

Wichita Community Foundation

Independent Auditor's Report
and Consolidated Financial Statements

June 30, 2014 and 2013



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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, 2014 and 2013, and the related consolidated statements of activity 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, 2014 and 2013, 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.

February 25, 2015
Wichita, Kansas

Wichita Community Foundation
Consolidated Statements of Financial Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 135,048	\$ 168,067
Investments	68,792,082	57,188,516
Investment held in trust	32,752	38,824
Property and equipment, at cost, less accumulated depreciation and amortization of \$138,294 in 2014 and \$125,086 in 2013	28,785	35,181
Total assets	\$ 68,988,667	\$ 57,430,588
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued liabilities	\$ 5,088	\$ 21,605
Grants payable	-	69,700
Other liabilities	68,120	-
Funds held for others	12,113,747	10,417,019
Total liabilities	12,186,955	10,508,324
Net Assets		
Unrestricted	55,801,712	45,922,264
Permanently restricted	1,000,000	1,000,000
Total net assets	56,801,712	46,922,264
Total liabilities and net assets	\$ 68,988,667	\$ 57,430,588

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**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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
	<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
	<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 Statement of Activities
For the Year Ended June 30, 2013**

	Unrestricted	Permanently Restricted	Total
Revenue, gains and other support			
Contributions	\$ 7,063,887	\$ -	\$ 7,063,887
Net investment loss	4,929,295	-	4,929,295
Other income	47,881	-	47,881
Total revenue, gains and other support	<u>12,041,063</u>	<u>-</u>	<u>12,041,063</u>
Expenses			
Program grants	5,873,204	-	5,873,204
General and administrative	360,987	-	360,987
Fundraising	142,515	-	142,515
Total expenses	<u>6,376,706</u>	<u>-</u>	<u>6,376,706</u>
Increase in net assets	5,664,357	-	5,664,357
Net assets at beginning of year	<u>40,257,907</u>	<u>1,000,000</u>	<u>41,257,907</u>
Net assets at end of year	<u><u>\$ 45,922,264</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 46,922,264</u></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, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Increase in net assets	\$ 9,879,448	\$ 5,664,357
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation	13,208	12,517
Net realized and unrealized (gains) losses on investments	(5,367,680)	(3,494,679)
Unrealized (gains) losses in investments held in trust	6,072	(1,552)
Change in assets and liabilities:		
Contributions receivable	-	2,000
Accrued liabilities	(16,517)	18,475
Grants payable	(69,700)	(110,300)
Other liabilities	68,120	-
Net cash provided by (used in) operating activities	4,512,951	2,090,818
Cash flows from investing activities		
Purchase of equipment	(6,812)	(3,197)
Purchase of investments	(15,094,945)	(30,482,769)
Proceeds from sales of investments	8,859,059	28,147,721
Net cash provided by (used in) investing activities	(6,242,698)	(2,338,245)
Cash flows from financing activities		
Increase (decrease) in funds held for others, including realized and unrealized gains (losses)	1,696,728	345,065
Net cash provided by (used in) financing activities	1,696,728	345,065
Net increase (decrease) in cash and cash equivalents	(33,019)	97,638
Cash and cash equivalents at beginning of year	168,067	70,429
Cash and cash equivalents at end of year	\$ 135,048	\$ 168,067
Supplemental disclosure of non-cash investing and financing activities:		
Net realized and unrealized gains (losses) on funds held for others	\$ 1,268,674	\$ 928,860

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

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

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, 2014 and 2013

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), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and have been determined not to be private foundations under Sections 509(a)(1) and (3), respectively. 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, 2014 and 2013

2. Investments

Investments at June 30 consist of the following:

	2014	2013
Cash and Money Market Funds	\$ 1,859,348	\$ 2,574,278
Equity Funds:		
Domestic	13,980,602	14,254,986
International	20,270,741	12,227,552
Fixed Income Funds:		
Domestic	12,917,470	10,923,063
International	1,800,046	971,912
Non-investment grade	722,025	766,537
Natural Resource Funds	4,088,095	3,471,057
Real Estate Fund	2,145,622	1,601,649
Funds of Hedge Funds	10,187,958	9,629,255
Cash Surrender Value of Life Insurance	719,166	682,279
Other Investments	101,009	85,948
	\$ 68,792,082	\$ 57,188,516

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:

	2014	2013
Cash and cash equivalents	\$ 330	\$ 78
Equity Funds	11,115	14,101
Fixed Income Funds	21,307	24,645
	\$ 32,752	\$ 38,824

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

2. Investments (Continued)

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

	2014	2013
Dividends and interest	\$ 1,904,950	\$ 1,538,150
Net realized gains (losses)	1,067,215	1,209,808
Net unrealized gains (losses)	4,300,466	2,284,871
Other investment income (loss)	39,574	36,165
	7,312,205	5,068,994
Less management fees and assignable expenses	(164,677)	(139,699)
Net investment income (loss)	\$ 7,147,528	\$ 4,929,295

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, 2014 and 2013

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, 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	\$ 58,473,412	\$ 10,351,422

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

3. Fair Value Measurements (Continued)

June 30, 2013	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	\$ 2,574,278	\$ 2,574,278	\$ -
Equity Funds:			
Domestic	14,254,986	14,254,986	
International	12,227,552	12,227,552	
Fixed Income Funds:			
Domestic	10,923,063	10,923,063	
International	971,912	971,912	
Non-investment grade	766,537	766,537	
Natural Resource Funds	3,471,057	3,471,057	
Real Estate Fund	1,601,649	1,601,649	
Funds of Hedge Funds	9,629,255	551,303	9,077,952
Cash Surrender Value of Life Insurance	682,279		682,279
Other Investments	85,948	85,948	
	<u>57,188,516</u>	<u>47,428,285</u>	<u>9,760,231</u>
Investments held in trust	38,824	38,824	
Total	<u>\$ 57,227,340</u>	<u>\$ 47,467,109</u>	<u>\$ 9,760,231</u>

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, 2014 and 2013:

	2014	2013
Beginning Balance (Level 3)	\$ 9,760,231	\$ 10,396,283
Net realized gains/(losses)	-	-
Unrealized gains/(losses) on level three investments held at year end	828,884	963,948
Purchases	2,375,000	-
Settlements	(2,612,693)	(1,600,000)
Ending Balance (Level 3)	<u>\$ 10,351,422</u>	<u>\$ 9,760,231</u>

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

4. Property and Equipment

Property and equipment at June 30 consists of the following:

	<u>2014</u>	<u>2013</u>
Office furnishings	\$ 112,216	\$ 105,404
Other	<u>54,863</u>	<u>54,863</u>
	167,079	160,267
Less accumulated depreciation and amortization	<u>138,294</u>	<u>125,086</u>
	<u><u>\$ 28,785</u></u>	<u><u>\$ 35,181</u></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>2014</u>	<u>2013</u>
Liability, July 1,	\$ 10,417,019	\$ 10,071,954
Deposits	597,822	166,667
Investment Income	459,467	376,362
Realized and unrealized gains (losses) on investments	1,268,674	928,860
Distributions	(577,905)	(1,079,116)
Administrative Fees	<u>(51,330)</u>	<u>(47,708)</u>
Liability, June 30,	<u><u>\$ 12,113,747</u></u>	<u><u>\$ 10,417,019</u></u>

6. Endowment

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.

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

6. Endowment (Continued)

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:

	2014	
	Unrestricted	Permanently Restricted
Donor restricted endowment funds	\$ 2,942,594	\$ 1,000,000
	2013	
	Unrestricted	Permanently Restricted
Donor restricted endowment funds	\$ 2,417,803	\$ 1,000,000

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

6. Endowment (Continued)

Changes in endowment net assets for the fiscal years ended June 30, 2014 and 2013:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 01, 2012	\$ 1,723,428	\$ 1,000,000	\$ 2,723,428
Contributions	535,496		535,496
Investment income	106,630		106,630
Net appreciation (depreciation), realized and unrealized	276,531		276,531
Grants expense	(215,495)		(215,495)
Administrative fees	<u>(8,787)</u>		<u>(8,787)</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	<u>\$ 2,942,594</u>	<u>\$ 1,000,000</u>	<u>\$ 3,942,594</u>

Spending policy:

For fiscal year ending June 30, 2014, 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, 2015 is anticipated.

Wichita Community Foundation
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

7. Operating Leases

The Foundation leases office space under an eight-year operating lease. Future minimum payments remaining under the lease are as follows:

Year ending June 30,	
2015	40,409
2016	41,060
2017	43,016
2018	10,754
	<u>\$ 135,239</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 \$17,541 and \$14,238 for the years ended June 30, 2014 and 2013.

9. Subsequent Events

Subsequent events were evaluated by management through February 25, 2015, which is the date the financial statements were available to be issued.

EL DORADO	112 EAST CENTRAL AVE.	EL DORADO, KS 67042-2151	316-321-1150
McALESTER	101 S. 2ND. STE. B	McALESTER, OK 74501-5345	918-426-1234
TUCSON	4801 E. BROADWAY BLVD., STE. 501	TUCSON, AZ 85711-3648	520-624-8229
TULSA	8023 E. 63RD PL. STE 500	TULSA, OK 74133-1209	918-494-8700
WAGONER	611-D W. CHEROKEE ST.	WAGONER, OK 74467-4618	918-485-5531
WICHITA	300 W. DOUGLAS AVE., STE. 900	WICHITA, KS 67202-2914	316-264-2335