sale of marketable securities	<u>579,982</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(46,170)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	321,000
Payments on line of credit	(115,000)
Principal payments on notes payable	<u>(43,209)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>162,791</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	73,348
Cash and cash equivalents at beginning of the year	<u>573,224</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 646,572</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	<u>\$ 26,212</u>

See accompanying notes to financial statements.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF THE ORGANIZATION

The Woodlands Foundation, Inc. (Organization or WFI) is incorporated under the laws of the Commonwealth of Pennsylvania as a voluntary nonprofit corporation. The purpose of the Organization is to develop and maintain The Woodlands, a multi-use program facility for persons with disabilities, located in Southwestern Pennsylvania. The Organization promotes and fosters personal and physical development and strengthens community awareness of The Woodlands. WFI funds these activities through contributions, grants, endowment investment income, and through fees charged to the groups who use The Woodlands' facilities.

Management has evaluated subsequent events through April 1, 2019, the date the financial statements were available to be issued and has no material subsequent events to report.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, regardless of dates of cash receipts or cash disbursements.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of the two net asset categories follows:

1. Net assets without donor restrictions include gifts which are currently available at the discretion of the Board of Directors for use in the Organization's general operations.
2. Net assets with donor restrictions include gifts for which the donor-imposed restrictions are temporary in nature that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity but permit a portion of the net assets to be utilized for operating costs each year (Note L). Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the bank and all short-term investments with an original maturity of 90 days or less.

Marketable Securities

Marketable securities as of December 31, 2018, consisted of equity and fixed income securities and are recorded at fair value. These common stocks and mutual funds are sold on national securities exchanges and are valued at year-end closing prices. All other marketable securities are valued at the closing price reported on the active market. Realized gains or losses are recognized using specific identification and the FIFO methods. Investment income is recognized when earned.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist primarily of amounts due to the Organization for services rendered. Accounts receivable are recorded at the amounts originally billed, less payments received and are non-interest bearing. The collectability of accounts receivable is evaluated throughout the year based on a combination of factors and balances are written off once management determines collectability is not possible. Therefore, management believes that no allowance for doubtful accounts is needed at December 31, 2018.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and at the estimated fair value, if donated. Expenditures for renewals and betterments that extend the useful life of the asset are capitalized. Repairs and maintenance items are charged to expense as incurred. Gain or loss on the retirement or disposal of assets is included in operations in the year of disposal. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets.

In accordance with Accounting Standards Codification (ASC) Topic 360, *Property, Plant and Equipment*, long-lived assets held and used are evaluated for possible impairment whenever events or changes in circumstances indicate that impairment may have occurred. If such events or changes in circumstances are present, and the asset's carrying value exceeds the estimated undiscounted future cash flows expected to be generated by that asset, an impairment loss is recognized to the extent the asset's carrying value exceeds fair value. To date, no such changes in events or changes in circumstances have occurred based on management's review, and no impairment loss has occurred during the year ended December 31, 2018.

Deferred Loan Fees

Costs relating to obtaining debt are capitalized and amortized over the term of the related debt using the straight-line method. Amortization of deferred loan fees charged to operations was \$1,255 for the year-ended December 31, 2018. In accordance with ASC 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, these costs are presented (net of accumulated amortization) as a reduction in the carrying value of the related debt liability on the accompanying balance sheet (see Note J).

Contributions Receivable and Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions either as restricted for purpose or perpetual in nature depending on the nature of the restrictions. When a restriction expires, purpose restricted net assets are reclassified to net assets without donor restrictions.

Revenue from special events and use of the facilities is recognized when earned.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Materials and Assets

Donations of furniture and equipment and other noncash donations are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for 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 support. Absent donor stipulations regarding how long those donated assets must be maintained, WFI reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor and depreciation begins. During 2018, the value of donated materials and assets was \$94,208. The majority of donated materials and assets were recorded in special events – fund raising expenses on the statement of functional expenses.

Charitable Lead Annuity Trust

Under a charitable lead annuity trust agreement, the donor establishes and funds a trust naming a nonprofit organization as lead beneficiary. Under this type of charitable lead trust, the nonprofit organization receives a specific dollar amount from the trust. The nonprofit organization's interest in the agreement is recorded as contribution revenue and the beneficial interest in the trust is measured as the present value of the estimated future distributions the organization expects to receive over the term of the agreement. In each subsequent year, the recognized revenue is recorded at its net present value with the difference between the cash receipt and that year's discounted receivable balance being recorded as contribution revenue.

Donated Services

The Organization recognizes donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. These donated services are recorded at their fair value. During 2018, the value of donated services was \$990. These services were recorded in marketing expenses on the statement of functional expenses.

Tax Status

The Internal Revenue Service has determined that the Organization is tax exempt under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. The Organization must continue to meet certain tests to maintain its status as a publicly supported organization. The Organization believes it fulfills these tests.

Income Taxes

The Financial Accounting Standards Board (FASB) has issued guidance on accounting for uncertainty in income taxes. Management evaluated the Organization's tax positions and concluded that the Organization had no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Organization is generally no longer subject to examination from taxing authorities for years before 2015. The Organization is currently not under any examination.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. Such expenses include, salary and related payroll expenses, depreciation, contract services, professional fees, insurance, and food and beverage. Salary and related payroll expenses are allocated based on historical analyses of where efforts are expended. Depreciation for buildings and other assets allocable to specific programs or buildings are allocated to those buildings or programs. Contract services, professional fees, and food and beverage are allocated based on the service in which the benefit is received. Certain liability insurance expenses are allocated to buildings or programs based upon historical analyses of usage by programs or benefits received by buildings.

Advertising Costs

The Organization incurred \$14,927 in advertising costs for the year ended December 31, 2018. Advertising costs are expensed as incurred.

Financial Instruments

The fair values and carrying amounts of the Organization's financial instruments, primarily current assets and liabilities, are approximately equivalent.

Use of Estimates in the Preparation of Financial Statements

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

New Accounting Pronouncement

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which consists of six main provisions that amend the financial statements and notes for not-for-profit organizations. The ASU makes changes to the number of net asset classes presented, enhanced disclosures regarding liquidity and self-imposed limits of net assets, increased disclosures related to expense classification disclosure, program and support functions, and underwater endowments. The Organization has adjusted the presentation of these statements accordingly.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition* and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, deferring the effective date of this amendment by one year. This ASU will be effective for the Organization's year ended December 31, 2019. The Organization is currently in the process of assessing the impact of the adoption of this standard on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU supersedes existing guidance on accounting for leases in ASC Topic 840, *Leases*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This ASU will be effective for the Organization's year ended December 31, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach. The Organization is currently in the process of assessing the impact of the adoption of this standard on its financial statements.

In June 2018, The FASB issued ASU No. 2018-08, *Not-for-Profit Entities (ASC Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides guidance clarifying the accounting for makers and recipients of contributions or grants. The standard requires an organization to determine whether a transaction is considered to be an exchange (reciprocal transaction) or nonexchange (nonreciprocal transaction). For nonexchange transactions, the contribution guidance in ASC 958 is typically applied, whereas for exchange transactions, an organization should apply ASC 606 or other appropriate guidance. This ASU will be effective for the Organization's year ended December 31, 2019. The Organization is currently in the process of assessing the impact on the adoption of this standard on its financial statements.

NOTE C - CONCENTRATION OF CREDIT RISK

The Organization maintains accounts with a brokerage firm. Balances are insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC) in addition to private insurance offered by the brokerage firm. At December 31, 2018, the Organization's SIPC uninsured balances were \$2,351,775.

The Organization, at times, may have cash deposits that exceed \$250,000 in an individual bank. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 of funds at member banks.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE D - LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Each month a financial package is prepared for the Finance Committee that compares support and revenue and expenses for the current period to year-to-date and prior year-to-date information along with comparisons to the annual budget. This review allows the Organization to determine immediate needs for cash on a monthly basis. Various sources of liquidity available include cash and cash equivalents, accounts receivable, current pledge receivables, board designated funds (quasi-endowment), and a line of credit. The Board has designated a portion of its unrestricted resources for endowment and other purposes. These amounts are identified as designated by the Board in the table below. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

As of December 31, 2018, the following table represents the financial assets held by the Organization readily available within one year of the statement of financial position to meet general expenditures:

Financial assets available at December 31, 2018

Cash and cash equivalents	\$	496,000
Accounts receivable		40,848
Assets limited to use:		
Designated by the Board		246,579
Pledges receivable, current		28,512
		<hr/>
Total	\$	<u>811,939</u>

As of December 31, 2018, WFI has a working capital surplus of approximately \$407,000 and average days (based on normal expenditures) cash on hand of 76 days.

WFI maintains a \$300,000 line of credit, as further discussed in Note I. As of December 31, 2018, \$94,000 remained available on the line of credit.

The Organization considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi-endowments), contributions without donor restrictions and contributions with donor restrictions for use in current programs that are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses, and grant commitments expected to be paid within the next year.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE E - MARKETABLE SECURITIES

Marketable securities at December 31, 2018, consist of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Common stock	\$ 136,075	\$ 1,433,042	\$ 1,569,117
Mutual Funds	63,049	663,986	727,035
Fixed income and government securities	32,232	339,444	371,676
Alternatives	<u>2,894</u>	<u>30,481</u>	<u>33,375</u>
	<u>\$ 234,250</u>	<u>\$ 2,466,953</u>	<u>\$ 2,701,203</u>

Investment return is reported net of broker fees and other third-party costs associated with the management of the investments. These expenses totaled \$24,083 in 2018.

The composition of the investment return, which includes money market accounts, as reported in the statement of activities for the year ended December 31, 2018, was:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 11,574	\$ 91,116	\$ 102,690
Investment income, net of fees	4,558	48,614	53,172
Net unrealized depreciation	<u>(21,251)</u>	<u>(226,673)</u>	<u>(247,924)</u>
	<u>\$ (5,119)</u>	<u>\$ (86,943)</u>	<u>\$ (92,062)</u>

The Organization utilizes various instruments that, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future financial statements.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE F - FAIR VALUE MEASUREMENTS

ASC Section 820 - *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Topic 820 defines fair value as 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. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Equity, alternative and fixed income securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

Charitable lead annuity trust: Valued at the net present value (NPV) of future payments to be received.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE F - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, WFI's assets at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Large Cap Growth	\$ 457,362	\$ 0	\$ 0	\$ 457,362
US Large Cap Value	296,356	0	0	296,356
US Mid Cap Growth	135,284	0	0	135,284
US Mid Cap Value	31,958	0	0	31,958
US Small Cap Growth	78,391	0	0	78,391
US Small Cap Value	14,576	0	0	14,576
US Equities Other	20,301	0	0	20,301
International equities	534,861	0	0	534,861
Alternatives	33,403	0	0	33,403
US Fixed Income taxable	747,121	0	0	747,121
Short Term Fixed Income	197,223	0	0	197,223
International Fixed Income	154,367	0	0	154,367
Charitable lead annuity trust	<u>0</u>	<u>0</u>	<u>62,341</u>	<u>62,341</u>
	<u>\$ 2,701,203</u>	<u>\$ 0</u>	<u>\$ 62,341</u>	<u>\$ 2,763,544</u>

The following is a reconciliation of the beginning and ending balance of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	<u>Charitable lead annuity trust</u>
Beginning balance	\$ 71,890
Settlement on the account	<u>(9,549)</u>
Ending balance	<u>\$ 62,341</u>

The following table presents estimated fair values of the Organization's financial instruments in accordance with Topic 820 at December 31, 2018:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investments	\$ 2,701,203	\$ 2,701,203
Charitable lead annuity trust	\$ 62,341	\$ 62,341

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE G - PLEDGES RECEIVABLE

Pledges receivable are recorded at the amount pledged in writing by the donor. The Organization does not record pledges receivable if any unfulfilled conditions coincident to their receipt exist at year-end. Management believes that no allowance is needed at December 31, 2018. Pledges receivable are due to be received through 2027, in the following time frames:

Less than one year	\$	28,512
One to five years		22,000
Charitable lead annuity trust receivables (Note H)		<u>62,341</u>
	\$	<u>112,853</u>

NOTE H - CHARITABLE LEAD ANNUITY TRUST

On December 12, 2007, an irrevocable charitable lead annuity trust was established naming WFI as a charitable income beneficiary. The annuity will be paid from the trust income, and to the extent trust income is insufficient, from trust principal until it is exhausted. Under the terms of the trust, \$400,000 is expected to accumulate from the initial investment that is expected to grow at a discounted rate of six and one-half percent (6.5%) over 20 years. The annuity term will terminate 20 years after the December 12, 2007, commencement date. Each year, the \$20,000 annuity payment will be distributed on or about December 12 and in no event later than December 31 of each calendar year. At December 31, 2018, the present value of the charitable lead annuity trust receivable was \$62,341; this amount is included in "Pledges Receivable" (Note G) in the accompanying statement of financial position.

NOTE I - LINE OF CREDIT

During 2018, WFI increased its line of credit to \$300,000. The line of credit bears interest at 2.00% above the LIBOR advantage rate (2.4582% at December 31, 2018) on the unpaid balance. This line is secured by an open-ended mortgage along with all the deposits with the bank. As of December 31, 2018, the outstanding liability was \$206,000.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE J - NOTE PAYABLE

Note payable as of December 31, 2018, consists of the following:

Note payable to a bank with monthly payments of \$5,139, including interest at 4.39%. This note matures on June 10, 2026 and is secured by a mortgage on real property. The balance outstanding as of December 31, 2018, was \$393,091.

The aggregate annual amount of principal payments required on the notes payable for years subsequent to December 31, 2018, and in the aggregate, are as follows:

<u>Years Ending December 31,</u>	<u>Principal Payments</u>	<u>Deferred Loan Fees</u>	<u>Net Amount</u>
2019	\$ 45,106	\$ (1,460)	\$ 43,646
2020	47,112	(1,460)	45,652
2021	49,295	(1,460)	47,835
2022	51,535	(1,460)	50,075
2023	53,876	(1,460)	52,416
Thereafter	<u>146,167</u>	<u>(4,089)</u>	<u>142,078</u>
	<u>\$ 393,091</u>	<u>\$ (11,389)</u>	<u>\$ 381,702</u>

NOTE K - LEASE COMMITMENTS

The Organization leases office equipment under the terms of a lease agreement which expires in 2021. Total rent expense amounted to \$12,330 for the year ended December 31, 2018.

Future minimum lease payments for the five years subsequent to December 31, 2018, are as follows:

<u>Years Ending December 31,</u>	
2019	\$ 11,700
2020	11,700
2021	<u>11,700</u>
	<u>\$ 35,100</u>

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE L - ENDOWMENT FUND

Net assets with donor restrictions – perpetual in nature at December 31, 2018, consist of an endowment fund established in 1999 to provide annual income for general operating costs. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Organization indefinitely and earned income from the fund is to provide annual income for general operating costs. The Organization has adopted investment and spending policies based on the requirements of PA Act 141. As a result of the Organization’s interpretation of PA Act 141, and in accordance with donor restrictions, contributions to the endowment fund are classified as net assets with donor restrictions – perpetual in nature. The historic dollar value of those contributions may not be spent.

The donor-restricted – perpetual in nature endowment fund is invested in marketable securities pursuant to the Organization’s investment and spending objectives of subjecting the fund to low investment risk and providing the nonprofit with current income. The Organization will expand the endowment fund’s investment income for the donor-designated purpose when the need arises.

The purpose of the endowment fund is to provide annual income to apply towards general operating costs including, but not limited to the following: building and grounds maintenance and repair, insurance, janitorial service, utilities, and staff salaries to perform related functions to insure the continued mission of the Organization. The objective is to create an endowment fund sufficient in size to provide annual income to cover a significant portion of all abovementioned annual expenses. The expected growth of the endowment fund (total return minus fees) is 6.5% - 7.5% over the time horizon of 15 years, on an average, annualized basis.

Per the investment and distribution policy, investments of the endowment fund shall maintain a diversified portfolio mix of publicly traded equities and mutual funds, publicly traded fixed income instruments, and cash equivalent investments. Investment manager(s) should adhere to the investment discipline and make reasonable efforts to control risk and preserve capital.

The investment and distribution policy intends to follow a “total return” policy for management of its long-term endowment assets. This approach defines net investment return as the total change in the overall value of funds, including interest, dividends, and unrealized capital gains, less fees. The investment and distribution policy applies a spending policy for income from donor - restricted endowment funds based on the preceding three years’ trailing average fair value at the beginning of the year. In accordance with the donor’s restrictions and PA ACT 141, the Organization cannot spend more than 5% -7% of the three-years’ calculated average fair value.

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE L - ENDOWMENT FUND (CONTINUED)

The composition of endowment net assets as of December 31, 2018, is as follows:

	Endowment Net Asset Composition by Type of Fund as of December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds without donor restrictions	\$ 246,579	\$ 0	\$ 246,579
Endowment funds with donor restrictions	0	2,605,196	2,605,196
	<u>\$ 246,579</u>	<u>\$ 2,605,196</u>	<u>\$ 2,851,775</u>

The composition of the changes in endowment net assets as of December 31, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	\$ 232,142	\$ 2,864,727	\$ 3,096,869
Investment income, net of fees	4,558	48,614	53,172
Net unrealized depreciation	(21,251)	(226,673)	(247,924)
Interest and dividends	8,542	91,116	99,658
Reclassification	22,588	(22,588)	0
Program expenditures	0	(150,000)	(150,000)
Endowment net assets, December 31, 2018	<u>\$ 246,579</u>	<u>\$ 2,605,196</u>	<u>\$ 2,851,775</u>

The Woodlands Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE M - RETIREMENT SAVINGS PLAN

The Organization sponsors a 403(b) retirement plan for all eligible employees as defined by the Plan. The participants may contribute up to 100% of their salary not to exceed certain Internal Revenue Code limits. The Organization is required to match 50% of the employee's contribution up to 5% of their salary. For the year ended December 31, 2018, the required Organization contribution charged to operations was \$17,802.

NOTE N - NET ASSETS WITH RESTRICTIONS

As of December 31, 2018, net assets with restrictions consists of the following:

Purpose restricted:		
Program services	\$	448,666
Facilities and capital improvements		<u>101,264</u>
		549,930
Perpetual in nature:		<u>2,605,196</u>
	\$	<u>3,155,126</u>

NOTE O - CONTINGENT PLEDGE AND GRANTS

Charitable Remainder Trust Conditional Pledge

The Organization has been named a beneficiary of a partially revocable direction of charitable remainder trust, in the amount of \$100,000. This amount has not been recorded in the Organization's statement of financial position and statement of activities because the pledge may be revoked or amended at any time by the donor during his lifetime. If received, this donation will be recorded as net assets with donor restrictions.

DCED Conditional Grant

During 2016, a conditional grant of \$217,450 was awarded from the PA Department of Community and Economic Development to be used towards the engineering costs and the construction of an access road to the new property. Since WFI has not yet obtained all other required sources of funds for the project, including matching funds, this grant has not yet been recognized as income as of December 31, 2018. However, management foresees the grant being utilized during 2019. This grant terminates on June 30, 2019.