

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

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2017 and 2016



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 statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 financial position of The Community Foundation of Muncie and Delaware County, Inc. and Delaware County BY5 Early Childhood Initiative, Inc. as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of The Community Foundation of Muncie and Delaware County, Inc. and Delaware County BY5 Early Childhood Initiative, Inc. for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2017.

Estep Burkey Simmons, LLC

Muncie, Indiana

May 4, 2018

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 2,311,658	\$ 1,950,979
Investments	57,721,421	52,209,122
Prepaid expenses	1,450	1,450
Pledges receivable	7,375	10,000
Property, building and equipment, net of accumulated depreciation	23,162	13,372
Cash surrender value of life insurance	598,314	585,284
	<u>\$ 60,663,380</u>	<u>\$ 54,770,207</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants payable	\$ 166,200	\$ 305,100
Administrative expenses payable	767	12,454
Funds held for the benefit of others	5,856,324	5,193,794
Investments managed for others	596,362	552,502
Annuity obligations payable	4,642	4,866
Total liabilities	6,624,295	6,068,716
NET ASSETS		
Unrestricted	160,358	253,655
Unrestricted - board designated	21,287,530	18,928,117
	<u>21,447,888</u>	<u>19,181,772</u>
Temporarily restricted	8,719,448	6,029,685
Permanently restricted	23,871,749	23,490,034
	<u>54,039,085</u>	<u>48,701,491</u>
	<u>\$ 60,663,380</u>	<u>\$ 54,770,207</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,

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue				
Contributions	\$ 113,494	\$ 670,330	\$ 381,715	\$ 1,165,539
Contributions and grants - BY5	6,512			6,512
Investment income	522,884	688,656		1,211,540
Net realized gain on investments	498,485	641,145		1,139,630
Net unrealized gain on investments	2,216,676	2,857,757		5,074,433
Administrative fee revenue	524,635			524,635
	<u>3,882,686</u>	<u>4,857,888</u>	<u>381,715</u>	<u>9,122,289</u>
Net assets released from restrictions	2,168,125	(2,168,125)		
Expenses				
Program services	2,547,641			2,547,641
Program services - BY5	97,113			97,113
Management and general expenses	793,285			793,285
Management and general expenses - BY5	138,706			138,706
Investment expenses	78,880			78,880
Fundraising expenses	108,383			108,383
Fundraising expenses - BY5	20,687			20,687
	<u>3,784,695</u>			<u>3,784,695</u>
INCREASE IN NET ASSETS	2,266,116	2,689,763	381,715	5,337,594
Net assets at beginning of year	<u>19,181,772</u>	<u>6,029,685</u>	<u>23,490,034</u>	<u>48,701,491</u>
Net assets at end of year	<u>\$ 21,447,888</u>	<u>\$ 8,719,448</u>	<u>\$ 23,871,749</u>	<u>\$ 54,039,085</u>

The accompanying notes are an integral part of these statements.

2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 193,381	\$ 430,833	\$ 1,894,161	\$ 2,518,375
	6,512		6,512
590,155	855,827		1,445,982
335,329	439,785		775,114
402,759	659,914		1,062,673
485,975			485,975
<u>2,007,599</u>	<u>2,392,871</u>	<u>1,894,161</u>	<u>6,294,631</u>
1,901,709	(1,901,709)		
2,069,228			2,069,228
56,105			56,105
963,038			963,038
197,763			197,763
80,038			80,038
90,595			90,595
18,124			18,124
<u>3,474,891</u>	<u></u>	<u></u>	<u>3,474,891</u>
434,417	491,162	1,894,161	2,819,740
<u>18,747,355</u>	<u>5,538,523</u>	<u>21,595,873</u>	<u>45,881,751</u>
<u>\$ 19,181,772</u>	<u>\$ 6,029,685</u>	<u>\$ 23,490,034</u>	<u>\$ 48,701,491</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from investments	\$ 1,211,540	\$ 1,445,982
Cash received from contributors	1,179,357	550,701
Net cash received from administrative fees	60,760	42,002
Cash received (paid) from managed funds	(16,605)	4,023
Cash paid from funds held for the benefit of others	(23,222)	(63,446)
Cash paid to suppliers and employees	(921,626)	(878,037)
Cash paid for interest		(140)
Grants paid	<u>(2,363,171)</u>	<u>(2,083,564)</u>
Net cash used in operating activities	(872,967)	(982,479)
Cash flows from investing activities:		
Capital expenditures	(15,871)	(3,098)
Proceeds from sales and maturities of investments	9,098,318	9,770,711
Purchases of investments	<u>(8,229,771)</u>	<u>(10,738,043)</u>
Net cash provided by (used in) investing activities	852,676	(970,430)
Cash flows from financing activities:		
Cash received from contributors for restricted funds	381,715	1,930,510
Payments on capital lease		(2,621)
Principal payments on charitable gift annuity	<u>(745)</u>	<u>(745)</u>
Net cash provided by financing activities	380,970	1,927,144
Net increase (decrease) in cash and cash equivalents	360,679	(25,765)
Cash and cash equivalents at beginning of year	<u>1,950,979</u>	<u>1,976,744</u>
Cash and cash equivalents at end of year	<u>\$ 2,311,658</u>	<u>\$ 1,950,979</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 CASH FLOWS - Continued

Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Increase in net assets	\$ 5,337,594	\$ 2,819,740
Reconciliation of change in net assets to net cash used in operating activities		
Depreciation	6,081	6,122
Net realized gains on sales of investments	(1,139,630)	(873,915)
Net unrealized gains on investments	(5,061,924)	(1,174,936)
Contributions to restricted funds	(381,715)	(1,930,510)
Noncash stock contributions	(179,292)	(33,459)
Loss on disposal of fixed assets		63
Change in value of annuity obligations	521	518
Increase in cash surrender value of life insurance	(13,030)	(8,880)
Decrease in prepaid expense		440
Decrease in pledges receivable	2,625	141,521
Increase (decrease) in administrative expenses payable	(11,687)	12,454
Increase (decrease) in grants payable	(138,900)	41,769
Decrease in deferred liability - Lilly GIFT VI		(143,930)
Increase in investments managed for others	43,860	22,527
Increase in funds held for the benefit of others	<u>662,530</u>	<u>137,997</u>
Net cash used in operating activities	<u>\$ (872,967)</u>	<u>\$ (982,479)</u>
<u>Supplemental Disclosure</u>		
Non-cash contributions	\$ 179,292	\$ 33,459

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 are classified based upon the existence or absence of donor-imposed restrictions. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Foundation.

Permanently restricted net assets represent the part of the net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

4. Investments

Investments are recorded at fair value. The changes in the difference between fair value and cost are reflected in the financial statements as net unrealized gains or losses on investments. Investment income, net realized and unrealized gains or losses are classified as unrestricted, temporarily restricted or permanently restricted revenue or expenses, depending on the existence and/or nature of any donor restrictions.

5. Contributions

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

6. 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.

7. 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.

8. 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 statement of cash flows, the Organization considers all cash and demand accounts to be cash equivalents.

9. Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$21,173 and \$9,493 for the years ended December 31, 2017 and 2016, respectively.

10. 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, 2017 and 2016, the Organization exceeded the insured limit by approximately \$1,122,000 and \$1,288,000, respectively.

11. 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 2014, 2015, and 2016 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.

12. Expense Classification

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

13. 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 - INVESTMENTS

Investments are stated at fair value as of December 31, 2017 and 2016 and are summarized as follows.

	<u>2017</u>	<u>2016</u>
	<u>Fair</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>
Alternative investments	\$ 17,965,834	\$ 15,789,608
Real estate	26,900	26,900
Mutual funds - equities:		
Consumer cyclical	730,207	381,164
Consumer defensive	271,707	809,924
Energy		21,636
Financial	133,980	
Foreign		122,724
Health care	441,511	612,792
Industrials	379,485	397,436
Information technology	1,486,965	1,280,968
Materials		135,324
Natural resources	143,638	
Real estate	54,351	122,763
Telecommunications		53,433
ETF - domestic equity	1,255,847	436,210
ETF - large multi-cap equity	12,337,220	12,022,086
ETF - mid-cap equity	2,593,735	1,700,367
ETF - small-cap equity	3,604,639	1,650,583
EFT - international equity	10,383,783	11,611,076
Total mutual funds - equities	<u>33,817,068</u>	<u>31,358,486</u>
Mutual funds - fixed income:		
Balanced	10,304	11,217
Bond	5,901,315	5,022,911
Total mutual funds - fixed income	<u>5,911,619</u>	<u>5,034,128</u>
Total investments, at fair value	<u>\$ 57,721,421</u>	<u>\$ 52,209,122</u>
Total investments, at historical cost	<u>\$ 45,079,567</u>	<u>\$ 45,868,966</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

The following schedule summarizes the investment return and its classification in the Consolidated Statements of Activities for the years ended December 31, 2017 and 2016.

	2017		
	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 522,884	\$ 688,656	\$ 1,211,540
Realized gains on investments	498,485	641,145	1,139,630
Unrealized gains on investments	2,216,676	2,857,757	5,074,433
	<u>\$ 3,238,045</u>	<u>\$ 4,187,558</u>	<u>\$ 7,425,603</u>
	2016		
	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 590,155	\$ 855,827	\$ 1,445,982
Realized gains on investments	335,329	439,785	775,114
Unrealized gains on investments	402,759	659,914	1,062,673
	<u>\$ 1,328,243</u>	<u>\$ 1,955,526</u>	<u>\$ 3,283,769</u>

NOTE C - RISKS AND UNCERTAINTIES

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

NOTE D - PLEDGES RECEIVABLE

As of December 31, 2017 and 2016, pledges receivable were \$7,375 and \$10,000, respectively, and are expected to be collected as follows:

	2017	2016
Payable within one year	\$ -	\$ -
Payable in 1 - 5 years	7,375	10,000
	<u>\$ 7,375</u>	<u>\$ 10,000</u>

NOTE E - 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE F - 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, 2017 and 2016 was \$6,081 and \$6,122, respectively. The amounts of property and equipment, net of depreciation, consist of the following at December 31,

	2017	2016
Leasehold improvements	\$ 84,122	\$ 84,122
Equipment	109,786	93,916
	<u>193,908</u>	<u>178,038</u>
Less accumulated depreciation	<u>170,746</u>	<u>164,666</u>
	<u>\$ 23,162</u>	<u>\$ 13,372</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 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, 2017 and 2016, respectively:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE G - FAIR VALUE MEASUREMENTS - Continued

	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	
	2016			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 52,209,122	\$ 36,392,614	\$ 10,791,679	\$ 5,024,829
Cash surrender value of life insurance	\$ 585,284		\$ 585,284	
Liabilities:				
Annuity obligations payable	\$ 4,866		\$ 4,866	

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,

	2017	2016
Beginning balance	\$ 5,024,829	\$ 4,074,908
Net realized and unrealized gains (losses)	533,780	(59,471)
Purchases	1,160,000	1,120,000
Redemptions	(560,000)	(378,143)
Net investment income reinvested	101,359	267,535
Ending balance	<u>\$ 6,259,968</u>	<u>\$ 5,024,829</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 2017 and 2016 were as follows.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE G - FAIR VALUE MEASUREMENTS - Continued

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
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)	5,147,302		Semi-annual	95 days
	<u>\$ 17,965,834</u>	<u>\$ 4,257,600</u>		
	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global long/short equity focus fund of funds (a)	\$ 4,306,112		Semi-annual	107 days
Private equity fund investing directly and indirectly in distressed securities (b)	695,545	\$ 60,000	Ineligible	
Limited partnerships investing in global private equity, special situations, and real assets (c)	4,329,284	5,815,250	Ineligible	
Group variable annuity investing in a master limited partnership (d)	1,656,493		Request	
Pooled investment hedge fund (e)	4,802,174		Semi-annual	95 days
	<u>\$ 15,789,608</u>	<u>\$ 5,875,250</u>		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE G - 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.

NOTE H - GRANTS PAYABLE

As of December 31, 2017 and 2016, the Foundation was committed to various charitable organizations and scholarship recipients for grants totaling \$166,200 and \$305,100, respectively.

	<u>2017</u>	<u>2016</u>
Payable within one year	\$ 94,800	\$ 237,500
Payable in 1 - 5 years	<u>71,400</u>	<u>67,600</u>
	<u>\$ 166,200</u>	<u>\$ 305,100</u>

No material contingent grants were outstanding as of December 31, 2017 and 2016.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 \$10,653 and \$10,552 at December 31, 2017 and 2016, 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, 2017 and 2016 was \$4,642 and \$4,866, respectively. The liabilities were determined using a discount rate of 2.6%. Changes in fair value of the annuities are reflected as changes in unrestricted net assets 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 \$3,000 and \$2,000 at December 31, 2017 and 2016, respectively. Depreciation expense for the asset is recorded in management and general expenses - BY5.

NOTE K - ENDOWMENT FUNDS

At December 31, 2017 and 2016, the Foundation's endowment consists of 215 and 202 funds, respectively, to support charitable purposes and organizations and 20 and 19 funds, respectively, 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 allowing the Foundation to exercise its variance power when necessary. Therefore, the maintenance of the historic dollar value for each endowed fund as defined previously by UPMIFA is desired but not required. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In addition, the remaining portion of the endowment fund to be appropriated for expenditure for the Foundation is classified as temporarily restricted or unrestricted net assets in accordance with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate 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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE K - ENDOWMENT FUNDS - Continued

Endowment net assets composition by type of fund as of December 31, 2017 and 2016 was as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 7,497,222	\$ 23,871,749	\$ 31,368,971
Board-designated endowment funds	\$ 21,399,037			21,399,037
	<u>\$ 21,399,037</u>	<u>\$ 7,497,222</u>	<u>\$ 23,871,749</u>	<u>\$ 52,768,008</u>
	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 4,828,169	\$ 23,490,034	\$ 28,318,203
Board-designated endowment funds	\$ 19,190,096			19,190,096
	<u>\$ 19,190,096</u>	<u>\$ 4,828,169</u>	<u>\$ 23,490,034</u>	<u>\$ 47,508,299</u>

Changes in endowment net assets for the years ended December 31, 2017 and 2016, were as follows:

	2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenue and support			
Contributions and grant income	\$ 83,684	\$ 8,736	\$ 381,715
Investment return	522,884	668,744	
Net appreciation of investments	2,715,161	3,478,845	
Total revenue and support	3,321,729	4,156,325	381,715
Appropriation of endowment assets for expenditure	1,112,788	1,487,272	
Change in endowment net assets	2,208,941	2,669,053	381,715
Endowment net assets, beginning of year	19,190,096	4,828,169	23,490,034
Endowment net assets, end of year	<u>\$ 21,399,037</u>	<u>\$ 7,497,222</u>	<u>\$ 23,871,749</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE K - ENDOWMENT FUNDS - Continued

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenue and support			
Contributions and grant income	\$ 190,615	\$ 20,077	\$ 1,894,161
Investment return	587,648	847,737	
Net appreciation of investments	739,225	1,082,557	
Other income (loss)	(1,137)	11,970	
Total revenue and support	1,516,351	1,962,341	1,894,161
Appropriation of endowment assets for expenditure	1,105,737	1,477,167	
Change in endowment net assets	410,614	485,174	1,894,161
Endowment net assets, beginning of year	18,779,482	4,342,995	21,595,873
Endowment net assets, end of year	<u>\$ 19,190,096</u>	<u>\$ 4,828,169</u>	<u>\$ 23,490,034</u>

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 unrestricted net assets were \$-0- and \$64,232 as of December 31, 2017 and 2016, 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE K - ENDOWMENT FUNDS - Continued

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.

NOTE L - NET ASSETS

At December 31, 2017 and 2016, unrestricted, board-designated net assets consisted of the Foundation's endowment fund and certain other unrestricted endowment funds. These funds are invested to provide long-term unrestricted earnings for Foundation programs.

Temporarily restricted net assets at December 31, 2017 and 2016, consisted of gift annuities and earnings from permanently restricted funds that have been appropriated for expenditure for programs and projects such as scholarships, arts and culture, community betterment, economic development, education, human services, and agencies. Temporarily restricted net assets may specify certain donor purposes or provide for donor advisement. Funding for programs conducted through Delaware County BY5 Early Childhood Initiative, Inc. is included in temporarily restricted net assets.

At December 31, 2017 and 2016, temporarily restricted endowment net assets consisted of unappropriated earnings from permanent endowments.

At December 31, 2017 and 2016, permanently restricted net assets consisted of donor-designated endowment funds to be held indefinitely; the income from which is expendable for unrestricted and donor designated purposes.

At December 31, 2017 and 2016, temporarily restricted net assets were classified as follows:

	<u>2017</u>	<u>2016</u>
Net assets subject to purpose restrictions	\$ 1,222,226	\$ 2,326,746
Term endowment funds subject to a time and purpose restriction	<u>7,497,222</u>	<u>3,702,939</u>
	<u>\$ 8,719,448</u>	<u>\$ 6,029,685</u>

At December 31, 2017 and 2016, permanently restricted net assets were classified as follows:

	<u>2017</u>	<u>2016</u>
Endowment funds required to be retained permanently	<u>\$ 23,871,749</u>	<u>\$ 23,490,034</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE M - 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, 2017 and 2016, the following activity occurred in the funds held for the benefit of others held by the Foundation. These amounts are not reflected on the statement of activities.

	<u>2017</u>	<u>2016</u>
Support and revenue		
Contributions and pledges	\$ 99,698	\$ 11,650
Investment income	132,547	159,191
Realized gains on investments	126,545	90,568
Unrealized gains on investments	<u>559,207</u>	<u>110,292</u>
	\$ 917,997	\$ 371,701
Expenses		
Grants expense	190,736	173,663
Investment fees	8,731	8,896
Administrative fees	<u>56,000</u>	<u>51,145</u>
	<u>255,467</u>	<u>233,704</u>
Increase in funds held for the benefit of others	662,530	137,997
Balance at beginning of year	<u>5,193,794</u>	<u>5,055,797</u>
Balance at end of year	<u><u>\$5,856,324</u></u>	<u><u>\$5,193,794</u></u>

NOTE N - OPERATING LEASES

The Foundation has entered into an agreement to lease office space at \$1,450 per month. The lease term expires on June 30, 2018, with an option to renew for two additional one-year terms with the renewal increase based on certain factors. Lease expense for 2017 and 2016 was \$17,401 and \$17,402, respectively. Minimum future lease payments are as follows:

December 31, 2018	\$ 8,700
2019	-0-
2020	-0-
2021	-0-
2022	<u>-0-</u>
	<u><u>\$ 8,700</u></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 2017 and 2016 was \$6,512 and \$7,808, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE O - 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 2017 and 2016 was \$25,061 and \$19,059, respectively.

NOTE P - RECLASSIFICATION

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

NOTE Q - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 4, 2018, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2017, have been incorporated into these financial statements herein.