TWIN COUNTY COMMUNITY FOUNDATION

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2017
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INDEPENDENT AUDITORS’ REPORT

TO THE BOARD OF DIRECTORS
TWIN COUNTY COMMUNITY FOUNDATION
GALAX, VIRGINIA

We have audited the accompanying financial statements of Twin County Community Foundation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities 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.

Auditors’ 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 auditors’ 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 Twin County Community Foundation as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Robinson, Farmer, Cox Associates
Blacksburg, Virginia
January 24, 2018
FINANCIAL SECTION
Assets

Current Assets:
  Cash and cash equivalents $ 204,909
  Investments 9,311,055
  Total Current Assets $ 9,515,964

Noncurrent Assets:
  Cash and cash equivalents (restricted) $ 5,318
  Investments (restricted) 423,242
  Total Noncurrent Assets $ 428,560

Total Assets $ 9,944,524

Liabilities

Current Liabilities:
  Accounts payable $ 888
  Total Liabilities $ 888

Net Assets

Unrestricted $ 9,515,076
Temporarily restricted 428,560
Total Net Assets $ 9,943,636

Total Liabilities and Net Assets $ 9,944,524

The accompanying notes are an integral part of these financial statements.
Temporarily Unrestricted  
<table>
<thead>
<tr>
<th>Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$53,859</td>
<td>$177,703</td>
</tr>
<tr>
<td>2,233</td>
<td>1</td>
</tr>
<tr>
<td>381,675</td>
<td>153,500</td>
</tr>
<tr>
<td>3,508,805</td>
<td>650</td>
</tr>
<tr>
<td>5,570,507</td>
<td>(5,570,507)</td>
</tr>
</tbody>
</table>

Total Revenues, Gains, and Other Support | $9,517,079 | $(5,238,653) | $4,278,426 |

Expenses

Program Expenses

Scholarships | $1,000 | $ - | $1,000 |
Bereavement Camp expense | 1,305 | $ - | 1,305 |

Supporting Services

Management and General

Professional fees | 7,712 | $ - | 7,712 |
Bank and investment fees | 26,193 | $ - | 26,193 |
Postage expense | 113 | $ - | 113 |
Contract labor | 8,431 | $ - | 8,431 |
Insurance expense | 1,223 | $ - | 1,223 |
Meeting expense | 586 | $ - | 586 |
Office expense | 3,541 | $ - | 3,541 |
Other expense | 1,263 | $ - | 1,263 |

Total Expenses | $51,367 | $ - | $51,367 |

Change in net assets | $9,465,712 | $(5,238,653) | $4,227,059 |

Net Assets, beginning of year | $49,364 | 5,667,213 | 5,716,577 |

Net Assets, end of year | $9,515,076 | $428,560 | $9,943,636 |

The accompanying notes are an integral part of these financial statements.
CASH FLOWS FROM OPERATING ACTIVITIES:
Change in net assets $ 4,227,059
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:
Less realized and unrealized gains on investments (535,175)
(Decrease)/Increase in accounts payable/accrued expenses 81
Net cash provided by (used for) operating activities $ 3,691,965

CASH FLOWS FROM INVESTING ACTIVITIES:
Purchase of investments $ (5,229,744)
Sale of investments 1,657,027
Net cash provided by (used for) investing activities $ (3,572,717)

Net increase (decrease) in cash and cash equivalents $ 119,248

Cash and cash equivalents, October 1, 2016 90,979
Cash and cash equivalents, September 30, 2017 $ 210,227

The accompanying notes are an integral part of these financial statements.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Nature of Activities:

Twin County Community Foundation (the Foundation) was organized to improve the health, welfare, and education of the residents of the service areas of the former Twin County Community Hospital. The Foundation was established with donated funds from the sale of the Twin County Community Hospital (a non-profit concern). The Foundation is governed by a self-perpetuating Board of Directors, serving staggered terms.

B. Basis of Accounting:

The Foundation maintains its assets and liabilities, and records its income and expenses by use of the accrual basis of accounting. Under the accrual basis, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

C. Financial Statement Presentation:

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

D. Property and Equipment:

Property and equipment acquired by the Foundation are considered to be owned by the Foundation. The Foundation follows the practice of capitalizing all expenditures for property, furniture, fixtures, and office equipment in excess of $1,000 at cost. Donations of property and equipment, if any, are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Depreciation on assets is computed on a straight-line basis over the estimated useful lives of the assets. As of September 30, 2017 and for the year then ended, the Foundation did not hold any depreciable property meeting the aforementioned capitalization policy.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

E. Investments:

Marketable securities are reported at fair value based upon quoted market prices or, when
quotes are not available, are valued on the basis of comparable financial instruments.
Donated securities are recorded at their fair value at the date of donation. Realized and
unrealized investment gains and losses are determined by comparison of specific costs of
acquisition to net proceeds received at the time of disposal or changes in the difference
between fair market value and cost, respectively. Unrealized gains and losses are included in
the change in net assets in the accompanying Statement of Activities.

F. Cash and Cash Equivalents:

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on
hand, cash in banks, and highly liquid investments with an initial maturity of three months or
less. At year end, cash and cash equivalents included money market funds of $118,147.

G. Income Taxes:

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal
Revenue Code and therefore no provision for Federal income taxes has been reported in the
accompanying financial statements. A form 990 as required by the Internal Revenue Service
has been filed for the year ended September 30, 2017.

H. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting
principles requires management to make estimates and assumptions that affect certain
reported amounts and disclosures. Accordingly, actual results could differ from those
estimates.

NOTE 2 - INVESTMENTS:

Fair values of assets measured on a recurring basis at September 30, 2017 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost (Basis)</th>
<th>Fair Value or Estimated Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Funds</td>
<td>$2,210,142</td>
<td>$2,192,962</td>
</tr>
<tr>
<td>Fixed Income Securities (Certificates of Deposit)</td>
<td>749,909</td>
<td>749,550</td>
</tr>
<tr>
<td>Equity Mutual Funds and ETFs</td>
<td>6,210,656</td>
<td>6,791,785</td>
</tr>
<tr>
<td>Total</td>
<td>$9,170,707</td>
<td>$9,734,297</td>
</tr>
</tbody>
</table>
NOTE 2 - INVESTMENTS: (Continued)

The following summarizes investment return and its classification in the statement of activities for the year ended September 30, 2017:

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends and investment income</td>
<td>$ 53,859</td>
<td>$ 177,703</td>
<td>-</td>
<td>$ 231,562</td>
</tr>
<tr>
<td>Interest income</td>
<td>2,233</td>
<td>1</td>
<td>-</td>
<td>2,234</td>
</tr>
<tr>
<td>Realized gains (losses) on investments</td>
<td>136,678</td>
<td>(64,437)</td>
<td>-</td>
<td>72,241</td>
</tr>
<tr>
<td>Unrealized gains (losses) on investments</td>
<td>244,997</td>
<td>217,937</td>
<td>-</td>
<td>462,934</td>
</tr>
<tr>
<td>Total investment return</td>
<td>$ 437,767</td>
<td>$ 331,204</td>
<td>-</td>
<td>$ 768,971</td>
</tr>
</tbody>
</table>

NOTE 3 - FAIR VALUES MEASUREMENTS:

Fair value for investments is determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- **Level 1** - Quoted prices in active markets for identical assets or liabilities.
- **Level 2** - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar asset and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- **Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.
NOTE 3 - FAIR VALUES MEASUREMENTS: (Continued)

The Foundation is providing the following information related to its investments:

<table>
<thead>
<tr>
<th></th>
<th>Quoted Prices in Active Markets</th>
<th>Significant Other Observable Inputs</th>
<th>Significant Unobservable Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value (Level 1)</td>
<td>(Level 2)</td>
<td>(Level 3)</td>
</tr>
<tr>
<td>Investments</td>
<td>$9,734,297</td>
<td>$9,734,297</td>
<td>-</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>118,147</td>
<td>118,147</td>
<td>-</td>
</tr>
<tr>
<td>Totals</td>
<td>$9,852,444</td>
<td>$9,852,444</td>
<td>-</td>
</tr>
</tbody>
</table>

NOTE 4 - ENDOWMENT:

The Foundation’s endowment consist of proceeds from the sale of the Twin County Community Hospital, which included certain donor restrictions. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Foundation Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Twin County Community Foundation have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by that standard. In accordance with that standard, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) other resources of the Foundation.
Endowment net asset composition by type of fund as of September 30, 2017 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted funds</td>
<td>$</td>
<td>$ 428,560</td>
<td>$ 428,560</td>
</tr>
<tr>
<td>Unrestricted funds</td>
<td>9,515,076</td>
<td>-</td>
<td>9,515,076</td>
</tr>
<tr>
<td>Total Funds</td>
<td>$ 9,515,076</td>
<td>$ 428,560</td>
<td>$ 9,943,636</td>
</tr>
</tbody>
</table>

Changes in endowment net assets as of September 30, 2017 are as follow:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, October 1, 2016</td>
<td>$ 49,364</td>
<td>$ 5,607,213</td>
<td>$ 5,716,577</td>
</tr>
<tr>
<td>Investment income</td>
<td>56,092</td>
<td>177,704</td>
<td>233,796</td>
</tr>
<tr>
<td>Appreciation</td>
<td>381,675</td>
<td>153,500</td>
<td>535,175</td>
</tr>
<tr>
<td>Contributions</td>
<td>3,508,805</td>
<td>650</td>
<td>3,509,455</td>
</tr>
<tr>
<td>Amounts released from restrictions</td>
<td>5,519,140</td>
<td>(5,519,140)</td>
<td>-</td>
</tr>
<tr>
<td>Amounts appropriated for expenditure</td>
<td>51,367</td>
<td>(51,367)</td>
<td>-</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
<td>(51,367)</td>
</tr>
<tr>
<td>Endowment net assets, September 30, 2017</td>
<td>$ 9,515,076</td>
<td>$ 428,560</td>
<td>$ 9,943,636</td>
</tr>
</tbody>
</table>

The Foundation received a temporarily restricted contribution of $5,000,000 during a prior fiscal year. The contribution was provided with certain donor imposed restrictions that were in effect until April 1, 2017. On that date, the contribution including any earnings thereon was released from restriction.

As of fiscal year end, the Board has not adopted spending policies and/or investment policies regarding endowment funds; however, the Board is in the process of developing these policies.

Temporarily restricted net assets at September 30, 2017 are restricted for the following purposes:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospice programs</td>
<td>$ 384,652</td>
</tr>
<tr>
<td>Scholarships</td>
<td>43,908</td>
</tr>
<tr>
<td>Total</td>
<td>$ 428,560</td>
</tr>
</tbody>
</table>
NOTE 6 - CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments. The Foundation places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution.

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, management of the Foundation has evaluated events and transactions for potential recognition or disclosure through January 24, 2018, the date the financial statements were available to be issued.