

YELLOW SPRINGS HOME, INC.

FINANCIAL REPORT

DECEMBER 31, 2015 AND 2014



**FLAGEL HUBER FLAGEL**  
Certified Public Accountants | Business Advisors

YELLOW SPRINGS HOME, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Yellow Springs Home, Inc.

We have audited the accompanying financial statements of Yellow Springs Home, Inc. which comprise the statement of financial position as of December 31, 2015, 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 Yellow Springs Home, Inc. as of December 31, 2015, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The 2014 financial statements were reviewed by us and our report thereon, dated July 9, 2015, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

A handwritten signature in cursive script that reads "Flagel Huber Flagel".

Certified Public Accountants

Dayton, Ohio

December 12, 2016

YELLOW SPRINGS HOME, INC.

STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
	2015	2014
	<u>AUDITED</u>	<u>REVIEWED</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,546	\$ 34,790
Cash and cash equivalents - temporarily restricted	73,888	141,990
Grants receivable	74,998	99,997
Pledges receivable - temporarily restricted	51,790	0
Endowment investments - temporarily restricted	39,157	38,820
TOTAL CURRENT ASSETS	<u>274,379</u>	<u>315,597</u>
OTHER ASSETS		
Pledges receivable - temporarily restricted	52,985	104,775
Property and equipment, net	929,508	781,014
Construction in progress	110,215	101,304
	<u>1,092,708</u>	<u>987,093</u>
TOTAL ASSETS	<u>\$ 1,367,087</u>	<u>\$ 1,302,690</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lines of credit	\$ 157,983	\$ 89,992
Accounts payable	0	1,161
Accrued payroll and related expenses	5,145	3,373
Deposits	2,050	2,050
Deferred revenue	121,248	178,997
Current portion of note payable	1,997	1,927
TOTAL CURRENT LIABILITIES	<u>288,423</u>	<u>277,500</u>
LONG-TERM LIABILITIES		
Note payable	<u>83,646</u>	<u>35,573</u>
NET ASSETS		
Unrestricted	777,198	704,032
Temporarily restricted	217,820	285,585
	<u>995,018</u>	<u>989,617</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,367,087</u>	<u>\$ 1,302,690</u>

The accompanying notes are an integral part of these statements.

YELLOW SPRINGS HOME, INC.

STATEMENT OF ACTIVITIES (AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 32,418	\$ 8,699	\$ 41,117
Grant revenue	67,433	0	67,433
In-kind contributions	33,418	0	33,418
Homebuyer application fees	147	0	147
Rental income	19,987	0	19,987
Special events	7,653	0	7,653
Net assets released from restrictions	77,550	(77,550)	0
Total support and revenue	<u>238,606</u>	<u>(68,851)</u>	<u>169,755</u>
<b>OPERATING EXPENSES</b>			
Program	132,694	0	132,694
Administrative	25,265	0	25,265
Fundraising	14,299	0	14,299
Total operating expenses	<u>172,258</u>	<u>0</u>	<u>172,258</u>
<b>OPERATING MARGIN</b>	<u>66,348</u>	<u>(68,851)</u>	<u>(2,503)</u>
<b>OTHER REVENUE</b>			
Interest and dividends	37	1,866	1,903
Gain on sale of property	6,781	0	6,781
Unrealized gain (loss) on investments	0	(780)	(780)
Total other revenue	<u>6,818</u>	<u>1,086</u>	<u>7,904</u>
<b>CHANGE IN NET ASSETS</b>	73,166	(67,765)	5,401
<b>NET ASSETS – beginning of year</b>	<u>704,032</u>	<u>285,585</u>	<u>989,617</u>
<b>NET ASSETS – end of year</b>	<u>\$ 777,198</u>	<u>\$ 217,820</u>	<u>\$ 995,018</u>

The accompanying notes are an integral part of these statements.

YELLOW SPRINGS HOME, INC.

STATEMENT OF ACTIVITIES (REVIEWED)

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 24,961	\$ 167,953	\$ 192,914
Grant revenue	55,315	6,200	61,515
In-kind contributions	22,282	0	22,282
Homebuyer application fees	140	0	140
Rental income	21,933	0	21,933
Special events	6,428	0	6,428
Net assets released from restrictions	24,878	(24,878)	0
Total support and revenue	<u>155,937</u>	<u>149,275</u>	<u>305,212</u>
<b>OPERATING EXPENSES</b>			
Program	107,466	0	107,466
Administrative	16,336	0	16,336
Fundraising	8,731	0	8,731
Total operating expenses	<u>132,533</u>	<u>0</u>	<u>132,533</u>
<b>OPERATING MARGIN</b>	<u>23,404</u>	<u>149,275</u>	<u>172,679</u>
<b>OTHER REVENUE</b>			
Interest and dividends	670	1,029	1,699
Gain on sale of property	11,730	0	11,730
Unrealized gain on investments	0	1,489	1,489
Total other revenue	<u>12,400</u>	<u>2,518</u>	<u>14,918</u>
<b>CHANGE IN NET ASSETS</b>	35,804	151,793	187,597
<b>NET ASSETS – beginning of year</b>	<u>668,228</u>	<u>133,792</u>	<u>802,020</u>
<b>NET ASSETS – end of year</b>	<u>\$ 704,032</u>	<u>\$ 285,585</u>	<u>\$ 989,617</u>

The accompanying notes are an integral part of these statements.

YELLOW SPRINGS HOME, INC.

STATEMENT OF FUNCTIONAL EXPENSES (AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
<b>OPERATING EXPENSES</b>				
Director salary	\$ 29,375	\$ 8,393	\$ 4,196	\$ 41,964
Salaries and wages	58,801	7,350	7,350	73,501
Payroll taxes	7,947	886	565	9,398
Depreciation	6,786	0	0	6,786
Insurance	2,374	0	0	2,374
Professional fees	0	7,425	0	7,425
Development & membership	0	0	2,188	2,188
Office supplies	4,844	1,211	0	6,055
Travel	3,270	0	0	3,270
Facility maintenance	2,647	0	0	2,647
Property tax	2,778	0	0	2,778
Organization dues & subscriptions	2,522	0	0	2,522
Telephone	1,742	0	0	1,742
Interest expense	1,740	0	0	1,740
Volunteer programs	86	0	0	86
Advertising	2,620	0	0	2,620
Office rent	760	0	0	760
Homebuyer services	1,851	0	0	1,851
Training	1,199	0	0	1,199
Miscellaneous	1,274	0	0	1,274
Bank fees	78	0	0	78
Total operating expenses	<u>\$ 132,694</u>	<u>\$ 25,265</u>	<u>\$ 14,299</u>	<u>\$ 172,258</u>

The accompanying notes are an integral part of these statements.



YELLOW SPRINGS HOME, INC.

STATEMENT OF FUNCTIONAL EXPENSES (REVIEWED)

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
<b>OPERATING EXPENSES</b>				
Director salary	\$ 26,863	\$ 7,675	\$ 3,838	\$ 38,376
Salaries and wages	41,043	2,648	2,648	46,339
Payroll taxes	6,233	640	94	6,967
Depreciation	6,812	0	0	6,812
Insurance	2,479	0	0	2,479
Professional fees	0	4,420	0	4,420
Development & membership	0	0	2,151	2,151
Office supplies	3,810	953	0	4,763
Travel	4,576	0	0	4,576
Facility maintenance	4,148	0	0	4,148
Property tax	2,840	0	0	2,840
Organization dues & subscriptions	837	0	0	837
Telephone	1,078	0	0	1,078
Interest expense	1,478	0	0	1,478
Volunteer programs	208	0	0	208
Advertising	1,958	0	0	1,958
Office rent	620	0	0	620
Homebuyer services	294	0	0	294
Training	1,585	0	0	1,585
Miscellaneous	578	0	0	578
Bank fees	26	0	0	26
Total operating expenses	<u>\$ 107,466</u>	<u>\$ 16,336</u>	<u>\$ 8,731</u>	<u>\$ 132,533</u>

The accompanying notes are an integral part of these statements.

YELLOW SPRINGS HOME, INC.

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	DECEMBER 31,	
	2015	2014
	<u>AUDITED</u>	<u>REVIEWED</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 5,401	\$ 187,597
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,786	6,812
Realized gain on sale of property	(6,781)	(11,730)
Unrealized (gain) loss on investments	780	(1,489)
Changes in assets and liabilities:		
Grants receivable	24,999	(24,999)
Pledges receivable	0	(102,945)
Accounts payable	(1,161)	43
Accrued payroll and related expenses	1,772	1,034
Deferred revenue	(57,749)	6,499
Total adjustments	<u>(31,354)</u>	<u>(126,775)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(25,953)</u>	<u>60,822</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property	(294,787)	(59,742)
Construction in progress	(8,911)	(79,901)
Proceeds from sale of property	146,288	140,216
Purchase of investments	(1,117)	(1,029)
NET CASH USED IN INVESTING ACTIVITIES	<u>(158,527)</u>	<u>(456)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	189,161	89,992
Payments on line of credit	(121,170)	(91,563)
Proceeds from notes payable	50,000	37,500
Payments on notes payable	(1,857)	(38,101)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>116,134</u>	<u>(2,172)</u>
CHANGE IN CASH	(68,346)	58,194
CASH AND CASH EQUIVALENTS - beginning of year	<u>176,780</u>	<u>118,586</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 108,434</u>	<u>\$ 176,780</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest	\$ 1,740	\$ 1,478
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The accompanying notes are an integral part of these statements.

YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

1. ORGANIZATION

Yellow Springs Home, Inc. (the Organization) is a not-for-profit organization incorporated in Ohio in 1995. The Organization's mission is to strengthen community and diversity in Yellow Springs and Miami Township by providing permanently affordable and sustainable housing through its Community Land Trust. The low and moderate income families served in turn enrich the community. The Organization reaches its mission through a pipeline of affordable Community Land Trust homeownership and affordable rentals alongside a robust pre- and post-purchase stewardship program and services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the financial statements. These policies conform to accounting principles generally accepted in the United States of America for not-for-profit organizations.

Basis of Accounting

The Organization utilizes the accrual basis of accounting. Accordingly, revenue is recognized as it is earned and expenses are recorded as incurred.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets represent resources that are available to support the Organization's operations.

Temporarily restricted net assets represent resources for which donor imposed restrictions have not been met. When donor restrictions expire, that is, when a purpose restriction is accomplished or a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which a restricted contribution is received, the Organization reports the revenue as unrestricted.

Permanently restricted net assets represent resources that are restricted by the donor and require, in perpetuity, that the principal is invested and only the investment income is used for operations. The Organization has no permanently restricted net assets.

YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Organization maintains its cash in multiple checking and savings accounts which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Contributions, Pledges and Grants Receivable

Contributions, pledges and grants receivable are recognized as revenues in the period in which the pledge or grant is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization believes all amounts to be collectible and therefore, an allowance for doubtful accounts is not considered necessary. Grants receivable totaled \$74,998 and \$99,997 at December 31, 2015 and 2014, respectively, and are expected to be collected within two years. Pledges receivable totaled \$104,775 at December 31, 2015 and 2014 of which \$51,790 is to be collected in 2016 and \$52,985 is to be collected in 2017; the three year pledge supports pre-development of affordable rental projects serving elders, families, and artists; the hiring of a new full-time Development Coordinator for increased capacity and impact; and the mission of Yellow Springs Home, Inc.

Investments

Investments are stated at fair value. Unrealized gains and losses are included in the statements of activities.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of five to twenty-seven and one-half years.

Construction in Progress

Construction in progress consists of costs to complete new affordable housing developments. These properties will be held for sale and are expected to be sold in the next year.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended December 31, 2015 and 2014.

YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

The Organization enters into service contracts and grants to provide services. Unearned revenue is recognized on a pro-rata basis as services are provided over the term of the contract or grant.

Income Taxes

A favorable determination letter has been obtained from the Internal Revenue Service exempting the Organization from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income.

The Organization determines the recognition of uncertain tax positions, if applicable, that may subject the Organization to unrelated business income tax necessary by applying a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with tax authorities. The Organization has no tax positions which must be considered for disclosure. The Organization believes it is no longer subject to income tax examinations for the years prior to 2012.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated Services

Donated services are recognized as contributions only if the services create or enhance nonfinancial assets or require specialized skills, are performed by people possessing those skills, and would otherwise be purchased by the Organization. Donated services are recorded as contributions at their fair value at the date of donation. The value of substantial donated volunteer services has not been reflected in the accompanying financial statements since these criteria are not met.

Donated Property and Equipment

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

YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are charged to operations when incurred. Advertising costs incurred were \$2,620 and \$1,958 in December 2015 and 2014, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. ENDOWMENT INVESTMENTS

The Organization's investments as of December 31, 2015, are comprised of the following:

	<u>Cost</u>	Market <u>Value</u>	Unrealized <u>Gain (Loss)</u>
Bond funds	\$ 29,301	\$ 29,678	\$ 377
Stock Funds	7,034	9,479	2,445
	<u>\$ 36,335</u>	<u>\$ 39,157</u>	<u>\$ 2,822</u>

The Organization's investments as of December 31, 2014, are comprised of the following:

	<u>Cost</u>	Market <u>Value</u>	Unrealized <u>Gain (Loss)</u>
Bond funds	\$ 28,761	\$ 29,372	\$ 611
Stock Funds	6,457	9,448	2,991
	<u>\$ 35,218</u>	<u>\$ 38,820</u>	<u>\$ 3,602</u>

Interest and dividends earned on investments during 2015 and 2014 totaled \$1,866 and \$ 1,029, respectively.

YELLOW SPRINGS HOME, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

4. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2015 and 2014:

<u>Cost</u>	<u>2015</u>	<u>2014</u>
Land	\$ 702,040	\$ 604,445
Buildings	267,663	210,598
Computers & Equipment	3,840	3,840
Furniture & Fixtures	1,941	1,321
Total	<u>975,484</u>	<u>820,204</u>
Less accumulated depreciation	<u>(45,976)</u>	<u>(39,190)</u>
Net book value	<u>\$ 929,508</u>	<u>\$ 781,014</u>

5. CONSTRUCTION IN PROGRESS

The Organization has been approved for Affordable Housing Program (AHP) subsidy funds for the construction of multiple homes to be purchased by low-income families. When completed, the Organization will receive AHP funds upon approval of the project expenditures. These projects are subject to AHP compliance requirements as stipulated in the grant agreement. Total construction costs at December 31, 2015 and 2014 were \$ 110,215 and \$101,304 respectively.

6. GROUND LEASE AGREEMENTS

As a Community Land Trust, the Organization has a ground lease agreement with various lessee/homeowners giving them the right to use the respective land. The leases convey ownership of the improvements (homes) and a 99-year, renewable leasehold estate on the land and require the lessee to pay a \$25 monthly ground lease fee. Total ground lease revenue for the years ended December 31, 2015 and 2014 totaled \$3,321 and \$4,947 respectively.

7. LINES OF CREDIT

The Organization had a total of \$197,000 revolving lines of credit with banks for affordable housing construction. The lines of credit bore interest at variable rates which were 5.0% and 3.75% at December 31, 2015. The outstanding balance at December 31, 2015 and 2014 was \$157,983 and \$89,992, respectively. The credit lines were secured by specific property and are due on demand.

YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

8. LONG TERM DEBT

Note payable at December 31, 2015 and 2014 totaled \$35,643 and \$37,500, respectively. The note bears interest at 3.54% and matures December 2029. The note is secured by certain real estate.

Note payable at December 31, 2015 totaled \$50,000. The note bears interest at 5.5% and matures December 2017. The note is secured by certain real estate.

Annual maturities of long-term debt at December 31, 2015 and thereafter are as follows:

2016	\$	1,997
2017		52,069
2018		2,144
2019		2,221
2020		2,301
Thereafter		24,911
	\$	<u>85,643</u>

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

		<u>2015</u>	<u>2014</u>
Periods after December 31	\$	117,257	\$ 160,375
Specific housing projects		100,563	125,210
	\$	<u>217,820</u>	<u>\$ 285,585</u>

10. COMMITMENTS AND CONTINGENCIES

The Organization receives grants from various agencies which are subject to program compliance audits by the grantors or their representatives. The grantor agencies, at their option, may perform economy and efficiency audits, program results audits or conduct monitoring visits. Such audits and visits could lead to reimbursement to the grantor agencies. Management believes such reimbursements, if any, would be immaterial.

11. ENDOWMENT FUNDS

The Organization's endowment consists of donated funds which were contributed to provide support to the Organization. Its endowment includes donor-restricted funds and funds designated by the Board of Directors to function as endowments; the Board uses the funds for predevelopment and real estate opportunities to further its mission as well as for operations reserves if needed. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.



YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

11. ENDOWMENT FUNDS (Continued)

The Organization follows Ohio's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and its own governing documents. The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UPMIFA. The Organization's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

All endowment funds are administered by a third party organization in which the Organization relies upon for prudent investment policies. The primary objective for the investment of these assets is to generate sufficient long-term growth of capital, without undue exposure to risk, to provide a sustainable level of spending distributions, as well as enhance the real purchasing power of the investments. The objectives shall be accomplished utilizing a balanced strategy of equities and fixed income based upon a mix which is intended to provide real growth, net of inflation and investment fees.

The Organization has a policy to replace any money withdrawn from the endowment fund within a reasonable period of time so that the money is available for future opportunities. Upon replacement, that portion of the fund will be board designated.

The total endowment fund balance is temporarily restricted. Changes in endowment net assets for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Endowment net assets, beginning of year	\$ 38,820	\$ 36,302
Contributions	0	0
Investment income	1,117	1,029
Net appreciation (depreciation)	(780)	1,489
Amounts appropriated for expenditure	0	0
Endowment net assets, end of year	<u>\$ 39,157</u>	<u>\$ 38,820</u>

YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

12. FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities the Society has the ability to access.
- Level 2 - Inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability in which there is little or no market data, which require the Society to develop its own assumptions.

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

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

Equity securities, equity, and bond funds: Reference to quoted market prices, net asset values per share and other relevant information generated by market transactions.

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

YELLOW SPRINGS HOME, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

12. FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at December 31, 2015 are as follows:

	Level 1	Level 2	Level 3	Total
Bond funds	\$ 29,678	\$ 0	\$ 0	\$ 29,678
Stock funds	9,479	0	0	9,479
Total assets at fair value	<u>\$ 39,157</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,157</u>

Fair values of assets measured on a recurring basis at December 31, 2014 are as follows:

	Level 1	Level 2	Level 3	Total
Bond funds	\$ 29,372	\$ 0	\$ 0	\$ 29,372
Stock funds	9,448	0	0	9,448
Total assets at fair value	<u>\$ 38,820</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,820</u>

13. CONCENTRATION OF REVENUE

The majority of the Organization's contributions are received from donors located in the Yellow Springs area. As such, the Organization's ability to generate resources via contributions is dependent upon the economic health of that area. For the year ended December 31, 2015, the Organization received approximately 25%, or approximately \$43,000, of its revenue from two sources, which were grant revenue sources. For the year ended December 31, 2014, the Corporation received approximately 56%, or approximately \$160,000, of its revenue from one source; this revenue was a three year pledge (see Note 2).

14. BENEFICIAL INTEREST

The Organization is the beneficiary of various funds established by donors. The funds are held by a third-party organization which has variance power over the funds and, accordingly, the Organization has not included its interest in these funds in the accompanying financial statements. The total value of these funds at December 31, 2015 and 2014 was \$47,748 and \$47,563, respectively. The Organization will receive a portion of income from these funds when certain conditions are met as stipulated in the fund agreements. Total amount received from these funds during the year ended December 31, 2015 and 2014 totaled \$748 and \$622 respectively, which is included in revenue.

15. SUBSEQUENT EVENTS

Management evaluated the activity of the Organization through December 12, 2016 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



## **BUILDING AND PRESERVING WEALTH SINCE 1933**

In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

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