

HENDRICKS COUNTY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2019 and 2018



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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 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 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, 2019 and 2018, and the changes in net assets and its 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
May 1, 2020

Hendricks County Community Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,427,409	\$ 1,670,736
Accrued interest receivable	33,053	-
Prepaid expenses	3,339	4,033
Promissory note receivable	3,340,000	-
Pledges receivable	61,900	50,000
Annuity receivable	93,903	36,554
Investments	13,246,105	12,086,334
Cash surrender value of life insurance	81,450	77,232
Property and equipment, net	<u>1,068</u>	<u>2,737</u>
	<u><u>\$ 19,288,227</u></u>	<u><u>\$ 13,927,626</u></u>
LIABILITIES		
Accounts payable	\$ 19,222	\$ 8,339
Grants and scholarships payable	123,092	85,028
Accrued payroll	2,200	10,841
Deferred revenue	158,821	930,913
Annuity liability	93,903	109,492
Funds held as agency partner funds	<u>411,223</u>	<u>402,271</u>
Total liabilities	808,461	1,546,884
NET ASSETS		
Without donor restrictions	424,626	367,997
With donor restrictions	<u>18,055,140</u>	<u>12,012,745</u>
	<u>18,479,766</u>	<u>12,380,742</u>
	<u><u>\$ 19,288,227</u></u>	<u><u>\$ 13,927,626</u></u>

The accompanying notes are an integral part of these statements.

Hendricks County Community Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31,

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue:			
Contributions and pledges	\$ 233,706	\$ 5,734,789	\$ 5,968,495
Administrative fee income	249,690	-	249,690
Special events, net of \$14,616 in 2019 and \$15,987 in 2018 of expenses	13,781	30,437	44,218
Investment return (loss), net of fees	40,592	2,014,373	2,054,965
Change in value of annuity	-	72,937	72,937
Total operating support and revenue	537,769	7,852,536	8,390,305
Net assets released from restrictions:			
Satisfaction of purpose restrictions	87,219	(87,219)	
Pursuant to spending policy	1,722,922	(1,722,922)	
Operating expenses:			
Program services			
Grants and scholarships	1,614,682		1,614,682
Other grantmaking expenses	99,821		99,821
Supporting services			
Management and general	233,692		233,692
Administrative fees	261,020		261,020
Fundraising and development	82,066		82,066
Total operating expenses	2,291,281		2,291,281
CHANGE IN NET ASSETS	56,629	6,042,395	6,099,024
Net assets at beginning of year	367,997	12,012,745	12,380,742
Net assets at end of year	\$ 424,626	\$ 18,055,140	\$ 18,479,766

The accompanying notes are an integral part of these statements.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 145,294	\$ 617,574	\$ 762,868
228,616	-	228,616
8,549	49,667	58,216
(2,735)	(693,925)	(696,660)
-	(571)	(571)
379,724	(27,255)	352,469
70,873	(70,873)	
680,574	(680,574)	
588,727		588,727
87,049		87,049
208,753		208,753
221,773		221,773
72,016		72,016
1,178,318		1,178,318
(47,147)	(778,702)	(825,849)
415,144	12,791,447	13,206,591
\$ 367,997	\$ 12,012,745	\$ 12,380,742

Hendricks County Community Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2019			
	Grant- making	Management and General	Fundraising	Total
Grants, scholarships and awards	\$ 1,614,682	\$ -	\$ -	\$ 1,614,682
Salaries and wages	57,268	112,490	34,770	204,528
Payroll taxes	5,129	10,074	3,114	18,317
Employee benefits	10,082	19,803	6,121	36,006
Depreciation	-	1,669	-	1,669
Occupancy	-	15,300	-	15,300
Equipment rental and maintenance	-	3,212	-	3,212
Meetings and conferences	1,325	2,602	804	4,731
Print materials	-	-	21,233	21,233
Professional fees	-	13,075	-	13,075
Staff education and development	-	2,018	-	2,018
Office expense	-	9,703	-	9,703
Insurance	-	6,597	-	6,597
Interest	-	-	-	-
Postage	758	758	379	1,895
Communications and technical support	14,897	29,262	9,045	53,204
Advertising and promotions	-	-	3,224	3,224
Donor development and networking	-	-	2,628	2,628
Special events	2,923	-	11,693	14,616
Administrative fees	-	261,020	-	261,020
Other expenses:				
Auto expense	1,497	1,497	748	3,742
Bank charges	-	2,825	-	2,825
Dues and subscriptions	-	2,807	-	2,807
Scholarship-related expenses	8,865	-	-	8,865
	1,717,426	494,712	93,759	2,305,897
Less: direct expenses of special events netted with revenues on the statement of activities	(2,923)	-	(11,693)	(14,616)
	<u>\$ 1,714,503</u>	<u>\$ 494,712</u>	<u>\$ 82,066</u>	<u>\$ 2,291,281</u>

The accompanying notes are an integral part of these statements.

2018				
Grant-making	Management and General	Fundraising	Total	
\$ 588,727	\$ -	\$ -	\$ 588,727	
51,316	100,800	31,156	183,272	
4,390	8,624	2,666	15,680	
9,874	19,395	5,995	35,264	
-	3,325	-	3,325	
-	18,300	-	18,300	
-	3,017	-	3,017	
990	1,944	601	3,535	
-	-	16,001	16,001	
-	14,580	-	14,580	
-	3,405	-	3,405	
-	9,619	-	9,619	
-	6,405	-	6,405	
-	11	-	11	
1,004	1,004	502	2,510	
5,795	11,383	3,518	20,696	
-	-	9,331	9,331	
-	-	1,610	1,610	
3,197	-	12,790	15,987	
-	221,773	-	221,773	
1,273	1,273	636	3,182	
-	4,968	-	4,968	
-	700	-	700	
12,407	-	-	12,407	
678,973	430,526	84,806	1,194,305	
(3,197)	-	(12,790)	(15,987)	
<u>\$ 675,776</u>	<u>\$ 430,526</u>	<u>\$ 72,016</u>	<u>\$ 1,178,318</u>	

Hendricks County Community Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,099,024	\$ (825,849)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,669	3,325
Realized gains on investments	(417,084)	(149,521)
Unrealized (gains) losses on investments	(1,180,925)	1,369,045
Cash received from contributors for funds held in perpetuity	(5,662,288)	(548,495)
Non-cash contributions	(94,419)	(42,790)
(Increase) decrease in assets:		
Trust receivable	-	181,404
Estate receivable	-	18,178
Accrued interest receivable	(33,053)	-
Annuity receivable	(57,349)	18,920
Promissory note receivable	(3,340,000)	-
Prepaid expenses	694	(1,433)
Pledge receivable	(11,900)	(50,000)
Cash surrender value of life insurance	(4,218)	(3,122)
Increase (decrease) in operating liabilities:		
Accounts payable	10,883	3,900
Grants and scholarships payable	38,064	7,331
Accrued payroll	(8,641)	1,891
Deferred revenue	(772,092)	930,913
Charitable gift annuity liability	(15,589)	(18,349)
Funds held as agency partner funds	8,952	(31,922)
Net cash provided by (used in) operating activities	<u>(5,438,272)</u>	<u>863,426</u>
Cash flows from investing activities:		
Purchase of investments	(2,502,167)	(4,340,889)
Proceeds from sales of investments	<u>3,034,824</u>	<u>3,998,883</u>
Net cash provided by (used in) investing activities	532,657	(342,006)
Cash flows from financing activities:		
Payments for capital lease		(1,363)
Cash received from contributors for funds held in perpetuity	<u>5,662,288</u>	<u>548,495</u>
Net cash provided by financing activities	<u>5,662,288</u>	<u>547,132</u>
Net increase in cash and cash equivalents	756,673	1,068,552
Cash and cash equivalents at beginning of year	<u>1,670,736</u>	<u>602,184</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,427,409</u></u>	<u><u>\$ 1,670,736</u></u>

The accompanying notes are an integral part of these statements.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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. Hendricks County is a vibrant, giving community. The Foundation partners with generous people to realize their charitable goals while addressing community needs in meaningful and lasting ways.

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

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 operating fund and unrestricted income from endowment funds.

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.

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 high credit financial institutions, which are insured by agencies of the U.S. Government. For purposes of the Statements 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. 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, 2019 and 2018, the Foundation exceeded the insured limit by \$705,956 and \$1,146,499, respectively.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

7. 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 Statements of Financial Position. Net investment return/(loss) is reported in the Statements of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

8. 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 restriction unless the donor has restricted the donated asset to a specific purpose. The Foundation has a capitalization policy which states that only items with a value of more than \$1,000 are capitalized. 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.

9. 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.

10. Contributed Services

During the year ended December 31, 2019 and 2018, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

11. Compensated Absences

The employees of the Foundation qualify for earned time off based upon length of service. Earned time off must be used by the end of the calendar year. 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.

12. Deferred Revenue

During 2018, the Foundation received a \$1,105,722 grant from Lilly Endowment, Inc. GIFT VII, which has a matching requirement. The Foundation raised \$386,046 and \$87,404 towards the matching requirement and recorded \$772,092 and \$174,809 as contribution revenue from the matching grant for the years ending December 31, 2019 and 2018, respectively. The unmatched portion of the Lilly Endowment, Inc. GIFT VII is \$158,821 and \$930,913 as of December 31, 2019 and 2018, respectively, and is recorded as deferred revenue on the Statements of Financial Position.

13. Functional Allocation of Expenses

The 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.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

14. Advertising

Advertising expenses totaled \$3,224 and \$9,331 for the years ended December 31, 2019 and 2018, respectively. The Foundation's policy is to record advertising expenditures in the period in which they are incurred.

15. 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.

16. 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.

NOTE B - TRUST RECEIVABLE

During 2017, the Foundation was notified it was named as a beneficiary of a trust. Under this trust, the Foundation is to receive distributions in the amount of 26% of the fair value of the trust. Payment of the trust was received during the year ended December 31, 2018.

NOTE C - ESTATE RECEIVABLE

During 2017, the Foundation was notified that it was named as a beneficiary of an estate. Under this estate, the Foundation is to receive a distribution in the amount of 17% of the fair value of the estate. Payment of the estate was received during the year ended December 31, 2018.

The estate also established a contingent distribution to the Foundation in the amount of 17% of the fair value of the estate. No receivable was recorded for this distribution.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable have been adjusted to reflect the net present value of the future cash flows. Pledges receivable at December 31, 2019 and 2018 were \$61,900 and \$50,000, respectively. Pledges are scheduled to be collected by December 31, 2020.

NOTE E - PROMISSORY NOTE RECEIVABLE

On September 5, 2019, the Foundation received an assignment of a promissory note in the amount of \$3,450,000. The note bears interest at 3% per annum and matures on December 12, 2020. During December 2019, the Foundation received payments totaling \$110,000 toward the note. The amount to be received as of December 31, 2019 is \$3,340,000. The Foundation has accrued interest of \$33,053 as of December 31, 2019.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE F - RISKS AND UNCERTAINTIES

The Foundation holds a variety of investments (Note G). 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 G - 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>
Certificates of deposit	\$ 165,281	\$ 165,029
Investment in Limited Partnership	2,324,369	2,120,334
Mutual funds - equities:		
Foreign large growth	1,257,601	849,915
Large value	876,798	662,788
Diversified emerging markets	560,493	396,737
Large growth	800,549	698,800
Small blend	473,594	289,608
Large blend	1,046,886	881,318
Moderate allocation	1,478,310	1,364,369
World allocation	994,471	1,843,096
Total mutual funds - equities	<u>7,488,702</u>	<u>6,986,631</u>
Mutual funds - fixed income:		
Corporate bonds	<u>3,267,753</u>	<u>2,814,340</u>
Total investments, at fair value	<u>\$ 13,246,105</u>	<u>\$ 12,086,334</u>
Total investments, at historical cost	<u>\$ 11,881,379</u>	<u>\$ 11,859,413</u>

NOTE H - 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:

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE H - FAIR VALUE MEASUREMENTS - Continued

- 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.

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash surrender value of life insurance		\$ 81,450		\$ 81,450
Annuity		\$ 93,903		93,903
Investments	\$ 10,756,455			10,756,455
Alternative investments*				2,324,369
Total investments at fair value				\$ 13,080,824
Liabilities:				
Annuity liabilities		\$ 93,903		\$ 93,903
2018				
	Level 1	Level 2	Level 3	Total
Assets:				
Cash surrender value of life insurance		\$ 77,232		\$ 77,232
Annuity receivable		\$ 36,554		36,554
Investments	\$ 9,800,971			9,800,971
Alternative investments*				2,120,334
Total investments at fair value				\$ 11,921,305
Liabilities:				
Annuity liabilities		\$ 109,492		\$ 109,492

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE H - FAIR VALUE MEASUREMENTS - Continued

* In accordance with Accounting Standards, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the Statements of Financial Position.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used for the years ended December 31, 2019 and 2018.

- Cash surrender value of life insurance: Fair value is determined by reference to the annual statement provided by the insurance provider.
- Annuity: Fair value is determined by the remaining value of the assets to be paid to the insurance companies.
- Investments: Valued at the daily closing price as reported by the mutual fund or exchange traded fund. Mutual funds and exchange traded funds (“funds”) are held by the Foundation and are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Foundation are deemed to be actively traded.
- Annuity liabilities: Fair value is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables, and discount rates ranging from 3.8 percent to 5.8 percent.
- Capital lease: Fair value is determined by the calculation of the value of the principle payments over the term of the lease.

Alternative investments, including balances, restrictions on redemptions, and investment objectives consist of the following as of December 31,

	2019		
	Net Asset Value	Redemption Notice	Redemption Frequency
TIFF Centerstone Fund, L.P.	\$ 2,324,369	7 days	Not applicable
	2018		
	Net Asset Value	Redemption Notice	Redemption Frequency
TIFF Centerstone Fund, L.P.	\$ 2,120,334	7 days	Not applicable

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE I - PROPERTY AND EQUIPMENT

The amounts of property and equipment, net of depreciation, consist of the following:

	2019	2018
Software	\$ 30,380	\$ 30,380
Office furniture	8,724	8,724
Office equipment	36,887	36,887
Leasehold improvements	1,700	1,700
	<u>77,691</u>	<u>77,691</u>
Less accumulated depreciation	<u>76,623</u>	<u>74,954</u>
	<u>\$ 1,068</u>	<u>\$ 2,737</u>

NOTE J - SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist of charitable gift annuities. The assets received are recorded at their fair value. The fair value of assets held for the charitable gift annuities totaled \$93,903 and \$36,554 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. These assets are included in the Level 1 and Level 2 inputs in Note G and annuity assets and investments on the Statements of Financial Position. The present value of future payment obligations at December 31, 2019 and 2018 were \$93,303 and \$109,492, respectively. The liabilities were determined using a discount rate of 2.0%. Changes in fair value of the charitable gift annuities are reflected as changes in net assets with donor restrictions in the Statements of Activities. During the years ending December 31, 2019 and 2018 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 Statements of Activities in their respective net asset classification.

NOTE K - OPERATING LEASES

The Foundation leases office space under a non-cancelable lease expiring through June 2023. Minimum office lease payments of \$1,100 per month are required for the term of the lease. Future minimum lease payments are as follows.

December 31, 2020	\$ 15,300
2021	15,300
2022	15,300
2023	15,300
2024	<u>-</u>
	<u>\$ 61,200</u>

Total lease expense for the year ended December 31, 2019 and 2018 were \$18,499 and \$21,317 respectively.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Subject to expenditure for a specific purpose:		
Donor advised	\$ 86,343	\$ 88,240
Designated	16,749	29,251
Field of interest	157,456	117,235
Scholarship	<u>26,108</u>	<u>30,265</u>
	286,656	264,991
Pledges receivable, the proceeds from which are not restricted by donors, but which are unavailable for expenditure until due	1,400	-
Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Restricted by donors for:		
Donor advised	1,173,874	244,338
Designated	4,894	10,159
Field of interest	79,300	100,284
Legacy	13,367	-
Community grants	<u>-</u>	<u>59,263</u>
	1,271,435	414,044
Receivables, the proceeds from which have been restricted by donors for:		
Donor advised	3,373,053	-
Legacy	<u>60,500</u>	<u>50,000</u>
	3,433,553	50,000
Subject to Foundation spending and appropriation:		
Donor advised	2,587,359	3,117,234
Designated	2,246,611	2,119,085
Organization specific	362,279	249,670
Field of interest	1,189,268	943,018
Legacy	2,235,259	1,138,335
Scholarship	1,559,636	1,775,027
Community grants	3,100,589	2,637,064
Underwater endowments	<u>(218,905)</u>	<u>(695,723)</u>
	<u>13,062,096</u>	<u>11,283,710</u>
	<u>\$ 18,055,140</u>	<u>\$ 12,012,745</u>

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE M - NET ASSETS RELEASED FROM DONOR RESTRICTION

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:		
Donor advised	\$ 15,100	\$ 14,188
Designated	21,843	12,241
Field of interest	49,461	39,052
Scholarship	<u>815</u>	<u>5,392</u>
	87,219	70,873
Release or appropriated endowment returns without purpose restrictions		
Donor advised	1,065,004	223,717
Designated	104,345	106,706
Agency	65,728	18,999
Field of interest	75,931	71,534
Legacy	95,226	52,146
Scholarship	82,119	80,550
Community grants	<u>234,569</u>	<u>126,922</u>
	<u>1,722,922</u>	<u>680,574</u>
	<u><u>1,810,141</u></u>	<u><u>751,447</u></u>

NOTE N - RELATED-PARTY TRANSACTIONS

For the years ended December 31, 2019 and 2018, officers, board members and employees made donations and pledges to the Foundation totaling \$106,886 and \$97,567, respectively.

NOTE O - 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 years ended December 31, 2019 and 2018, \$249,690 and \$228,616 is included as support and revenue and \$261,020 and \$221,773 as an expense, respectively. 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 P - ENDOWMENT FUNDS

At December 31, 2019 and 2018, the Foundation's endowment consists of 195 and 175 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.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE P - ENDOWMENT FUNDS - Continued

The Board of Directors of the Foundation has interpreted the Indiana Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider 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

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 162,279	\$ -	\$ 162,279
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	15,046,408	15,046,408
Accumulated investment gains	-	2,395,298	2,395,298
	<u>\$ 162,279</u>	<u>\$ 17,441,706</u>	<u>\$ 17,603,985</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 156,608	\$ -	\$ 156,608
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	11,419,550	11,419,550
Accumulated investment gains	-	328,204	328,204
	<u>\$ 156,608</u>	<u>\$ 11,747,754</u>	<u>\$ 11,904,362</u>

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE P - ENDOWMENT FUNDS - Continued

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grant income	\$ 1,045	\$ 5,651,929	\$ 5,652,974
Investment return, net	9,397	1,764,945	1,774,342
Total revenue and support	10,442	7,416,874	7,427,316
Appropriation of endowment assets for expenditure	4,771	1,722,922	1,727,693
Change in endowment net assets	5,671	5,693,952	5,699,623
Endowment net assets, beginning of year	156,608	11,747,754	11,904,362
Endowment net assets, end of year	\$ 162,279	\$ 17,441,706	\$ 17,603,985
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grant income	\$ 6,108	\$ 548,495	\$ 554,603
Investment loss, net	(4,131)	(621,705)	(625,836)
Total revenue and support	1,977	(73,210)	(71,233)
Appropriation of endowment assets for expenditure	3,571	680,574	684,145
Change in endowment net assets	(1,594)	(753,784)	(755,378)
Endowment net assets, beginning of year	158,202	12,501,538	12,659,740
Endowment net assets, end of year	\$ 156,608	\$ 11,747,754	\$ 11,904,362

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, 2019, 31 of the 195 endowment funds had deficiencies totaling \$218,905. As of December 31, 2018, 104 of the 175 endowment funds had deficiencies totaling \$695,723. 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.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE P - ENDOWMENT FUNDS - Continued

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%.

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 may average the previous twelve quarters of fund's ending account balance, beginning with the September balance, and applying the determined spending rate to the resulting average balance. The spending rate of up to 5% applied to the average balance of an endowed fund shall be used to determine the spendable amount each year. From which, the Board determines the spending policy for the coming year.

NOTE Q - AGENCY PARTNER 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 Statements of Activities.

	<u>2019</u>	<u>2018</u>
Support and revenue:		
Contributions and pledges	\$ 6,955	\$ 7,292
Investment return (loss), net	<u>57,904</u>	<u>(19,771)</u>
	\$ 64,859	\$ (12,479)
Expenses:		
Grants expense	47,510	12,469
Administrative fees	<u>8,397</u>	<u>6,974</u>
	<u>55,907</u>	<u>19,443</u>
Change in agency funds	8,952	(31,922)
Balance at beginning of year	<u>402,271</u>	<u>434,193</u>
Balance at end of year	<u><u>\$ 411,223</u></u>	<u><u>\$ 402,271</u></u>

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE R - LIQUIDITY

The Foundation has financial assets available within one year of the Statements of Financial Position date consisting the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 489,449	\$ 372,299
Pledges receivable	1,400	-
Investments	<u>110,079</u>	<u>98,185</u>
	<u>\$ 600,928</u>	<u>\$ 470,484</u>

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 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 S - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through May 1, 2020, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2019, have been incorporated into these financial statements herein.

NOTE T - 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.