MONTGOMERY VILLAGE FOUNDATION, INC.

10120 APPLE RIDGE ROAD
MONTGOMERY VILLAGE, MARYLAND 20886-1000

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November 2, 2018

MEMORANDUM

TO: MVF Audit Committee

FROM: Daniel Salazar, Chief Financial Officer

SUBJECT: Audit Committee Meeting

The next meeting of the Audit Committee will be held at **7 p.m. on Monday, Nov. 5, 2018** in the North Creek Board Room, 20125 Arrowhead Road.

Attached is an agenda and meeting packet for your review. Please let me know your attendance plans as soon as possible by calling 240-243-2332 or e-mailing *dsalazar@mvf.org*.

DS/rp
Attachments

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MVF AUDIT COMMITTEE

Monday, November 5, 2018
7:00 p.m.
North Creek Board Room

AGENDA

Open Session

I. Residents' Time

II. Chairman's Remarks

III. Review and approve minutes from the August 23 Joint Audit Committee/Board meeting

IV. Presentation of 2017 MVF Draft Retirement Plan Financials – Michele Mills from DeLeon & Stang

   a. Draft 260 Letter (enclosure)
   b. 401k draft audit report and financials (enclosure)

V. Adjourn

MINUTES OF JOINT MEETING

MONTGOMERY VILLAGE FOUNDATION

Board of Directors and Audit Committee

August 23, 2018

A joint meeting of the MVF Board of Directors and Audit Committee was held at 7:00 p.m. on Thursday, August 23, 2018 at the North Creek Community Center, Montgomery Village, Maryland.

Directors Present
Glenn Gargan, President
Peter Webb, Vice President
Scott Dyer
Laura Franke
Jerome Leonard (Arrived at 7:30)
Jim Marsh
Pete Young

Audit Committee Members Present
Keith Silliman, Vice Chair
Ellen Gaston
Frank Mondell

Others Present
Bob Carey, Treasurer
Chioma Nwoye, Student Representative to the Board
David Humpton, Executive Vice President
Michael Conroy, Assistant Executive Vice President
Daniel Salazar, Chief Financial Officer
Karen Kodjanian, Director of Community Management
Duncan Mullis, Director of Recreation, Parks and Culture
Jennifer Thornett, Recording Secretary
6 residents or interested parties

Presentation of 2019 Draft Budget

Mr. Salazar presented the 2019 draft budget; the presentation is attached for the record. He reported the budget includes a proposed increase of $0.55 per month per unit for the MVF Fund assessment compared to no increase for the previous year. Mr. Salazar noted the main revenue driver for the MVF Fund comes from the proposed assessment increase. He added personnel costs include a 3% salary increase across the Board, but operating costs have decreased with the completion of the scanning projection and the reduction of printing costs as the *Village*

News transitions to one print publication a month. Mr. Salazar noted they expect to use less of undesignated reserves since they are increasing the assessment.

Mr. Salazar reported the budget includes a proposed increase of $2.05 per month per unit for the DU Fund compared to $1.15 per month per unit for the previous year. He noted the assessment increase will generate $199,500 of additional revenue. Mr. Salazar reported personnel costs include a new position, Assistant Facilities/Aquatics Manager, and increases to the temp wage to keep up with the county minimum wage increase. He added operating costs were adjusted to keep in line with actuals for electricity costs and program/building supplies. Mr. Salazar reported there are no capital projects budgeted in 2019.

Mr. Salazar reported they plan to use $369,525 in undesignated reserves in 2019 for a remaining balance of $558,090. He noted $305,556 is to minimize the MVF assessment increase and $63,969 is to subsidize the User Fee programs. Mr. Salazar added the estimated balance for the Capital Contribution Fee (CCF) for 2019 is $513,000. He reiterated there are no capital projects planned for 2019.

Mr. Salazar reported the reserve study assumptions were updated, including resetting the ROI at 2.5% and inflation at 2.49% and earmarking additional funds for the North Creek pool renovation. He reviewed the breakdown for necessary and potential reserve expenditures for 2019 and highlighted major replacements, such as the Clubside Park and North Creek Lake Park play areas and the Jenark replacement software on the MVF side and vehicle and pool replacements on the DU side. Mr. Salazar noted the pool rebuild schedule and added the projections are adjusted for inflation.

Mr. Salazar noted the five-year assumptions. He reported revenues are expected to increase with the completion of the Bloom and Village Center housing units between 2020-2024. Mr. Salazar added personnel costs are expected to increase 3% each year across the board, with a 4% increase in temp wages. He noted operating costs are expected to increase 2-3% for general expenses and 3-5% for technology contracts; the Brightview contract was increased based on the amended 2018 contract for South Valley Park field maintenance. Mr. Salazar reviewed the projected assessment increases for each fund and noted the MVF assessment ceiling is $24.29, which would be breached in 2022.

Mr. Young asked why there are substantial increases in the MVF assessment when the inverse is true for the DU assessment. He believes that we are being overly conservative in estimating how fast the undesignated reserves will burn down and how much we will need. Mr. Salazar responded that the MVF units return less assessment revenue, while the DU assessment is much higher because it is needed in the short term. Mr. Humpton added the figures also represent the reduced subsidy of the MVF assessment by undesignated reserves, and over time, there will be less undesignated reserves to subsidize the MVF assessment. Mr. Young stated that he would like to revisit whether it is wise to allow no increases over some period of time, and then a large increase. He agrees that although we are still in a favorable position, he suggests smooth increases so the burn down in undesignated reserves happens at a more even rate.

Mr. Gargan asked if the budget accounts for increased utility costs for South Valley Park. Mr. Salazar indicated the figures do take the utilities into consideration. Mr. Gargan added the sale of Cider Mill was an unexpected bonus and the CCF revenue will be lower in future years.

Mr. Carey asked if the personnel costs assume the position is filled all year. Mr. Salazar noted they follow a conservative approach as they cannot predict vacancies. Mr. Carey added the by-laws require the CCF to be used for certain costs and suggested the Board consider amending the by-laws to allow the funds to be spent on replacements to bolster reserves.

Mr. Marsh asked if the increase in supplies for pools is purely inflation or due to new pool features. Mr. Salazar noted it is a mix and added bigger pools require more supplies.

In response to Ms. Franke's question, Mr. Salazar noted the anticipated yield on investments is reflected in the five-year projections.

Mr. Young noted they are increasing the recreational offerings and asked if the five-year projections account for an increase in program revenue. Mr. Mullis reported they are outperforming last year and will continue to make minor modifications to the programs and look for opportunities to increase rental opportunities, but it is not necessarily reflected in the budget. Mr. Humpton added they built a 3% increase into the fees for the programs and will have a better idea next year. Mr. Young noted there is a penalty for being too conservative and added if they expect program revenue to increase it should be reflected in the five-year forecast.

Mr. Humpton indicated that there would be program changes; however, he is challenging the Recreation and Parks Department to maintain current program budgets so that new program initiatives would have to be offset with other program cuts.

Residents' Time

Jane Wilder noted concern with the proposed changes to the Communications Policies. She noted the *Letters to the Editor Policy* recommends Facebook and Twitter as sources of information and conflicts with item 12, which addresses opening MVF to potential legal liability. Ms. Wilder reported Facebook and Twitter have had issues with hacking and recommending them opens the MVF to liability. She added residents can pick their own sources of information and the MVF should not make recommendations or they could be liable after the fact. Ms. Wilder noted going down to one print issue per month of the Village News will hurt residents without computers and those who are not computer literate.

Rich Wilder agreed using social media to discuss MVF is a risk and opens MVF to lawsuits. He added MVF should not recommend residents use Facebook or Twitter and hopes they will strike the recommendation from the *Letters to the Editor Policy*. Mr. Wilder reported there was good turnout at the concerts, including all age groups.

Call Meeting to Order

Mr. Gargan opened the meeting at 7:43 p.m. and asked the Audit Committee members to introduce themselves. Mr. Silliman reported the Audit Committee reviewed the presentation last week and noted only a few edits.

Audit Committee: Consider recommending 2019 draft budget to the MVF Board of Directors for publication and public comment

> Mr. Mondell moved to recommend to the MVF Board to accept the draft 2019 MVF budget for publication in the *Village News*. The motion was seconded and passed unanimously.

Mr. Mondell noted that the MVF Fund assessment is approaching the assessment ceiling. Based on past assessment increase history, he cautioned the Board to be vigilant in anticipating the possibility of future wild swings in the economy that could affect the need for large increases in the assessment, which, if it reaches the ceiling, will necessitate a vote of MVF members to be raised.

Adjournment

There being no further business, the Audit Committee portion of the meeting was adjourned at 7:49 p.m., with the regular Board meeting following immediately.

________/s/________

Jennifer Thornett
Recording Secretary

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

www.deleonandstang.com

___________, 2018

Board of Directors
Montgomery Village Foundation, Inc.
Retirement and Savings Plan and Trust

We have conducted a limited scope audit of the financial statements of Montgomery Village Foundation, Inc. Retirement and Savings Plan and Trust for the year ended December 31, 2017, and we will issue our report thereon dated ________, 2018. As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4 to those financial statements. Because of the significance of the information that we did not audit, we are unable to, and have not, expressed an opinion on those financial statements taken as a whole. We did, however, audit the form and content of the information included in the financial statements, other than that derived from the information certified by the trustee, in accordance with auditing standards generally accepted in the United States of America and found them to be presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA. 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. 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 dated October 16, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

You are responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Montgomery Village Foundation, Inc. Retirement and Savings Plan and Trust are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Plan 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 and are based on your 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 estimate affecting the financial statements was:

> Management's estimates of the fair value of investments held described in Note 3, the returns earned on said investments, and the respective allocation of those earnings to the participants during the year, all of which were based on information as certified by Fidelity Management Trust Company. We did not evaluate the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of the related party and party in interest transactions described in Note 6 to the financial statements. The users of the financial statements could question the reasonableness of these transactions.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our 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.

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 Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

> During our testing of participant contributions, we requested support from employee personnel files for the employee's salary as of December 31, 2017. Our testing revealed that management maintains support for employee pay raises for the year at the department. However, employee personnel files do not have support for the employee's most recent salary and employee deferral percentages. We recommend that in the future management maintain complete personnel files which should include signed documentation for the employee's salary and deferral percentages. Maintaining complete personnel files reduces the risk of payroll fraud; therefore, we believe that a complete file should be maintained for all employees.
>
> During our testing of the timeliness of contributions to the Plan we discovered that one pay period had a 12 day lag between the payroll check date and the date that the contributions were remitted to the Plan. We recommend that controls are put in place that prevent significant lags between the payroll check date and the date contributions are remitted to the Plan. The majority of the contributions to the Plan in 2017 were made 3-5 days after the payroll check date. We recommend that the controls are designed to maintain a consistent deposit date of 3-5 days after the payroll check date.

Other Matters

This information is intended solely for the use of the Board of Directors of Montgomery Village Foundation, Inc. Retirement and Savings Plan and Trust and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

DeLeon & Stang

**DeLeon & Stang
Certified Public Accountants & Advisors**

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

MONTGOMERY VILLAGE FOUNDATION, INC.
RETIREMENT AND SAVINGS PLAN AND TRUST

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

DeLeon & Stang
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Plan Trustees of
Montgomery Village Foundation, Inc.
Retirement and Savings Plan and Trust
Montgomery Village, Maryland

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of **Montgomery Village Foundation, Inc. Retirement and Savings Plan and Trust**, which comprise the statement of net assets available for benefits as of December 31, 2017 and the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, which was certified by Fidelity Management Trust Company, the trustee of the Plan, except for comparing the information with the related information included in the financial statements and supplemental schedule. We have been informed by the plan administrator that the custodian holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the custodian as of and for the years ended December 31, 2017 and 2016, that the information provided by the Plan custodian to the Plan trustee is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Report on Compiled Financial Statements

Plan management is responsible for the accompanying financial statements of **Montgomery Village Foundation, Inc. Retirement and Savings Plan and Trust**, which comprise the statement of net assets available for benefits as of December 31, 2016 in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by plan management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Report on Form and Content in Compliance With DOL Rules and Regulations

The form and content of the information included in the financial statements, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

DeLeon & Stang

DeLeon and Stang, CPAs and Advisors
Frederick, Maryland
_____________, 2018

Montgomery Village Foundation, Inc.
Retirement and Savings Plan and Trust
Statements of Net Assets Available for Benefits
December 31, 2017 and 2016

	2017 (Audited)	2016 (Compiled)
ASSETS		
Investments, at fair value	$ 6,508,579	$ 5,641,657
Investments, at contract value	1,135,338	955,837
Notes receivable from participants	41,114	51,740
Net assets available for benefits	$ 7,685,031	$ 6,649,234

Montgomery Village Foundation, Inc.
Retirement and Savings Plan and Trust
Statement of Changes in Net Assets Available for Benefits
December 31, 2017 (Audited)

ADDITIONS		
Additions to net assets attributed to:		
Investment income:		
Net appreciation in fair value of investments	$	660,223
Dividends		270,957
Total investment income		931,180
Interest income on notes receivable from participants		3,049
Contributions:		
Participant		258,976
Employers'		154,432
Total contributions		413,408
Total additions		1,347,637
DEDUCTIONS		
Deductions from net assets attributed to:		
Benefits paid to participants		291,936
Administration expenses		19,904
Total deductions		311,840
Net increase		1,035,797
Net assets available for benefits:		
Beginning of year		6,649,234
End of year	$	7,685,031

NOTE 1 - DESCRIPTION OF PLAN

The following description of the Montgomery Village Foundation, Inc. Retirement and Savings Plan and Trust (the plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan established November 11, 1985. The Plan covers all employees of Montgomery Village Foundation, Inc. who are at least eighteen years of age, excluding employees who perform duties solely in the capacity of recording secretary for the meetings of the Board of Directors and temporary employees. Eligible employees may enter the plan as a participant on the first day of the month following the date upon which they satisfy the eligibility requirements. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

For calendar year 2017, participants may contribute up to the lesser of 100% of their pre-tax annual compensation as defined in the Plan or $18,000. Participants who have attained the age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers twenty six mutual funds and one fixed interest investment account as investment options for participants. The Foundation made Safe Harbor matching contributions equal to 100% of the participants elective deferrals up to 6% of gross pay.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocation of (a) the Foundation's contribution and (b) plan earnings. Allocations are based on participant earnings, account balances or elective deferrals, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. Participants self-direct their account in any of the investment fund options offered by the plan.

NOTE 1 - DESCRIPTION OF PLAN (Continued)

Vesting

Participants are immediately vested in their voluntary contributions and Safe Harbor matching contributions plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service, as follows:

Years	Percent
<1	0%
1-2	33%
2-3	66%
>3	100%

Participant Loans

Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50 percent of their vested account balance. The loans are secured by up to 50% of the vested balance in the participant's account and bear interest at a reasonable rate. Principal and interest is paid ratably through payroll deductions, not less than quarterly. Total participant loans included in Plan assets were $41,114 and $51,740 at December 31, 2017 and 2016, respectively.

Payment of Benefits

Upon separation of service due to death, disability, termination or retirement, a participant (or their beneficiary) may be eligible for a direct rollover distribution, a lump-sum payment, or installment distributions. Benefits are recorded when paid.

Forfeited Accounts

As of December 31, 2017, there were no forfeited non-vested accounts available for use. Forfeitures are retained in the Plan and will first be used to pay administrative expenses under the Plan, as directed by the Employer. Any remaining amounts will be used to reduce future Employer contributions payable under the Plan. No forfeitures were used during 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the Plan are prepared using the accrual basis of accounting.

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared using contract value for the fully benefit-responsive investment contract.

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 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. Those estimates are inherently subject to change and, accordingly, actual results may differ from those estimates.

Investment Valuation and Income Recognition

Investments of the Plan are reported at fair value. 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. See Note 3 for discussion of fair value measurements. Investments are valued daily.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the year. Investment income is reported net of investment fees.

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are charged directly to the borrowing participant's account and are included in administrative expenses when incurred. As of December 31, 2017 and 2016, no allowance for credit losses has been recorded. If a participant does not make note receivable repayments and the plan administrator considers the participant loan to be in default, the loan balance is reduced, and the delinquent participant note receivable is recorded as a taxable distribution from the Plan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Payment of Benefits

Benefits are recorded when paid.

Operating Expenses

The operating costs of the Plan consist of fees paid to a third-party administrator and to a registered investment advisor.

Federal Income Tax Status

The Plan's original effective date was November 11, 1985. The Plan has been amended since the adoption of the Fidelity Management & Research Company's Advisor Retirement Connection Premium Service Retirement Plan 100 Prototype Plan, on March 1, 2005. The Prototype Plan, as then designed, received a determination letter stating that it was in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Federal tax returns are subject to audit by taxing authorities, generally for three years after filing, hence the Plan's tax returns for the years 2014 and onward are open to examination.

New Accounting Standard

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update "ASU" 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, Fair Value Measurement, from categorization within the fair value hierarchy. The guidance is effective for fiscal years beginning after December 15, 2015.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The three levels of the fair value hierarchy under reporting and accounting standards are described as follows:

Level 1 Fair Value Measurements: Fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets. Active markets are defined as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Fair Value Measurements: Fair values are based on inputs other than quoted price included within level 1 that are observable for valuing the asset or liability, either directly or indirectly (i.e. interest rate and yield curves observable at commonly quoted intervals, default rates, etc.). Level 2 inputs include quoted price for similar assets or liabilities in active or non-active markets, inputs other than quoted market prices that are observable and inputs that are derived principally from or corroborated by observable market data through correlation or other means.

Level 3 Fair Value Measurements: Fair values are based on price or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability.

NAV as a Practical Expedient for Fair Value: It was determined that as a practical expedient, net asset value ("NAV") per share is permitted by ASC 820 to estimate the fair value of an investment as long as the investment does not already have a readily determinable fair value (i.e. it's available on a domestic stock exchange or is a mutual fund with a published price), it's calculated in a manner consistent with the measurement principles of the investment company reporting as of the reporting entity's measurement date and there are no plans to redeem the investments at amounts different from NAV.

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 maximize the use of relevant observable inputs and minimize the unobservable inputs.

NOTE 3 - **FAIR VALUE MEASUREMENTS** (Continued)

The following are descriptions of the valuation methodologies used for investments measured at fair value:

Mutual Funds: Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish their daily NAV and to transact at that price. The fair value of mutual funds is based on quoted net asset values of the shares held by the Plan at year-end. The mutual funds held by the Plan are deemed to be actively traded.

Common Collective Trust: Investments held by a collective investment trust are valued at the net asset value (NAV) of units of the fund. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. The common collective trust is reported at fair value.

The following table sets forth, by level within the fair value hierarchy, the Plan's assets at fair value as of December 31:

December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Mutual funds	$ 6,508,579	$ -	$ -	$ 6,508,579
Other investments measured at net asset value	-	-	-	1,135,338
Total	$ 6,508,579	$ -	$ -	$ 7,643,917

December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Mutual funds	$ 5,641,657	$ -	$ -	$ 5,641,657
Other investments measured at net asset value	-	-	-	955,837
Total	$ 5,641,657	$ -	$ -	$ 6,597,494

The Plan's policy is to recognize transfers into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 3 investments during the year ended December 31, 2017.

Gains and losses (realized and unrealized) included in changes in net assets available for benefits for the year ended December 31, 2017, are reported in net appreciation in fair value of investments.

NOTE 3 - **FAIR VALUE MEASUREMENTS** (Continued)

Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes other investments measured at fair value based on net asset value (NAVs) per share as of December 31, 2017 and 2016:

December 31, 2017	Contract Value	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Collective Trust	$ 1,135,338	$ 1,134,616	N/A	Daily	90 Days

December 31, 2016	Contract Value	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Collective Trust	$ 955,837	$ 960,146	N/A	Daily	90 Days

NOTE 4 - **INVESTMENTS IN STABLE VALUE COMMON COLLECTIVE TRUST**

The FA Stable Value Fund holds assets that provide for benefit payments or withdrawals on a contractual basis such as guaranteed investment contracts ("GICs"), group annuity contracts (including separate account guaranteed investment contracts), and synthetic GIC contracts (collectively, "Investment Contracts"). Since market quotations are not readily available for Investment Contracts, the Trustee or its agent will determine the fair value of Investment Contracts, also sometimes referred to as their contract value, which shall generally be their accrued book value (purchase price of Fund assets covered by the Investment Contract ("covered assets") minus the sale price of covered assets sold to fund unit redemptions (if any), plus interest accrued at the crediting rate specified in the investment contract). With respect to Investment Contracts covering interests in insurance company separate accounts, the Trustee shall be entitled to rely on the valuation provided by the insurance company sponsoring the account. In certain circumstances, the terms of an Investment Contract may require some or all of the Covered Assets to be valued at their market value without reference to the Investment Contract rather than at their accrued book value, which could adversely affect the value of the Fund.

Because changes in market interest rates affect the yield to maturity and the market value of the underlying investments, they can have a material impact on the wrapper contract's interest crediting rate. In addition, participant withdrawals and transfers from the Trust are paid at contract value but funded through the market value liquidation of the underlying investments, which also impacts the interest crediting rate.

NOTE 4 - INVESTMENTS IN STABLE VALUE COMMON COLLECTIVE TRUST (Continued)

Investment contracts are valued at contract value principally because unitholders are able to transact at contract value when initiating benefit-responsive withdrawals, taking loans or making investment option transfers permitted by the participating plan. A benefit-responsive withdrawal includes a payment to a unitholder arising from retirement, termination of employment, disability or death. In the normal course, unitholder events are predictable (for unitholders as a group) such that the economic integrity of investment contracts is largely unaffected by unitholder withdrawals.

Employer initiated events, if material, may affect the underlying economics of investment contracts. These events include plant closings, layoffs, plan termination, bankruptcy or reorganization, merger, early retirement incentive programs, tax disqualification of a trust or other events. The occurrence of one or more employer initiated events could limit the Trust's ability to transact at contract value with plan unitholders. Other events that would permit a wrapper contract issuer to terminate a wrapper contract upon short notice include the plan's loss of its qualified status, material breaches of responsibilities that are not cured, or material and adverse changes to the provisions of the plan. If one of these events was to occur, the wrapper contract issuer could terminate the wrapper contract at the market value of the underlying investments.

NOTE 5 - UNAUDITED INFORMATION CERTIFIED BY THE PLAN TRUSTEE

The Statements of Net Assets at December 31, 2017 and 2016, the related Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2017, and the accompanying notes to the financial statements were prepared in part or entirely from information certified by Fidelity Management Trust Company, the trustee of the Plan, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The certified information includes total investments and notes receivable from participants of $7,685,031 and $6,649,234 at December 31, 2017 and 2016, respectively, and a related net investment income of $931,180 for the year ended December 31, 2017.

NOTE 6 - RELATED-PARTY TRANSACTIONS AND PARTY-IN-INTEREST TRANSACTIONS

Certain Plan investments are shares of mutual funds and a fully-benefit responsive common collective trust fund managed by Fidelity. Fidelity is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for the administration of the Plan totaled to $5,266, for the year ended December 31, 2017. Plan investments managed by Fidelity amounted to $7,643,917 and $6,597,494 for 2017 and 2016, respectively.

The Plan has engaged Commonwealth Financial Network, to act as a third party registered investment advisor. Fees paid for investment management services totaled $14,638 for the year ended December 31, 2017.

NOTE 7 - RECONCILIATION OF FINANCIAL STATEMENTS TO 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2017, to Form 5500

Net assets available for benefits per the audited financial statements	$	7,685,031
Adjustment from contract value to fair value for fully-benefit responsive investment		(721)
Net assets available for benefits per Form 5500	$	7,684,310

As of December 31, 2017, all amounts allocated to accounts of participants who have withdrawn from the Plan have been paid.

NOTE 8 - RISKS AND UNCERTAINTIES

The Plan 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 that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

NOTE 9 - PLAN TERMINATION

Although it has not expressed any intent to do so, the Foundation has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is _________, 2018. There were no subsequent events identified requiring disclosure or recognition in the financial statements.