

THE PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS AND ACCOUNTANTS'
AUDIT REPORT

December 31, 2016 and 2015

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Independent Auditors' Report

Board of Directors
The Putnam County Community Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Putnam County Community Foundation, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Putnam County Community Foundation, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Estep Burkey Simmons, LLC

Muncie, Indiana
May 22, 2017

The Putnam County Community Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

| ASSETS | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 521,175 | \$ 543,968 |
| Cash and cash equivalents - endowment pool-moderate growth | 234,054 | 132,285 |
| Cash and cash equivalents - endowment pool-aggressive growth | 7,059 | 966 |
| Pledges receivable (Note B) | 1,645 | 54,129 |
| Other receivables | 1,156 | 1,085 |
| Prepaid expenses | 8,866 | 5,933 |
| Investments (Note C) | | |
| Endowment pool-moderate growth | 23,197,059 | 22,140,215 |
| Endowment pool-aggressive growth | 4,710,975 | 3,269,406 |
| Beneficial interest in life insurance | 66,216 | 108,432 |
| Property and equipment | | |
| Building and improvements | 542,481 | 525,360 |
| Furniture and fixtures | 39,122 | 39,122 |
| Computer equipment | 50,253 | 49,178 |
| | <u>631,856</u> | <u>613,660</u> |
| Less accumulated depreciation | 213,389 | 193,948 |
| Total property and equipment | 418,467 | 419,712 |
| Property held for sale (Note F) | 33,000 | 33,100 |
| Beneficial interest in charitable remainder trusts (Note G) | 199,472 | 204,762 |
| | <u>\$ 29,399,144</u> | <u>\$ 26,913,993</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 5,616 | \$ 2,498 |
| Accrued salaries and wages | 7,840 | 6,699 |
| Accrued vacation | 15,352 | 16,358 |
| Deferred revenue (Note A12) | - | 78,931 |
| Gift annuities payable (Note H) | 68,493 | 72,803 |
| Term debt (Note I) | 148,183 | 160,935 |
| Agency funds (Note J) | 3,836,211 | 3,660,303 |
| | <u>4,081,695</u> | <u>3,998,527</u> |
| NET ASSETS (Notes K and L) | | |
| Unrestricted | 722,444 | 560,969 |
| Temporarily restricted | 24,386,952 | 22,146,444 |
| Permanently restricted | 208,053 | 208,053 |
| | <u>25,317,449</u> | <u>22,915,466</u> |
| Total net assets | <u>\$ 29,399,144</u> | <u>\$ 26,913,993</u> |

The accompanying notes are an integral part of these statements.

The Putnam County Community Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31,

| | 2016 | | | Supplemental Information | | |
|--|-------------------|------------------------|------------------------|--------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Agency Fund Activity | Total |
| Revenue and support | | | | | | |
| Contributions and pledges | \$ 31,680 | \$ 1,598,655 | | \$ 1,630,335 | \$ 10,812 | \$ 1,641,147 |
| Investment return | 489,277 | 1,599,739 | | 2,089,016 | 315,619 | 2,404,635 |
| Other income | 20,257 | 2,277 | | 22,534 | | 22,534 |
| Change in value of split-interest agreements | | (47,772) | | (47,772) | | (47,772) |
| | 541,214 | 3,152,899 | | 3,694,113 | 326,431 | 4,020,544 |
| Net assets released from restrictions | 565,551 | (565,551) | | | | |
| Expenses | | | | | | |
| Program services | | | | | | |
| Grants and scholarships | 771,937 | | | 771,937 | 107,604 | 879,541 |
| Program related expenses | 202,532 | | | 202,532 | | 202,532 |
| Supporting services | | | | | | |
| Administrative expenses | 195,525 | | | 195,525 | | 195,525 |
| Investment fees | 67,904 | | | 67,904 | 11,864 | 79,768 |
| Fundraising expenses | 85,287 | | | 85,287 | | 85,287 |
| | 1,323,185 | | | 1,323,185 | 119,468 | 1,442,653 |
| Transfer of administrative fees | 377,895 | (346,840) | | 31,055 | (31,055) | |
| CHANGE IN NET ASSETS | 161,475 | 2,240,508 | | 2,401,983 | 175,908 | 2,577,891 |
| Net assets at beginning of year | 560,969 | 22,146,444 | \$ 208,053 | 22,915,466 | 3,660,303 | 26,575,769 |
| Net assets at end of year | <u>\$ 722,444</u> | <u>\$ 24,386,952</u> | <u>\$ 208,053</u> | <u>\$ 25,317,449</u> | <u>\$ 3,836,211</u> | <u>\$ 29,153,660</u> |

The accompanying notes are an integral part of these statements.

| 2015 | | | Supplemental Information | | |
|-------------------|------------------------|------------------------|--------------------------|----------------------|----------------------|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Agency Fund Activity | Total |
| \$ 27,159 | \$ 1,535,687 | | \$ 1,562,846 | \$ 84,760 | \$ 1,647,606 |
| (239,462) | (579,254) | | (818,716) | (132,012) | (950,728) |
| 23,444 | 1,262 | | 24,706 | | 24,706 |
| | 37,722 | | 37,722 | | 37,722 |
| (188,859) | 995,417 | | 806,558 | (47,252) | 759,306 |
| 721,055 | (721,055) | | | | |
| 857,989 | | | 857,989 | 163,806 | 1,021,795 |
| 198,639 | | | 198,639 | | 198,639 |
| 192,340 | | | 192,340 | | 192,340 |
| 60,121 | | | 60,121 | 10,929 | 71,050 |
| 87,190 | | | 87,190 | | 87,190 |
| 1,396,279 | | | 1,396,279 | 174,735 | 1,571,014 |
| 375,530 | (341,823) | | 33,707 | (33,707) | |
| (488,553) | (67,461) | | (556,014) | (255,694) | (811,708) |
| 1,049,522 | 22,213,905 | \$ 208,053 | 23,471,480 | 3,915,997 | 27,387,477 |
| <u>\$ 560,969</u> | <u>\$ 22,146,444</u> | <u>\$ 208,053</u> | <u>\$ 22,915,466</u> | <u>\$ 3,660,303</u> | <u>\$ 26,575,769</u> |

The Putnam County Community Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31,

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 2,401,983 | \$ (556,014) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 19,443 | 27,833 |
| Realized and unrealized (gains) losses | (1,313,742) | 1,575,102 |
| Change in value of split-interest agreements | 47,772 | (37,722) |
| Non-cash contributions | (1,054) | (436,438) |
| (Increase) decrease in assets: | | |
| Pledges receivable | 52,484 | (3,579) |
| Other receivables | (71) | 211 |
| Prepaid expenses | (2,933) | 3,372 |
| Property held for sale | 100 | 11,900 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 3,118 | (1,850) |
| Accrued payroll | 1,141 | 741 |
| Accrued vacation | (1,006) | 4,540 |
| Deferred revenue | (78,931) | (275,010) |
| Unearned Partnership Center rent | | (3,517) |
| Agency funds | 175,908 | (255,694) |
| Net cash provided by operating activities | <u>1,304,212</u> | <u>53,875</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 7,805,518 | 3,234,317 |
| Purchase of investments | (8,989,135) | (4,196,666) |
| Payments on gift annuities | (4,576) | (6,649) |
| Purchases of property and equipment | (18,198) | (37,982) |
| Net cash used in investing activities | <u>(1,206,391)</u> | <u>(1,006,980)</u> |
| Cash flows from financing activities: | | |
| Payments on long-term debt | (12,752) | (11,982) |
| Net cash used in financing activities | <u>(12,752)</u> | <u>(11,982)</u> |
| Net increase (decrease) in cash and cash equivalents | 85,069 | (965,087) |
| Cash and cash equivalents at beginning of year | <u>677,219</u> | <u>1,642,306</u> |
| Cash and cash equivalents at end of year | <u>\$ 762,288</u> | <u>\$ 677,219</u> |
| Supplemental disclosures | | |
| Cash paid during the year for interest | \$ 7,771 | \$ 8,380 |
| Non-cash contributions | \$ 1,054 | \$ 436,438 |

The accompanying notes are an integral part of these statements.

The Putnam 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 Putnam County Community Foundation, Inc. (Foundation) is a not-for-profit corporation organized under the laws of the State of Indiana in 1985. The mission of the Foundation is to partner with those who give to enrich life and strengthen community for this and future generations.

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 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 market 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. Property and Equipment and Depreciation

Property and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at fair value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred.

The property and equipment of the Foundation are being depreciated over their estimated useful lives ranging from three to forty years 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. The Foundation is not considered to be a private foundation.

7. Grants and Scholarships

Grants and scholarships, including multi-year awards, are recorded as an expense and a payable when grants are approved and grant conditions are met.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

8. Functional Allocation of Expenses

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

9. Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2016 and 2015, the Foundation exceeded the insured limit by \$-0- and \$-0-, respectively.

10. Contributed Services

Contributed services are recognized as revenue at their fair value if the services create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills and typically would have been purchased if not provided by contribution. Contributed services and promises to contribute that do not meet these criteria are not recognized as revenues and are not reported in the accompanying financial statements. 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

All employees earn vacation days depending on their length of service. Vacation days may be carried over from year to year and accumulated, not to exceed 240 hours.

12. Deferred Revenue

During 2014, the Foundation received a \$500,000 donation from Lilly Gift VI, which has a matching requirement. The Foundation raised \$60,870 and \$246,696 towards the matching requirement during 2016 and 2015, respectively, and recorded \$87,895 and \$275,010 as contribution revenue from the matching gift. The unmatched portion of the Lilly Gift VI is \$-0- and \$78,931 as of December 31, 2016 and 2015, respectively, and is recorded as deferred revenue on the Statement of Financial Position. The Foundation completed the GIFT VI matching requirement during the year ending December 31, 2016.

13. Uncertain Tax Positions

The Foundation now 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.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

14. Reclassifications

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

15. 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 - PLEDGES RECEIVABLE

Unconditional pledges receivable consist of the following at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------|-----------------|------------------|
| Amounts due in: | | |
| Less than one year | \$ 1,645 | \$ 54,129 |
| One to five years | | |
| | <u>\$ 1,645</u> | <u>\$ 54,129</u> |

Pledges receivable have not been discounted.

Management estimates an allowance for doubtful pledges receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Foundation's donors. No allowance for doubtful pledges receivable was determined to be necessary at December 31, 2016 and 2015.

NOTE C - INVESTMENTS

The following is an analysis of the 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.

| | <u>2016</u> | <u>2015</u> |
|-------------------------|--------------|-------------|
| Common stocks | \$ 1,437,113 | \$ 431,103 |
| Life insurance | 66,216 | 108,432 |
| Certificates of deposit | 100,565 | 100,112 |
| Corporate bonds | | |
| Manufacturing | 101,977 | 174,228 |
| Healthcare | 115,446 | 51,923 |
| Banking | 457,336 | 450,819 |
| Retail | 246,969 | 150,823 |
| Energy | 161,780 | 119,703 |
| Technology | 303,719 | 452,823 |
| Food | 110,256 | 90,044 |

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE C - INVESTMENTS - Continued

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|----------------------|----------------------|
| Government bonds | | |
| Municipal securities | 194,724 | 197,964 |
| Treasury securities | 111,616 | 73,264 |
| Federal agency securities | 1,140,229 | 1,203,832 |
| Domestic fixed income mutual funds | | |
| Intermediate-term bond | 4,049,609 | 2,225,437 |
| Inflation-protected bond | 501,758 | 483,930 |
| Domestic equity mutual funds | | |
| Mid-cap growth | | 1,111,322 |
| Large blend | 4,674,101 | 4,001,905 |
| Small blend | 1,490,508 | 1,018,506 |
| Large value | 4,123,461 | 3,487,861 |
| Small growth | 369,877 | 354,758 |
| Managed futures | 567,249 | 449,343 |
| Long/short equity | | 577,048 |
| Multialternative | 661,032 | 320,955 |
| Pacific/Asia ex-Japan stk | 1,301,838 | 493,920 |
| Foreign fixed income mutual funds | | |
| Non-traditional bond | | 1,231,919 |
| Foreign equity mutual funds | | |
| Large blend | 4,175,009 | 3,169,854 |
| Natural resources | 885,033 | 845,024 |
| World allocation | | 1,735,200 |
| Hedge funds | 266,406 | 68,083 |
| Real estate investment trust fund | <u>360,423</u> | <u>337,918</u> |
| Total investments, at fair value | <u>\$ 27,974,250</u> | <u>\$ 25,518,053</u> |
| Total investments, at historical cost | <u>\$ 25,949,059</u> | <u>\$ 24,711,892</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.

| | <u>2016</u> | | |
|---------------------------------|---------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Investment income | \$ 182,632 | \$ 592,642 | \$ 775,274 |
| Realized gains on investments | 14,783 | 19 | 14,802 |
| Unrealized gains on investments | <u>291,862</u> | <u>1,007,078</u> | <u>1,298,940</u> |
| | <u>\$ 489,277</u> | <u>\$ 1,599,739</u> | <u>\$ 2,089,016</u> |

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE C - INVESTMENTS - Continued

| | 2015 | | |
|----------------------------------|---------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Investment income | \$ 175,741 | \$ 580,645 | \$ 756,386 |
| Realized gains on investments | 25,658 | 60,620 | 86,278 |
| Unrealized losses on investments | (440,861) | (1,220,519) | (1,661,380) |
| | <u>\$ (239,462)</u> | <u>\$ (579,254)</u> | <u>\$ (818,716)</u> |

NOTE D - 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.

NOTE E - 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.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E - FAIR VALUE MEASUREMENTS - Continued

The following tables set forth financial assets measured at fair value in the Statement of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of December 31, 2016 and 2015, respectively:

| | 2016 | | | |
|--|---------------|---------------|------------|------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments | \$ 27,873,685 | \$ 27,541,063 | \$ 332,622 | |
| Property held for sale | \$ 33,000 | | \$ 33,000 | |
| Beneficial interest in charitable remainder trusts | \$ 199,472 | | | \$ 199,472 |
| Liabilities: | | | | |
| Gift annuities payable | \$ 68,493 | | | \$ 68,493 |
| | 2015 | | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments | \$ 25,417,941 | \$ 25,241,426 | \$ 176,515 | |
| Property held for sale | \$ 33,100 | | \$ 33,100 | |
| Beneficial interest in charitable remainder trusts | \$ 204,762 | | | \$ 204,762 |
| Liabilities: | | | | |
| Gift annuities payable | \$ 72,803 | | | \$ 72,803 |

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of the hedge fund is based on the net asset value of the fund as determined by the reported valuations of underlying investment managers. The fair value of property held for sale approximates the fair value as of the date it was donated. Fair value for the beneficial interest in charitable remainder trusts is determined by calculating the present value of the annuity using published life expectancy tables with a discount rate ranging between 6.4 percent and 9.6 percent. Fair value for the gift annuity payable is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with a discount rate of 3.2 percent.

The investment objective of the hedge fund is to provide capital appreciation consistent with the return characteristic of the alternative investment portfolios of larger endowments and to provide capital appreciation with less volatility than that of the equity markets. The investment in the hedge fund may be redeemed at the net asset value on a quarterly basis. Advance written notice of 65 days is required to redeem these investments. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment, the net asset value of the fund may be significantly impacted and, consequently, the fair value of the Foundation's interests in the fund. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Foundation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E - FAIR VALUE MEASUREMENTS - Continued

The progression of beneficial interest in charitable remainder trusts during the years ended December 31, 2016 and 2015 is as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------|-------------------|-------------------|
| Beginning balance | \$ 204,762 | \$ 246,207 |
| Payment | | (41,876) |
| Change in present value | <u>(5,290)</u> | <u>431</u> |
| Ending balance | <u>\$ 199,472</u> | <u>\$ 204,762</u> |

The progression of gift annuities payable during the years ended December 31, 2016 and 2015 is as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------|------------------|------------------|
| Beginning balance | \$ 72,803 | \$ 71,704 |
| Payments | (4,576) | (5,550) |
| Change in present value | <u>266</u> | <u>6,649</u> |
| Ending balance | <u>\$ 68,493</u> | <u>\$ 72,803</u> |

NOTE F - PROPERTY HELD FOR SALE

Property held for sale consists of land and artwork donated to the Foundation. The Foundation actively sells pieces of the artwork throughout the year.

NOTE G - CHARITABLE REMAINDER TRUSTS

The Foundation has been named the full or partial beneficiary of several charitable remainder trusts in which the Foundation is not the trustee. Upon termination of the trusts on the donors' deaths, the applicable remainder of the trust will revert to the Foundation. The trust agreements stipulate that a certain portion of the trusts' assets are to be paid out each year to third party beneficiaries named by the donors. The Foundation's interest under these trusts was \$199,472 and \$204,762 at December 31, 2016 and 2015, respectively. In calculating the present value of the amount to be received upon termination of the trusts, the discount rates used ranged from 6.4% to 9.6%. The date of the termination of the trusts was determined based on the applicable mortality tables. The change in the present value of the amounts expected to be received under these charitable trusts was \$(5,290) and \$431 for the years ended December 31, 2016 and 2015, respectively. As the Foundation is not the trustee of these trusts, the fair value of the trust assets has not been recorded in the Statements of Financial Position at December 31, 2016 and 2015.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE H - GIFT ANNUITIES PAYABLE

The Foundation has three charitable gift annuities, under which the Foundation received \$55,000 and is required to make annual payments to the donors in amounts ranging from \$650 to \$1,500 for the remainder of the donors' lifetimes. The Foundation has two deferred charitable gift annuities under which the Foundation received \$40,000 and will begin annual payments ranging from \$1,340 to \$1,400 beginning as early as 2023. Upon the death of the specified persons, the remaining amount of the gifts is to be used by the Foundation as specified in the respective agreements. The Foundation has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiaries at December 31, 2016 and 2015. The liability was calculated based on the life expectancy of the beneficiary of each annuity, derived from the applicable one life or joint-life and last survivor annuity expected return multiples. The present value was calculated using discount rates ranging from 3.2 percent to 9.4 percent on single-life or joint-life annuities. The present value of amounts expected to be paid to the third party beneficiaries was \$68,493 and \$72,803 at December 31, 2016 and 2015, respectively. The change in the present value of the amounts expected to be paid under these gift annuities was \$266 and \$6,649 for the years ended December 31, 2016 and 2015, respectively.

NOTE I - TERM DEBT

Term debt is comprised of the following.

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Real estate mortgage on the Partnership Center payable to a bank that matures in December 2018. Monthly payments are \$513, which includes principal and interest at 3.3% annually. The mortgage is secured by the real estate. | \$ 11,796 | \$ 17,447 |
| Real estate mortgage on the Partnership Center payable to a bank that matures in December 2029. Monthly payments are \$1,191, which includes principal and interest at 4.93% annually. The mortgage is secured by the real estate. | <u>136,387</u> | <u>143,488</u> |
| | 148,183 | 160,935 |
| Current maturities | <u>5,193</u> | <u>5,661</u> |
| | <u>\$ 142,990</u> | <u>\$ 155,274</u> |

Maturities of term debt subsequent to December 31, 2016 are as follows:

| | |
|------------|-------------------|
| 2017 | \$ 5,193 |
| 2018 | 6,603 |
| 2019 | -0- |
| 2020 | -0- |
| 2021 | -0- |
| Thereafter | <u>136,387</u> |
| | <u>\$ 148,183</u> |

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE J - AGENCY FUNDS

The Foundation receives contributions from other not-for-profit organizations in which the donor organization specifies itself as the beneficiary of the fund. In such instances, the Foundation records the contributed assets and any accumulated investment earnings as a liability on the Statement of Financial Position. The Foundation does not report these funds separately for internal reporting purposes.

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.

| | <u>2016</u> | <u>2015</u> |
|------------------------------|---------------------------|---------------------------|
| Support and revenue | | |
| Contributions and pledges | \$ 10,812 | \$ 84,760 |
| Investment return | 315,619 | (132,012) |
| | <u>\$ 326,431</u> | <u>\$ (47,252)</u> |
| Expenses | | |
| Grants expense | 107,604 | 163,806 |
| Investment management fees | 11,864 | 10,929 |
| Administrative fees | 31,055 | 33,707 |
| | <u>150,523</u> | <u>208,442</u> |
| Change in agency funds | 175,908 | (255,694) |
| Balance at beginning of year | <u>3,660,303</u> | <u>3,915,997</u> |
| Balance at end of year | <u><u>\$3,836,211</u></u> | <u><u>\$3,660,303</u></u> |

For the years ended December 31, 2016 and 2015, the Foundation had gifts to agency funds from other funds held at the Foundation in the amount of \$2,255 and \$3,150, respectively. These gifts are shown as contributions to the agency funds and grants from the donating funds.

NOTE K - ENDOWMENT

At December 31, 2016 and 2015, the Foundation's endowment consists of 251 and 249 donor-restricted endowment funds, respectively, established to support designated charitable purposes and organizations, and 2 funds designated by the Board of Directors to function as endowments to provide unrestricted support for Foundation programs. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Indiana Prudent Management of Institutional Funds Act (UPMIFA) as requiring endowment funds to be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent 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 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

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE K - ENDOWMENT - Continued

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

| | 2016 | | | Total |
|----------------------------------|-------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Donor-restricted endowment funds | | \$ 23,939,181 | \$ 208,053 | \$ 24,147,234 |
| Board-designated endowment funds | \$ 342,798 | | | 342,798 |
| | <u>\$ 342,798</u> | <u>\$ 23,939,181</u> | <u>\$ 208,053</u> | <u>\$ 24,490,032</u> |
| | 2015 | | | Total |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Donor-restricted endowment funds | | \$ 21,668,020 | \$ 208,053 | \$ 21,876,073 |
| Board-designated endowment funds | \$ 205,707 | | | 205,707 |
| | <u>\$ 205,707</u> | <u>\$ 21,668,020</u> | <u>\$ 208,053</u> | <u>\$ 22,081,780</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 | | \$ 1,354,444 | |
| Appreciation of investments | \$ 306,645 | 954,174 | |
| Investment return | 182,382 | 587,214 | |
| Total revenue and support | 489,027 | 2,895,832 | |
| Appropriation of endowment assets for expenditure | 351,936 | 624,671 | |
| Change in endowment net assets | 137,091 | 2,271,161 | |
| Endowment net assets, beginning of year | 205,707 | 21,668,020 | \$ 208,053 |
| Endowment net assets, end of year | <u>\$ 342,798</u> | <u>\$ 23,939,181</u> | <u>\$ 208,053</u> |

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE K - ENDOWMENT - Continued

| | 2015 | | |
|---|--------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Revenue and support | | | |
| Contributions and grant income | | \$ 1,068,929 | |
| Depreciation of investments | \$ (415,203) | (1,103,615) | |
| Investment return | 175,557 | 570,974 | |
| Total revenue and support | (239,646) | 536,288 | |
| Appropriation of endowment assets for expenditure | 314,149 | 538,101 | |
| Change in endowment net assets | (553,795) | (1,813) | |
| Endowment net assets, beginning of year | 759,502 | 21,669,833 | \$ 208,053 |
| Endowment net assets, end of year | \$ 205,707 | \$ 21,668,020 | \$ 208,053 |

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested to maximize the total return of the Foundation within reasonable and prudent levels of risk.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

The Foundation has a policy of appropriating for distribution each year 4.5 percent of its endowment funds' average fair value over the prior 12 quarters through September 30 of the fiscal year preceding the fiscal year in which the distribution is planned, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Occasionally, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that UPMIFA requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2016, 9 of the 251 endowment funds had deficiencies totaling \$22,218. As of December 31, 2015, 25 of the 249 endowment funds had deficiencies totaling \$527,946. 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.

In accordance with the Foundation's fund agreements, charitable endowments are classified as temporarily and 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 Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE L - RESTRICTIONS ON NET ASSETS

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:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions and primarily made up of the Foundation's operating fund and administrative endowment. The Foundation maintains unrestricted fund as follows:

Operating - used to fund current operations of the Foundation.

Board Designated - used to fund future operations of the Foundation as designated by the Board.

Temporarily and permanently restricted net assets - Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Temporarily restricted net assets are restricted for the following purposes at December 31,

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Time restrictions related to: | | |
| Charitable trusts | \$ 199,472 | \$ 204,762 |
| Endowment funds not yet appropriated for expenditure | 23,939,181 | 21,668,020 |
| Non-endowed pass-thru funds | <u>248,299</u> | <u>273,662</u> |
| | <u>\$ 24,386,952</u> | <u>\$ 22,146,444</u> |

Permanently restricted net assets of \$208,053 are restricted to support scholarships to Putnam County residents.

NOTE M - RELATED PARTY TRANSACTIONS

The Foundation received \$17,740 and \$64,469 in contributions from members of the Foundation's Board of Directors and staff during the years ended December 31, 2016 and 2015, respectively.

NOTE N - OTHER REVENUES

The Foundation received other revenues during the years ended 2016 and 2015 as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------|------------------|------------------|
| Copy income | \$ 1,025 | \$ 1,992 |
| Rent income | 10,667 | 14,230 |
| Other income | <u>10,842</u> | <u>8,484</u> |
| | <u>\$ 22,534</u> | <u>\$ 24,706</u> |

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE O - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through May 22, 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.

SUPPLEMENTAL INFORMATION

Report of Independent Certified Public Accountants
on Supplemental Information

Board of Directors
The Putnam County Community Foundation, Inc.

We have audited the financial statements of The Putnam County Community Foundation, Inc. as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated May 22, 2017, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Estep Burkey Simmons, LLC

Muncie, Indiana
May 22, 2017

The Putnam County Community Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

| | 2016 | | | | Supplemental Information | |
|--------------------------------------|------------------|---------------------|-------------|--------------|--------------------------|--------------|
| | Program Services | Supporting Services | Fundraising | Total | Agency Fund Activity | Total |
| Personnel costs | | | | | | |
| Salaries and wages | \$ 84,030 | \$ 75,035 | \$ 46,595 | \$ 205,660 | | \$ 205,660 |
| Payroll taxes and benefits | 11,584 | 8,583 | 6,398 | 26,565 | | 26,565 |
| Insurance | 3,111 | 3,279 | 1,713 | 8,103 | | 8,103 |
| Administrative and development costs | | | | | | |
| Office supplies | 46 | 3,257 | 174 | 3,477 | | 3,477 |
| Computer expenses | 1,449 | 11,441 | 8,196 | 21,086 | | 21,086 |
| Printing and copying | 911 | 7,668 | 7,055 | 15,634 | | 15,634 |
| Postage and shipping | 585 | 595 | 2,766 | 3,946 | | 3,946 |
| Dues and subscriptions | | 4,749 | 1,134 | 5,883 | | 5,883 |
| Credit card fees | | 607 | | 607 | | 607 |
| Consulting fees | | | 2,679 | 2,679 | | 2,679 |
| Insurance | | 4,850 | | 4,850 | | 4,850 |
| Communications expense | 772 | 1,137 | 427 | 2,336 | | 2,336 |
| Legal and accounting | | 28,966 | | 28,966 | | 28,966 |
| Miscellaneous | 305 | 2,852 | 1,247 | 4,404 | | 4,404 |
| Advertising | 3,079 | 149 | | 3,228 | | 3,228 |
| Travel and education | 159 | 2,184 | 208 | 2,551 | | 2,551 |
| Board and committee meetings | 1,080 | 596 | | 1,676 | | 1,676 |
| Event expenses | 19,346 | 330 | 6,695 | 26,371 | | 26,371 |
| Occupancy costs | | | | | | |
| Depreciation | | 19,443 | | 19,443 | | 19,443 |
| Repairs and maintenance | | 6,680 | | 6,680 | | 6,680 |
| Utilities | | 5,353 | | 5,353 | | 5,353 |
| Interest expense | | 7,771 | | 7,771 | | 7,771 |
| Total operating expenses | 126,457 | 195,525 | 85,287 | 407,269 | | 407,269 |
| Investment management fees | | 67,904 | | 67,904 | \$ 11,864 | 79,768 |
| Grants and scholarships | 771,937 | | | 771,937 | 107,604 | 879,541 |
| Other program expenses | 76,075 | | | 76,075 | | 76,075 |
| Total expenses | \$ 974,469 | \$ 263,429 | \$ 85,287 | \$ 1,323,185 | \$ 119,468 | \$ 1,442,653 |

| 2015 | | | | Supplemental Information | |
|---------------------|---------------------|------------------|---------------------|--------------------------|---------------------|
| Program Services | Supporting Services | Fundraising | Total | Agency Fund Activity | Total |
| \$ 84,618 | \$ 73,732 | \$ 46,339 | \$ 204,689 | | \$ 204,689 |
| 10,768 | 7,996 | 5,897 | 24,661 | | 24,661 |
| 3,734 | 3,111 | 2,045 | 8,890 | | 8,890 |
| 37 | 3,038 | 91 | 3,166 | | 3,166 |
| 2,250 | 6,641 | 4,114 | 13,005 | | 13,005 |
| 1,399 | 8,324 | 11,856 | 21,579 | | 21,579 |
| 460 | 410 | 4,108 | 4,978 | | 4,978 |
| | 3,389 | 949 | 4,338 | | 4,338 |
| | 511 | | 511 | | 511 |
| | 2,819 | 2,235 | 5,054 | | 5,054 |
| | 2,232 | | 2,232 | | 2,232 |
| 1,269 | 490 | 695 | 2,454 | | 2,454 |
| | 28,227 | | 28,227 | | 28,227 |
| 1,116 | 2,222 | 1,292 | 4,630 | | 4,630 |
| 1,694 | | | 1,694 | | 1,694 |
| 148 | 975 | 881 | 2,004 | | 2,004 |
| 136 | 632 | | 768 | | 768 |
| 5,116 | 643 | 6,688 | 12,447 | | 12,447 |
| | 27,833 | | 27,833 | | 27,833 |
| | 5,283 | | 5,283 | | 5,283 |
| | 5,452 | | 5,452 | | 5,452 |
| | 8,380 | | 8,380 | | 8,380 |
| 112,745 | 192,340 | 87,190 | 392,275 | | 392,275 |
| | 60,121 | | 60,121 | \$ 10,929 | 71,050 |
| 857,989 | | | 857,989 | 163,806 | 1,021,795 |
| 85,894 | | | 85,894 | | 85,894 |
| <u>\$ 1,056,628</u> | <u>\$ 252,461</u> | <u>\$ 87,190</u> | <u>\$ 1,396,279</u> | <u>\$ 174,735</u> | <u>\$ 1,571,014</u> |