

THE COMMUNITY FOUNDATION OF
MUNCIE AND DELAWARE COUNTY, INC.
AND RELATED ENTITY

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2018 and 2017



Independent Auditors' Report

Board of Directors
The Community Foundation of Muncie and
Delaware County, Inc. and Related Entity

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Community Foundation of Muncie and Delaware County, Inc. and Delaware County BY5 Early Childhood Initiative, Inc. which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Community Foundation of Muncie and Delaware County, Inc. and Delaware County BY5 Early Childhood Initiative, Inc. as of December 31, 2018 and 2017, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Estep Burkey Simmons, LLC

Muncie, Indiana
May 1, 2019

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 3,787,335	\$ 2,311,658
Prepaid expenses	1,450	1,450
Pledges receivable	224,675	7,375
Cash surrender value of life insurance	604,528	598,314
Property, building and equipment, net of accumulated depreciation	29,231	23,162
Investments	53,888,160	57,721,421
	<u>\$ 58,535,379</u>	<u>\$ 60,663,380</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants payable	\$ 247,623	\$ 166,200
Administrative expenses payable	888	767
Deferred revenue	732,940	-
Annuity obligations payable	6,237	4,642
Funds held for the benefit of others	5,355,997	5,856,324
Investments managed for others	559,615	596,362
Total liabilities	6,903,300	6,624,295
NET ASSETS		
Without donor restrictions	921,601	342,894
With donor restrictions	50,710,478	53,696,191
	<u>51,632,079</u>	<u>54,039,085</u>
	<u>\$ 58,535,379</u>	<u>\$ 60,663,380</u>

The accompanying notes are an integral part of these statements.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31,

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating support and revenue			
Contributions	\$ 4,291	\$ 2,935,853	\$ 2,940,144
Contributions and grants - BY5	6,512		6,512
Investment return (loss), net	119	(2,094,619)	(2,094,500)
Administrative fee revenue	547,959		547,959
Total operating support and revenue	<u>558,881</u>	<u>841,234</u>	<u>1,400,115</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	2,231,098	(2,231,098)	
Net assets released from restriction pursuant to spending policy	1,595,849	(1,595,849)	
Operating expenses			
Program services	2,548,098		2,548,098
Program services - BY5	188,195		188,195
Management and general expenses	812,003		812,003
Management and general expenses - BY5	118,319		118,319
Fundraising expenses	124,944		124,944
Fundraising expenses - BY5	15,562		15,562
Total operating expenses	<u>3,807,121</u>		<u>3,807,121</u>
CHANGE IN NET ASSETS	578,707	(2,985,713)	(2,407,006)
Net assets at beginning of year	<u>342,894</u>	<u>53,696,191</u>	<u>54,039,085</u>
Net assets at end of year	<u>\$ 921,601</u>	<u>\$ 50,710,478</u>	<u>\$ 51,632,079</u>

The accompanying notes are an integral part of these statements.

2017		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 113,496	\$ 1,052,045	\$ 1,165,541
6,512		6,512
	7,346,723	7,346,723
524,635		524,635
<u>644,643</u>	<u>8,398,768</u>	<u>9,043,411</u>
1,858,024	(1,858,024)	
1,229,230	(1,229,230)	
2,547,641		2,547,641
97,113		97,113
793,287		793,287
138,706		138,706
108,383		108,383
20,687		20,687
<u>3,705,817</u>	<u></u>	<u>3,705,817</u>
26,080	5,311,514	5,337,594
<u>316,814</u>	<u>48,384,677</u>	<u>48,701,491</u>
<u>\$ 342,894</u>	<u>\$ 53,696,191</u>	<u>\$ 54,039,085</u>

The Community Foundation of Muncie and Delaware County, Inc.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

2018

	Grant- making	Early Childhood Initiatives	Total Program Services	Management & General	Fundraising	Total
Salaries & wages	\$ 124,232	\$ 22,197	\$ 146,429	\$ 207,208	\$ 69,060	\$ 422,697
Payroll taxes	12,624	1,698	14,322	20,267	6,755	41,344
Employee benefits	10,607	1,813	12,420	17,574	5,857	35,851
Conferences & meetings	1,630	985	2,615	3,700	1,233	7,548
Grants	2,359,795		2,359,795			2,359,795
Program expenses		155,199	155,199			155,199
Donor development					30	30
Printing & publications	8,458		8,458	11,969	3,989	24,416
Postage	1,502	220	1,722	2,437	813	4,972
Administrative fees				485,255		485,255
Advertising					36,104	36,104
Dues & subscriptions	584	201	785	1,110	370	2,265
Office supplies	3,576	376	3,952	5,593	1,864	11,409
Professional fees				131,920		131,920
Rent	6,210	2,256	8,466	11,979	3,993	24,438
Telephone	1,100	835	1,935	2,738	913	5,586
Insurance	4,059	642	4,701	6,652	2,217	13,570
Repairs & maintenance	9,151	366	9,517	13,467	4,489	27,473
Miscellaneous expenses	1,786	1,061	2,847	4,024	1,343	8,214
Depreciation expense	2,784	346	3,130	4,429	1,476	9,035
	<u>\$ 2,548,098</u>	<u>\$ 188,195</u>	<u>\$ 2,736,293</u>	<u>\$ 930,322</u>	<u>\$ 140,506</u>	<u>\$ 3,807,121</u>

The accompanying notes are an integral part of these statements.

2017

Grant-making	Early Childhood Initiatives	Total Program Services	Management & General	Fundraising	Total
\$ 122,624	\$ 31,281	\$ 153,905	\$ 217,787	\$ 72,586	\$ 444,278
9,286	2,393	11,679	16,526	5,509	33,714
11,338	2,916	14,254	20,169	6,722	41,145
1,647	1,511	3,158	4,470	1,490	9,118
2,363,171		2,363,171			2,363,171
	53,250	53,250			53,250
				209	209
9,229		9,229	13,059	4,352	26,640
1,548	340	1,888	2,671	890	5,449
			463,875		463,875
				21,173	21,173
969	122	1,091	1,544	514	3,149
3,496	623	4,119	5,828	1,943	11,890
			145,015		145,015
6,028	2,256	8,284	11,723	3,907	23,914
1,629	784	2,413	3,415	1,138	6,966
3,991	641	4,632	6,554	2,184	13,370
9,144	309	9,453	13,378	4,459	27,290
1,781	341	2,122	2,997	1,001	6,120
1,760	346	2,106	2,982	993	6,081
<u>\$ 2,547,641</u>	<u>\$ 97,113</u>	<u>\$ 2,644,754</u>	<u>\$ 931,993</u>	<u>\$ 129,070</u>	<u>\$ 3,705,817</u>

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,407,006)	\$ 5,337,594
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	9,035	6,081
Realized and unrealized (gains) losses	3,367,172	(6,201,554)
Contributions to restricted funds	(2,259,869)	(381,715)
Non-cash stock contributions	(20,402)	(179,292)
(Increase) decrease in assets:		
Pledges receivable	(217,300)	2,625
Increase (decrease) in liabilities:		
Accounts payable	121	(11,687)
Grants payable	81,423	(138,900)
Deferred revenue	732,940	
Investments managed for others	(36,747)	43,860
Charitable gift annuity	1,595	(224)
Funds held for the benefit of others	(500,327)	662,530
Net cash used in operating activities	<u>(1,249,365)</u>	<u>(860,682)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(15,104)	(15,871)
Proceeds from the sales of investments	12,707,572	9,098,318
Purchase of investments	(12,227,295)	(8,242,801)
Net cash provided by investing activities	<u>465,173</u>	<u>839,646</u>
Cash flows from financing activities:		
Cash received from contributors for restricted funds	<u>2,259,869</u>	<u>381,715</u>
Net cash provided by financing activities	<u>2,259,869</u>	<u>381,715</u>
Net increase in cash and cash equivalents	1,475,677	360,679
Cash and cash equivalents at beginning of year	<u>2,311,658</u>	<u>1,950,979</u>
Cash and cash equivalents at end of year	<u>\$ 3,787,335</u>	<u>\$ 2,311,658</u>
<u>Supplemental Disclosure</u>		
Non-cash contributions	\$ 20,402	\$ 179,292

The accompanying notes are an integral part of these statements.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Community Foundation of Muncie and Delaware County, Inc. (Foundation) encourages philanthropy, assists donors in building an enduring source of charitable assets, and exercises leadership in directing resources to enhance the quality of life for residents of Muncie and Delaware County, Indiana. The vision of the Foundation's affiliated corporation, Delaware County BY5 Early Childhood Initiative, Inc. (BY5) is to build a stronger Delaware County by ensuring that every child is kindergarten ready by 2020.

2. Basis of Accounting and Principles of Consolidation

The financial statements include the consolidated accounts of The Community Foundation of Muncie and Delaware County, Inc. and Delaware County BY5 Early Childhood Initiative, Inc. (together Organization). All significant intercompany transactions and accounts have been eliminated. The Organization follow the accrual basis of accounting.

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 Consolidated Statements of Activities as net assets released from restrictions.

4. Investments

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

5. 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.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Compensated Absences

The employees of the Foundation earn vacation days based upon length of service. Vacation days must be used by the employee's anniversary date each year. Any earned vacation days are 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.

7. Contributed Services

Contribution of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No amounts have been recognized in the Consolidated Statement of Activities because the criteria has not been satisfied.

8. Income Taxes

The Organization is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the Organization has been determined not to be a private foundation under Section 509(a) of the Internal Revenue Code.

9. Cash and Cash Equivalents

The Organization maintains its cash in accounts at local financial institutions, which are insured by agencies of the U.S. Government up to \$250,000. For purposes of the Consolidated Statements of Cash Flows, the Organization considers all cash and demand accounts to be cash equivalents.

10. Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$36,104 and \$21,173 for the years ended December 31, 2018 and 2017, respectively.

11. Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed the federally insured limit of \$250,000. At December 31, 2018 and 2017, the Organization exceeded the insured limit by approximately \$2,554,294 and \$1,122,000, respectively.

12. Uncertain Tax Positions

The Organization 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 Organization has examined this issue and has determined there are no material contingent tax liabilities.

The Organization'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.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Deferred Revenue

During 2018, the Foundation received a \$1,000,000 gift from Lilly GIFT VII, which has a matching requirement to be applied at a 2:1 ratio. The Foundation has raised \$133,530 towards the matching requirement and recorded \$267,060 as contribution revenue from the matching gift. The unmatched portion of the Lilly Gift VII is \$732,940 as of December 31, 2018 and is recorded as deferred revenue on the Consolidated Statements of Financial Position.

14. Expense Classification

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

15. Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - PLEDGES RECEIVABLE

As of December 31, 2018 and 2017, pledges receivable were \$224,675 and \$7,375, respectively, and are expected to be collected as follows:

	<u>2018</u>	<u>2017</u>
Payable within one year	\$ 134,175	\$ -
Payable in 1 - 5 years	90,500	7,375
	<u>\$ 224,675</u>	<u>\$ 7,375</u>

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment are valued at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ending December 31, 2018 and 2017 was \$9,035 and \$6,081, respectively. The amounts of property and equipment, net of depreciation, consist of the following at December 31,

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 84,122	\$ 84,122
Equipment	124,892	109,786
	<u>209,014</u>	<u>193,908</u>
Less accumulated depreciation	179,783	170,746
	<u>\$ 29,231</u>	<u>\$ 23,162</u>

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE D - INVESTMENTS

Investments are stated at fair value as of December 31, 2018 and 2017 and are summarized as follows.

	<u>2018</u>	<u>2017</u>
	<u>Fair</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>
Alternative investments	\$ 19,682,636	\$ 17,965,834
Real estate	26,900	26,900
Mutual funds - equities:		
Consumer cyclical		730,207
Consumer defensive		271,707
Consumer discretionary	708,227	
Consumer staples	277,415	
Energy	28,523	
Financial	115,766	133,980
Foreign	102,031	
Health care	642,216	441,511
Industrials	481,460	379,485
Information technology	1,360,362	1,486,965
Materials	68,748	
Natural resources		143,638
Real estate	100,285	54,351
Telecommunications	528,114	
ETF - domestic equity		1,255,847
ETF - large multi-cap equity	10,552,956	12,337,220
ETF - mid-cap equity	2,395,879	2,593,735
ETF - small-cap equity	2,244,239	3,604,639
EFT - international equity	8,438,963	10,383,783
Total mutual funds - equities	<u>28,045,184</u>	<u>33,817,068</u>
Mutual funds - fixed income:		
Balanced	9,133	10,304
Bond	6,124,307	5,901,315
Total mutual funds - fixed income	<u>6,133,440</u>	<u>5,911,619</u>
Total investments, at fair value	<u>\$ 53,888,160</u>	<u>\$ 57,721,421</u>
Total investments, at historical cost	<u>\$ 46,977,726</u>	<u>\$ 45,079,567</u>

NOTE E - RISKS AND UNCERTAINTIES

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

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE F - INVESTMENTS MANAGED FOR OTHERS

The Foundation manages funds for certain unrelated not-for-profit and other organizations and receives a management fee for this service. Distributions from these funds are based on their direction subject to the Foundation's approval.

NOTE G - GRANTS PAYABLE

As of December 31, 2018 and 2017, the Foundation was committed to various charitable organizations and scholarship recipients for grants totaling \$247,623 and \$166,200, respectively.

	2018	2017
Payable within one year	\$ 173,323	\$ 94,800
Payable in 1 - 5 years	74,300	71,400
	<u>\$ 247,623</u>	<u>\$ 166,200</u>

No material contingent grants were outstanding as of December 31, 2018 and 2017.

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 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, based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables set forth financial assets measured at fair value in the Consolidated Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of December 31, 2018 and 2017, respectively:

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE H - FAIR VALUE MEASUREMENTS - Continued

	2018			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 53,888,160	\$ 34,205,524	\$ 11,592,594	\$ 8,090,042
Cash surrender value of life insurance	\$ 604,528		\$ 604,528	
Liabilities:				
Annuity obligations payable	\$ 6,237		\$ 6,237	
2017				
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 57,721,421	\$ 39,755,587	\$ 11,705,866	\$ 6,259,968
Cash surrender value of life insurance	\$ 598,314		\$ 598,314	
Liabilities:				
Annuity obligations payable	\$ 4,642		\$ 4,642	

The following schedule provides further detail of the real estate being held as Level 3 fair value measurements using significant unobservable inputs at December 31,

	2018	2017
Beginning balance	\$ 6,259,968	\$ 5,024,829
Net investment return	444,541	635,139
Purchases	1,778,033	1,160,000
Redemptions	(392,500)	(560,000)
Ending balance	<u>\$ 8,090,042</u>	<u>\$ 6,259,968</u>

Fair values for level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of the level 2 input cash surrender value of life insurance, is determined by reference to the annual statement provided by the insurance provider. Fair value for the annuity obligation payable is determined by reference to present value calculations. Fair value of the level 3 investments in real estate is based on valuations provided at various periods by the investment and fund managers.

Fair value measurements of investments in certain entities that calculate net asset value per share of its equivalent at December 31, 2018 and 2017 were as follows.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE H - FAIR VALUE MEASUREMENTS - Continued

	2018			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Global long/short equity focus fund of funds (a)	\$ 4,721,950		Semi-annual	107 days
Private equity fund investing directly and indirectly in distressed securities (b)	353,993	\$ 54,466	Ineligible	
Limited partnerships investing in global private equity, special situations, and real assets (c)	7,371,049	2,790,101	Ineligible	
Group variable annuity investing in a master limited partnership (d)	1,642,273		Request	
Pooled investment hedge fund (e)	5,228,371		Semi-annual	95 days
Private equity fund making loans in various sector (f)	<u>365,000</u>	<u>635,000</u>	Ineligible	
	<u>\$ 19,682,636</u>	<u>\$ 3,479,567</u>		
	2017			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Global long/short equity focus fund of funds (a)	\$ 5,008,417		Semi-annual	107 days
Private equity fund investing directly and indirectly in distressed securities (b)	418,291	\$ 60,000	Ineligible	
Limited partnerships investing in global private equity, special situations, and real assets (c)	5,841,677	4,197,600	Ineligible	
Group variable annuity investing in a master limited partnership (d)	1,550,147		Request	
Pooled investment hedge fund (e)	<u>5,147,302</u>		Semi-annual	95 days
	<u>\$ 17,965,834</u>	<u>\$ 4,257,600</u>		

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE H - FAIR VALUE MEASUREMENTS - Continued

- (a) This category includes an investment in a fund of funds with the investment objective to achieve capital appreciation through a balanced level of risk by allocating assets to long/short equity and credit focused managers. Significant areas include global opportunistic equity/credit. The fair value of the investment in this category has been estimated using the ownership interest in partners' capital to which a proportionate share of net assets is attributed.
- (b) This category consists of a partnership that invests in direct and pooled investment vehicles that are managed by investment managers. Portfolio investments typically involve securities of companies undergoing financial distress, operating difficulties, and significant restructuring. The partnership's portfolio investments are generally illiquid and subject to redemption restrictions in accordance with their respective governing documents which, other than investments in open-ended funds and publicly traded securities, do not provide for the partnership to exit the investment until the term of the portfolio fund has ended. The term of the partnership will continue until December 31, 2018, unless the partnership is dissolved earlier in accordance with its agreement. The term of the partnership may be extended for up to three additional years with consent of its advisory board. The fair value of the investment in this category has been estimated using the ownership interest in partners' capital to which a proportionate share of net assets is attributed.
- (c) This category consists of three limited partnerships with the strategy to invest opportunistically across three broad sectors: global private equity, special situations, and real assets. The fair value of the investment in this category has been estimated using the ownership interest in partner's capital to which a proportionate share of net assets is attributed.
- (d) This category consists of a variable annuity that holds an investment with the objective to see absolute return by investing directly in income-producing publicly traded master limited partnerships and midstream energy infrastructure investments. The investment may be redeemed at net asset value in the near term. The fair value of the investment is based on net asset value.
- (e) This category consists of a pooled investment hedge fund with distress and credit securities, relative value, market neutral and low net equity, event drive, and relative value sectors. Initially invested funds are ineligible for redemption for twelve months. The fair value of the investment is based on net asset value.
- (f) This category consists of a private equity fund that lends to lower mid-market companies, which have between \$3 million and \$50 million in earnings before interest, taxes, depreciation and amortization. These companies are also primarily owned by private equity firms. The fair value of the investment is based on net asset value.

NOTE I - ANNUITY OBLIGATIONS PAYABLE

The Foundation's annuity obligations with donors consist of charitable gift annuities. The assets received are recorded at their fair value and are revalued annually. The fair value of assets held for charitable gift annuities totaled \$8,641 and \$10,653 at December 31, 2018 and 2017, respectively. On an annual basis, the Foundation revalues the liability for the annuity based on actuarial assumptions. The fair value of future payment obligations at December 31, 2018 and 2017 was \$6,237 and \$4,642, respectively. The liabilities were determined using a discount rate of 3.2% and 2.6% as of December 31, 2018 and 2017, respectively. Changes in fair value of the annuities are reflected as changes in net assets without donor restrictions in the Consolidated Statements of Activities.

NOTE J - CAPITAL LEASE

During 2016, a copy machine recorded as a capital lease by BY5 at December 31, 2015, was acquired under the bargain purchase option. The copy machine is recorded in property and equipment with a cost of \$5,000 and with accumulated depreciation of \$4,000 and \$3,000 at December 31, 2018 and 2017, respectively. Depreciation expense for the asset is recorded in management and general expenses - BY5.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE K - ENDOWMENT FUNDS

At December 31, 2018 and 2017, the Foundation's endowment consists of 251 and 235 funds, respectively, to support charitable purposes and organizations and one fund designated by the Board of Directors to function as endowments to provide unrestricted support for Foundation programs. As required by accounting principles generally accepted in the United States of America, 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 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, 2018 and 2017, 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, 2018 and 2017 was as follows:

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 262,800		\$ 262,800
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		\$ 41,229,593	41,229,593
Accumulated investment gains		8,636,159	8,636,159
	<u>\$ 262,800</u>	<u>\$ 49,865,752</u>	<u>\$ 50,128,552</u>

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE K - ENDOWMENT FUNDS - Continued

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 300,046		\$ 300,046
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		\$ 38,940,315	38,940,315
Accumulated investment gains		13,527,647	13,527,647
	<u>\$ 300,046</u>	<u>\$ 52,467,962</u>	<u>\$ 52,768,008</u>

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

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grant income	\$ 500	\$ 2,281,441	\$ 2,281,941
Investment loss, net		(2,094,339)	(2,094,339)
Total revenue and support	500	187,102	187,602
Appropriation of endowment assets for expenditure	<u>37,746</u>	<u>2,789,312</u>	<u>2,827,058</u>
Change in endowment net assets	(37,246)	(2,602,210)	(2,639,456)
Endowment net assets, beginning of year	<u>300,046</u>	<u>52,467,962</u>	<u>52,768,008</u>
Endowment net assets, end of year	<u>\$ 262,800</u>	<u>\$ 49,865,752</u>	<u>\$ 50,128,552</u>

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE K - ENDOWMENT FUNDS - Continued

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grant income	\$ 270	\$ 473,865	\$ 474,135
Investment return, net		7,385,634	7,385,634
Total revenue and support	270	7,859,499	7,859,769
Appropriation of endowment assets for expenditure	19,516	2,580,544	2,600,060
Change in endowment net assets	(19,246)	5,278,955	5,259,709
Endowment net assets, beginning of year	319,292	47,189,007	47,508,299
Endowment net assets, end of year	\$ 300,046	\$ 52,467,962	\$ 52,768,008

From time to time, the fair value of assets associated with donor-restricted endowments may fall below the level the donor or UPMIFA requires the Foundation to retain. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in net assets without donor restrictions were \$129,057 and \$0- as of December 31, 2018 and 2017, respectively. These deficiencies resulted from spending policy distributions and unfavorable market fluctuations.

To achieve its mission, the Foundation must preserve the purchasing power of its endowed funds and have available a growing stream of income for spending, net of inflation, in order to sustain its operations and grant making capacity. Reasonable consistency of return on an annual basis is important to assure the Foundation's capacity to sustain a level of operation that will provide for its continual growth. Adequate diversification within the asset allocation should be managed in order to reduce volatility.

The performance objective is to maximize total return of the portfolio, net of inflation, spending and expenses, with prudent risk levels over a full market cycle. Return may be derived from both fair value increase (realized and unrealized capital appreciation) and from current income (interest and dividend).

To satisfy its long-term return performance objectives, the Foundation invests in securities with higher return expectations that outweigh the short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities and other low volatility strategies will be used to lower the short-term volatility of the portfolio and to provide stability especially during periods of weak or negative equity markets. It is the intent of the Foundation to be fully invested. Therefore, cash is not a strategic asset of the portfolio, but is residual to the investment process.

In support of Foundation objectives, the Foundation utilizes a spending policy to preserve the purchasing power of its assets and grant making ability in perpetuity and to enable a predictable and consistent grants budget. The formula for calculating the total annual amount available for grant distributions shall be 4.5% of the average unencumbered fair value of the most recent twelve calendar quarters ended on September 30, prior to the year of distribution. In accordance with its objectives to maintain the historic dollar value of endowed funds, if at September 30 of any year, an endowed fund's unencumbered investment balance is less than its historic dollar value, distributions for the next calendar year will be limited. Distributions for funds valued at less than historic dollar value are limited to 1.5% for the fund. In the event of extraordinary circumstances, the Board of Directors may authorize changes to the spending policy, including a higher or lower spending percentage.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED 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	377,591	380,674
Designated	815,171	828,192
Pledges receivable, the proceeds from which have been restricted by donors for:		
Scholarships	<u>2,775</u>	<u>7,375</u>
	1,195,537	1,216,241
Subject to the passage of time:		
Pledges receivable that are not restricted by donors, but which are unavailable for expenditure until due	221,900	
Subject to appropriation and expenditure when a specific event occurs:		
Proceeds from gift annuity upon death of the annuitant	2,382	5,984
Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Restricted by donors for:		
Donor advised	353,419	856,119
Scholarships	161,674	148,158
Designated	1,242,073	1,238,329
Fields of interest	13,703	17,884
Specific organizations	<u>182,075</u>	<u>178,383</u>
	1,952,944	2,438,873
Subject to Foundation spending and appropriation:		
Donor advised	5,410,891	6,321,597
Scholarships	4,346,653	4,646,198
Designated	6,992,163	7,197,958
Fields of interest	4,275,836	4,459,314
Specific organizations	4,077,738	4,557,687
Available for general use	22,363,491	22,852,339
Underwater endowments	<u>(129,057)</u>	
	<u>47,337,715</u>	<u>50,035,093</u>
	<u>\$ 50,710,478</u>	<u>\$ 53,696,191</u>

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED 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	\$ 449,495	\$ 440,127
Scholarships	290,045	239,591
Designated	1,023,934	613,765
Fields of interest	251,876	269,194
Specific organizations	<u>215,748</u>	<u>295,347</u>
	2,231,098	1,858,024
Restricted-purpose spending-rate distributions and appropriations:		
General use	<u>1,595,849</u>	<u>1,229,230</u>
	<u>\$ 3,826,947</u>	<u>\$ 3,087,254</u>

NOTE N - FUNDS HELD FOR THE BENEFIT OF OTHERS

The Foundation reports contributions as a liability when third party organizations transfer these assets to the Foundation and specify themselves, or their affiliates, as the beneficiary. These liabilities are offset by the Foundation's investments. During the years ended December 31, 2018 and 2017, the following activity occurred in the funds held for the benefit of others held by the Foundation. These amounts are not reflected on the Consolidated Statements of Activities.

	<u>2018</u>	<u>2017</u>
Support and revenue		
Contributions and pledges	\$ 29,284	\$ 99,698
Investment return (loss), net	<u>(223,119)</u>	<u>809,568</u>
	\$ (193,835)	\$ 909,266
Expenses		
Grants expense	249,204	190,736
Administrative fees	<u>57,288</u>	<u>56,000</u>
	<u>306,492</u>	<u>246,736</u>
Change in funds held for the benefit of others	(500,327)	662,530
Balance at beginning of year	<u>5,856,324</u>	<u>5,193,794</u>
Balance at end of year	<u>\$5,355,997</u>	<u>\$5,856,324</u>

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE O - OPERATING LEASES

The Foundation has entered into an agreement to lease office space at \$1,525 per month. The lease term expires on June 30, 2020. Lease expense for 2018 and 2017 was \$17,926 and \$17,401, respectively. Minimum future lease payments are as follows:

December 31, 2019	\$	18,300
2020		9,150
2021		-0-
2022		-0-
2023		-0-
		<u>27,450</u>
	\$	<u>27,450</u>

The Foundation and BY5 have each entered into agreements to lease office space at an annual rate of \$1. The lease term is month to month with 60 days written notice of termination. The fair value of the leases for 2018 and 2017 was \$6,512 and \$6,512, respectively.

NOTE P - EMPLOYEE BENEFIT PLAN

The Foundation maintains a retirement plan under Section 403(b) of the Internal Revenue Code for eligible employees after one year of employment. Employees may contribute up to the IRS established limits. For eligible employees, the Organizations contribute 8% of qualified wages to the plan. The Foundation's expense related to the plan for 2018 and 2017 was \$23,095 and \$25,061, respectively.

NOTE Q - LIQUIDITY

The Foundation has financial assets available within one year of the balance sheet date consisting the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,581,930	\$ 959,786
Pledges receivable	<u>134,175</u>	<u>-</u>
	<u>\$ 1,716,105</u>	<u>\$ 959,786</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 R - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 1, 2019, which is the date these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2018, have been incorporated into these consolidated financial statements herein.

The Community Foundation of Muncie and Delaware County, Inc. and Related Entity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 - CHANGE IN ACCOUNTING PRINCIPLE

During 2018, the Foundation adopted FASB ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 has been implemented and adjustments have been made to the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented which decreased net assets without donor restrictions by \$21,104,994 and increased net assets with donor restrictions by \$21,104,994 resulting from reclassifications of underwater endowment funds and the treatment of operating and unrestricted endowment funds as required under ASU 2016-14.