

Yellow Springs Community Foundation
Report to The Board of Trustees
For the Year Ended December 31, 2018



FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors



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January 6, 2020

Board of Trustees
Yellow Springs Community Foundation
108 Dayton St.
Yellow Springs, OH 45387

Dear Trustees:

We have completed our audit of the financial statements of Yellow Springs Community Foundation for the year ended December 31, 2018. We would like to express our sincere gratitude for the opportunity to serve as the auditor for the Foundation and the privilege to work with your personnel.

This report contains comments regarding the scope and results of our audit. We submit these comments to assist you in your oversight responsibility for the financial reporting process of the Foundation. Furthermore, we have already met with and discussed this report with your executive committee. This report is separated into four sections, required communications, communication of internal control matters, recommendations, and update on accounting regulatory changes. This information is intended solely for the use of the Board of Trustees, the Executive Committee, and Management of Yellow Springs Community Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to meet with you to discuss this report as well as any other questions or concerns you may have about the financial condition of the Foundation.

Sincerely,

FLAGEL HUBER FLAGEL

Required Communications

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated January 14, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 2 to the financial statements. Beginning in 2018 the Foundation began reporting investments at fair market value. No other accounting policies were adopted, and the application of other existing policies was not changed during 2018. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the fair market value of investments, except for the common shares of Vernay Labs Inc., is based on quoted prices in active markets. For the common shares of Vernay Labs Inc., the fair market value is estimated using the most recent share repurchase price.

We evaluated the key factors and assumptions used to develop the estimate listed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosure of endowment funds in Note 5 and the disclosure of the prior period adjustment in Note 9 to the financial statements. The disclosure of endowment funds required management to identify the restrictions used to classify net assets.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were identified during the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 6, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our initial retention.

Internal Control Matters

Understanding Internal Controls

Internal controls are an integral part of any organization's financial and business policies and procedures. Internal controls consist of the measures taken by the organization for the purpose of (1) protecting its resources against waste, fraud, and inefficiency (2) ensuring accuracy and reliability in accounting and operating data and (3) securing compliance with the policies of the organization.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. These deficiencies can be considered a "deficiency" or a "significant deficiency" based on the magnitude of the problem identified.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, in a timely manner.

Our Consideration of the Foundation's Internal Controls

In planning and performing our audit of the financial statements of the Foundation as of and for the year ended December 31, 2018, in accordance with the modified cash basis of accounting, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our Consideration of the Foundation's Internal Controls (continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Recommendations for Management

Disaster Recovery Plan

We recommend that the Foundation establish a plan of action in case a disaster occurs wherein organization personnel or office space are lost. This plan would help others take charge in place of managers who might be lost, injured, or otherwise unavailable at the time of the crisis. This plan should include arrangements for protection of files and for use of backup space, equipment and furniture, or services should a disaster occur. In addition, while developing the plan, management could take the opportunity to reassess the adequacy of current arrangements for organization property and records and the accessibility of such to the organization as a whole.

Succession Planning

We recommend that a plan for succession of key personnel be established in case of an accident or other abrupt departure. This would include training current personnel to provide a back-up for other personnel's significant duties, establishing a central location for all files, records, and other organization property to be kept, and creating a record of all processes and procedures performed by each position that is made available to all personnel.

Lack of segregation of duties

There is a lack of adequate segregation of duties due to the limited number of Foundation personnel. Because of this limitation, certain accounting duties that may overlap are often performed by the same individual. We understand that it may not be feasible to add employees to reduce this risk, however, we would like to take this opportunity to remind the board of the importance monitoring and oversight have in reducing the risk of misstatement from this deficiency.

Internal Financial Reports

One of the Board's many responsibilities for oversight of a nonprofit organization include financial stewardship. Some tips for keeping your Board knowledgeable about the financial status of your organization is to create internal reports that meet the following guidelines:

- Make your financial reports easy to read, including a discussion on the results, a brief overview of the period presented, and highlights of the meaningful information. Try to avoid technical language that only the finance-minded people will understand. The reports presented should include, at a minimum, comparative balance sheets, income statements, and budget to actual reports.
- Reports should show profit or loss for operations, as well as for major funds with significant activity. For each major area or fund, the Board should compare the profit or loss to the prior period on a quarterly basis, as least, and should annually compare actual performances to budgets.
- Ratio analysis should be performed on a semiannual basis, at a minimum. Key ratios can be used by the Board to monitor liquidity, performance, leverage, and other areas important to your organization.
- Keep your reports short and simple. Consider using dashboard reporting, visuals, and key metrics or indicators. If necessary, provide training to your Board on how to read and understand your reports.

Update on Accounting Regulatory Changes

The following updates relate to entities preparing accrual financial statements under generally accepted accounting principles (GAAP) and will not directly apply to the Foundation under the modified cash basis of accounting. However, we thought it would be beneficial for you to be aware of the upcoming changes.

Accounting for Leases

In February 2016, the FASB issued its much-discussed and controversial guidance on accounting for leases, ASU 2016-02, *Leases (Topic 842)*. The major thrust of this guidance will be the recognition of a lease asset and liability on the balance sheet, as well as new disclosures about the entity's leasing arrangements.

Lessees will be required to recognize a lease liability for the obligation to make lease payments and an associated right-of-use asset. A lease liability and a right-of-use asset are recognized and initially measured at the present value of the lease payments, on the balance sheet.

The new guidance requires disclosures for lessees in order to meet the overall objective of allowing financial statement users to assess the amount, timing, and uncertainty of cash flows from leases. Both qualitative and quantitative disclosures are required.

The effective date is for fiscal years beginning after December 15, 2019.

Accounting for Grants and Contributions

On June 21, 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and enhances current guidance about whether a transfer of assets is a contribution, conditional contribution or an exchange transaction and is effective for annual periods beginning after December 15, 2018 (for most entities). These changes will need to be implemented simultaneously with adoption of the new revenue standard (see below). The major thrust of this guidance is to reclassify Federal grants received as contributions rather than exchange transactions.

Revenue Recognition

In May 2014 the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard affects all entities that have contracts with customers. The effective date for this standard is annual reporting periods beginning after December 15, 2018 for non-public entities. The core principle of this standard is 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 entity expects to be entitled in exchange for those goods or services.

As your professional service provider, we are committed to keeping you updated with the regulatory changes affecting your organization. We would be happy to provide you with more detailed information on any of these accounting changes at your request.



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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