

MONTGOMERY COUNTY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT

December 31, 2016 and 2015

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Independent Auditors' Report

**Board of Directors
Montgomery County Community Foundation, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Montgomery County Community Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows, and functional expenses 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 Montgomery County Community Foundation, Inc. as of December 31, 2016 and 2015, and the changes in their net assets and their 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 30, 2017

Montgomery County Community Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 1,587,078	\$ 1,611,861
Interest and dividends receivable	28,314	125,625
Accounts receivable	3,887	292
Pledges receivable	-	517,540
Prepaid expenses	8,371	8,193
Investments	36,875,173	33,737,600
Property and equipment		
Office and computer equipment	149,111	129,661
Less accumulated depreciation	92,151	92,989
	56,960	36,672
Real estate	4,734,200	2,203,030
	<u>\$ 43,293,983</u>	<u>\$ 38,240,813</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 23,785	\$ 3,137
Grants payable	103,100	56,411
Payroll taxes payable	1,231	3,995
Amounts held in agency endowments	1,711,769	1,627,265
Agency trust funds	517,401	490,047
Total liabilities	2,357,286	2,180,855
NET ASSETS		
Unrestricted operating funds	583,541	528,873
Unrestricted, board designated:		
Non-endowed funds	966	65,431
Endowment funds	31,975,507	27,377,768
Total unrestricted	32,560,014	27,972,072
Temporarily restricted	3,284,975	2,996,747
Permanently restricted	5,091,708	5,091,139
	<u>40,936,697</u>	<u>36,059,958</u>
	<u>\$ 43,293,983</u>	<u>\$ 38,240,813</u>

The accompanying notes are an integral part of these statements.

Montgomery County Community Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31,

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Contributions	\$ 978,424	\$ 99,322	\$ 569	\$ 1,078,315
Farm rental income	166,658			166,658
Investment income, net of investment fees	906,651	108,693		1,015,344
Realized gains (losses)	(299,536)	61,000		(238,536)
Unrealized gains (losses)	3,761,379	436,533		4,197,912
Administrative fees, net and other income	25,907			25,907
	5,539,483	705,548	569	6,245,600
Net assets released from restrictions				
Restrictions satisfied by payments	417,320	(417,320)		
Expenses				
Program services	884,564			884,564
Management and general	396,082			396,082
Fundraising expenses	88,215			88,215
	1,368,861			1,368,861
CHANGE IN NET ASSETS	4,587,942	288,228	569	4,876,739
Net assets at beginning of year	27,972,072	2,996,747	5,091,139	36,059,958
Net assets at end of year	<u>\$ 32,560,014</u>	<u>\$ 3,284,975</u>	<u>\$ 5,091,708</u>	<u>\$ 40,936,697</u>

The accompanying notes are an integral part of these statements.

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,399,756	\$ 36,625	\$ 560	\$ 1,436,941
161,153			161,153
1,150,228	384,615		1,534,843
294,788	164,016		458,804
(2,163,263)	(826,957)		(2,990,220)
19,646			19,646
862,308	(241,701)	560	621,167
404,930	(404,930)		
891,961			891,961
322,235			322,235
74,714			74,714
1,288,910			1,288,910
(21,672)	(646,631)	560	(667,743)
27,993,744	3,643,378	5,090,579	36,727,701
<u>\$ 27,972,072</u>	<u>\$ 2,996,747</u>	<u>\$ 5,091,139</u>	<u>\$ 36,059,958</u>

Montgomery County Community Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 4,876,739	\$ (667,743)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,962	9,754
Realized and unrealized (gains) losses	(4,475,992)	2,531,416
Contributions to restricted funds	(569)	(560)
Non-cash stock contributions	(36,197)	(60,682)
(Increase) decrease in assets:		
Accounts receivable	(3,595)	(74)
Interest and dividends receivable	97,311	69,121
Pledges receivable	517,540	(517,490)
Prepaid expense	(178)	(1,257)
Increase (decrease) in liabilities:		
Accounts payable	20,648	(1,005)
Grants payable	46,689	43,911
Payroll taxes payable	(2,764)	(56)
Deferred revenue		(95,412)
Amounts held in agency endowments	84,504	(105,187)
Agency trust funds	27,354	(28,542)
Net cash provided by operating activities	1,159,452	1,176,194
Cash flows from investing activities:		
Purchases of property and equipment	(28,250)	(4,702)
Proceeds from sale of investments	17,120,125	3,535,163
Purchases of investments	(18,276,679)	(5,255,054)
Net cash used in investing activities	(1,184,804)	(1,724,593)
Cash flows from financing activities:		
Cash received from contributors for restricted funds	569	560
Net cash provided by financing activities	569	560
Net decrease in cash and cash equivalents	(24,783)	(547,839)
Cash and cash equivalents at beginning of year	1,611,861	2,159,700
Cash and cash equivalents at end of year	\$ 1,587,078	\$ 1,611,861
<u>Supplemental Disclosure</u>		
Non-cash contributions	\$ 36,197	\$ 80,546

The accompanying notes are an integral part of these statements.

Montgomery County Community Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2016			
	Program Services	Management & General	Fundraising	Total
Grants, distributions, and scholarships	\$ 834,093			\$ 834,093
Salaries and wages	39,118	\$ 199,149	\$ 47,795	286,062
Payroll taxes	2,556	14,485	3,569	20,610
Employee benefits	8,797	33,993	5,882	48,672
Professional fees		17,440		17,440
Bank fees		775		775
Community education and mailings		5,791	5,932	11,723
Rent		30,000		30,000
Donor development			9,302	9,302
Telephone and internet		3,243		3,243
Staff training		2,513		2,513
Postage and freight		2,658		2,658
Dues and subscriptions		4,171		4,171
Travel and meetings			12,809	12,809
Office expenses		10,755	877	11,632
Insurance		2,544		2,544
Depreciation		7,962		7,962
Farm and miscellaneous expense		35,204		35,204
Scholarship promotions		4,667		4,667
Occupancy		4,568		4,568
Uncollectible pledges				
Software maintenance and other repairs		16,164	2,049	18,213
	<u>\$ 884,564</u>	<u>\$ 396,082</u>	<u>\$ 88,215</u>	<u>\$ 1,368,861</u>

The accompanying notes are an integral part of these statements.

2015			
Program Services	Management & General	Fundraising	Total
\$ 844,183			\$ 844,183
36,977	\$ 144,023	\$ 46,264	227,264
2,526	10,771	3,454	16,751
8,275	23,343	5,690	37,308
	15,086		15,086
	338		338
	8,486	5,380	13,866
	30,000		30,000
		4,552	4,552
	4,093		4,093
	377		377
	2,309		2,309
	6,691		6,691
		5,819	5,819
	9,123	738	9,861
	2,631		2,631
	9,363	391	9,754
	35,946		35,946
	5,012		5,012
	3,115		3,115
	50		50
	11,478	2,426	13,904
<u>\$ 891,961</u>	<u>\$ 322,235</u>	<u>\$ 74,714</u>	<u>\$ 1,288,910</u>

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Montgomery 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 act for the primary benefit of the citizens of Montgomery County. A community foundation is established to provide a permanent and growing endowment to benefit the communities, while providing ethical philanthropic leadership for the enrichment and assistance to human services, education, revitalization, social, art, and cultural endeavors. Individuals, families, businesses, private foundations, and non-profit organizations may donate to the community foundation.

2. Contributions

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

3. Cash and Cash Equivalents

The Foundation maintains its cash in accounts at local financial institutions, which are insured by agencies of the U.S. Government. For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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. Equipment and Depreciation

Purchased equipment is stated at cost. Donated equipment is recorded as support at the estimated fair-market value at the date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed according to the estimated useful lives of the respective assets using the straight-line method.

6. 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.

7. Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016 and 2015, the Foundation exceeded the insured limit by approximately \$171,900 and \$151,300, respectively.

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

8. Net Assets and Spending Policy

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 Foundation 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 Foundation 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 Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

The objective of the investments is to provide for long-term growth of principal and income without undue exposure to risk to enable the Foundation to make grants on a continuing and reasonably consistent basis. In pursuing this objective, the Foundation endeavors to achieve total returns that, over time, are better than the relevant market averages. Controlling portfolio volatility to help provide stable distributions from year to year is an additional objective.

The Foundation has a policy (the distribution policy) of appropriating for expenditure each year a maximum of 4.5% of the moving average of the unitized market value at September 30 of the prior twenty quarters of the portfolio. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

9. Grants and scholarships

Grants and scholarships, including multi-year awards, are recorded as an expense and a payable when grants are approved and communicated to the grantees. Grants and scholarships expense for the years ended December 31, 2016 and 2015 was \$834,093 and \$844,183, respectively.

10. Contributed Services

During the years ended December 31, 2016 and 2015, 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 Foundation's liability for compensated absences is immaterial; accordingly, no provision has been made for compensated absences.

12. Uncollectible Accounts and Pledges

Uncollectible accounts are charged directly against revenue when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

13. Agency Trust Fund

The Foundation is a successor trustee to one community trust. The assets of this trust are included in the statements of financial position and an offsetting payable has been recorded, as the Foundation is not the beneficiary of the trust. As of December 31, 2016 and 2015, agency trust funds amounted to \$517,401 and \$490,047, respectively.

14. Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$4,658 and \$3,427 for the years ended December 31, 2016 and 2015, respectively.

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 2013, 2014, and 2015 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 - RISKS AND UNCERTAINTIES

The Foundation holds a variety of investments (Note C). 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.

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE C - INVESTMENTS

The following is an analysis of the cost and fair value at December 31, 2016 and 2015 by type of investment. The investments are held in insured bank and uninsured trust accounts at various financial institutions.

	2016	2015
Mutual funds - equities:		
Large value	\$ 4,030,746	\$ 668,889
Mid-cap value	2,844,222	
Foreign large value	1,575,917	
Foreign large growth	1,599,270	
Large growth	3,192,449	
Conservative allocation	1,604,974	841,697
Moderate allocation	1,498,883	3,947,120
World allocation		3,211,640
World stock	1,565,594	5,397,545
Mid-cap blend		2,450,761
Foreign large blend	1,226,378	1,154,084
Large blend	4,344,247	4,307,932
Alternative hedged		135,097
Total mutual funds - equities	<u>23,482,680</u>	<u>22,114,765</u>
Mutual funds - fixed income:		
High yield bonds	755,697	707,442
Nontraditional bonds	7,832,925	6,122,227
Short government bonds	3,472,663	3,420,861
Multisector bonds	345,039	365,781
Intermediate-term bonds	986,169	1,006,524
Total mutual funds - fixed income	<u>13,392,493</u>	<u>11,622,835</u>
Total investments, at fair value	<u>\$ 36,875,173</u>	<u>\$ 33,737,600</u>
Total investments, at historical cost	<u>\$ 33,343,996</u>	<u>\$ 32,790,566</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2016 and 2015.

	2016		
	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 967,190	\$ 131,328	\$ 1,098,518
Investment fees	(60,539)	(22,635)	(83,174)
Realized gains (losses)	(299,536)	61,000	(238,536)
Unrealized gains	3,761,379	436,533	4,197,912
	<u>\$ 4,368,494</u>	<u>\$ 606,226</u>	<u>\$ 4,974,720</u>

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE C - INVESTMENTS - Continued

	2015		
	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 1,210,088	\$ 408,793	\$ 1,618,881
Investment fees	(59,860)	(24,178)	(84,038)
Realized gains	294,788	164,016	458,804
Unrealized losses	(2,163,263)	(826,957)	(2,990,220)
	<u>\$ (718,247)</u>	<u>\$ (278,326)</u>	<u>\$ (996,573)</u>

NOTE D - 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:

- 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.

	2016			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 36,875,173	\$ 36,875,173		

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE D - FAIR VALUE MEASUREMENTS - Continued

	2015			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 33,737,600	\$ 33,602,503		\$ 135,097

The following schedule provides further detail of the Level 3 fair value measurements using significant unobservable inputs at December 31, 2016 and 2015:

	Level 3	
	2016	2015
Beginning balance	\$ 135,097	\$ 1,156,893
Realized and unrealized losses	(135,097)	(1,021,796)
Ending balance	\$ -	\$ 135,097

Fair values for level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for level 3 investments are determined by monthly statements provided by the fund holder.

NOTE E - RESTRICTIONS ON NET ASSETS

In accordance with the Foundation's fund agreements, charitable endowments are classified as permanently restricted net assets. All other Foundation net assets are considered unrestricted or temporarily restricted. Donor restrictions have been imposed on a significant portion of the Foundation's net assets.

The Foundation's endowment consists of 169 and 165 individual funds, as of December 31, 2016 and 2015, respectively, established for a variety of purposes. The endowment includes both funds established by donors and funds designated by the Board to function as endowments (board-designated endowment funds). The Foundation maintains variance power over all of the endowment funds (including those established by donors) as provided within the fund agreements. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. While the Foundation ultimately has variance power over all of the assets maintained in endowment funds, 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

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E - RESTRICTIONS ON NET ASSETS - Continued

Endowment net assets composition by type of fund as of December 31, 2016 and 2015 was as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 3,191,146	\$ 5,091,708	\$ 8,282,854
Board-designated endowment funds	\$ 31,975,507			31,975,507
	<u>\$ 31,975,507</u>	<u>\$ 3,191,146</u>	<u>\$ 5,091,708</u>	<u>\$ 40,258,361</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 2,914,903	\$ 5,091,139	\$ 8,006,042
Board-designated endowment funds	\$ 27,377,768			27,377,768
	<u>\$ 27,377,768</u>	<u>\$ 2,914,903</u>	<u>\$ 5,091,139</u>	<u>\$ 35,383,810</u>

Changes in endowment net assets for the years ended December 31, 2016 and 2015, were as follows:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenue and support			
Contributions and grant income	\$ 983,658	\$ 9,613	\$ 569
Investment return	623,321	137,361	
Net appreciation of investments	3,984,213	518,150	
Total revenue and support	5,591,192	665,124	569
Appropriation of endowment assets for expenditure	993,453	388,881	
Change in endowment net assets	4,597,739	276,243	569
Endowment net assets, beginning of year	27,377,768	2,914,903	5,091,139
Endowment net assets, end of year	<u>\$ 31,975,507</u>	<u>\$ 3,191,146</u>	<u>\$ 5,091,708</u>

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E - RESTRICTIONS ON NET ASSETS - Continued

	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Contributions and grant income	\$ 1,394,011		\$ 560
Investment return	577,005	\$ 122,068	
Net depreciation of investments	(1,072,447)	(375,690)	
Total revenue and support	898,569	(253,622)	560
Appropriation of endowment assets for expenditure	939,227	350,035	
Change in endowment net assets	(40,658)	(603,657)	560
Endowment net assets, beginning of year	27,418,426	3,518,560	5,090,579
Endowment net assets, end of year	\$ 27,377,768	\$ 2,914,903	\$ 5,091,139

Occasionally, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor of UPMIFA requires the Foundation to retain as a fund of perpetual duration. 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.

Temporarily restricted net assets are composed of the following types of funds at December 31, 2016 and 2015:

	2016	2015
Portion of perpetual endowment to a time restriction under UPMIFA	\$ 1,349,586	\$ 1,248,711
Purpose Restrictions:		
Lilly scholarship funds	20,971	15,651
Lilly Prosperity funds	4,336	4,336
Lilly intern funds	1,146	
Pass-through funds	35,210	40,210
Pathway funds	32,166	21,648
Temporarily restricted income clause endowment funds restriction under UPMIFA	1,841,560	1,666,191
	\$ 3,284,975	\$ 2,996,747

Temporarily restricted net assets totaling \$3,223,312 and \$2,936,550 for the years ending December 31, 2016 and 2015, respectively, are restricted for scholarships and grants.

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E - RESTRICTIONS ON NET ASSETS - Continued

The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA, was \$5,091,708 and \$5,091,139 as of December 31, 2016 and 2015, respectively.

NOTE F - EMPLOYEE BENEFITS

The Foundation has a Simple IRA retirement plan. The Foundation will match up to 3% of an employee's wages. The Foundation contributed \$5,861 and \$5,090 to this plan in 2016 and 2015, respectively.

NOTE G - PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give as of December 31:

	<u>2016</u>	<u>2015</u>
Pledges	\$ -	\$ 517,540
Less: Current portion		<u>517,540</u>
	<u>\$ -</u>	<u>\$ -</u>

NOTE H - OPERATING LEASE

The Foundation leases commercial office space under a five year lease agreement which began in October 2010 and was extended for another five years in September 2015. Monthly lease payments are \$1,100 per month. This amount is substantially lower than fair market value. The value of the donated facility for the year ended December 31, 2016 is approximately \$16,800, and has been recorded as both revenue and expense in the financial statements. Total lease expense for the years ended December 31, 2016 and 2015 was \$30,000 and \$30,000, respectively.

Future minimum payments on the above lease are as follows.

December 31, 2017	\$13,200
2018	\$13,200
2019	\$13,200
2020	\$9,900
2021	-0-

NOTE I - REAL ESTATE

In past years, the Foundation received contributions of approximately 600 acres of land. This land is currently being rented as farmland and the rental income is credited to the funds for which the land was contributed. Rent collected on this land totaled \$166,658 and \$161,153 during 2016 and 2015, respectively.

The value of the Foundation's farmland has been adjusted to reflect the market value of the property. The value of the farmland was \$4,734,200 and \$2,203,030 as of December 31, 2016 and 2015, respectively. The market value of the farmland as of December 31, 2015, using the same valuation method, would have been \$4,669,500. The Foundation will review and adjust, if needed, the value of the farmland on its books annually. The market valuation will be conducted by the farm manager employed to manage the farms. The valuation method used by the farm manager will take into consideration current farmland values in the area, soil conditions as well as the latest Purdue Agricultural Economics Report.

Montgomery County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE J - AGENCY ENDOWMENT FUNDS

The Foundation reports contributions as a liability when third party organizations transfer these assets to the Foundation and specify themselves, or their affiliates, as the beneficiary. These liabilities are offset by the Foundation's investments.

During the years ended December 31, 2016 and 2015, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the statement of activities.

	2016	2015
Support and revenue		
Contributions	\$ 13,005	
Investment income, net	24,717	\$ 25,047
Realized gains on investments	14,230	79,938
Unrealized gains (losses) on investments	88,430	(156,897)
	<u>\$ 140,382</u>	<u>\$ (51,912)</u>
Expenses		
Grants expense	41,650	40,000
Project management fees	14,228	13,275
	<u>55,878</u>	<u>53,275</u>
Increase (decrease) in agency funds	84,504	(105,187)
Balance at beginning of year	<u>1,627,265</u>	<u>1,732,452</u>
Balance at end of year	<u><u>\$1,711,769</u></u>	<u><u>\$1,627,265</u></u>

NOTE K - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through May 30, 2017, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2016, have been incorporated into these financial statements herein.

On January 5, 2016, the Foundation was notified that it was the beneficiary of an estate gift. The Foundation was to receive an undisclosed amount of the estate. The amount of the estate gift was not known at December 31, 2016 or as of the date these statements were available to be issued.