

**The DeMolay Foundation Incorporated**

**Financial Statements**

**December 31, 2017 and 2016**

**SCHMIDT, CORNISH & SMITH, CPA'S  
110 SW 2<sup>ND</sup> STREET, SUITE C  
LEE'S SUMMIT, MISSOURI 64063**

# The DeMolay Foundation Incorporated

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# SCHMIDT, CORNISH & SMITH, CPA'S

110 SW 2<sup>ND</sup> STREET, SUITE C

LEE'S SUMMIT, MISSOURI 64063

Members of the American Institute of  
Certified Public Accountants

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## Independent Auditor's Report

The Board of Trustees  
The DeMolay Foundation Incorporated  
Kansas City, Missouri

We have audited the accompanying financial statements of The DeMolay Foundation Incorporated (a non-profit organization), which comprise the statement of financial position as of December 31, 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 the 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 risk 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 The DeMolay Foundation Incorporated as of December 31, 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.

### Prior Period Financial Statements

The 2016 financial statements were reviewed by us, and our report thereon, dated May 30, 2017, 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.

*Schmidt, Cornish & Smith, CPAs*

May 29, 2018

# The DeMolay Foundation Incorporated

## Statements of Financial Position

December 31, 2017 (Audited) and 2016 (Reviewed)

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 16,551	\$ 45,744
Accounts Receivable	1,404	1,632
Prepaid Expenses	120	120
Investments	4,132,923	3,728,871
Beneficial Interest in Perpetual Trusts	670,201	612,429
Property, Furniture and Fixtures, Net	1,282,777	1,346,792
FSL Artwork & Artifacts - See Note 8	<u>368,770</u>	<u>368,770</u>
<b>Total Assets</b>	<b><u>\$ 6,472,746</u></b>	<b><u>\$ 6,104,358</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts Payable & Accrued Expenses	\$ 17,897	\$ 25,485
Due to DeMolay International	<u>5,618</u>	<u>2,536</u>
<b>Total Liabilities</b>	23,515	28,021
<b>Net Assets</b>		
Unrestricted Net Assets		
Unrestricted	4,593,724	4,282,749
Board Designated	<u>26,497</u>	<u>49,719</u>
Total Unrestricted	4,620,221	4,332,468
Temporarily Restricted	1,807,709	1,722,568
Permanently Restricted	<u>21,301</u>	<u>21,301</u>
<b>Total Net Assets</b>	<b><u>6,449,231</u></b>	<b><u>6,076,337</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 6,472,746</u></b>	<b><u>\$ 6,104,358</u></b>

The accompanying notes are an integral part of these financial statements.

# The DeMolay Foundation Incorporated

## Statement s of Activities and Changes in Net Assets

**For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)**

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Support</b>								
Contributions	\$ 45,823	\$ 4,944	\$ -	\$ 50,767	\$ 127,712	\$ 10,100	\$ -	\$ 137,812
Rent	63,366			63,366	63,366			63,366
Increase in Beneficial Interest in Perpetual Trusts		94,360		94,360		34,385		34,385
Interest and Investment Income	57,357	9,037		66,394	55,055	8,050		63,105
Realized Gains (Losses)	59,893	12,791		72,684	60,428	4,803		65,231
Unrealized Gains (Losses)	370,347	25,336		395,683	130,249	24,729		154,978
Net Assets Released From Restrictions	<u>61,327</u>	<u>(61,327)</u>	<u>-</u>	<u>-</u>	<u>40,835</u>	<u>(40,835)</u>	<u>-</u>	<u>-</u>
<b>Total Revenue and Other Support</b>	<b>658,113</b>	<b>85,141</b>	<b>-</b>	<b>743,254</b>	<b>477,645</b>	<b>41,232</b>	<b>-</b>	<b>518,877</b>
<b>Expenses and Losses</b>								
<b>Program Expenses</b>								
Awards and Grants	83,722			83,722	24,323			24,323
Scholarships	<u>31,398</u>	<u>-</u>	<u>-</u>	<u>31,398</u>	<u>31,250</u>	<u>-</u>	<u>-</u>	<u>31,250</u>
<b>Total Program Expenses</b>	<b>115,120</b>	<b>-</b>	<b>-</b>	<b>115,120</b>	<b>55,573</b>	<b>-</b>	<b>-</b>	<b>55,573</b>
<b>Supporting Activities</b>								
Corporate Services	99,797			99,797	108,744			108,744
Development	89,298			89,298	72,354			72,354
Depreciation	<u>66,145</u>	<u>-</u>	<u>-</u>	<u>66,145</u>	<u>66,575</u>	<u>-</u>	<u>-</u>	<u>66,575</u>
<b>Total Supporting Services</b>	<b>255,240</b>	<b>-</b>	<b>-</b>	<b>255,240</b>	<b>247,673</b>	<b>-</b>	<b>-</b>	<b>247,673</b>
<b>Total Expenses</b>	<b><u>370,360</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>370,360</u></b>	<b><u>303,246</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>303,246</u></b>
<b>Increase (Decrease) in Total Net Assets</b>	<b>287,753</b>	<b>85,141</b>	<b>-</b>	<b>372,894</b>	<b>174,399</b>	<b>41,232</b>	<b>-</b>	<b>215,631</b>
<b>Net Assets - Beginning of Year</b>	<b><u>4,332,468</u></b>	<b><u>1,722,568</u></b>	<b><u>21,301</u></b>	<b><u>6,076,337</u></b>	<b><u>4,158,069</u></b>	<b><u>1,681,336</u></b>	<b><u>21,301</u></b>	<b><u>5,860,706</u></b>
<b>Net Assets - End of Year</b>	<b><u>\$ 4,620,221</u></b>	<b><u>\$ 1,807,709</u></b>	<b><u>\$ 21,301</u></b>	<b><u>\$ 6,449,231</u></b>	<b><u>\$ 4,332,468</u></b>	<b><u>\$ 1,722,568</u></b>	<b><u>\$ 21,301</u></b>	<b><u>\$ 6,076,337</u></b>

The accompanying notes are an integral part of these financial statements.

# The DeMolay Foundation Incorporated

## Statement s of Cash Flows

For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Increase (Decrease) in Net Assets	\$ 372,894	\$ 215,631
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	66,145	66,575
(Increase) Decrease in beneficial Interests in Perpetual Trusts	(57,772)	(15,879)
Net Realized Gains	(72,684)	(65,231)
Net Unrealized (Gains) Losses	(395,683)	(154,198)
Changes in Operating Assets and Liabilities		
Accounts Receivable	228	299
Accounts Payable	7,588	(28,328)
Due to DeMolay International	<u>(3,082)</u>	<u>1,727</u>
<b>Net Cash Used by Operating Activities</b>	<u>(82,366)</u>	<u>20,596</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Assets	(2,129)	(14,318)
Purchase of Investments	(747,417)	(888,571)
Sale of Investments	<u>802,719</u>	<u>902,675</u>
<b>Net Cash Used by Investing Activities</b>	<u>53,173</u>	<u>(214)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	(29,193)	20,382
<b>Beginning Cash and Cash Equivalents</b>	<u>45,744</u>	<u>25,362</u>
<b>Ending Cash and Cash Equivalents</b>	<u>\$ 16,551</u>	<u>\$ 45,744</u>

The accompanying notes are an integral part of these financial statements.

**The DeMolay Foundation Incorporated**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)**

**Note 1 – Summary of Significant Accounting Policies**

**Origin of the Organization**

The DeMolay Foundation Incorporated (Foundation) was established in 1948 for the purpose of raising funds to be used for educational and charitable purposes. The organization includes the Frank S. Land Foundation.

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization 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.

- Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions but may be subject to Trustee designations.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.
- Permanently Restricted Net Assets – Net Assets subject to donor-imposed restrictions that the funds are held permanently by the Organization. These funds are invested and the income from these funds is usually available to the organization for its general support.

**Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash equivalents include cash held in demand accounts at banks, money market funds, and all highly liquid debt instruments purchased with a maturity of three months or less.

**Property and Equipment**

The Foundation capitalizes all significant acquisitions of property and equipment, which are recorded at cost. Depreciation is computed on the straight-line method over the useful lives of the assets.

**Contributions**

Contributions received, including promises to give, are recognized as revenue when the donor's commitment is received, and allowances are provided for amounts estimated to be uncollectible, if any. All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Contributions with donor restrictions that are satisfied in the period received are recorded as unrestricted revenue.

**Donated Services**

Members of the Board of Trustees contribute significant time and services to the Foundation. The financial statements do not reflect the value of those contributed services as no reliable basis exists for determining the appropriate amount.

**The DeMolay Foundation Incorporated**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis, with certain costs allocated among the program expenses and supporting activities based on management's estimates.

**Income Tax Status**

The Foundation is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b) (1) (A) (vi) and has been classified as an organization that is not a private foundation under Section 509 (a) (2).

**Tax Position**

As an exempt organization under Internal Revenue Code (IRC) Section 501(c)(3), the organization is required to file a Form 990, Return of Organization Exempt from Income Tax each year. The information in the return is used by the IRS to substantiate the organization's continuing tax exempt status. The last three years of these returns are open to the IRS for examination. In addition, if the organization has unrelated business income it is required to file a Form 990-T, Exempt Organization Business Income Tax Return and pay tax on any net income. It is the determination of management that this is not required for the year included in these financial statements.

**Nature of Activities**

The Foundation is organized exclusively for educational and charitable purposes, including for such purposes the receiving of contributions and making distributions to organizations that are described in Section 501(c)(3) of the Internal Revenue Code.

**Promises to Give**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decrease of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Investments**

The Organization carries investments in marketable securities with readily determined fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gain and losses are included in the change in net assets in the accompanying statement of activities.

**Investment Income and Gains**

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income or gains are recognized.



**The DeMolay Foundation Incorporated**  
**Notes to Financial Statements (Continued)**  
**For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Subsequent Event Management Review**

Management has evaluated subsequent events through May 29, 2018, the date the financial statements were available to be issued.

**Note 2 – Investment – Fair Value Measurements**

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. In accordance with ASC 820, the Foundation classifies its assets and liabilities into **Level 1** (securities valued using quoted market prices from active markets for identical assets), **Level 2** (securities not traded on an active market for which observable inputs are readily available), and **Level 3** (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies and inputs for assets and liabilities measured at fair value pursuant to the valuation hierarchy.

- Interest-bearing cash instruments. Valued at the closing price reported on the active market on which the individual securities are traded.
- Common stock. Valued at the closing price reported on the active market on which the individual securities are traded.
- Exchange traded funds. Valued at the closing price of shares held at year-end as reported on the active market on which the individual funds are traded.
- Corporate bonds. Valued at the quoted prices for identical assets in inactive markets or similar assets in active or inactive markets.
- Beneficial interests in perpetual trusts. Valued at the present value of the future cash flows for the Organization's share in the trust's distributions.

The following tables summarize the valuation of investments measured at fair value on a recurring basis in the accompanying statements of financial position at December 31, 2017, including the additional requirement to classify securities by major category, which is defined as the major security type classifications with ASC 820.

Description	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Interest-Bearing Accounts	180,200			180,200
Common Stock	2,574,424			2,574,424
Equity Exchange Traded Funds	714,746			714,746
Beneficial Interest Perpetual Trusts		670,201		670,201
Corporate Bonds	-	663,553	-	663,553
<b>Total</b>	<b>\$ 3,469,370</b>	<b>\$ 1,333,754</b>	<b>\$ -</b>	<b>\$ 4,803,124</b>

# The DeMolay Foundation Incorporated

## Notes to Financial Statements (Continued)

**For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)**

### Note 2 – Investment – Fair Value Measurements (continued)

Description	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Interest-bearing Accounts	292,208			292,208
Common Stock	2,150,080			2,150,080
Equity Exchange Traded Funds	602,780			602,780
Beneficial Perpetual Trusts		612,429		612,429
Corporate Bonds	-	683,803	-	683,803
	<u>\$ 3,045,068</u>	<u>\$ 1,296,232</u>	<u>\$ -</u>	<u>\$ 4,341,300</u>

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing on those securities.

### Note 3 – Beneficial Interests in Perpetual Trusts

The Foundation is a beneficiary of three separate perpetual trusts. Under terms of these split interest agreements, the Foundation is to receive annual distributions in proportion to its percentage share of the fair value of assets in the trusts for its unrestricted use, until each trust no longer has funds, or until the Organization ceases operations. These distributions are recognized as unrestricted income. On an annual basis, the interests in these trusts are remeasured and recognized at the fair value of the Organization's percentage share of the assets in the trusts. Any difference from this remeasurement is recognized by adjusting the asset and the related temporarily restricted revenue.

The trusts consisted of the following at December 31:

	2017	2016
John T. Opie Trust, Established December 1975		
Percentage share in trust 5%	\$ 296,811	\$ 262,596
W. Moreland and Ruth U. Ernst, Established in		
March 1992, Percentage share in trust 4.0816%	57,018	52,392
Emma VanGorden Trust, Established in March		
1996, Percentage share in trust 5%	316,372	297,469
	<u>\$ 670,201</u>	<u>\$ 612,457</u>

The Foundation has an operating lease with DeMolay International, an affiliated organization, for its building. The initial lease was for a period ended December 31, 2010, which was renewed for 2012. The lease rate for 2017 was \$63,366. The lease is month to month until new lease is signed.

The Boards of the Organizations are reviewing the lease agreement between them subsequent to the yearend.

# The DeMolay Foundation Incorporated

## Notes to Financial Statements (Continued)

For the Year Ended December 31, 2017 (Audited) and 2016 (Reviewed)

### Note 5 – Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 517,524	\$ 517,524
Building and Improvements	1,831,931	1,831,931
Furniture and Equipment	<u>23,526</u>	<u>21,397</u>
	2,372,981	2,370,852
Less: accumulated Depreciation	<u>1,090,204</u>	<u>1,024,060</u>
Net Property and Equipment	<u>\$ 1,282,777</u>	<u>\$ 1,346,792</u>

### Note 6 – Temporarily Restricted Net Assets

Temporarily Restricted Net Assets consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Sporting Activities	\$ 408,585	\$ 408,585
Leadership Training	581,584	581,584
Distinguished Service Award	41,400	39,900
John T. Opie Trust	296,811	262,569
W. Moreland and Turh U. Ernst Trust	57,018	52,393
Frank S. Land Foundation	<u>422,311</u>	<u>377,538</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,807,709</u>	<u>\$ 1,722,569</u>

### Note 7 – Related Parties

The Foundation and DeMolay International operate under a service agreement whereby the Foundation agrees to pay International \$74,000 per year in exchange for administrative, accounting, and fundraising services. The Boards of the Organizations are reviewing this agreement after the yearend.

### Note 8 – Collection

The Foundation maintains a collection of donated paintings and DeMolay memorabilia. The collection was appraised and valued at \$368,770. The Foundation has chosen to prospectively capitalize all collections during the year ended December 31, 2013. As a result, the contribution of \$368,770 and resulting asset of FSL Artwork and Memorabilia were recorded in 2013.

The professional appraisal was completed with the following breakdown:

	<u>Amount</u>
Stained Glass	\$ 17,500
Frank S. Land Jewel	31,300
Artwork	<u>319,970</u>
	<u>\$ 368,770</u>

# The DeMolay Foundation Incorporated

## Notes to Financial Statements (Continued)

For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)

### Note 9 – Board Designated Funds

The Board of Trustees has indicated the alumni fund and the building fund are board designated to be used as follows at December 31,

	<u>2017</u>	<u>2016</u>
The Good of the Order	\$ 26,497	\$ 49,719
Total Designated Funds	<u>\$ 26,497</u>	<u>\$ 49,719</u>

### Note 10 – Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the accompanying statements of financial position.

### Note 11 – Trust Funds

The Foundation's trust funds consist of numerous individual funds established for a variety of purposes and include one donor-restricted endowment fund per accounting principles generally accepted in the United States of America. These funds are classified and reported based on the donor imposed restrictions or Board Designations placed on them.

The Board of Trustees of the Foundation has 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets a) the original value of gifts donated to the made in accordance with the direction of the applicable donor gift 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 trust funds are 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 SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted trust funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restrictions
- (3) General economic conditions
- (4) The potential effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Foundation
- (7) The Foundation investment policies

# **The DeMolay Foundation Incorporated**

## **Notes to Financial Statements (Continued)**

**For the Years Ended December 31, 2017 (Audited) and 2016 (Reviewed)**

### **Note 11 – Trust Funds (Continued)**

The Foundation's policies are designed to provide a predictable stream of funding to programs it supports through the unrestricted and restricted funds held. All investments are managed using a uniform investment policy that is intended to produce results that match the projected required liquidity as determined by the Board of Trustees. Actual returns in any given year may vary from the desired amount. The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity and bond-based investments.

The Foundation has a policy of appropriating for distribution each year for direct expenses incurred by a fund and earmarks as stipulated by the donor in accordance with the fund's distribution provision in the event the minimum earmark is not met.