

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

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2018 and 2017

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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 consolidated financial statements of Hancock County Community Foundation, Inc. and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, 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 consolidated financial position of Hancock County Community Foundation, Inc. and Affiliate as of December 31, 2018 and 2017, and the changes in their consolidated net assets and their consolidated 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 20, 2019

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

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 3,336,370	\$ 1,161,051
Investments	35,026,560	37,766,394
Accounts receivable	-	58,471
Estate receivable	329,882	-
Pledges receivable	202,217	78,750
Prepaid expenses	18,593	32,111
Trust receivable	56,094	-
Property, building and equipment, net	819,676	824,172
	\$ 39,789,392	\$ 39,920,949
LIABILITIES		
Accounts payable	\$ 6,947	\$ 14,106
Grants payable	142,636	113,631
Deferred revenue	429,776	-
Annuity reserves	237,567	287,128
Agency funds	333,619	316,645
Total liabilities	1,150,545	731,510
NET ASSETS		
Without donor restrictions	1,249,945	1,465,867
With donor restrictions	37,388,902	37,723,572
	38,638,847	39,189,439
	\$ 39,789,392	\$ 39,920,949

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,

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 2,808	\$ 2,658,345	\$ 2,661,153
Investment return (loss), net	(39,321)	(1,545,320)	(1,584,641)
Change in gift annuity reserve		8,536	8,536
Change in cash surrender value of life insurance		(153)	(153)
Rental income	24,550		24,550
Farm income		34,169	34,169
Loss on disposal of assets	(791)		(791)
Other income	59,890		59,890
	<u>47,136</u>	<u>1,155,577</u>	<u>1,202,713</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	929,498	(929,498)	
Expenses			
Program services	1,332,675		1,332,675
Supporting services			
Management and general	227,129		227,129
Development expenses	197,579		197,579
	<u>1,757,383</u>		<u>1,757,383</u>
Transfer of administrative fees	564,827	(560,749)	4,078
CHANGE IN NET ASSETS	(215,922)	(334,670)	(550,592)
Net assets at beginning of year	<u>1,465,867</u>	<u>37,723,572</u>	<u>39,189,439</u>
Net assets at end of year	<u>\$ 1,249,945</u>	<u>\$ 37,388,902</u>	<u>\$ 38,638,847</u>

The accompanying notes are an integral part of these statements.

2017		
<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total</u>
\$ 519	\$ 1,457,948	\$ 1,458,467
370,512	5,077,057	5,447,569
	(10,284)	(10,284)
	294	294
23,855		23,855
	34,593	34,593
(1,040)		(1,040)
84,184		84,184
<u>478,030</u>	<u>6,559,608</u>	<u>7,037,638</u>
885,941	(885,941)	
1,181,783		1,181,783
166,031		166,031
211,592		211,592
<u>1,559,406</u>	<u></u>	<u>1,559,406</u>
<u>503,658</u>	<u>(500,550)</u>	<u>3,108</u>
308,223	5,173,117	5,481,340
<u>1,157,644</u>	<u>32,550,455</u>	<u>33,708,099</u>
<u>\$ 1,465,867</u>	<u>\$ 37,723,572</u>	<u>\$ 39,189,439</u>

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2018			
	Grant- making	Management & General	Development	Total
Grants and scholarships	\$ 1,004,435			\$ 1,004,435
Salaries and wages	121,947	\$ 136,251	\$ 102,478	360,676
Payroll taxes	10,731	12,048	9,017	31,796
Employee benefits	8,619	9,677	7,243	25,539
Program expenses	98,547			98,547
Insurance	6,030	5,068	1,863	12,961
Property repairs and maintenance	1,897	16,589		18,486
Legal and professional fees	5,172	789	2,367	8,328
Utilities		5,911		5,911
Telephone and internet	1,228	1,677	614	3,519
Merchant fees	1,106	237		1,343
Dues and subscriptions	3,662	610	1,831	6,103
Travel and meetings	4,604	767	2,302	7,673
Bank fees	638	106	319	1,063
Office and building supplies	4,980	2,898	2,490	10,368
Postage	5,709	952	2,855	9,516
Technology	25,752	4,292	12,876	42,920
Human resources	7,946	1,324	3,973	13,243
Development expenses			40,717	40,717
Miscellaneous expenses	16,182	2,751		18,933
Depreciation	3,490	25,182	6,634	35,306
	<u>\$ 1,332,675</u>	<u>\$ 227,129</u>	<u>\$ 197,579</u>	<u>\$ 1,757,383</u>

The accompanying notes are an integral part of these statements.

2017

<u>Grant- making</u>	<u>Management & General</u>	<u>Development</u>	<u>Total</u>
\$ 860,996			\$ 860,996
142,769	\$ 88,582	\$ 106,305	337,656
12,568	7,798	9,358	29,724
9,963	6,181	7,418	23,562
84,573			84,573
3,703	5,238	1,852	10,793
	14,600		14,600
5,525	1,413	2,762	9,700
	7,249		7,249
1,624	1,431	812	3,867
1,549	262		1,811
3,752	625	1,876	6,253
3,788	631	1,894	6,313
714	119	357	1,190
9,406	1,568	2,355	13,329
5,254	876	2,627	8,757
26,253	4,376	13,127	43,756
4,659	777	2,330	7,766
		53,958	53,958
758	1,599	378	2,735
3,929	22,706	4,183	30,818
<u>\$ 1,181,783</u>	<u>\$ 166,031</u>	<u>\$ 211,592</u>	<u>\$ 1,559,406</u>

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (550,592)	\$ 5,481,340
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	35,306	30,818
Realized gains on investments	(425,010)	(6,820)
Unrealized (gains) losses on investments	3,080,180	(4,641,429)
Loss on disposal of assets	791	1,040
Change in gift annuity reserve	(8,536)	10,284
Change in cash surrender value of life insurance	153	(294)
Non-cash stock contributions	(93,785)	(76,060)
Contributions to restricted funds	(2,495,543)	(1,368,650)
(Increase) decrease in assets:		
Accounts receivable	58,471	(58,241)
Pledges and accounts receivable	(123,467)	3,750
Prepaid expenses	13,518	(9,976)
Estate receivable	(329,882)	
Trust receivable	(56,094)	
Increase (decrease) in liabilities:		
Accounts payable	(7,159)	(4,006)
Grants payable	29,005	27,007
Deferred revenue	429,776	
Annuity reserves	(49,561)	(30,737)
Agency funds	16,974	60,624
Net cash used in operating activities	<u>(475,455)</u>	<u>(581,350)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	4,379,669	1,789,914
Purchases of investments	(4,197,987)	(3,378,521)
Capital expenditures	(26,451)	(12,102)
Net cash provided by (used in) investing activities	<u>155,231</u>	<u>(1,600,709)</u>
Cash flows from financing activities:		
Cash received from contributors for restricted funds	<u>2,495,543</u>	<u>1,368,650</u>
Net cash provided by financing activities	<u>2,495,543</u>	<u>1,368,650</u>
Net increase (decrease) in cash and cash equivalents	2,175,319	(813,409)
Cash and cash equivalents at beginning of year	<u>1,161,051</u>	<u>1,974,460</u>
Cash and cash equivalents at end of year	<u>\$ 3,336,370</u>	<u>\$ 1,161,051</u>
<u>Supplemental Disclosures</u>		
Non-cash contributions	\$ 96,136	\$ 76,518

The accompanying notes are an integral part of these statements.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 net assets without donor restrictions if the restrictions expire in the financial year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

6. Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the Consolidated Statements of Financial Position. Net investment return/(loss) is reported in the Consolidated Statements of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

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 support without donor restrictions 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. Deferred Revenue

During 2018, the Foundation received a \$1,000,000 grant from Lilly Endowment, Inc. GIFT VII, which has a matching requirement. The Foundation has raised \$360,112 towards the matching requirement and recorded \$570,224 as contribution revenue from the matching grant. The unmatched portion of the Lilly Endowment, Inc. GIFT VII is \$429,776 as of December 31, 2018 and is recorded as deferred revenue on the Consolidated Statements of Financial Position.

9. 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, 2018 and 2017, the Foundation exceeded the insured limit by approximately \$1,008,000 and \$-0-, respectively.

10. Net Assets and Spending Policy

Net assets, support, investment return, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. While most gift instruments give the Foundation's Board of Directors the right to vary the terms of the gift, this only allows for a limited right of modification and does not relieve the restrictions imposed by the donor. Accordingly, the net assets of the Foundation are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and comprised of the Foundation's board designated funds and unrestricted investment income.

Net assets with donor restrictions - Net assets not yet appropriated for expenditure by the Foundation's Board of Directors in accordance with their spending policy or that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, net assets are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

The Foundation's endowment consists of 276 and 257 individual funds established for a variety of purposes as of December 31, 2018 and 2017, 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, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

10. 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.

11. 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.

12. Contributed Services

During the years ended December 31, 2018 and 2017, the value of contributed services meeting the requirements for recognition in the consolidated financial statements was not material and has not been recorded.

13. 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, 2018 and 2017 was \$1,004,435 and \$860,996, respectively.

14. Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. Those expenses include depreciation, insurance, printing and publications, rent, telephone, repairs and maintenance, office supplies, postage, salaries and wages, payroll taxes, benefits, conferences and meetings, and miscellaneous expenses. These expenses are allocated on the basis of estimates of time and effort.

15. Compensated Absences

The employees of the Foundation qualify for earned time off based upon length of service. Earned time off is intended to be used by the end of the calendar year, but can be carried over to the subsequent year and used within six months. Any unused earned time off is paid to an employee upon termination based upon the employee's hourly rate. The Foundation's policy is to recognize the cost of compensated absences when actually paid to employees.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

16. Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$6,323 and \$6,307 for the years ended December 31, 2018 and 2017, respectively.

17. 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.

18. 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 2015, 2016, and 2017 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.

19. 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 - PROPERTY, BUILDING AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Land	\$ 374,600	\$ 374,600
Land improvements	4,397	4,397
Building and improvements	791,524	779,487
Furniture and equipment	<u>103,432</u>	<u>95,510</u>
	1,273,953	1,253,994
Less accumulated depreciation	<u>454,277</u>	<u>429,822</u>
	<u>\$ 819,676</u>	<u>\$ 824,172</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE C - RISKS AND UNCERTAINTIES

The Foundation holds a variety of investments (Note D). 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 - INVESTMENTS

The following is an analysis of the cost and fair value at December 31, 2018 and 2017 by type of investment. The investments are held in uninsured trust accounts at various financial institutions.

	<u>2018</u>	<u>2017</u>
	Fair Value	Fair Value
Common stocks	\$ 13,414,364	\$ 14,780,490
Cash surrender value of life insurance	8,333	8,486
Land and land improvements	779,183	779,183
Mutual funds - equities:		
Foreign large blend	3,912,648	4,645,553
Large value	1,189,203	1,164,575
Small growth	1,933,471	1,766,126
Mid-cap blend	701,422	772,748
Small blend	653,295	743,861
Large growth	2,516,065	2,526,197
Large blend	2,668,206	2,687,038
Equity energy		243,200
Diversified emerging markets	897,631	1,094,910
Conservative allocation	683,125	737,944
Real estate	205,010	291,958
Total mutual funds - equities	<u>15,360,076</u>	<u>16,674,110</u>
Mutual funds - fixed income:		
Corporate bonds	903,142	845,116
Intermediate-term bonds	2,596,338	2,600,200
Short-term bonds	1,965,124	2,078,809
Total mutual funds - fixed income	<u>5,464,604</u>	<u>5,524,125</u>
Total investments, at fair value	<u>\$ 35,026,560</u>	<u>\$ 37,766,394</u>
Total investments, at historical cost	<u>\$ 30,344,151</u>	<u>\$ 30,047,663</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE E - 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, 2018 and 2017, respectively:

	2018			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 35,026,560	\$ 34,239,044	\$ 8,333	\$ 779,183
Trust receivable	\$ 56,094		\$ 56,094	
Liabilities:				
Annuity reserves	\$ 237,567		\$ 237,567	

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE E - FAIR VALUE MEASUREMENTS - Continued

	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	

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, 2018 and 2017:

	Level 3	
	2018	2017
Beginning balance	\$ 779,183	\$ 764,955
Additions	-	14,228
Ending balance	<u>\$ 779,183</u>	<u>\$ 779,183</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 trust receivable is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with a discount rate of 3.6 percent. 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 3.6 percent. Fair value for the land in Level 3 investments is determined by appraisals and the value of land improvements.

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, 2018 and 2017 totaled \$48,717 and \$63,750, 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, 2018 and 2017 totaled \$7,500 and \$15,000, 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.

During 2018, the Foundation began a campaign to raise funds for the Lilly Endowment, Inc. GIFT VII matching program. Outstanding pledges at December 31, 2018 and 2017 totaled \$146,000 and \$-0-, respectively. Pledges receivable are due from individuals 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.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE F - PLEDGES RECEIVABLE - Continued

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, 2019	\$	132,667
2020	\$	69,550
2021	\$	-0-
2022	\$	-0-
2023	\$	-0-

NOTE G - ESTATE RECEIVABLE

During 2018, the Foundation was notified it was the beneficiary of an estate. The estate consisted of one estate gift recorded at the cash surrender value of three annuities. As of December 31, 2018 and 2017, the value of the estate receivable was \$329,882 and \$-0-.

NOTE H - TRUST RECEIVABLE

During 2018, the Foundation was notified that it was a residual beneficiary of a trust with a local bank naming the Foundation as a 10% residual beneficiary of a charitable remainder unitrust. Under this type of charitable remainder trust, the current income beneficiary is to receive distributions in the amount of 5% of the fair value of the trust annually until death. Upon the death of the current income beneficiary, 10% of the remaining assets in the trust pass to the Foundation for investment in a field of interest endowment fund. Based on the current income beneficiary's life expectancy and a 3.6% discount rate, the present value of future benefits expected to be received by the Foundation was estimated to be \$56,094 at December 31, 2018.

NOTE I - GRANTS PAYABLE

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

December 31, 2019	\$	122,097
2020	\$	12,869
2021	\$	7,670
2022	\$	-0-
2023 and thereafter	\$	-0-

NOTE J - 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 \$346,166 and \$388,867 at December 31, 2018 and 2017, 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, 2018 and 2017 was \$237,567 and \$287,128, respectively. The liabilities were determined using discount rates ranging from 2.6% to 3.6%. Changes in fair value of the charitable gift annuities are reflected as changes in net assets without donor restrictions 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.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE K - ENDOWMENT FUNDS

Endowment net assets composition by type of fund as of December 31, 2018 and 2017 was as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 211,155		\$ 211,155
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		\$ 33,420,985	33,420,985
Accumulated investment gains		3,396,545	3,396,545
	<u>\$ 211,155</u>	<u>\$ 36,817,530</u>	<u>\$ 37,028,685</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 227,828		\$ 227,828
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		\$ 30,864,185	30,864,185
Accumulated investment gains		6,283,419	6,283,419
	<u>\$ 227,828</u>	<u>\$ 37,147,604</u>	<u>\$ 37,375,432</u>

Changes in endowment net assets for the years ended December 31, 2018 and 2017, were as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grant income		\$ 2,561,797	\$ 2,561,797
Investment loss, net	\$ (9,849)	(1,613,786)	(1,623,635)
Total revenue and support	<u>(9,849)</u>	<u>948,011</u>	<u>938,162</u>
Appropriation of endowment assets for expenditure	<u>6,824</u>	<u>1,278,085</u>	<u>1,284,909</u>
Change in endowment net assets	<u>(16,673)</u>	<u>(330,074)</u>	<u>(346,747)</u>
Endowment net assets, beginning of year	<u>227,828</u>	<u>37,147,604</u>	<u>37,375,432</u>
Endowment net assets, end of year	<u>\$ 211,155</u>	<u>\$ 36,817,530</u>	<u>\$ 37,028,685</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE K - ENDOWMENT FUNDS - Continued

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grant income		\$ 1,489,532	\$ 1,489,532
Investment return, net	\$ 36,486	4,353,801	4,390,287
Total revenue	36,486	5,843,333	5,879,819
Appropriation of endowment assets for expenditure	11,821	915,069	926,890
Change in endowment net assets	24,665	4,928,264	4,952,929
Endowment net assets, beginning of year	203,163	32,219,340	32,422,503
Endowment net assets, end of year	\$ 227,828	\$ 37,147,604	\$ 37,375,432

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, 2018, 22 of the 276 endowment funds had deficiencies totaling \$720,227. As of December 31, 2017, 6 of the 257 endowment funds had deficiencies totaling \$509,584. Deficiencies resulted mainly from the sale of donated investment property and investment returns lower than the required payout rates for charitable gift annuities.

NOTE L - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Purpose restrictions accomplished:		
Designated	\$ 311,601	\$ 321,041
Donor advised	45,963	38,058
Scholarship	272,730	246,984
Field of interest	209,933	184,452
Operating	92,719	95,406
	<u>\$ 932,946</u>	<u>\$ 885,941</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE M – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specific purpose:		
Designated	\$ 57,012	\$ 22,862
Donor advised	234,110	236,744
Field of interest	<u>20,376</u>	<u>24,783</u>
	311,498	284,389
Subject to the passage of time:		
Estate receivable, the proceeds from which have been restricted by donors for designated purposes	329,882	
Trust receivable, the proceeds from which have been restricted by donors for field of interest	56,094	
Pledges receivable, the proceeds from which have been restricted by donors for:		
Designated	48,717	63,750
Field of interest	146,000	
Scholarship	<u>7,500</u>	<u>15,000</u>
	588,193	78,750
Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Restricted by donors for:		
Designated	4,828	14,772
Donor advised	17,403	20,000
Scholarship	85,901	35,919
Field of interest	<u>62,106</u>	<u>68,088</u>
	170,238	138,779
Subject to appropriation and expenditure when a specific event occurs:		
Proceeds from gift annuity upon death of the annuitant	303,087	315,420
Subject to Foundation spending and appropriation:		
Designated	18,682,242	18,794,698
Donor advised	918,651	978,689
Scholarship	7,634,233	8,186,322
Field of interest	6,975,318	6,911,409
Operating	2,525,669	2,544,701
Underwater endowments	<u>(720,227)</u>	<u>(509,585)</u>
	<u>36,015,886</u>	<u>36,906,234</u>
	<u>\$ 37,388,902</u>	<u>\$ 37,723,572</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE N - LIQUIDITY

The Foundation has financial assets without donor restrictions available within one year of the Consolidated Statements of Financial Position date consisting of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 454,051	\$ 405,887

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the Consolidated Statements of Financial Position date. As part of its liquidity management, the Foundation invests cash in excess of daily requirements in various cash equivalents including money market funds and other interest earning opportunities.

NOTE O - 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 \$9,117 and \$8,492 for the years ended December 31, 2018 and 2017, respectively.

NOTE P - RENTAL INCOME

The Foundation leases office space and farm land to various organizations. The leases run through February 28, 2022 and contain options for extension. Future minimum lease revenue is as follows.

December 31, 2019	\$ 53,899
2020	14,762
2021	8,465
2022	-0-
2023	-0-
	<u>\$ 77,126</u>

During the years ended December 31, 2018 and 2017, the Foundation received rental income for the office space of \$24,550 and \$23,855, respectively, and \$34,169 and \$34,593, respectively, for the farm land.

NOTE Q - OPERATING LEASE

The Foundation leases office equipment under a five year lease agreement. Monthly lease payments are \$294 per month. Total lease expense for the years ended December 31, 2018 and 2017 was \$3,537 and \$3,644, respectively. Future minimum payments on the above lease are as follows.

December 31, 2019	\$ 3,528
2020	\$ 3,528
2021	\$ 3,528
2022	\$ 588
2023	\$ -0-

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE R - 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.

NOTE S - 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, 2018 and 2017, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the Consolidated Statements of Activities.

	<u>2018</u>	<u>2017</u>
Support and revenue		
Contributions	\$ 51,896	\$ 19,415
Investment return (loss), net	<u>(20,114)</u>	<u>51,923</u>
	\$ 31,782	\$ 71,338
Expenses		
Grants	10,735	7,605
Administrative fees	<u>4,073</u>	<u>3,109</u>
	<u>14,808</u>	<u>10,714</u>
Increase in agency funds	16,974	60,624
Balance at beginning of year	<u>316,645</u>	<u>256,021</u>
Balance at end of year	<u>\$ 333,619</u>	<u>\$ 316,645</u>

NOTE T - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through June 20, 2019, which is the date these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2018, have been incorporated into these consolidated financial statements herein.

NOTE U - CHANGE IN ACCOUNTING PRINCIPLE

During 2018, the Foundation adopted FASB ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 has been implemented and adjustments have been made to the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented which increased net assets without donor restrictions by \$900,174 and decreased net assets with donor restrictions by \$900,174 resulting from reclassifications of underwater endowment funds and the treatment of operating and unrestricted endowment funds as required under ASU 2016-14.

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, 2018 and 2017, and have issued our report thereon dated June 20, 2019, 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 consolidated 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 20, 2019

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

December 31,

2018

	Hancock County Community Foundation, Inc.	Legacy Properties of Hancock County Community Foundation, Inc.	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 3,302,335	\$ 34,035	\$ -	\$ 3,336,370
Investments	34,247,377	779,183	-	35,026,560
Accounts receivable	-	-	-	-
Estate receivable	329,882	-	-	329,882
Pledges receivable	202,217	-	-	202,217
Prepaid expenses	14,938	3,655	-	18,593
Trust receivable	56,094	-	-	56,094
Property, building and equipment, net	20,355	799,321	-	819,676
	<u>\$ 38,173,198</u>	<u>\$ 1,616,194</u>	<u>\$ -</u>	<u>\$ 39,789,392</u>
LIABILITIES				
Accounts payable	\$ 5,907	\$ 1,040	\$ -	\$ 6,947
Grants payable	142,636	-	-	142,636
Deferred revenue	429,776	-	-	429,776
Annuity reserves	237,567	-	-	237,567
Agency funds	333,619	-	-	333,619
Total liabilities	1,149,505	1,040	-	1,150,545
NET ASSETS				
Without donor restrictions	659,942	590,003	-	1,249,945
With donor restrictions	36,363,751	1,025,151	-	37,388,902
	<u>37,023,693</u>	<u>1,615,154</u>	<u>-</u>	<u>38,638,847</u>
	<u>\$ 38,173,198</u>	<u>\$ 1,616,194</u>	<u>\$ -</u>	<u>\$ 39,789,392</u>

2017

Hancock County Community Foundation, Inc.	Legacy Properties of Hancock County Community Foundation, Inc.	Eliminations	Total
\$ 1,125,433	\$ 35,618	\$ -	\$ 1,161,051
36,987,211	779,183	-	37,766,394
57,097	1,374	-	58,471
-	-	-	-
78,750	-	-	78,750
29,825	2,286	-	32,111
-	-	-	-
14,835	809,337	-	824,172
<u>\$ 38,293,151</u>	<u>\$ 1,627,798</u>	<u>\$ -</u>	<u>\$ 39,920,949</u>
\$ 11,558	\$ 2,548	\$ -	\$ 14,106
113,631	-	-	113,631
-	-	-	-
287,128	-	-	287,128
316,645	-	-	316,645
<u>728,962</u>	<u>2,548</u>	<u>-</u>	<u>731,510</u>
855,735	610,132	-	1,465,867
36,708,454	1,015,118	-	37,723,572
<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>

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF ACTIVITIES

Year Ended December 31, 2018

	Hancock County Community Foundation, Inc.		Legacy Properties of Hancock County Community Foundation, Inc.		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Support and revenue						
Contributions	\$ 21,500	\$ 2,661,793	\$ 13,432		\$ (35,572)	\$ 2,661,153
Investment return (loss), net	(39,332)	(1,545,320)	11			(1,584,641)
Change in gift annuity reserve		8,536				8,536
Change in cash surrender value of life insurance		(153)				(153)
Farm and rental income			26,952	\$ 34,169	(2,402)	58,719
Loss on disposal of assets	(209)		(582)			(791)
Other income	59,890					59,890
	<u>41,849</u>	<u>1,124,856</u>	<u>39,813</u>	<u>34,169</u>	<u>(37,974)</u>	<u>1,202,713</u>
Net assets released from restrictions						
Restrictions satisfied by payments	912,227	(912,227)	20,719	(20,719)		
Expenses						
Program services	1,347,201		23,448		(37,974)	1,332,675
Supporting services						
Management and general	166,499		60,630			227,129
Development expenses	197,579					197,579
	<u>1,711,279</u>		<u>84,078</u>		<u>(37,974)</u>	<u>1,757,383</u>
Transfer of administrative fees	561,410	(557,332)	3,417	(3,417)		4,078
CHANGE IN NET ASSETS	(195,793)	(344,703)	(20,129)	10,033		(550,592)
Net assets at beginning of year	<u>855,735</u>	<u>36,708,454</u>	<u>610,132</u>	<u>1,015,118</u>		<u>39,189,439</u>
Net assets at end of year	<u>\$ 659,942</u>	<u>\$ 36,363,751</u>	<u>\$ 590,003</u>	<u>\$ 1,025,151</u>		<u>\$ 38,638,847</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
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Operating support and revenue						
Contributions	\$ 23,596	\$ 1,457,948	\$ 11,694		\$ (34,771)	\$ 1,458,467
Investment return	370,502	5,077,057	10			5,447,569
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>477,242</u>	<u>6,525,015</u>	<u>38,441</u>	<u>34,593</u>		<u>7,037,638</u>
Net assets released from restrictions						
Satisfaction of purpose restrictions	857,430	(857,430)	28,511	(28,511)		
Operating expenses						
Program services	1,195,900		23,536		(37,653)	1,181,783
Supporting services						
Management and general	113,989		52,042			166,031
Development expenses	211,592					211,592
	<u>1,521,481</u>		<u>75,578</u>		<u>(37,653)</u>	<u>1,559,406</u>
Transfer of administrative fees	500,199	(497,091)	3,459	(3,459)		3,108
CHANGE IN NET ASSETS	313,390	5,170,494	(5,167)	2,623		5,481,340
Net assets at beginning of year	<u>542,345</u>	<u>31,537,960</u>	<u>615,299</u>	<u>1,012,495</u>		<u>33,708,099</u>
Net assets at end of year	<u>\$ 855,735</u>	<u>\$ 36,708,454</u>	<u>\$ 610,132</u>	<u>\$ 1,015,118</u>		<u>\$ 39,189,439</u>