

HANCOCK COUNTY COMMUNITY FOUNDATION, INC.
AND AFFILIATE, LEGACY PROPERTIES OF
HANCOCK COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2017 and 2016

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Independent Auditors' Report

Board of Directors
Hancock County Community Foundation, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying financial statements of Hancock County Community Foundation, Inc. and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hancock County Community Foundation, Inc. and Affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Estep Burkey Simmons, LLC

Muncie, Indiana
June 21, 2018

Hancock County Community Foundation, Inc. and Affiliate
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 December 31,

| | 2017 | 2016 |
|---------------------------------------|---------------|---------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,161,051 | \$ 1,974,460 |
| Investments | 37,766,394 | 31,463,468 |
| Accounts receivable | 58,471 | 230 |
| Pledges receivable | 78,750 | 82,500 |
| Prepaid expenses | 32,111 | 22,135 |
| Property, building and equipment, net | 824,172 | 843,928 |
| | \$ 39,920,949 | \$ 34,386,721 |
| LIABILITIES | | |
| Accounts payable | \$ 14,106 | \$ 18,112 |
| Grants payable | 113,631 | 86,624 |
| Annuity reserves | 287,128 | 317,865 |
| Agency funds | 316,645 | 256,021 |
| Total liabilities | 731,510 | 678,622 |
| NET ASSETS | | |
| Unrestricted | 565,693 | (183,162) |
| Temporarily restricted | 7,517,449 | 4,236,381 |
| Permanently restricted | 31,106,297 | 29,654,880 |
| | 39,189,439 | 33,708,099 |
| | \$ 39,920,949 | \$ 34,386,721 |

The accompanying notes are an integral part of these statements.

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31,

| | 2017 | | | Total |
|--|-------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Support and revenue | | | | |
| Contributions | \$ 519 | \$ 89,298 | \$ 1,368,650 | \$ 1,458,467 |
| Administrative fee income | 503,658 | | | 503,658 |
| Investment income | 192,704 | 695,756 | | 888,460 |
| Realized gains (losses) on investments | 1,861 | 4,959 | | 6,820 |
| Unrealized gains on investments | 996,199 | 3,645,230 | | 4,641,429 |
| Change in gift annuity reserve | | (10,284) | | (10,284) |
| Change in cash surrender value of life insurance | | 294 | | 294 |
| Rental income | 23,855 | | | 23,855 |
| Farm income | | 34,593 | | 34,593 |
| Loss on disposal of assets | (1,040) | | | (1,040) |
| Other income | 84,184 | | | 84,184 |
| | <u>1,801,940</u> | <u>4,459,846</u> | <u>1,368,650</u> | <u>7,630,436</u> |
| Net assets released from restrictions | | | | |
| Restrictions satisfied by payments | 1,096,011 | (1,096,011) | | |
| Expenses | | | | |
| Program services | | | | |
| Grants and scholarships | 860,996 | | | 860,996 |
| Program expenses | 320,787 | | | 320,787 |
| Supporting services | | | | |
| Management and general | 166,031 | | | 166,031 |
| Investment trustee fees | 89,140 | | | 89,140 |
| Administrative fees | 500,550 | | | 500,550 |
| Development expenses | 211,592 | | | 211,592 |
| | <u>2,149,096</u> | | | <u>2,149,096</u> |
| CHANGE IN NET ASSETS | 748,855 | 3,363,835 | 1,368,650 | 5,481,340 |
| Net assets at beginning of year | (183,162) | 4,236,381 | 29,654,880 | 33,708,099 |
| Transfer of net assets | | (82,767) | 82,767 | |
| Net assets at end of year | <u>\$ 565,693</u> | <u>\$ 7,517,449</u> | <u>\$ 31,106,297</u> | <u>\$ 39,189,439</u> |

The accompanying notes are an integral part of these statements.

| 2016 | | | |
|---------------------|-------------------------------|-------------------------------|----------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| \$ 7,074 | \$ 489,861 | \$ 545,527 | \$ 1,042,462 |
| 422,666 | | | 422,666 |
| 171,313 | 593,017 | | 764,330 |
| (31,673) | (109,869) | | (141,542) |
| 424,674 | 1,564,827 | | 1,989,501 |
| | (31,613) | | (31,613) |
| | 357 | | 357 |
| 22,774 | | | 22,774 |
| | 34,593 | | 34,593 |
| (500) | | | (500) |
| 68,893 | | | 68,893 |
| <u>1,085,221</u> | <u>2,541,173</u> | <u>545,527</u> | <u>4,171,921</u> |
| 2,293,778 | (2,293,778) | | |
| 950,577 | | | 950,577 |
| 301,709 | | | 301,709 |
| 161,750 | | | 161,750 |
| 103,247 | | | 103,247 |
| 420,325 | | | 420,325 |
| 199,672 | | | 199,672 |
| <u>2,137,280</u> | <u></u> | <u></u> | <u>2,137,280</u> |
| 1,241,719 | 247,395 | 545,527 | 2,034,641 |
| (1,424,881) | 3,988,986 | 29,109,353 | 31,673,458 |
| <u>\$ (183,162)</u> | <u>\$ 4,236,381</u> | <u>\$ 29,654,880</u> | <u>\$ 33,708,099</u> |

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 5,481,340 | \$ 2,034,641 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 30,818 | 31,215 |
| Realized (gains) losses on investments | (6,820) | 141,542 |
| Unrealized gains on investments | (4,641,429) | (1,989,501) |
| Loss on disposal of assets | 1,040 | 500 |
| Change in gift annuity reserve | 10,284 | 31,613 |
| Change in cash surrender value of life insurance | (294) | (357) |
| Non-cash stock contributions | (76,060) | (154,395) |
| Contributions to restricted funds | (1,368,650) | (545,527) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (58,241) | (87) |
| Pledges and accounts receivable | 3,750 | 44,882 |
| Prepaid expenses | (9,976) | 13,478 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (4,006) | (20,773) |
| Grants payable | 27,007 | 42,186 |
| Deferred revenue | | (102,927) |
| Annuity reserves | (30,737) | (5,653) |
| Agency funds | 60,624 | 16,751 |
| Net cash used in operating activities | <u>(581,350)</u> | <u>(462,412)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 1,789,914 | 8,383,746 |
| Purchases of investments | (3,378,521) | (8,324,206) |
| Capital expenditures | (12,102) | (19,463) |
| Net cash provided by (used in) investing activities | <u>(1,600,709)</u> | <u>40,077</u> |
| Cash flows from financing activities: | | |
| Cash received from contributors for restricted funds | 1,368,650 | 545,527 |
| Net cash provided by financing activities | <u>1,368,650</u> | <u>545,527</u> |
| Net increase (decrease) in cash and cash equivalents | (813,409) | 123,192 |
| Cash and cash equivalents at beginning of year | <u>1,974,460</u> | <u>1,851,268</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,161,051</u> | <u>\$ 1,974,460</u> |
| <u>Supplemental Disclosures</u> | | |
| Non-cash contributions | \$ 76,518 | \$ 157,919 |

The accompanying notes are an integral part of these statements.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

1. Nature of Activities

The Hancock County Community Foundation, Inc. and its affiliate, Legacy Properties of Hancock County Community Foundation, Inc. (Foundation) are not-for-profit corporations organized under the laws of the State of Indiana. The Hancock County Community Foundation, Inc. was organized to perpetuate the rich heritage of philanthropy in Hancock County, Indiana and to provide new opportunities for donors. The Foundation is committed to strengthening and enhancing all aspects of the quality of life in Hancock County by providing individuals and organizations wishing to contribute their resources with an effective and attractive way to channel their gifts to worthy community endeavors. Its contributions are received from private and public organizations or individuals.

Legacy Properties of Hancock County Community Foundation, Inc. was incorporated in Indiana on June 7, 2013 to support the Hancock County Community Foundation by accepting, purchasing, holding, disposing, and managing real and personal property for the benefit of the Foundation.

2. Basis of Accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and reflect all significant receivables, payables and other liabilities.

3. Financial Statement Presentation

The consolidated financial statements include the accounts of the Hancock County Community Foundation, Inc. and its affiliated organization, Legacy Properties of Hancock County Community Foundation, Inc. Inter-organization balances have been eliminated in the consolidated financial statements.

4. Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the financial year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

5. Cash and Cash Equivalents

The Foundation maintains its cash in accounts at financial institutions, which are insured by agencies of the U.S. Government. For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

6. Investments

Investments are recorded at fair value. The changes in the difference between fair value and cost are reflected in the consolidated financial statements as net unrealized gains or losses on investments. Investment income, net realized and unrealized gains or losses are classified as unrestricted, temporarily restricted or permanently restricted revenue or expenses, depending on the existence and/or nature of any donor restrictions.

7. Equipment and Depreciation

Purchased equipment is stated at cost. Donated equipment is recorded as support at the estimated fair value at the date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed according to the estimated useful lives of the respective assets using the straight-line method.

8. Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2017 and 2016, the Foundation exceeded the insured limit by approximately \$0- and \$20,666, respectively.

9. Net Assets and Spending Policy

Net assets are classified based upon the existence or absence of donor-imposed restrictions. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of the Foundation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Foundation.

Permanently restricted net assets represent the part of the net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

The Foundation's endowment consists of 257 and 252 individual funds established for a variety of purposes as of December 31, 2017 and 2016, respectively. The endowment includes both funds established by donors and funds designated by the Board to function as endowments (board-designated endowment funds). The Foundation maintains variance power over all of the endowment funds (including those established by donors) as provided within the fund agreements. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. While the Foundation ultimately has variance power over all of the assets maintained in endowment funds, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

9. Net Assets and Spending Policy (Continued)

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The investment objective of this Portfolio is to grow the assets of the Hancock County Community Foundation by an average of 1% per year, above and beyond the Payout Policy, average administrative fee, and inflation. Controlling portfolio volatility to help provide stable distributions from year to year is an additional objective.

The Foundation has a policy (the Payout Policy) of appropriating for expenditure each year 3.75% of its endowment fund's average fair value over the prior twelve quarters beginning with June 30 of the current year and looking back. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

10. Income Taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision has been made for income taxes.

11. Contributed Services

During the years ended December 31, 2017 and 2016, the value of contributed services meeting the requirements for recognition in the consolidated financial statements was not material and has not been recorded.

12. Grants and scholarships

Grants and scholarships, including multi-year awards, are recorded as an expense and a payable when grants are approved and communicated to the grantees. Grants and scholarships expense for the years ended December 31, 2017 and 2016 was \$860,996 and \$950,577, respectively.

13. Functional Allocation of Expenses

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

14. Compensated Absences

The Foundation's liability for compensated absences is immaterial; accordingly, no provision has been made for compensated absences.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

15. Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$6,307 and \$6,776 for the years ended December 31, 2017 and 2016, respectively.

16. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the total change in net assets.

17. Uncertain Tax Positions

The Foundation recognizes a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. The Foundation has examined this issue and has determined there are no material contingent tax liabilities.

The Foundation's federal and state exempt organization tax returns for 2014, 2015, and 2016 are subject to examination by the Internal Revenue Service and the Indiana Department of Revenue. Returns are generally subject to examination for three years after they are filed.

18. Estimates

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

NOTE B - INVESTMENTS

The following is an analysis of the cost and fair value at December 31, 2017 and 2016 by type of investment. The investments are held in uninsured trust accounts at various financial institutions.

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| | <u>Fair</u> | <u>Fair</u> |
| | <u>Value</u> | <u>Value</u> |
| Common stocks | \$ 14,780,490 | \$ 12,970,020 |
| Cash surrender value of life insurance | 8,486 | 8,193 |
| Land and land improvements | 779,183 | 764,955 |
| Mutual funds - fixed income: | | |
| US Government agency obligations | | 163 |
| Corporate bonds | 845,116 | 938,148 |
| Intermediate-term bonds | 2,600,200 | 2,370,448 |
| Short-term bonds | 2,078,809 | 2,449,254 |
| Total mutual funds - fixed income | <u>5,524,125</u> | <u>5,758,013</u> |

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|----------------------|----------------------|
| | Fair Value | Fair Value |
| Mutual funds - equities: | | |
| Foreign large blend | 4,645,553 | 2,570,924 |
| Large value | 1,164,575 | 1,000,726 |
| Small growth | 1,766,126 | 1,478,920 |
| Mid-cap blend | 772,748 | 647,996 |
| Small blend | 743,861 | 717,064 |
| Large growth | 2,526,197 | 1,920,132 |
| Large blend | 2,687,038 | 2,248,031 |
| Equity energy | 243,200 | 207,804 |
| Diversified emerging markets | 1,094,910 | 868,651 |
| Conservative allocation | 737,944 | |
| Real estate | 291,958 | 302,039 |
| Total mutual funds - equities | <u>16,674,110</u> | <u>11,962,287</u> |
| Total investments, at fair value | <u>\$ 37,766,394</u> | <u>\$ 31,463,468</u> |
| Total investments, at historical cost | <u>\$ 30,047,663</u> | <u>\$ 28,424,415</u> |

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2017 and 2016.

| | <u>2017</u> | | |
|---------------------------------|---------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Investment return | \$ 192,704 | \$ 695,756 | \$ 888,460 |
| Realized gains on investments | 1,861 | 4,959 | 6,820 |
| Unrealized gains on investments | 996,199 | 3,645,230 | 4,641,429 |
| | <u>\$ 1,190,764</u> | <u>\$ 4,345,945</u> | <u>\$ 5,536,709</u> |
| | <u>2016</u> | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Investment return | \$ 171,313 | \$ 593,017 | \$ 764,330 |
| Realized losses on investments | (31,673) | (109,869) | (141,542) |
| Unrealized gains on investments | 424,674 | 1,564,827 | 1,989,501 |
| | <u>\$ 564,314</u> | <u>\$ 2,047,975</u> | <u>\$ 2,612,289</u> |

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C - RISKS AND UNCERTAINTIES

The Foundation holds a variety of investments (Note B). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

NOTE D - FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A hierarchy of inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about the assumptions that market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables set forth financial assets measured at fair value in the Consolidated Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of December 31, 2017 and 2016, respectively:

| | 2017 | | | |
|------------------|---------------|---------------|------------|------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments | \$ 37,766,394 | \$ 36,978,725 | \$ 8,486 | \$ 779,183 |
| Liabilities: | | | | |
| Annuity reserves | \$ 287,128 | | \$ 287,128 | |

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

| | 2016 | | | |
|------------------|---------------|---------------|------------|------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments | \$ 31,463,468 | \$ 30,690,320 | \$ 8,193 | \$ 764,955 |
| Liabilities: | | | | |
| Annuity reserves | \$ 317,865 | | \$ 317,865 | |

The following schedule provides further detail of the land being held as a Level 3 fair value measurement using significant unobservable inputs at December 31, 2017 and 2016:

| | Level 3 | |
|-------------------|-------------------|-------------------|
| | 2017 | 2016 |
| Beginning balance | \$ 764,955 | \$ 764,955 |
| Additions | 14,228 | |
| Ending balance | <u>\$ 779,183</u> | <u>\$ 764,955</u> |

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the gift annuity payable is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with a discount rate of 2.6 percent. Fair value for the land in Level 3 investments is determined by appraisals and the value of land improvements.

NOTE E - PROPERTY, BUILDING AND EQUIPMENT

The amounts of fixed assets, net of depreciation, consist of the following at December 31,

| | 2017 | 2016 |
|-------------------------------|-------------------|-------------------|
| Land | \$ 374,600 | \$ 374,600 |
| Land improvements | 4,397 | 4,397 |
| Building improvements | 779,487 | 770,421 |
| Furniture and equipment | 95,510 | 98,946 |
| | <u>1,253,994</u> | <u>1,248,364</u> |
| Less accumulated depreciation | <u>429,822</u> | <u>404,436</u> |
| | <u>\$ 824,172</u> | <u>\$ 843,928</u> |

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE F - PLEDGES RECEIVABLE

During 2015, the Foundation began a campaign to raise funds for the Imagination Library of Hancock County Endowment Fund. Outstanding pledges at December 31, 2017 and 2016 totaled \$63,750 and \$60,000, respectively. Pledges receivable are due from businesses and are deemed to be fully collectible; therefore, no provision has been made for uncollectible pledges. Pledges deemed uncollectible are written off using the direct write-off method when that determination is made.

During 2016, a donor made a pledge to contribute \$22,500 to a fund. Outstanding pledges at December 31, 2017 and 2016 totaled \$15,000 and \$22,500, respectively. Pledges receivable are due from an individual and are deemed to be fully collectible; therefore, no provision has been made for uncollectible pledges. Pledges deemed uncollectible are written off using the direct write-off method when that determination is made.

The pledges made are payable over several years and have not been discounted. The following summarizes the amounts due for the next five years for the campaigns.

| | | |
|-------------------|----|--------|
| December 31, 2018 | \$ | 28,750 |
| 2019 | \$ | 28,750 |
| 2020 | \$ | 21,250 |
| 2021 | \$ | -0- |
| 2022 | \$ | -0- |

NOTE G - GRANTS PAYABLE

Grants approved and committed for future payments are payable in the following years.

| | | |
|---------------------|----|--------|
| December 31, 2018 | \$ | 96,235 |
| 2019 | \$ | 11,697 |
| 2020 | \$ | 5,449 |
| 2021 | \$ | 250 |
| 2022 and thereafter | \$ | -0- |

NOTE H - SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist of ten charitable gift annuities. The assets received are recorded at their fair value. The fair value of assets held for the charitable gift annuities totaled \$388,867 and \$392,909 at December 31, 2017 and 2016, respectively. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of future payment obligations at December 31, 2017 and 2016 was \$287,128 and \$317,865, respectively. The liabilities were determined using discount rates ranging from 1.8% to 2.6%. Changes in fair value of the charitable gift annuities are reflected as changes in unrestricted net assets in the Consolidated Statements of Activities.

Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of the split-interest agreements in the Consolidated Statements of Activities in their respective net asset classification.

NOTE I - ENDOWMENT FUNDS

In accordance with the Foundation's fund agreements, charitable endowments are classified as permanently restricted net assets. All other Foundation net assets are considered unrestricted or temporarily restricted. Donor restrictions have been imposed on a significant portion of the Foundation's net assets.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE I - ENDOWMENT FUNDS - Continued

Endowment net assets composition by type of fund as of December 31, 2017 and 2016 was as follows:

| | 2017 | | | Total |
|-------------------------------------|---------------------------|--|--|----------------------|
| | Unrestricted Endowment | Temporarily Restricted Endowment | Permanently Restricted Endowment | |
| Donor-restricted endowment funds | | \$ 7,202,601 | \$ 31,106,297 | \$ 38,308,898 |
| Board-designated endowment funds | \$ (451,427) | | | (451,427) |
| | <u>\$ (451,427)</u> | <u>\$ 7,202,601</u> | <u>\$ 31,106,297</u> | <u>\$ 37,857,471</u> |
| | 2016 | | | Total |
| | Unrestricted Endowment | Temporarily Restricted Endowment | Permanently Restricted Endowment | |
| Donor-restricted endowment funds | | \$ 3,904,210 | \$ 29,654,880 | \$ 33,559,090 |
| Board-designated endowment funds | \$ (1,136,587) | | | (1,136,587) |
| | <u>\$ (1,136,587)</u> | <u>\$ 3,904,210</u> | <u>\$ 29,654,880</u> | <u>\$ 32,422,503</u> |

Changes in endowment net assets for the years ended December 31, 2017 and 2016, were as follows:

| | 2017 | | |
|--|---------------------------|--|--|
| | Unrestricted Endowment | Temporarily Restricted Endowment | Permanently Restricted Endowment |
| Revenue and support | | | |
| Contributions and grant income | \$ 459 | \$ 38,115 | \$ 1,451,417 |
| Investment return | 187,091 | 698,879 | |
| Net appreciation of investments | 963,945 | 3,654,922 | |
| Total revenue and support | <u>1,151,495</u> | <u>4,391,916</u> | <u>1,451,417</u> |
| Appropriation of endowment assets for expenditure | <u>466,335</u> | <u>1,093,525</u> | |
| Change in endowment net assets | 685,160 | 3,298,391 | 1,451,417 |
| Endowment net assets, beginning of year | <u>(1,136,587)</u> | <u>3,904,210</u> | <u>29,654,880</u> |
| Endowment net assets, end of year | <u>\$ (451,427)</u> | <u>\$ 7,202,601</u> | <u>\$ 31,106,297</u> |

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE I - ENDOWMENT FUNDS - Continued

| | 2016 | | |
|--|---------------------------|--|--|
| | Unrestricted Endowment | Temporarily Restricted Endowment | Permanently Restricted Endowment |
| Revenue and support | | | |
| Contributions and grant income | \$ 459 | \$ 34,847 | \$ 545,527 |
| Investment return | 205,062 | 707,653 | |
| Net appreciation of investments | 374,046 | 1,430,170 | |
| Total revenue | <u>579,567</u> | <u>2,172,670</u> | <u>545,527</u> |
| Appropriation of endowment assets for expenditure | 969,080 | 1,368,523 | |
| Change in endowment net assets | <u>(389,513)</u> | <u>804,147</u> | <u>545,527</u> |
| Endowment net assets, beginning of year | <u>(747,074)</u> | <u>3,100,063</u> | <u>29,109,353</u> |
| Endowment net assets, end of year | <u>\$ (1,136,587)</u> | <u>\$ 3,904,210</u> | <u>\$ 29,654,880</u> |

Occasionally, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor of UPMIFA requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2017, 6 of the 257 endowment funds had deficiencies totaling \$509,584. As of December 31, 2016, 15 of the 252 endowment funds had deficiencies totaling \$755,258. Deficiencies resulted from the sale of donated investment property and investment returns lower than the required payout rates for charitable gift annuities.

NOTE J - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are composed of the following types of funds at December 31,

| | 2017 | 2016 |
|-------------------|---------------------|---------------------|
| Designated | \$ 3,853,686 | \$ 2,179,832 |
| Donor advised | 502,840 | 393,983 |
| Scholarship | 1,828,839 | 975,659 |
| Field of interest | 1,295,720 | 681,409 |
| Administrative | 36,364 | 5,498 |
| | <u>\$ 7,517,449</u> | <u>\$ 4,236,381</u> |

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE J - RESTRICTIONS ON NET ASSETS - Continued

Permanently restricted net assets are composed of the following types of funds at December 31,

| | <u>2017</u> | <u>2016</u> |
|-------------------|----------------------|----------------------|
| Designated | \$ 15,042,395 | \$ 13,873,553 |
| Donor advised | 732,594 | 625,493 |
| Scholarship | 6,408,402 | 6,314,327 |
| Field of interest | 6,414,569 | 6,335,600 |
| Administrative | <u>2,508,337</u> | <u>2,505,907</u> |
| | <u>\$ 31,106,297</u> | <u>\$ 29,654,880</u> |

NOTE K - ADMINISTRATION MANAGEMENT

The Foundation assesses an administrative charge of 1% to 2.5% on endowment and pass-through funds. Fees are assessed quarterly based on the quarterly balance one prior quarter. This amount is used primarily to support the operations of the Foundation.

For the years ended December 31, 2017 and 2016, \$503,658 and \$422,666, respectively, is included as support and revenue and \$500,550 and \$420,325, respectively, is included as an expense. Due to the fact that administrative charges to various funds are considered a significant measure of the operations of community foundations, these fees have not been eliminated in the consolidated financial statements.

NOTE L - RETIREMENT PLAN

Full-time Foundation employees are eligible to participate in its Simple IRA plan. Under the plan, the employees may contribute a specified portion of their compensation, and the Foundation will match the employee contributions up to 3%. The Foundation contributed \$8,492 and \$6,473 for the years ended December 31, 2017 and 2016, respectively.

NOTE M - RENTAL INCOME

The Foundation leases office space and farm land to various organizations. The leases run through October 31, 2019 and contain options for extension. Future minimum lease revenue is as follows.

| | |
|-------------------|------------------|
| December 31, 2018 | \$ 55,003 |
| 2019 | 41,730 |
| 2020 | -0- |
| 2021 | -0- |
| 2022 | <u>-0-</u> |
| | <u>\$ 96,733</u> |

During the years ended December 31, 2017 and 2016, the Foundation received rental income for the office space of \$23,855 and \$22,774, respectively, and \$34,593 and \$34,593, respectively, for the farm land.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE N - OPERATING LEASE

The Foundation leases office equipment under a five year lease agreement. Monthly lease payments are \$222 per month. Total lease expense for the years ended December 31, 2017 and 2016 was \$3,644 and \$2,685, respectively. Future minimum payments on the above lease are as follows.

| | | |
|-------------------|----|-------|
| December 31, 2018 | \$ | 3,528 |
| 2019 | \$ | 3,528 |
| 2020 | \$ | 3,528 |
| 2021 | \$ | 3,528 |
| 2022 | \$ | 588 |

NOTE O - AGENCY FUNDS

The Foundation reports contributions as a liability when third party organizations transfer these assets to the Foundation and specify themselves, or their affiliates, as the beneficiary. These liabilities are offset by the Foundation's investments.

During the years ended December 31, 2017 and 2016, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the statement of activities.

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Support and revenue | | |
| Contributions | \$ 19,415 | \$ 6,000 |
| Investment income | 8,811 | 6,085 |
| Realized gains (losses) on investments | 8 | (1,112) |
| Unrealized gains on investments | <u>43,984</u> | <u>14,851</u> |
| | \$ 72,218 | \$ 25,824 |
| Expenses | | |
| Grants | 7,605 | 5,895 |
| Investment management fees | 880 | 830 |
| Administrative fees | <u>3,109</u> | <u>2,348</u> |
| | <u>11,594</u> | <u>9,073</u> |
| Increase in agency funds | 60,624 | 16,751 |
| Balance at beginning of year | <u>256,021</u> | <u>239,270</u> |
| Balance at end of year | <u>\$ 316,645</u> | <u>\$ 256,021</u> |

NOTE P - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through June 21, 2018, which is the date these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2017, have been incorporated into these consolidated financial statements herein.

SUPPLEMENTAL INFORMATION



Independent Auditors' Report on
Supplemental Information

**Board of Directors
Hancock County Community Foundation, Inc. and Affiliate**

We have audited the consolidated financial statements of Hancock County Community Foundation, Inc. and Affiliate as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated June 21, 2018, which contained an unqualified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and consolidating statements of activities are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Estep Burkey Simmons, LLC

Muncie, Indiana
June 21, 2018

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

December 31,

2017

| | Hancock County Community Foundation, Inc. | Legacy Properties of Hancock County Community Foundation, Inc. | Eliminations | Total |
|---------------------------------------|---|---|--------------|----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,125,433 | \$ 35,618 | \$ - | \$ 1,161,051 |
| Investments | 36,987,211 | 779,183 | - | 37,766,394 |
| Accounts receivable | 57,097 | 1,374 | - | 58,471 |
| Pledges receivable | 78,750 | - | - | 78,750 |
| Prepaid expenses | 29,825 | 2,286 | - | 32,111 |
| Property, building and equipment, net | 14,835 | 809,337 | - | 824,172 |
| | <u>\$ 38,293,151</u> | <u>\$ 1,627,798</u> | <u>\$ -</u> | <u>\$ 39,920,949</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 11,558 | \$ 2,548 | \$ - | \$ 14,106 |
| Grants payable | 113,631 | - | - | 113,631 |
| Annuity reserves | 287,128 | - | - | 287,128 |
| Agency funds | 316,645 | - | - | 316,645 |
| | <u>728,962</u> | <u>2,548</u> | <u>-</u> | <u>731,510</u> |
| NET ASSETS | | | | |
| Unrestricted | (40,980) | 606,673 | - | 565,693 |
| Temporarily restricted | 7,484,172 | 33,277 | - | 7,517,449 |
| Permanently restricted | 30,120,997 | 985,300 | - | 31,106,297 |
| | <u>37,564,189</u> | <u>1,625,250</u> | <u>-</u> | <u>39,189,439</u> |
| | <u>\$ 38,293,151</u> | <u>\$ 1,627,798</u> | <u>\$ -</u> | <u>\$ 39,920,949</u> |

2016

| Hancock County Community Foundation, Inc. | Legacy Properties of Hancock County Community Foundation, Inc. | Eliminations | Total |
|---|---|--------------|----------------------|
| \$ 1,937,039 | \$ 37,421 | \$ - | \$ 1,974,460 |
| 30,698,512 | 764,956 | - | 31,463,468 |
| 230 | - | - | 230 |
| 82,500 | - | - | 82,500 |
| 20,125 | 2,010 | - | 22,135 |
| 19,215 | 824,713 | - | 843,928 |
| <u>\$ 32,757,621</u> | <u>\$ 1,629,100</u> | <u>\$ -</u> | <u>\$ 34,386,721</u> |
| \$ 16,806 | \$ 1,306 | \$ - | \$ 18,112 |
| 86,624 | - | - | 86,624 |
| 317,865 | - | - | 317,865 |
| 256,021 | - | - | 256,021 |
| 677,316 | 1,306 | - | 678,622 |
| (798,461) | 615,299 | - | (183,162) |
| 4,209,186 | 27,195 | - | 4,236,381 |
| 28,669,580 | 985,300 | - | 29,654,880 |
| <u>32,080,305</u> | <u>1,627,794</u> | <u>-</u> | <u>33,708,099</u> |
| <u>\$ 32,757,621</u> | <u>\$ 1,629,100</u> | <u>\$ -</u> | <u>\$ 34,386,721</u> |

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF ACTIVITIES

Year Ended December 31, 2017

| | Hancock County Community Foundation, Inc. | | | Legacy Properties of Hancock County Community Foundation, Inc. | | | Eliminations | Total |
|---|--|---------------------------|---------------------------|---|---------------------------|---------------------------|-----------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and revenue | | | | | | | | |
| Contributions | \$ 23,596 | \$ 89,298 | \$ 1,368,650 | \$ 11,694 | | | \$ (34,771) | \$ 1,458,467 |
| Administrative fee income | 500,199 | | | 3,459 | | | | 503,658 |
| Investment return | 1,190,754 | 4,345,945 | | 10 | | | | 5,536,709 |
| Change in gift annuity reserve | | (10,284) | | | | | | (10,284) |
| Change in cash surrender value of life insurance | | 294 | | | | | | 294 |
| Farm and rental income | | | | 26,737 | \$ 34,593 | | (2,882) | 58,448 |
| Loss on disposal of assets | (1,040) | | | | | | | (1,040) |
| Other income | 84,184 | | | | | | | 84,184 |
| | <u>1,797,693</u> | <u>4,425,253</u> | <u>1,368,650</u> | <u>41,900</u> | <u>34,593</u> | | <u>(37,653)</u> | <u>7,630,436</u> |
| Net assets released from restrictions | | | | | | | | |
| Restrictions satisfied by payments | 1,067,500 | (1,067,500) | | 28,511 | (28,511) | | | |
| Expenses | | | | | | | | |
| Program services | | | | | | | | |
| Grants and scholarships | 875,113 | | | 23,536 | | | (37,653) | 860,996 |
| Program expenses | 320,787 | | | | | | | 320,787 |
| Supporting services | | | | | | | | |
| Management and general | 113,989 | | | 52,042 | | | | 166,031 |
| Investment trustee fees | 89,140 | | | | | | | 89,140 |
| Administrative fees | 497,091 | | | 3,459 | | | | 500,550 |
| Development expenses | 211,592 | | | | | | | 211,592 |
| | <u>2,107,712</u> | | | <u>79,037</u> | | | <u>(37,653)</u> | <u>2,149,096</u> |
| CHANGE IN NET ASSETS | <u>757,481</u> | <u>3,357,753</u> | <u>1,368,650</u> | <u>(8,626)</u> | <u>6,082</u> | | | <u>5,481,340</u> |
| Net assets at beginning of year | (798,461) | 4,209,186 | 28,669,580 | 615,299 | 27,195 | \$ 985,300 | | 33,708,099 |
| Transfer of net assets | | (82,767) | 82,767 | | | | | |
| Net assets at end of year | <u>\$ (40,980)</u> | <u>\$ 7,484,172</u> | <u>\$ 30,120,997</u> | <u>\$ 606,673</u> | <u>\$ 33,277</u> | <u>\$ 985,300</u> | | <u>\$ 39,189,439</u> |

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF ACTIVITIES

Year Ended December 31, 2016

| | Hancock County Community Foundation, Inc. | | | Legacy Properties of Hancock County Community Foundation, Inc. | | | Eliminations | Total |
|---|---|---------------------------|---------------------------|---|---------------------------|---------------------------|--------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| | Support and revenue | | | | | | | |
| Contributions | \$ 23,009 | \$ 489,861 | \$ 545,527 | \$ 12,408 | | | \$ (28,343) | \$ 1,042,462 |
| Administrative fee income | 419,207 | | | 3,459 | | | | 422,666 |
| Investment return | 564,306 | 2,047,975 | | 8 | | | | 2,612,289 |
| Change in gift annuity reserve | | (31,613) | | | | | | (31,613) |
| Change in cash surrender value of life insurance | | 357 | | | | | | 357 |
| Farm and rental income | | | | 25,586 | \$ 34,593 | | (2,812) | 57,367 |
| Loss on disposal of assets | (500) | | | | | | | (500) |
| Other income | 68,893 | | | | | | | 68,893 |
| | <u>1,074,915</u> | <u>2,506,580</u> | <u>545,527</u> | <u>41,461</u> | <u>34,593</u> | | | <u>4,171,921</u> |
| Net assets released from restrictions | | | | | | | | |
| Restrictions satisfied by payments | 2,271,343 | (2,271,343) | | 22,435 | (22,435) | | | |
| Expenses | | | | | | | | |
| Program services | | | | | | | | |
| Grants and scholarships | 965,338 | | | 16,394 | | | (31,155) | 950,577 |
| Program expenses | 301,709 | | | | | | | 301,709 |
| Supporting services | | | | | | | | |
| Management and general | 106,924 | | | 54,826 | | | | 161,750 |
| Investment trustee fees | 103,247 | | | | | | | 103,247 |
| Administrative fees | 416,866 | | | 3,459 | | | | 420,325 |
| Development expenses | 199,672 | | | | | | | 199,672 |
| | <u>2,093,756</u> | | | <u>74,679</u> | | | | <u>2,137,280</u> |
| CHANGE IN NET ASSETS | <u>1,252,502</u> | <u>235,237</u> | <u>545,527</u> | <u>(10,783)</u> | <u>12,158</u> | | | <u>2,034,641</u> |
| Net assets at beginning of year | (2,050,963) | 3,973,949 | 28,124,053 | 626,082 | 15,037 | \$ 985,300 | | 31,673,458 |
| Transfer of net assets | | | | | | | | |
| Net assets at end of year | <u>\$ (798,461)</u> | <u>\$ 4,209,186</u> | <u>\$ 28,669,580</u> | <u>\$ 615,299</u> | <u>\$ 27,195</u> | <u>\$ 985,300</u> | | <u>\$ 33,708,099</u> |