

HENDRICKS COUNTY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT

December 31, 2015

Independent Auditors' Report

Board of Directors
Hendricks County Community Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Hendricks County Community Foundation, Inc., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hendricks County Community Foundation, Inc. as of December 31, 2015, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Hendricks County Community Foundation, Inc.'s December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Estep Burkey Simmons, LLC

Muncie, Indiana

April 29, 2016

Hendricks County Community Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(With comparative totals at December 31, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 910,579	\$ 796,877
Investments	10,333,088	10,360,237
Pledges receivable	36,250	53,000
Prepaid expenses	1,738	2,141
Cash surrender value of life insurance	67,674	64,600
Annuity	93,314	112,234
Property and equipment, net	<u>13,288</u>	<u>17,246</u>
	<u>\$ 11,455,931</u>	<u>\$ 11,406,335</u>
LIABILITIES		
Accounts payable	\$ 149	\$ 442
Grants and scholarships payable	77,902	70,753
Accrued payroll	5,813	6,572
Deferred revenue	635,762	1,347,955
Capital lease	7,633	10,607
Annuity liability	146,845	154,930
Funds held as agency partner funds	<u>396,978</u>	<u>420,616</u>
Total liabilities	1,271,082	2,011,875
NET ASSETS		
Unrestricted	129,394	453,648
Temporarily restricted	906,345	1,427,536
Permanently restricted	<u>9,149,110</u>	<u>7,513,276</u>
	<u>10,184,849</u>	<u>9,394,460</u>
	<u>\$ 11,455,931</u>	<u>\$ 11,406,335</u>

The accompanying notes are an integral part of this statement.

Hendricks County Community Foundation, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

(With comparative totals at December 31, 2014)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Contributions and pledges	\$ 226,231	\$ 986,366	\$ 1,635,834	\$ 2,848,431	\$ 965,249
Administrative fee income	181,382			181,382	256,733
Special events, net of \$17,508 in 2015 and \$22,652 in 2014 of expense	14,816	58,097		72,913	229,175
Investment income (loss), net of fees	(57,654)	(124,564)		(182,218)	256,028
Change in value of annuity		(10,835)		(10,835)	(10,587)
	364,775	909,064	1,635,834	2,909,673	1,696,598
Net assets released from restrictions:					
Restrictions satisfied by payments	1,430,255	(1,430,255)			
Expenses:					
Program services					
Grants and scholarships	1,578,246			1,578,246	741,073
Program expense	118,278			118,278	112,543
Supporting services					
Management and general	168,343			168,343	147,070
Administrative fees	173,523			173,523	243,825
Fundraising and development	80,894			80,894	102,683
	2,119,284			2,119,284	1,347,194
CHANGE IN NET ASSETS	(324,254)	(521,191)	1,635,834	790,389	349,404
Net assets at beginning of year	453,648	1,427,536	7,513,276	9,394,460	9,045,056
Net assets at end of year	\$ 129,394	\$ 906,345	\$ 9,149,110	\$ 10,184,849	\$ 9,394,460

The accompanying notes are an integral part of this statement.

Hendricks County Community Foundation, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015
(With comparative totals at December 31, 2014)

	2015			2014	
	Program Services	Management and General	Fundraising	Total	Total
Grants, scholarships and awards	\$ 1,578,246			\$ 1,578,246	\$ 741,073
Salaries and wages	70,174	\$ 70,174	\$ 35,087	175,435	192,593
Payroll taxes	6,036	6,036	3,018	15,090	15,452
Employee benefits	222	222	111	555	905
Depreciation		3,958		3,958	2,889
Occupancy		20,700		20,700	19,200
Equipment rental and maintenance		2,860		2,860	1,924
Meetings and conferences	859	859	429	2,147	1,580
Print materials			8,195	8,195	12,845
Professional fees		28,352		28,352	8,434
Staff education and development		2,415		2,415	3,094
Office expense		5,190		5,190	6,345
Insurance		4,485		4,485	3,798
Interest		324		324	236
Postage	1,424	1,424	712	3,560	2,500
Communications and technical support	14,464	14,464	7,232	36,160	18,763
Advertising and promotions			19,407	19,407	20,745
Donor development and networking			6,078	6,078	22,048
Special events	3,502		14,006	17,508	22,652
Administrative fees		173,523		173,523	243,825
Other expenses:					
Auto expense	1,250	1,250	625	3,125	3,432
Bank charges		3,993		3,993	5,916
Dues and subscriptions		1,637		1,637	1,144
Scholarship-related expenses	23,849			23,849	18,453
	1,700,026	341,866	94,900	2,136,792	1,369,846
Less: direct expenses of special events netted with revenues on the statement of activities	(3,502)		(14,006)	(17,508)	(22,652)
	<u>\$ 1,696,524</u>	<u>\$ 341,866</u>	<u>\$ 80,894</u>	<u>\$ 2,119,284</u>	<u>\$ 1,347,194</u>

The accompanying notes are an integral part of this statement.

Hendricks County Community Foundation, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015
(With comparative totals at December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase in net assets	\$ 790,389	\$ 349,404
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,958	2,889
Realized (gains) losses on investments	(24,701)	13,900
Unrealized losses on investments	603,868	120,506
Contributions to restricted funds	(1,635,834)	(514,749)
Non-cash stock contributions	(207,302)	(82,683)
(Increase) decrease in assets:		
Pledges receivable	16,750	(53,000)
Annuity receivable	18,920	18,920
Prepaid expenses	403	(369)
Cash surrender value of life insurance	(3,074)	(3,232)
Increase (decrease) in operating liabilities:		
Accounts payable	(293)	(2,294)
Grants and scholarships payable	7,149	13,175
Accrued payroll	(759)	1,520
Deferred revenue	(712,193)	1,347,955
Charitable gift annuity liability	(8,085)	(8,333)
Funds held as agency partner funds	(23,638)	(13,774)
Net cash provided by (used in) operating activities	<u>(1,174,442)</u>	<u>1,189,835</u>
Cash flows from investing activities:		
Purchase of equipment		(1,334)
Purchase of investments	(2,697,788)	(2,603,173)
Proceeds from sales of investments	2,353,072	785,138
Net cash used in investing activities	<u>(344,716)</u>	<u>(1,819,369)</u>
Cash flows from financing activities:		
Payments for capital lease	(2,974)	(1,688)
Cash received from contributors for restricted funds	1,635,834	514,749
Net cash provided by financing activities	<u>1,632,860</u>	<u>513,061</u>
Net increase (decrease) in cash and cash equivalents	113,702	(116,473)
Cash and cash equivalents at beginning of year	<u>796,877</u>	<u>913,350</u>
Cash and cash equivalents at end of year	<u>\$ 910,579</u>	<u>\$ 796,877</u>
<u>Supplemental Disclosure</u>		
Non-cash contributions	\$ 207,302	\$ 82,863

The accompanying notes are an integral part of this statement.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

1. Nature of Activities

The Hendricks County Community Foundation, Inc. (Foundation) is a not-for-profit corporation organized under the laws of the State of Indiana. The Foundation was organized to help meet the charitable needs of the community by accepting, investing and administering funds established by donors and making grants to charitable organizations. The mission of the Foundation is to improve the quality of life in Hendricks County by: Helping donors match their passions with community needs; awarding grants to nonprofit organizations and projects; and, collaborating to address community issues.

2. Basis of Accounting

The 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 financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

4. Contributions

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

5. Cash and Cash Equivalents

The Foundation maintains its cash in accounts at high credit 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

Investments consist primarily of marketable equity and debt securities that are stated at fair value based on quoted market prices. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the risks associated with investment securities and the uncertainty related to changes in the fair value of investment securities, it is at least reasonably possible that changes in fair value could materially affect the net assets of the Foundation.

Investment income, net realized and unrealized gains or losses are included in the statement of activities. Realized gains and losses are determined using the specific-identification method.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 unrestricted support unless the donor has restricted the donated asset to a specific purpose. Expenditures for routine maintenance and repairs are expensed as incurred. Depreciation is computed according to the estimated useful lives of the respective assets using the straight-line method.

8. 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.

9. Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2015, the Foundation exceeded the insured limit by \$118,993.

10. Contributed Services

During the year ended December 31, 2015, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

11. Net Assets

The Foundation has adopted the provisions of FASB ASC 958-205-05. Under the provisions, net assets are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted

Unrestricted net assets include revenue and expenses from the regular operations of the Foundation, which are at the discretion of management and the Board of Directors.

Temporarily Restricted

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized.

Permanently Restricted

Permanently restricted net assets include assets where the donor has stipulated that the assets should be maintained in perpetuity, the income from which is temporarily restricted to support activities as designated by various fund agreements.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

12. Compensated Absences

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

13. Deferred Revenue

During 2014, the Foundation received a \$1,500,000 gift from Lilly Gift VI, which has a matching requirement. The gift stipulates that any future gifts from Lilly Endowment will be reduced by the unmatched portion of Lilly Gift VI, should the Foundation have any unmatched funds at the conclusion of the program. The Foundation raised \$900,132 towards the matching requirement during 2015 and recorded \$712,193 as contribution revenue from the matching gift. The unmatched portion of the Lilly Gift VI is \$635,762 as of December 31, 2015 and is recorded as deferred revenue on the Statement of Financial Position.

14. Advertising

Advertising expenses totaled \$19,407 for the year ended December 31, 2015. The Foundation's policy is to record advertising expenditures in the period in which they are incurred.

15. Expense Allocation

Expenses have been classified as program services, management and general and fundraising based upon the actual direct expenditures and cost allocation based on estimates of time and usage by Foundation personnel and programs.

16. Reclassifications

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

17. Uncertain Tax Positions

The Foundation follows the Income Tax topic of the FASB ASC. The Foundation now 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 2012, 2013, and 2014 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 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.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE B - INVESTMENTS

The following is an analysis of the cost and fair value at December 31, 2015 and by type of investment. The investments are held in uninsured trust accounts and local financial institutions.

	<u>Fair Value</u>
Certificates of deposit	\$ 164,633
Mutual funds - equities:	
Foreign large blend	394,818
Large value	477,518
Diversified emerging markets	112,359
Large growth	501,889
Commodities precious metals	94,358
Equity precious metals	52,629
Alternatives	1,940,010
Mid-cap blend	170,471
Large blend	810,601
Moderate allocation	1,087,989
World allocation	1,152,494
World bond fund	350,374
Natural resources	64,062
World stock fund	289,753
Total mutual funds - equities	<u>7,499,325</u>
Mutual funds - fixed income:	
Corporate bonds	<u>2,669,130</u>
Total investments, at fair value	<u>\$ 10,333,088</u>
Total investments, at historical cost	<u>\$ 10,061,392</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2015.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Investment return	\$ 112,068	\$ 297,614	\$ 409,682
Realized gains on investments	6,123	18,578	24,701
Unrealized losses on investments	(163,112)	(440,756)	(603,868)
Investment management fees	(12,733)		(12,733)
	<u>\$ (57,654)</u>	<u>\$ (124,564)</u>	<u>\$ (182,218)</u>

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE C - RISKS AND UNCERTAINTIES

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

NOTE D - FAIR VALUE MEASUREMENTS

The Foundation follows the provisions of the Fair Value Measurements and Disclosures topic of the FASB ASC. FASB ASC-820-10-35-19 defines fair value as 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.

FASB ASC 820-10-35-37 establishes a hierarchy of inputs 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.

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash surrender value of				
life insurance	\$ 67,674		\$ 67,674	
Annuity	\$ 93,314		\$ 93,314	
Investments	\$ 10,168,455	\$ 9,186,818	\$ 629,045	\$ 352,592
Liabilities:				
Annuity liabilities	\$ 146,845		\$ 146,845	
Capital lease	\$ 7,633		\$ 7,633	

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE D - FAIR VALUE MEASUREMENTS - Continued

The following schedule provides further detail of the Level 3 fair value measurements using significant unobservable inputs at December 31, 2015:

Beginning Balance	\$ 334,546
Realized and unrealized gains	<u>18,046</u>
Ending Balance	<u><u>\$ 352,592</u></u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of the cash surrender value of life insurance is determined by reference to the annual statement provided by the insurance provider. Fair values for annuity assets are determined by the remaining value of the assets to be paid to the insurance companies. Fair values for gift annuity liabilities are determined by reference to present value calculations. Fair values for the capital lease are determined by the calculation of the value of the principle payments over the term of the lease. Fair value of the level 3 investments is based on the net asset value of the mutual fund as determined by the reported valuations of underlying investment managers.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable represent promises to give which have been made by donors but have not yet been received by the Foundation. Pledges are due on various dates through March 31, 2016 and deemed fully collectible; accordingly, no allowance for uncollectible pledges has been provided. Pledges receivable at December 31, 2015 totaled \$36,250.

The following summarizes the amounts due to the Foundation for the next five years.

Year ending December 31, 2016	\$36,250
2017	\$0
2018 - 2020	\$0

NOTE F - PROPERTY AND EQUIPMENT

The amounts of property and equipment, net of depreciation, consist of the following at December 31, 2015.

Software	\$ 30,380
Office furniture	8,724
Office equipment	36,887
Leasehold improvements	<u>1,700</u>
	77,691
Less accumulated depreciation	<u>64,403</u>
	<u><u>\$ 13,288</u></u>

NOTE G - CAPITAL LEASE

Property held under capital lease, included with owned property on the balance sheet at December 31, 2015, consists of the following.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G - CAPITAL LEASE - Continued

Classification: Equipment	
Technology equipment	\$ 12,295
Less accumulated amortization	<u>3,893</u>
Equipment under capital lease, net	<u><u>\$ 8,402</u></u>

The Foundation has leased technology equipment under an agreement which has been classified as a capital lease. The lease is non-cancelable and expires on May 31, 2018. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at December 31, 2015, are as follows.

Year ending December 31, 2016	\$ 3,298
2017	3,298
2018	1,374
2019	0
2020	<u>0</u>
Total minimum lease payments	7,970
Amount representing interest	<u>337</u>
Present value of minimum lease payments	<u><u>\$ 7,633</u></u>

NOTE H - RESTRICTIONS ON NET ASSETS

At December 31, 2015, the Foundation's endowment consists of 187 donor-restricted permanent endowment funds established to support designated charitable purposes and organizations, and 2 funds designated by the Board of Directors to function as endowments to provide unrestricted support for Foundation programs. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Indiana Prudent Management of Institutional Funds Act (UPMIFA) as requiring the maintenance of the historic dollar value for each endowed fund as defined previously by the Uniform Management of Institutional Funds Act. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those funds are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE H - RESTRICTIONS ON NET ASSETS - Continued

Endowment net assets composition by type of fund as of December 31, 2015, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 404,510	\$ 9,149,110	\$ 9,553,620
Board-designated endowment funds	\$ 75,419			75,419
	<u>\$ 75,419</u>	<u>\$ 404,510</u>	<u>\$ 9,149,110</u>	<u>\$ 9,629,039</u>

Changes in endowment net assets for the year ended December 31, 2015, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Revenue and support			
Contributions and grant income	\$ 3,552		\$ 1,635,834
Investment return	112,068	\$ 301,817	
Net depreciation of investments	<u>(156,989)</u>	<u>(416,692)</u>	
Total revenue and support	(41,369)	(114,875)	1,635,834
Appropriation of endowment assets for expenditure	<u>234,517</u>	<u>306,540</u>	
Change in endowment net assets	(275,886)	(421,415)	1,635,834
Endowment net assets, beginning of year	<u>351,305</u>	<u>825,925</u>	<u>7,513,276</u>
Endowment net assets, end of year	<u>\$ 75,419</u>	<u>\$ 404,510</u>	<u>\$ 9,149,110</u>

Occasionally, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2015, 66 of the 187 endowment funds had deficiencies totaling \$366,353. Deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of directors.

The Foundation follows the topic Donor-Restricted Endowment Fund under FASB ASC 958. FASB ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of UPMIFA. In accordance with the Foundation's fund agreements, charitable endowments are classified as permanently restricted net assets. All other Foundation net assets are considered unrestricted or temporarily restricted. Donor restrictions have been imposed on a significant portion of the Foundation's net assets.

The investment objective of this Portfolio is long-term growth of principal without undue exposure to risk, through capital appreciation, income, diversification, asset allocation, and donor development. The Foundation seeks returns over the time horizon that are sufficient to meet spending needs, preserve and enhance the real, inflation-adjusted purchasing power of the investments, and cover operating expenses. The long-term target return goal is at least the rate of inflation as measured by the Consumer Price Index plus 5%.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE H - RESTRICTIONS ON NET ASSETS - Continued

The Foundation has a policy (the spending policy) of appropriating for expenditure a percentage of the total portfolio fair value in order to provide for grants and to cover operating expenses. The purpose of the spending policy is to balance the short-term grant making obligations with its goal to provide grants into perpetuity, and, therefore, design a spending policy that is flexible. The Foundation will review the five most recent one-year periods ending September 30. The high and low annual rates of return will be eliminated and the remaining three years will be averaged for the adjusted 5-year average total return. The adjusted 5-year average total return will be used to compare to the maximum spending rate of 5% and the minimum of 3%. From which, the Board determines the spending policy for the coming year.

Temporarily restricted net assets at December 31, 2015 totaled \$906,345, and may be expended for specific purposes as specified by various donors.

Permanently restricted net assets are composed of the following types of funds at December 31, 2015.

Donor advised	\$ 2,644,553
Designated	2,140,115
Agency	424,812
Field of interest	606,911
Legacy	687,627
Scholarship	1,249,855
Unrestricted	1,267,554
Deferred	<u>127,683</u>
	<u><u>\$ 9,149,110</u></u>

NOTE I - ADMINISTRATION MANAGEMENT

The Foundation assesses an administrative charge on endowment and pass-through funds. This charge is used primarily to support the operations of the Foundation.

For the year ended December 31, 2015, \$181,382 is included as support and revenue and \$173,523 as an expense. Due to the fact that administrative charges to various funds are considered a significant measure of the operations of community foundations, these fees have not been eliminated in the financial statements.

NOTE J - SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist of two charitable gift annuities. The assets received are recorded at their fair value. The fair value of assets held for the charitable gift annuities totaled \$108,943 at December 31, 2015. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. These assets are included in the Level 1 and Level 2 inputs in Note D and annuity assets and investments on the Statement of Financial Position. The present value of future payment obligations at December 31, 2015 were \$146,845. The liabilities were determined using discount rates ranging from 5.8% to 6.0%. Changes in fair value of the charitable gift annuities are reflected as changes in temporarily restricted net assets in the statement of activities. During the year ending December 31, 2015 there were no contributions to charitable gift annuities.

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 statement of activities in their respective net asset classification.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE K - RELATED-PARTY TRANSACTIONS

For the year ended December 31, 2015, officers, board members and employees made donations to the Foundation totaling \$134,557.

NOTE L - OPERATING LEASES

The Foundation leases office space under a non-cancelable lease expiring on June 30, 2018. Minimum lease payments \$1,700 per month for the term of the lease. Future minimum lease payments are as follows.

December 31, 2016	\$	20,400
2017		20,400
2018		10,200
2019		-
2020		-
		<u>51,000</u>
	\$	<u>51,000</u>

Total lease expense for the year ended December 31, 2015 was \$23,560.

NOTE M - AGENCY PARTNER FUNDS

In accordance with *FASB ASC-958-20-15*, the Foundation reports contributions as a liability when the donor has specified an unaffiliated beneficiary and not granted variance power over the gift. The Foundation reports these as Agency Funds on its statement of financial position.

During the year ended December 31, 2015, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the statement of activities.

Support and revenue:

Contributions and pledges	\$	15,003	
Investment income		18,739	
Realized gains on investments		1,020	
Unrealized losses on investments		<u>(31,586)</u>	
			\$ 3,176

Expenses:

Grants expense		18,406	
Bank trustee fees		550	
Administrative fees		<u>7,858</u>	
			<u>26,814</u>

Decrease in agency funds			(23,638)
--------------------------	--	--	----------

Balance at beginning of year			<u>420,616</u>
------------------------------	--	--	----------------

Balance at end of year			<u>\$ 396,978</u>
------------------------	--	--	-------------------

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE N - SUBSEQUENT EVENTS

In accordance with FASB ASC Topic 855, Subsequent Events, the Foundation has evaluated subsequent events through April 29, 2016, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2015, have been incorporated into these financial statements herein.