

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

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 18, 2020

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

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,874,420	\$ 3,336,370
Investments	43,813,752	35,026,560
Tax refund receivable	47,538	-
Estate receivable	-	329,882
Pledges receivable	379,919	202,217
Prepaid expenses	28,875	18,593
Trust receivable	65,752	56,094
Property, building and equipment, net	795,076	819,676
	\$ 48,005,332	\$ 39,789,392
LIABILITIES		
Accounts payable	\$ 24,315	\$ 6,947
Grants payable	116,247	142,636
Deferred revenue	25,760	429,776
Annuity reserves	200,876	237,567
Agency funds	434,614	333,619
Total liabilities	801,812	1,150,545
NET ASSETS		
Without donor restrictions	1,347,331	1,249,945
With donor restrictions	45,856,189	37,388,902
	47,203,520	38,638,847
	\$ 48,005,332	\$ 39,789,392

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,

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 459	\$ 2,516,969	\$ 2,517,428
Investment return (loss), net	102,829	7,763,253	7,866,082
Change in gift annuity reserve		28,629	28,629
Change in cash surrender value of life insurance		315	315
Rental income	27,015		27,015
Farm income		34,169	34,169
Loss on disposal of assets	(1,536)		(1,536)
Other income	89,243		89,243
	<u>218,010</u>	<u>10,343,335</u>	<u>10,561,345</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	225,470	(225,470)	
Pursuant to spending policy	1,062,753	(1,062,753)	
Expenses			
Program services	1,498,611		1,498,611
Supporting services			
Management and general	262,493		262,493
Development expenses	239,896		239,896
	<u>2,001,000</u>	<u></u>	<u>2,001,000</u>
Transfer of administrative fees	<u>592,153</u>	<u>(587,825)</u>	<u>4,328</u>
CHANGE IN NET ASSETS	97,386	8,467,287	8,564,673
Net assets at beginning of year	<u>1,249,945</u>	<u>37,388,902</u>	<u>38,638,847</u>
Net assets at end of year	<u>\$ 1,347,331</u>	<u>\$ 45,856,189</u>	<u>\$ 47,203,520</u>

The accompanying notes are an integral part of these statements.

2018		
With Donor Restrictions	Without Donor Restrictions	Total
\$ 2,808	\$ 2,658,345	\$ 2,661,153
(39,321)	(1,545,320)	(1,584,641)
	8,536	8,536
	(153)	(153)
24,550		24,550
	34,169	34,169
(791)		(791)
59,890		59,890
47,136	1,155,577	1,202,713
103,026	(103,026)	
826,472	(826,472)	
1,332,675		1,332,675
227,129		227,129
197,579		197,579
1,757,383		1,757,383
564,827	(560,749)	4,078
(215,922)	(334,670)	(550,592)
1,465,867	37,723,572	39,189,439
\$ 1,249,945	\$ 37,388,902	\$ 38,638,847

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2019			
	Programming	Management & General	Development	Total
Grants and scholarships	\$ 1,183,490			\$ 1,183,490
Salaries and wages	147,576	\$ 145,086	\$ 95,406	388,068
Payroll taxes and benefits	31,125	29,650	22,791	83,566
Program expenses	28,933			28,933
Insurance	3,442	8,465	1,721	13,628
Property repairs and maintenance		25,665		25,665
Legal and professional fees	18,887	4,247	9,443	32,577
Utilities		7,444		7,444
Telephone and internet	1,489	1,436	744	3,669
Merchant and bank fees	1,826	304	913	3,043
Dues and subscriptions	3,830	638	1,915	6,383
Travel and meetings	6,270	1,045	3,135	10,450
Staff and committee development	12,669	2,111	6,335	21,115
Office and building supplies	11,362	4,031	5,681	21,074
Postage	6,193	1,032	3,096	10,321
Technology	29,482	4,914	14,741	49,137
Human resources	5,083	847	2,541	8,471
Development expenses			69,217	69,217
Miscellaneous expenses	2,833	52	157	3,042
Depreciation	4,121	25,526	2,060	31,707
	<u>\$ 1,498,611</u>	<u>\$ 262,493</u>	<u>\$ 239,896</u>	<u>\$ 2,001,000</u>

The accompanying notes are an integral part of these statements.

2018

Programming	Management & General	Development	Total
\$ 1,004,435			\$ 1,004,435
121,947	\$ 136,251	\$ 102,478	360,676
19,350	21,725	16,260	57,335
98,547			98,547
6,030	5,068	1,863	12,961
1,897	16,589		18,486
5,172	789	2,367	8,328
	5,911		5,911
1,228	1,677	614	3,519
1,744	343	319	2,406
3,662	610	1,831	6,103
4,604	767	2,302	7,673
4,980	2,898	2,490	10,368
5,709	952	2,855	9,516
25,752	4,292	12,876	42,920
7,946	1,324	3,973	13,243
		40,717	40,717
16,182	2,751		18,933
3,490	25,182	6,634	35,306
\$ 1,332,675	\$ 227,129	\$ 197,579	\$ 1,757,383

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,564,673	\$ (550,592)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	31,707	35,306
Realized gains on investments	(3,291,289)	(425,010)
Unrealized (gains) losses on investments	(3,421,867)	3,080,180
Loss on disposal of assets	1,536	791
Change in gift annuity reserve	(28,629)	(8,536)
Change in cash surrender value of life insurance	(315)	153
Non-cash stock contributions	(31,284)	(93,785)
Contributions to restricted funds	(1,615,760)	(2,495,543)
(Increase) decrease in assets:		
Accounts receivable	(47,538)	58,471
Pledges receivable	(177,702)	(123,467)
Prepaid expenses	(10,282)	13,518
Estate receivable	329,882	(329,882)
Trust receivable	(9,658)	(56,094)
Increase (decrease) in liabilities:		
Accounts payable	17,368	(7,159)
Grants payable	(26,389)	29,005
Deferred revenue	(404,016)	429,776
Annuity reserves	(36,691)	(49,561)
Agency funds	100,995	16,974
Net cash used in operating activities	<u>(55,259)</u>	<u>(475,455)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	19,239,956	4,379,669
Purchases of investments	(21,253,764)	(4,197,987)
Capital expenditures	(8,643)	(26,451)
Net cash provided by (used in) investing activities	<u>(2,022,451)</u>	<u>155,231</u>
Cash flows from financing activities:		
Cash received from contributors for restricted funds	<u>1,615,760</u>	<u>2,495,543</u>
Net cash provided by financing activities	<u>1,615,760</u>	<u>2,495,543</u>
Net increase (decrease) in cash and cash equivalents	(461,950)	2,175,319
Cash and cash equivalents at beginning of year	<u>3,336,370</u>	<u>1,161,051</u>
Cash and cash equivalents at end of year	<u>\$ 2,874,420</u>	<u>\$ 3,336,370</u>
<u>Supplemental Disclosures</u>		
Non-cash contributions	\$ 31,284	\$ 96,136

The accompanying notes are an integral part of these statements.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018

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 gift from Lilly Endowment, Inc. GIFT VII, which has a matching requirement. The Foundation raised \$214,420 and \$360,112 towards the matching requirement and recorded \$427,420 and \$570,224 as contribution revenue from the matching gift for the years ending December 31, 2019 and 2018, respectively. The unmatched portion of the Lilly Endowment, Inc. GIFT VII is \$2,356 and \$429,776 as of December 31, 2019 and 2018, respectively, and is recorded as deferred revenue on the Statements of Financial Position.

The Foundation has recorded deferred revenue in the amount of \$23,404 for funds received but not earned as part of the Lilly Endowment, Inc. GIFT VII community leadership planning grant and funds received for an intern grant as of December 31, 2019.

9. 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 287 and 276 individual funds established for a variety of purposes as of December 31, 2019 and 2018, 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, 2019 and 2018

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. 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, 2019 and 2018, the Foundation exceeded the insured limit by approximately \$173,912 and \$1,008,000, respectively.

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, 2019 and 2018, 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, 2019 and 2018 was \$1,183,490 and \$1,004,435, 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.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

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.

16. Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$8,739 and \$6,323 for the years ended December 31, 2019 and 2018, respectively.

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 2016, 2017, and 2018 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 - PROPERTY, BUILDING AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Land	\$ 374,600	\$ 374,600
Land improvements	4,397	4,397
Building and improvements	785,166	791,524
Furniture and equipment	115,193	103,432
	<u>1,279,356</u>	<u>1,273,953</u>
Less accumulated depreciation	484,280	454,277
	<u>\$ 795,076</u>	<u>\$ 819,676</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018 by type of investment.

	<u>2019</u>	<u>2018</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Common stocks	\$ 730,463	\$ 13,414,364
Cash surrender value of life insurance	8,648	8,333
Land and land improvements	791,838	779,183
Mutual funds - equities:		
Foreign large blend	5,233,672	3,912,648
Large value	4,424,022	1,189,203
Small growth	3,833,384	1,933,471
Mid-cap blend	1,754,316	701,422
Small blend	1,520,783	653,295
Large growth	7,282,961	2,516,065
Large blend	8,750,474	2,668,206
Diversified emerging markets	1,906,596	897,631
Conservative allocation	1,272,678	683,125
Real estate		205,010
Total mutual funds - equities	<u>35,978,886</u>	<u>15,360,076</u>
Mutual funds - fixed income:		
Corporate bonds	686,884	903,142
Intermediate-term bonds	2,374,863	2,596,338
Short-term bonds	3,242,170	1,965,124
Total mutual funds - fixed income	<u>6,303,917</u>	<u>5,464,604</u>
Total investments, at fair value	<u>\$ 43,813,752</u>	<u>\$ 35,026,560</u>
Total investments, at historical cost	<u>\$ 37,265,368</u>	<u>\$ 30,344,151</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE E - PLEDGES RECEIVABLE

Donors have made pledges to various funds held by the Foundation. Outstanding pledges at December 31, 2019 and 2018 totaled \$141,657 and \$56,217, respectively. Pledges receivable are due from individuals and organizations 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, 2019 and 2018 totaled \$238,262 and \$146,000, 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.

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, 2020	\$	299,919
2021	\$	40,000
2022	\$	40,000
2023	\$	-0-
2024	\$	-0-

NOTE F - 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. This estate gift was received during the year ended December 31, 2019.

NOTE G - 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 2.0% and 3.6% discount rate as of December 31, 2019 and 2018, respectively, the present value of future benefits expected to be received by the Foundation was estimated to be \$65,752 and \$56,094 at December 31, 2019 and 2018, respectively.

NOTE H - GRANTS PAYABLE

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

December 31, 2020	\$	99,705
2021	\$	12,106
2022	\$	4,436
2023	\$	-0-
2024 and thereafter	\$	-0-

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE I - SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist of eight charitable gift annuities. The assets received are recorded at their fair value. The fair value of assets held for the charitable gift annuities totaled \$391,331 and \$346,166 at December 31, 2019 and 2018, 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, 2019 and 2018 was \$200,876 and \$237,567, respectively. The liabilities were determined using discount rates ranging from 2.0% 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.

NOTE J - 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, 2019 and 2018, respectively:

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE J - FAIR VALUE MEASUREMENTS - Continued

	2019			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Common stocks	\$ 730,463	\$ 730,463		
Cash surrender value of life insurance	\$ 8,648		\$ 8,648	
Land and land improvements	\$ 791,838			\$ 791,838
Mutual funds - equities	\$ 35,978,886	\$ 35,978,886		
Mutual funds - fixed income	\$ 6,303,917	\$ 6,303,917		
Trust receivable	\$ 65,752		\$ 65,752	
Liabilities:				
Annuity reserves	\$ 200,876		\$ 200,876	
2018				
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Common stocks	\$ 13,414,364	\$ 13,414,364		
Cash surrender value of life insurance	\$ 8,333		\$ 8,333	
Land and land improvements	\$ 779,183			\$ 779,183
Mutual funds - equities	\$ 15,360,076	\$ 15,360,076		
Mutual funds - fixed income	\$ 5,464,604	\$ 5,464,604		
Liabilities:				
Annuity reserves	\$ 237,567		\$ 237,567	

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, 2019 and 2018:

	Level 3	
	2019	2018
Beginning balance	\$ 779,183	\$ 779,183
Additions	12,655	-
Ending balance	\$ 791,838	\$ 779,183

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE J - FAIR VALUE MEASUREMENTS - Continued

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 using the applicable discount rate. Fair value for the land in Level 3 investments is determined by appraisals and the value of land improvements.

NOTE K - RETIREMENT PLAN

During 2018, full-time Foundation employees were eligible to participate in its Simple IRA plan. This plan was terminated on December 31, 2018. During 2019, the Foundation adopted the Synergy Multiple Employer Retirement Savings 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 can also make additional contributions to the plan at its discretion. The Foundation contributed \$13,320 and \$9,117 for the years ended December 31, 2019 and 2018, respectively.

NOTE L - ENDOWMENT FUNDS

Endowment net assets composition by type of fund as of December 31, 2019 and 2018 was as follows:

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Board-designated endowment funds	\$ 243,912		\$ 243,912
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		\$ 35,036,745	35,036,745
Accumulated investment gains		9,958,707	9,958,707
	<u>\$ 243,912</u>	<u>\$ 44,995,452</u>	<u>\$ 45,239,364</u>
	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>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE L - ENDOWMENT FUNDS - Continued

Changes in endowment net assets for the years ended December 31, 2019 and 2018, were as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions	\$ 3,499	\$ 2,267,077	\$ 2,270,576
Investment return, net	63,117	7,652,058	7,715,175
Total revenue and support	66,616	9,919,135	9,985,751
Appropriation of endowment assets for expenditure	33,859	1,741,213	1,775,072
Change in endowment net assets	32,757	8,177,922	8,210,679
Endowment net assets, beginning of year	211,155	36,817,530	37,028,685
Endowment net assets, end of year	\$ 243,912	\$ 44,995,452	\$ 45,239,364
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions		\$ 2,561,797	\$ 2,561,797
Investment loss, net	\$ (9,849)	(1,613,786)	(1,623,635)
Total revenue	(9,849)	948,011	938,162
Appropriation of endowment assets for expenditure	6,824	1,278,085	1,284,909
Change in endowment net assets	(16,673)	(330,074)	(346,747)
Endowment net assets, beginning of year	227,828	37,147,604	37,375,432
Endowment net assets, end of year	\$ 211,155	\$ 36,817,530	\$ 37,028,685

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, 2019, 2 of the 287 endowment funds had deficiencies totaling \$171,273. As of December 31, 2018, 22 of the 276 endowment funds had deficiencies totaling \$720,227. Deficiencies resulted mainly from the sale of donated investment property and investment returns lower than the required payout rates for charitable gift annuities.

NOTE M - 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.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE N - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2019 and 2018:

	2019	2018
Subject to expenditure for a specific purpose:		
Designated	\$ 298,026	\$ 57,012
Donor advised	269,169	234,110
Field of interest	38,596	20,376
	<u>605,791</u>	<u>311,498</u>
Subject to the passage of time:		
Estate and tax receivable, the proceeds from which have been restricted by donors for designated purposes	47,538	329,882
Trust receivable, the proceeds from which have been restricted by donors for field of interest	65,752	56,094
Pledges receivable, the proceeds from which have been restricted by donors for:		
Designated	120,000	48,717
Imagination Library	21,250	
Field of interest	406	146,000
Scholarship		7,500
	<u>254,946</u>	<u>588,193</u>
Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Restricted by donors for:		
Designated	2,415	1,944
Imagination Library	12,106	2,884
Donor advised	15,083	17,403
Scholarship	135,647	85,901
Field of interest		62,106
Operating	59,535	
	<u>224,786</u>	<u>170,238</u>
Subject to appropriation and expenditure when a specific event occurs:		
Proceeds from gift annuity upon death of the annuitant	191,501	303,087
Subject to Foundation spending and appropriation:		
Designated	20,101,545	17,536,622
Imagination Library	2,101,365	1,145,620
Donor advised	1,145,093	918,651
Scholarship	9,130,908	7,634,233
Field of interest	8,665,499	6,975,318
Operating	3,606,028	2,525,669
Underwater endowments	(171,273)	(720,227)
	<u>44,579,165</u>	<u>36,015,886</u>
	<u>\$ 45,856,189</u>	<u>\$ 37,388,902</u>

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE O - 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Designated	\$ 138,726	\$ 53,160
Donor advised	25,000	32,209
Field of interest	<u>61,744</u>	<u>17,657</u>
	225,470	103,026
Restricted-purpose spending-rate distributions and appropriations:		
Designated	490,682	254,993
Imagination Library	48,221	
Donor advised	21,672	13,754
Scholarship	289,101	272,730
Field of interest	209,015	192,276
Operating	<u>4,062</u>	<u>92,719</u>
	<u>1,062,753</u>	<u>826,472</u>
	<u>\$ 1,288,223</u>	<u>\$ 929,498</u>

NOTE P - 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, 2019 and 2018 was \$3,528 and \$3,537, respectively. Future minimum payments on the above lease are as follows.

December 31, 2020	\$ 3,528
2021	\$ 3,528
2022	\$ 588
2023	\$ -0-
2024	\$ -0-

NOTE Q - 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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 558,046	\$ 454,051

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.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE R - RENTAL INCOME

The Foundation leases office space and farm land to various organizations. The leases run through October 31, 2023 and contain options for extension. Future minimum lease revenue is as follows.

December 31, 2020	\$	59,050
2021		47,846
2022		7,310
2023		-0-
2024		-0-
		<u>114,206</u>
	\$	<u>114,206</u>

During the years ended December 31, 2019 and 2018, the Foundation received rental income for the office space of \$27,015 and \$24,550, respectively, and \$34,169 and \$34,169, respectively, for the farm land.

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, 2019 and 2018, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the Consolidated Statements of Activities.

	<u>2019</u>	<u>2018</u>
Support and revenue		
Contributions	\$ 32,109	\$ 51,896
Investment return (loss), net	<u>84,318</u>	<u>(20,114)</u>
	\$ 116,427	\$ 31,782
Expenses		
Grants	11,317	10,735
Administrative fees	<u>4,115</u>	<u>4,073</u>
	<u>15,432</u>	<u>14,808</u>
Increase in agency funds	100,995	16,974
Balance at beginning of year	<u>333,619</u>	<u>316,645</u>
Balance at end of year	<u>\$ 434,614</u>	<u>\$ 333,619</u>

NOTE T - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through June 18, 2020, which is the date these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2019, have been incorporated into these consolidated financial statements herein.

Hancock County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE U - ADOPTION OF NEW ACCOUNTING STANDARD

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation adopted the new standard effective January 1, 2019, the first day of the Foundation’s fiscal year, using the full retrospective method.

As part of the adoption of the ASU, the Foundation elected to use the following transition practical expedients: (i) completed contracts that begin and end in the same annual reporting period have not been restated; (ii) the Foundation used the known transaction price for completed contracts; (iii) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Foundation expects to recognize such revenue for all periods prior to the date of initial application of the ASU; and (iv) the Foundation has reflected the aggregate of all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price.

The adoption of this ASU did not have an impact on the Foundation’s financial statements. All of the Foundation’s revenue is exempt from the standard. Therefore, no changes were required to previously reported revenues as a result of the adoption.

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, 2019 and 2018, and have issued our report thereon dated June 18, 2020, 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 18, 2020

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

December 31,

2019

	Hancock County Community Foundation, Inc.	Legacy Properties of Hancock County Community Foundation, Inc.	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 2,820,437	\$ 53,983	\$ -	\$ 2,874,420
Investments	43,021,914	791,838	-	43,813,752
Tax refund receivable	47,538	-	-	47,538
Estate receivable	-	-	-	-
Pledges receivable	379,919	-	-	379,919
Prepaid expenses	25,075	3,800	-	28,875
Trust receivable	65,752	-	-	65,752
Property, building and equipment, net	26,952	768,124	-	795,076
	<u>\$ 46,387,587</u>	<u>\$ 1,617,745</u>	<u>\$ -</u>	<u>\$ 48,005,332</u>
LIABILITIES				
Accounts payable	\$ 23,265	\$ 1,050	\$ -	\$ 24,315
Grants payable	116,247	-	-	116,247
Deferred revenue	25,760	-	-	25,760
Annuity reserves	200,876	-	-	200,876
Agency funds	434,614	-	-	434,614
	<u>800,762</u>	<u>1,050</u>	<u>-</u>	<u>801,812</u>
NET ASSETS				
Without donor restrictions	775,471	571,860	-	1,347,331
With donor restrictions	44,811,354	1,044,835	-	45,856,189
	<u>45,586,825</u>	<u>1,616,695</u>	<u>-</u>	<u>47,203,520</u>
	<u>\$ 46,387,587</u>	<u>\$ 1,617,745</u>	<u>\$ -</u>	<u>\$ 48,005,332</u>

2018

Hancock County Community Foundation, Inc.	Legacy Properties of Hancock County Community Foundation, Inc.	Eliminations	Total
\$ 3,302,335	\$ 34,035	\$ -	\$ 3,336,370
34,247,377	779,183	-	35,026,560
-	-	-	-
329,882	-	-	329,882
202,217	-	-	202,217
14,938	3,655	-	18,593
56,094	-	-	56,094
20,355	799,321	-	819,676
<u>\$ 38,173,198</u>	<u>\$ 1,616,194</u>	<u>\$ -</u>	<u>\$ 39,789,392</u>
\$ 5,907	\$ 1,040	\$ -	\$ 6,947
142,636	-	-	142,636
429,776	-	-	429,776
237,567	-	-	237,567
333,619	-	-	333,619
<u>1,149,505</u>	<u>1,040</u>	<u>-</u>	<u>1,150,545</u>
659,942	590,003	-	1,249,945
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>

Hancock County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF ACTIVITIES

Year Ended December 31, 2019

	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		\$ 2,516,969	\$ 12,752		\$ (12,293)	\$ 2,517,428
Investment return (loss), net	\$ 102,787	7,763,253	42			7,866,082
Change in gift annuity reserve		28,629				28,629
Change in cash surrender value of life insurance		315				315
Farm and rental income		2,173	27,015	\$ 34,169	(2,173)	61,184
Loss on disposal of assets	(1,536)					(1,536)
Other income	89,243					89,243
	<u>190,494</u>	<u>10,311,339</u>	<u>39,809</u>	<u>34,169</u>	<u>(14,466)</u>	<u>10,561,345</u>
Net assets released from restrictions						
Restrictions satisfied by payments	214,402	(214,402)	11,068	(11,068)		
Pursuant to spending policy	1,064,926	(1,064,926)				
Expenses						
Program services	1,510,904		2,173		(14,466)	1,498,611
Supporting services						
Management and general	192,229		70,264			262,493
Development expenses	239,896					239,896
	<u>1,943,029</u>		<u>72,437</u>		<u>(14,466)</u>	<u>2,001,000</u>
Transfer of administrative fees	<u>588,736</u>	<u>(584,408)</u>	<u>3,417</u>	<u>(3,417)</u>		<u>4,328</u>
CHANGE IN NET ASSETS	<u>115,529</u>	<u>8,447,603</u>	<u>(18,143)</u>	<u>19,684</u>		<u>8,564,673</u>
Net assets at beginning 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>
Net assets at end of year	<u>\$ 775,471</u>	<u>\$ 44,811,354</u>	<u>\$ 571,860</u>	<u>\$ 1,044,835</u>		<u>\$ 47,203,520</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		
Operating support and revenue						
Contributions	\$ 21,500	\$ 2,661,793	\$ 13,432		\$ (35,572)	\$ 2,661,153
Investment return	(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						
Satisfaction of purpose restrictions	85,755	(85,755)	20,719	(20,719)		
Pursuant to spending policy	826,472	(826,472)				
Operating 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	<u>561,410</u>	<u>(557,332)</u>	<u>3,417</u>	<u>(3,417)</u>		<u>4,078</u>
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>