

Wichita Community Foundation

Independent Auditor's Report
and Consolidated Financial Statements

June 30, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors
Wichita Community Foundation
Wichita, Kansas

We have audited the consolidated statements of financial position of Wichita Community Foundation (a not-for-profit organization) as of June 30, 2015 and 2014, and the related consolidated 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 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wichita Community Foundation as of June 30, 2015 and 2014, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Regis Cam & Monroe, L.L.P.

April 20, 2016
Wichita, Kansas

Wichita Community Foundation
Consolidated Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 141,614	\$ 135,048
Investments	68,791,068	68,792,082
Investment held in trust	-	32,752
Property and equipment, at cost, less accumulated depreciation and amortization of \$151,445 in 2015 and \$138,295 in 2014	36,152	28,785
Total assets	\$ 68,968,834	\$ 68,988,667
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued liabilities	\$ 16,344	\$ 5,088
Other liabilities	20,000	68,120
Funds held for others	12,683,164	12,113,747
Total liabilities	12,719,508	12,186,955
Net Assets		
Unrestricted	55,249,326	55,801,712
Permanently restricted	1,000,000	1,000,000
Total net assets	56,249,326	56,801,712
Total liabilities and net assets	\$ 68,968,834	\$ 68,988,667

The accompanying notes are an integral part of the consolidated financial statements.

**Wichita Community Foundation
Consolidated Statement of Activities
For the Year Ended June 30, 2015**

	Unrestricted	Permanently Restricted	Total
Revenue, gains and other support			
Contributions	\$ 5,342,180	\$ -	\$ 5,342,180
Net investment loss	(1,379,957)	-	(1,379,957)
Other income	170,006	-	170,006
	<u>4,132,229</u>	<u>-</u>	<u>4,132,229</u>
Expenses			
Program grants	3,989,843	-	3,989,843
General and administrative	339,947	-	339,947
Fundraising	354,825	-	354,825
	<u>4,684,615</u>	<u>-</u>	<u>4,684,615</u>
Decrease in net assets	(552,386)	-	(552,386)
Net assets at beginning of year	<u>55,801,712</u>	<u>1,000,000</u>	<u>56,801,712</u>
Net assets at end of year	<u>\$ 55,249,326</u>	<u>\$ 1,000,000</u>	<u>\$ 56,249,326</u>

The accompanying notes are an integral part of the consolidated financial statements.

**Wichita Community Foundation
Consolidated Statement of Activities
For the Year Ended June 30, 2014**

	Unrestricted	Permanently Restricted	Total
Revenue, gains and other support			
Contributions	\$ 6,395,250	\$ -	\$ 6,395,250
Net investment income	7,147,528	-	7,147,528
Other income	51,329	-	51,329
Total revenue, gains and other support	<u>13,594,107</u>	<u>-</u>	<u>13,594,107</u>
Expenses			
Program grants	3,222,231	-	3,222,231
General and administrative	361,243	-	361,243
Fundraising	131,185	-	131,185
Total expenses	<u>3,714,659</u>	<u>-</u>	<u>3,714,659</u>
Increase in net assets	9,879,448	-	9,879,448
Net assets at beginning of year	<u>45,922,264</u>	<u>1,000,000</u>	<u>46,922,264</u>
Net assets at end of year	<u>\$ 55,801,712</u>	<u>\$ 1,000,000</u>	<u>\$ 56,801,712</u>

The accompanying notes are an integral part of the consolidated financial statements.

Wichita Community Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (552,386)	\$ 9,879,448
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation	13,151	13,208
Net realized and unrealized (gains) losses on investments	2,889,818	(5,367,680)
Unrealized (gains) losses in investments held in trust	-	6,072
Change in assets and liabilities:		
Accrued liabilities	11,256	(16,517)
Grants payable	-	(69,700)
Other liabilities	(48,120)	68,120
	<u>2,313,719</u>	<u>4,512,951</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchase of equipment	(20,518)	(6,812)
Purchase of investments	(22,011,626)	(15,094,945)
Proceeds from sale of investments held in trust	32,752	
Proceeds from sale of investments	19,122,822	8,859,059
	<u>(2,876,570)</u>	<u>(6,242,698)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Increase (decrease) in funds held for others, including realized and unrealized gains (losses)	569,417	1,696,728
Net cash provided by (used in) financing activities	<u>569,417</u>	<u>1,696,728</u>
Net increase (decrease) in cash and cash equivalents	6,566	(33,019)
Cash and cash equivalents at beginning of year	<u>135,048</u>	<u>168,067</u>
Cash and cash equivalents at end of year	<u>\$ 141,614</u>	<u>\$ 135,048</u>
Supplemental disclosure of non-cash investing and financing activities:		
Net realized and unrealized gains (losses) on funds held for others	\$ (679,407)	\$ 1,268,674

The accompanying notes are an integral part of the consolidated financial statements.

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

1. Summary of Significant Accounting Policies

Nature of Operations

Wichita Community Foundation (WCF) was incorporated in October 1986 to channel contributions received from private and corporate donors to a variety of charitable and nonprofit organizations in the greater Wichita, Kansas area. WCF Support Foundation (WCFS) was incorporated in December 2003 as a wholly owned subsidiary of WCF (collectively, the Foundation). The Foundation is directed by a Board of Directors.

Presentation

The Foundation's financial statements are prepared in accordance with the provisions of Accounting Standards Codification 958 (ASC 958), "Not-for-Profit Entities." This standard provides that if a governing body of an organization has the ability to remove a donor designation, the contributions should be classified as unrestricted net assets. However, under the Foundation's governing instruments, these net assets are subject to the Foundation's spending policy as approved by the Board of Directors, which allows distributions as the governing body deems it prudent and appropriate. Accordingly, the financial statements classify these net assets as unrestricted. However, receipts of unconditional promises to give with payments due in future periods are reported as temporarily restricted net assets. As the future payments are distributed, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Receipts of funds in which the governing document explicitly states a principal amount that may not be expended as designated by the donor have been classified as permanently restricted.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of WCF and WCFS. All significant intercompany balances and transactions have been eliminated in the consolidation.

Investments

Investments are carried at fair value and realized and unrealized gains and losses are reflected in the statement of activities. Contributed investments and property gifts, including real estate, are recorded at fair value at date of gift.

Investment in trust

The Foundation is the beneficiary of a trust holding cash equivalents, equity securities and mutual funds. The assets are carried at estimated fair value.

Property and equipment

Acquisitions of property and equipment are capitalized at cost when purchased or at fair value at date of gift, when donated. Depreciation is provided by the straight-line method over the estimated useful lives of the assets, generally five or seven years.

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

1. Summary of Significant Accounting Policies (Continued)

Use of estimates

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

Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the fair value of investments. Management relies on external market quotes in estimating the fair value of investments.

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held by investment managers are considered investments.

Receivables

Contributions receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Foundation provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of debtors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Income Taxes

WCF and WCFS are organized as Kansas nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). The entities are qualified to receive deductible charitable contributions under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3). Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Each entity has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Each entity believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The entities would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

2. Investments

Investments at June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Cash and Money Market Funds	\$ 3,872,791	\$ 1,859,348
Equity Funds:		
Domestic	12,929,548	13,980,602
International	18,257,146	20,270,741
Fixed Income Funds:		
Domestic	12,247,457	12,917,470
International	831,438	1,800,046
Non-investment grade	782,433	722,025
Natural Resource Funds	4,191,763	4,088,095
Real Estate Fund	1,908,554	2,145,622
Funds of Hedge Funds	12,928,264	10,187,958
Cash Surrender Value of Life Insurance	756,034	719,166
Other Investments	<u>85,640</u>	<u>101,009</u>
Total	<u>\$ 68,791,068</u>	<u>\$ 68,792,082</u>

The objective of hedge fund investments is to diversify the systematic risk in the investment portfolio. The risk management capabilities of hedge funds are expected to result in lower volatility of returns and reduced severity of losses for the portfolio as a whole. Such investments are generally illiquid and estimates of fair value are based on information from the funds' managers and are subject to change in the near term.

Investments held in trust at June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ -	\$ 330
Equity Funds	-	11,115
Fixed Income Funds	<u>-</u>	<u>21,306</u>
Total	<u>\$ -</u>	<u>\$ 32,752</u>

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

2. Investments (Continued)

Net investment income (loss) on the investments, including investments held in trust for the year ended June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 1,655,077	\$ 1,904,950
Net realized gains (losses)	1,334,511	1,067,215
Net unrealized gains (losses)	(4,224,330)	4,300,466
Other investment income (loss)	<u>36,610</u>	<u>39,574</u>
	(1,198,132)	7,312,205
Less management fees and assignable expenses	<u>(181,825)</u>	<u>(164,677)</u>
Net investment income (loss)	<u>\$ (1,379,957)</u>	<u>\$ 7,147,528</u>

3. Fair Value Measurements

Accounting Standards Codification 820 (ASC 820), Fair Value Measurement and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

Level 1 Fair Value Measurements

Quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Fair Value Measurements

Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset.

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

3. Fair Value Measurements (Continued)

Level 3 Fair Value Measurements

Unobservable inputs for the asset. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data.

Fair values of assets measured on a recurring basis are as follows:

June 30, 2015	Fair Value	Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and Money Market Funds	\$ 3,872,791	\$ 3,872,791	\$ -
Equity Funds:			
Domestic	12,929,548	12,929,548	
International	18,257,146	18,257,146	
Fixed Income Funds:			
Domestic	12,247,457	12,247,457	
International	831,438	831,438	
Non-investment grade	782,433	782,433	
Natural Resource Funds	4,191,763	4,191,763	
Real Estate Fund	1,908,554	1,908,554	
Funds of Hedge Funds	12,928,264	446,384	12,481,880
Cash Surrender Value of Life Insurance	756,034		756,034
Other Investments	85,640	85,640	
Total	\$ 68,791,068	\$ 55,553,154	\$ 13,237,914

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

3. Fair Value Measurements (Continued)

June 30, 2014	Fair Value	Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and Money Market Funds	\$ 1,859,348	\$ 1,859,348	\$ -
Equity Funds:			
Domestic	13,980,602	13,980,602	
International	20,270,741	20,270,741	
Fixed Income Funds:			
Domestic	12,917,470	12,917,470	
International	1,800,046	1,800,046	
Non-investment grade	722,025	722,025	
Natural Resource Funds	4,088,095	4,088,095	
Real Estate Fund	2,145,622	2,145,622	
Funds of Hedge Funds	10,187,958	555,702	9,632,256
Cash Surrender Value of Life Insurance	719,166		719,166
Other Investments	101,009	101,009	
	68,792,082	58,440,660	10,351,422
Investments held in trust	32,752		32,752
Total	\$ 68,824,834	\$ 58,440,660	\$ 10,384,174

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 investments shown above for the years ended June 30, 2015 and 2014:

	2015	2014
Beginning Balance (Level 3)	\$ 10,384,174	\$ 9,799,055
Net realized gains/(losses)	(55,687)	-
Unrealized gains/(losses) on level three investments held at year end	602,179	828,884
Purchases	2,340,000	2,375,000
Settlements	(32,752)	(2,618,765)
Ending Balance (Level 3)	\$ 13,237,914	\$ 10,384,174

The funds of hedge funds invest in equities and bonds to profit from global economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the hedge investment have been estimated using the net asset value per share as provided by the fund manager of the hedge fund. Valuation of the hedge funds is reviewed periodically through consideration of market factors that include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current

3. Fair Value Measurements (Continued)

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Certain hedge fund investments cannot be sold currently because the investment includes restrictions that do not allow for redemptions for specified periods after acquisition. Unrealized gains associated with the hedge funds, which are classified as a Level 3 financial instrument, totaled \$602,179 and \$828,884 for the years ended June 30, 2015 and 2014, respectively.

4. Property and Equipment

Property and equipment at June 30 consists of the following:

	<u>2015</u>	<u>2014</u>
Office furnishings	\$ 116,234	\$ 112,216
Other	<u>71,363</u>	<u>54,863</u>
	187,597	167,079
Less accumulated depreciation and amortization	<u>151,445</u>	<u>138,294</u>
	<u>\$ 36,152</u>	<u>\$ 28,785</u>

5. Funds Held for Others

The Foundation acts as fiduciary agent for various not-for-profit organizations. The Foundation's responsibilities as fiduciary agent include, but are not limited to, safeguarding of assets, recordkeeping of transactions, investment management, and ensuring appropriate grant making and distributions. The Foundation's policy is to record deposits to these funds as assets and record an equal liability. Investment income on these funds, net of an administrative fee retained by the Foundation, is either paid to the organizations or reinvested and added to the liability account. Balances and activities related to these funds are summarized as follows:

	<u>2015</u>	<u>2014</u>
Liability, July 1,	\$ 12,113,747	\$ 10,417,019
Deposits	1,402,371	597,822
Investment Income	376,721	459,467
Realized and unrealized		
gains (losses) on investments	(679,407)	1,268,674
Distributions	(476,182)	(577,905)
Administrative Fees	<u>(54,086)</u>	<u>(51,330)</u>
Liability, June 30,	<u>\$ 12,683,164</u>	<u>\$ 12,113,747</u>

6. Endowment

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

The Foundation's endowment consists of one donor-restricted fund established to support a local museum. As required by ASC 958, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Foundation has interpreted the Kansas Uniform Prudent Management of Institutional Funds Act (UPMIFA), subject to expressed intent of the donor, as allowing appropriation for expenditure or accumulation so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original expressed value of gifts donated to the permanent endowment, (b) the expressed original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted net assets in accordance with the direction of the donor. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the institution and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the institution; and
- (7) The investment policy of the institution.

Endowment net asset composition by type of fund as of June 30:

	2015	
	Unrestricted	Permanently Restricted
Donor restricted endowment funds	\$ 2,696,923	\$ 1,000,000
	2014	
	Unrestricted	Permanently Restricted
Donor restricted endowment funds	\$ 2,942,594	\$ 1,000,000

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

6. Endowment (Continued)

Changes in endowment net assets for the fiscal years ended June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ 2,417,803	\$ 1,000,000	\$ 3,417,803
Contributions	-		-
Investment income	161,903		161,903
Net appreciation (depreciation), realized and unrealized	416,031		416,031
Grants expense	(42,850)		(42,850)
Administrative fees	<u>(10,293)</u>		<u>(10,293)</u>
Endowment net assets, June 30, 2014	2,942,594	1,000,000	3,942,594
Contributions	11,143		11,143
Investment income	82,054		82,054
Net appreciation (depreciation), realized and unrealized	(216,567)		(216,567)
Grants expense	(112,150)		(112,150)
Administrative fees	<u>(10,151)</u>		<u>(10,151)</u>
Endowment net assets, June 30, 2015	<u>\$ 2,696,923</u>	<u>\$ 1,000,000</u>	<u>\$ 3,696,923</u>

Spending policy:

For fiscal year ending June 30, 2015, the annual grant distributions from endowment funds to qualified individuals and agencies will generally be based on four (4) percent of a three (3) year moving average of endowment fund market values, determined one year before the fiscal year in which funds are to be distributed. No change in policy for fiscal year ending June 30, 2016 is anticipated.

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

7. Operating Leases

The Foundation leases office space under an eight-year operating lease that expires September 30, 2017. Future minimum payments remaining under the lease are as follows:

Year ending June 30,	
2016	41,060
2017	43,016
2018	10,754
	<u>\$ 94,830</u>

8. Retirement Plan

The Foundation currently sponsors a simplified employee pension (SEP) plan covering all eligible employees. The plan provisions provide for Foundation contributions equal to 5% of the covered employee's salary. Eligible employees may also make elective deferrals to a 403(b) annuity plan. The Foundation's contributions to the SEP plan amounted to \$18,812 and \$17,541 for the years ended June 30, 2015 and 2014.

9. Subsequent Events

Subsequent events were evaluated by management through April 20, 2016, which is the date the financial statements were available to be issued.