

HENDRICKS COUNTY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2018 and 2017

DRAFT

This draft has been provided to management for the purpose of facilitating its review of the financial statements. As the financial statements are not final and are for discussion purposes only, they should not be relied upon by management or any third party. Please contact Estep Burkey Simmons, LLC to ask questions about the draft and to discuss any related issues. Upon receipt of the final report on the financial statements, please destroy all copies of this draft.

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, 2018 and 2017, 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, 2018 and 2017, 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.

Muncie, Indiana
MONTH DAY, 2019

Hendricks County Community Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

Years ended December 31,

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,670,736	\$ 602,184
Trust receivable	-	181,404
Estate receivable	-	18,178
Annuity receivable	36,554	55,474
Prepaid expenses	4,033	2,600
Pledge receivable	50,000	-
Investments	12,086,334	12,921,062
Cash surrender value of life insurance	77,232	74,110
Property and equipment, net	<u>2,737</u>	<u>6,062</u>
	<u>\$ 13,927,626</u>	<u>\$ 13,861,074</u>
LIABILITIES		
Accounts payable	\$ 8,339	\$ 4,439
Grants and scholarships payable	85,028	77,697
Accrued payroll	10,841	8,950
Capital lease	-	1,363
Deferred revenue	930,913	-
Annuity liability	109,492	127,841
Funds held as agency partner funds	<u>402,271</u>	<u>434,193</u>
Total liabilities	1,546,884	654,483
NET ASSETS		
Without donor restrictions	367,997	415,144
With donor restrictions	<u>12,012,745</u>	<u>12,791,447</u>
	<u>12,380,742</u>	<u>13,206,591</u>
	<u>\$ 13,927,626</u>	<u>\$ 13,861,074</u>

The accompanying notes are an integral part of these statements.

Hendricks County Community Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31,

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue:			
Contributions and pledges	\$ 145,294	\$ 617,574	\$ 762,868
Administrative fee income	228,616	-	228,616
Special events, net of \$15,987 in 2018 and \$17,970 in 2017 of expenses	8,549	49,667	58,216
Investment return (loss), net of fees	(2,735)	(693,925)	(696,660)
Change in value of annuity	-	(571)	(571)
Total operating support and revenue	379,724	(27,255)	352,469
Net assets released from restrictions:			
Satisfaction of purpose restrictions	624,525	(624,525)	
Appropriation of donor endowment	126,922	(126,922)	
Operating expenses:			
Program services			
Grants and scholarships	588,727		588,727
Program expense	87,049		87,049
Supporting services			
Management and general	208,753		208,753
Administrative fees	221,773		221,773
Fundraising and development	72,016		72,016
Total operating expenses	1,178,318		1,178,318
CHANGE IN NET ASSETS	(47,147)	(778,702)	(825,849)
Net assets at beginning of year	415,144	12,791,447	13,206,591
Net assets at end of year	\$ 367,997	\$ 12,012,745	\$ 12,380,742

The accompanying notes are an integral part of these statements.

2017		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 109,690	\$ 739,028	\$ 848,718
225,063	-	225,063
1,677	99,438	101,115
12,125	1,485,652	1,497,777
-	(6,365)	(6,365)
348,555	2,317,753	2,666,308
673,645	(673,645)	
64,630	(64,630)	
617,019		617,019
81,131		81,131
196,075		196,075
219,819		219,819
63,658		63,658
1,177,702		1,177,702
(90,872)	1,579,478	1,488,606
506,016	11,211,969	11,717,985
<u>\$ 415,144</u>	<u>\$ 12,791,447</u>	<u>\$ 13,206,591</u>

Hendricks County Community Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2018			
	Grant- making	Management and General	Fundraising	Total
Grants, scholarships and awards	\$ 588,727	\$ -	\$ -	\$ 588,727
Salaries and wages	51,316	100,800	31,156	183,272
Payroll taxes	4,390	8,624	2,666	15,680
Employee benefits	9,874	19,395	5,995	35,264
Depreciation	-	3,325	-	3,325
Occupancy	-	18,300	-	18,300
Equipment rental and maintenance	-	3,017	-	3,017
Meetings and conferences	990	1,944	601	3,535
Print materials	-	-	16,001	16,001
Professional fees	-	14,580	-	14,580
Staff education and development	-	3,405	-	3,405
Office expense	-	9,619	-	9,619
Insurance	-	6,405	-	6,405
Interest	-	11	-	11
Postage	1,004	1,004	502	2,510
Communications and technical support	5,795	11,383	3,518	20,696
Advertising and promotions	-	-	9,331	9,331
Donor development and networking	-	-	1,610	1,610
Special events	3,197	-	12,790	15,987
Administrative fees	-	221,773	-	221,773
Other expenses:				
Auto expense	1,273	1,273	636	3,182
Bank charges	-	4,968	-	4,968
Dues and subscriptions	-	700	-	700
Scholarship-related expenses	12,407	-	-	12,407
	678,973	430,526	84,806	1,194,305
Less: direct expenses of special events netted with revenues on the statement of activities	(3,197)	-	(12,790)	(15,987)
	<u>\$ 675,776</u>	<u>\$ 430,526</u>	<u>\$ 72,016</u>	<u>\$ 1,178,318</u>

The accompanying notes are an integral part of these statements.

2017			
Grant-making	Management and General	Fundraising	Total
\$ 617,019	\$ -	\$ -	\$ 617,019
49,069	96,386	29,792	175,247
4,395	8,632	2,668	15,695
3,581	7,035	2,174	12,790
-	3,356	-	3,356
-	22,500	-	22,500
-	3,766	-	3,766
1,507	2,961	915	5,383
-	-	12,637	12,637
-	9,369	-	9,369
-	5,996	-	5,996
-	10,804	-	10,804
-	6,284	-	6,284
-	108	-	108
886	886	443	2,215
5,321	10,453	3,231	19,005
-	-	7,382	7,382
-	-	3,690	3,690
3,594	-	14,376	17,970
-	219,819	-	219,819
1,452	1,452	726	3,630
-	2,040	-	2,040
-	4,047	-	4,047
14,920	-	-	14,920
701,744	415,894	78,034	1,195,672
(3,594)	-	(14,376)	(17,970)
<u>\$ 698,150</u>	<u>\$ 415,894</u>	<u>\$ 63,658</u>	<u>\$ 1,177,702</u>

Hendricks County Community Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (825,849)	\$ 1,488,606
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,325	3,356
Realized (gains) losses on investments	(149,521)	5,970
Unrealized (gains) losses on investments	1,369,045	(785,906)
Cash received from contributors for funds held in perpetuity	(548,495)	(666,292)
Non-cash stock contributions	(42,790)	(156,197)
(Increase) decrease in assets:		
Trust receivable	181,404	(181,404)
Estate receivable	18,178	(18,178)
Annuity receivable	18,920	18,920
Prepaid expenses	(1,433)	27
Pledge receivable	(50,000)	-
Cash surrender value of life insurance	(3,122)	(3,199)
Increase (decrease) in operating liabilities:		
Accounts payable	3,900	3,053
Grants and scholarships payable	7,331	(9,648)
Accrued payroll	1,891	1,776
Deferred revenue	930,913	-
Charitable gift annuity liability	(18,349)	(12,555)
Funds held as agency partner funds	(31,922)	24,197
Net cash provided by (used in) operating activities	<u>863,426</u>	<u>(287,474)</u>
Cash flows from investing activities:		
Purchase of investments	(4,340,889)	(1,284,257)
Proceeds from sales of investments	<u>3,998,883</u>	<u>285,000</u>
Net cash used in investing activities	<u>(342,006)</u>	<u>(999,257)</u>
Cash flows from financing activities:		
Payments for capital lease	(1,363)	(3,190)
Cash received from contributors for funds held in perpetuity	<u>548,495</u>	<u>666,292</u>
Net cash provided by financing activities	<u>547,132</u>	<u>663,102</u>
Net increase (decrease) in cash and cash equivalents	1,068,552	(623,629)
Cash and cash equivalents at beginning of year	<u>602,184</u>	<u>1,225,813</u>
Cash and cash equivalents at end of year	<u>\$ 1,670,736</u>	<u>\$ 602,184</u>

The accompanying notes are an integral part of these statements.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017, the Foundation exceeded the insured limit by \$1,146,499 and \$184,008, respectively.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017, 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 gift from Lilly GIFT VII, which has a matching requirement. The Foundation has raised \$87,404 towards the matching requirement and recorded \$174,809 as contribution revenue from the matching gift. The unmatched portion of the Lilly GIFT VII is \$930,913 as of December 31, 2018 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, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES - Continued

14. Advertising

Advertising expenses totaled \$9,331 and \$7,382 for the years ended December 31, 2018 and 2017, 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 2015, 2016, and 2017 are subject to examination by the Internal Revenue Service and the Indiana Department of Revenue. Returns are generally subject to examination for three years after they are filed.

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, 2018 and 2017 were \$50,000 and \$-0-, respectively.

Pledges are scheduled to be collected as follows:

Year ending December 31, 2019	\$25,000
2020	\$25,000
2021 - 2023	\$0

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE E - RISKS AND UNCERTAINTIES

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

The following is an analysis of the cost and fair value at December 31, 2018 and 2017 by type of investment.

	2018	2017
Certificates of deposit	\$ 165,029	\$ 164,881
Investment in Limited Partnership	2,120,334	-
Mutual funds - equities:		
Foreign large blend	849,915	1,102,259
Large value	662,788	713,249
Diversified emerging markets	396,737	349,281
Large growth	698,800	718,123
Commodities precious metals	-	114,995
Alternatives	-	2,360,011
Small blend	289,608	-
Mid-cap blend	-	338,163
Large blend	881,318	1,067,564
Moderate allocation	1,364,369	1,479,450
World allocation	1,843,096	1,948,181
Total mutual funds - equities	<u>6,986,631</u>	<u>10,191,276</u>
Mutual funds - fixed income:		
Corporate bonds	<u>2,814,340</u>	<u>2,564,905</u>
Total investments, at fair value	<u>\$ 12,086,334</u>	<u>\$ 12,921,062</u>
Total investments, at historical cost	<u>\$ 11,859,413</u>	<u>\$ 11,219,799</u>

NOTE G - 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, 2018 and 2017

NOTE G - 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.

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash surrender value of life insurance		\$ 77,232		\$ 77,232
Annuity		\$ 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
2017				
	Level 1	Level 2	Level 3	Total
Assets:				
Cash surrender value of life insurance		\$ 74,110		\$ 74,110
Annuity		\$ 55,474		\$ 55,474
Investments	\$ 11,012,561	\$ 1,362,989	\$ 380,631	\$ 12,756,181
Liabilities:				
Annuity liabilities		\$ 127,841		\$ 127,841
Capital lease		\$ 1,363		\$ 1,363

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE G - 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, 2018 and 2017.

- 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.

The following schedule provides further detail of the Level 3 fair value measurements using significant unobservable inputs:

	2018	2017
Beginning Balance	\$ 380,631	\$ 301,365
Realized and unrealized gains (losses)	(380,631)	79,266
Ending Balance	\$ -	\$ 380,631

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

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

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE H - PROPERTY AND EQUIPMENT

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

	2018	2017
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>74,954</u>	<u>71,629</u>
	<u>\$ 2,737</u>	<u>\$ 6,062</u>

NOTE I - CAPITAL LEASE

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

	2018	2017
Classification: Equipment		
Technology equipment	\$ 12,295	\$ 12,295
Less accumulated amortization	<u>11,270</u>	<u>8,811</u>
Equipment under capital lease, net	<u>\$ 1,025</u>	<u>\$ 3,484</u>

The Foundation has leased technology equipment under an agreement which has been classified as a capital lease. The lease is non-cancelable and expired on May 31, 2018.

NOTE J - 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, 2018 and 2017, \$228,616 and \$225,063 is included as support and revenue and \$221,773 and \$219,819 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 K - 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 \$57,332 and \$74,390 at December 31, 2018 and 2017, respectively. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. 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, 2018 and 2017 were \$109,492 and \$127,841, respectively. The liabilities were determined using a discount rate of 3.6%. 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, 2018 and 2017 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.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specific purpose:		
Donor advised	\$ 88,240	\$ 85,699
Designated	29,251	22,567
Field of interest	117,235	109,212
Scholarship	30,265	72,431
	<u>264,991</u>	<u>289,909</u>
Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Restricted by donors for:		
Donor advised	416,230	769,205
Designated	156,691	179,629
Organization specific	55,055	78,106
Field of interest	114,756	190,700
Legacy	7,296	104,148
Scholarship	211,665	230,301
General use	65,235	447,027
	<u>1,026,928</u>	<u>1,999,116</u>
Subject to Foundation spending and appropriation: Investment in perpetuity, the income from which is expendable to support:		
Donor advised	2,945,336	2,935,289
Designated	1,972,553	1,924,979
Organization specific	294,899	294,296
Field of interest	828,262	768,617
Legacy	1,181,039	868,473
Scholarship	1,563,362	1,549,934
General use	2,631,098	2,290,822
Underwater endowments	(695,723)	(129,988)
	<u>10,720,826</u>	<u>10,502,422</u>
	<u>\$ 12,012,745</u>	<u>\$ 12,791,447</u>

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished:		
Donor advised	\$ 237,905	\$ 252,576
Designated	118,947	218,924
Agency	18,999	9,837
Field of interest	110,586	107,606
Legacy	52,146	20,952
Scholarship	<u>85,942</u>	<u>63,750</u>
	624,525	673,645
Release or appropriated endowment returns without purpose restrictions	<u>126,922</u>	<u>64,630</u>
	<u>\$ 751,447</u>	<u>\$ 738,275</u>

NOTE N - ENDOWMENT FUNDS

At December 31, 2018 and 2017, the Foundation's endowment consists of 202 and 196 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. 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, 2018 and 2017

NOTE N - ENDOWMENT FUNDS - Continued

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

	2018		
	Without Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 156,830	\$ -	\$ 156,830
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	-	329,688	329,688
	<u>\$ 156,830</u>	<u>\$ 11,749,238</u>	<u>\$ 11,906,068</u>
	2017		
	Without Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 184,002	\$ -	\$ 184,002
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	10,632,409	10,632,409
Accumulated investment gains	-	1,869,127	1,869,127
	<u>\$ 184,002</u>	<u>\$ 12,501,536</u>	<u>\$ 12,685,538</u>

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

	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)	(663,894)	(668,025)
Total revenue and support	1,977	(115,399)	(113,422)
Appropriation of endowment assets for expenditure	29,149	636,899	666,048
Change in endowment net assets	(27,172)	(752,298)	(779,470)
Endowment net assets, beginning of year	184,002	12,501,536	12,685,538
Endowment net assets, end of year	<u>\$ 156,830</u>	<u>\$ 11,749,238</u>	<u>\$ 11,906,068</u>

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE N - ENDOWMENT FUNDS - Continued

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grant income	\$ 26,656	\$ 680,372	\$ 707,028
Investment return, net	8,885	1,496,466	1,505,351
Total revenue and support	35,541	2,176,838	2,212,379
Appropriation of endowment assets for expenditure	9,741	474,036	483,777
Change in endowment net assets	25,800	1,702,802	1,728,602
Endowment net assets, beginning of year	158,202	10,798,734	10,956,936
Endowment net assets, end of year	\$ 184,002	\$ 12,501,536	\$ 12,685,538

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, 2018, 104 of the 202 endowment funds had deficiencies totaling \$695,723. As of December 31, 2017, 27 of the 196 endowment funds had deficiencies totaling \$129,988. 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 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 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.

NOTE O - RELATED-PARTY TRANSACTIONS

For the years ended December 31, 2018 and 2017, officers, board members and employees made donations and pledges to the Foundation totaling \$97,567 and \$20,471.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE P - OPERATING LEASES

The Foundation leases office space and a copier under non-cancelable leases expiring through March 2019. Minimum office lease payments of \$1,100 per month are required for the term of the lease. Minimum copier lease payments of \$216 per month are required for the term of the lease. Future minimum lease payments are as follows.

December 31, 2019	\$	18,499
2020		15,300
2021		15,300
2022		15,300
2023		7,650
		<u>72,049</u>
	\$	<u>72,049</u>

Total lease expense for the year ended December 31, 2018 and 2017 were \$21,317 and \$26,266 respectively.

NOTE Q - AGENCY PARTNER FUNDS

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 Statements of Financial Position.

During the years ended December 31, 2018 and 2017, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the Statements of Activities.

	2018	2017
Support and revenue:		
Contributions and pledges	\$ 7,292	\$ 4,368
Investment return (loss), net	<u>(19,771)</u>	<u>31,999</u>
	\$ (12,479)	\$ 36,367
Expenses:		
Grants expense	12,469	6,924
Administrative fees	<u>6,974</u>	<u>5,246</u>
	<u>19,443</u>	<u>12,170</u>
Change in agency funds	(31,922)	24,197
Balance at beginning of year	<u>434,193</u>	<u>409,996</u>
Balance at end of year	<u>\$ 402,271</u>	<u>\$ 434,193</u>

NOTE R - BEQUESTS

Bequests from estates are recorded when the Foundation is notified by the executor or other representative of a deceased person of an amount due the Foundation from an estate. The Foundation has been notified that it has been named as a beneficiary of an estate; however no amounts have been disclosed.

Hendricks County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE S - LIQUIDITY

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 372,299	\$ 359,506
Investments	<u>98,185</u>	<u>90,026</u>
	<u>\$ 470,484</u>	<u>\$ 449,532</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 balance sheet 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 T - SUBSEQUENT EVENTS

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