

THE PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT

December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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
April 18, 2018

The Putnam County Community Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 589,120	\$ 521,175
Cash and cash equivalents - endowment pool-moderate growth	163,722	234,054
Cash and cash equivalents - endowment pool-aggressive growth	4,110	7,059
Pledges receivable (Note B)	4,525	1,645
Other receivables	1,550	1,156
Prepaid expenses	9,581	8,866
Investments (Note C)		
Endowment pool-moderate growth	26,453,888	23,197,059
Endowment pool-aggressive growth	5,478,382	4,710,975
Beneficial interest in life insurance	119,708	66,216
Property and equipment		
Building and improvements	574,143	542,481
Furniture and fixtures	39,122	39,122
Computer equipment	<u>56,577</u>	<u>50,253</u>
	669,842	631,856
Less accumulated depreciation	<u>232,008</u>	<u>213,389</u>
Total property and equipment	437,834	418,467
Property held for sale (Note F)	3,300	33,000
Beneficial interest in charitable remainder trusts (Note G)	<u>198,435</u>	<u>199,472</u>
	<u><u>\$ 33,464,155</u></u>	<u><u>\$ 29,399,144</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 17,398	\$ 5,616
Accrued salaries and wages	8,331	7,840
Accrued vacation	16,140	15,352
Gift annuities payable (Note H)	62,005	68,493
Term debt (Note I)	134,687	148,183
Agency funds (Note J)	<u>4,294,515</u>	<u>3,836,211</u>
Total liabilities	4,533,076	4,081,695
NET ASSETS (Notes K and L)		
Unrestricted	1,394,404	722,444
Temporarily restricted	27,328,622	24,386,952
Permanently restricted	<u>208,053</u>	<u>208,053</u>
Total net assets	<u>28,931,079</u>	<u>25,317,449</u>
	<u><u>\$ 33,464,155</u></u>	<u><u>\$ 29,399,144</u></u>

The accompanying notes are an integral part of these statements.

The Putnam County Community Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31,

	2017			Supplemental Information		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Agency Fund Activity	Total
Revenue and support						
Contributions and pledges	\$ 36,054	\$ 1,076,656		\$ 1,112,710	\$ 20,459	\$ 1,133,169
Investment return	867,283	2,787,127		3,654,410	562,243	4,216,653
Other income	32,205	5,674		37,879		37,879
Change in value of split-interest agreements		55,792		55,792		55,792
	935,542	3,925,249		4,860,791	582,702	5,443,493
Net assets released from restrictions	605,375	(605,375)				
Expenses						
Program services						
Grants and scholarships	730,521			730,521	77,177	807,698
Program related expenses	194,831			194,831		194,831
Supporting services						
Administrative expenses	193,205			193,205		193,205
Investment fees	73,280			73,280	12,549	85,829
Fundraising expenses	89,996			89,996		89,996
	1,281,833			1,281,833	89,726	1,371,559
Transfer of administrative fees	412,876	(378,204)		34,672	(34,672)	
INCREASE IN NET ASSETS	671,960	2,941,670		3,613,630	458,304	4,071,934
Net assets at beginning of year	722,444	24,386,952	\$ 208,053	25,317,449	3,836,211	29,153,660
Net assets at end of year	<u>\$ 1,394,404</u>	<u>\$ 27,328,622</u>	<u>\$ 208,053</u>	<u>\$ 28,931,079</u>	<u>\$ 4,294,515</u>	<u>\$ 33,225,594</u>

The accompanying notes are an integral part of these statements.

2016				Supplemental Information	
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Agency Fund Activity	Total
\$ 31,680	\$ 1,598,655		\$ 1,630,335	\$ 10,812	\$ 1,641,147
489,277	1,599,739		2,089,016	315,619	2,404,635
20,257	2,277		22,534		22,534
	(47,772)		(47,772)		(47,772)
541,214	3,152,899		3,694,113	326,431	4,020,544
565,551	(565,551)				
771,937			771,937	107,604	879,541
202,532			202,532		202,532
195,525			195,525		195,525
67,904			67,904	11,864	79,768
85,287			85,287		85,287
1,323,185			1,323,185	119,468	1,442,653
377,895	(346,840)		31,055	(31,055)	
161,475	2,240,508		2,401,983	175,908	2,577,891
560,969	22,146,444	\$ 208,053	22,915,466	3,660,303	26,575,769
<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 Putnam County Community Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase in net assets	\$ 3,613,630	\$ 2,401,983
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,619	19,443
Realized and unrealized gains	(2,772,221)	(1,313,742)
Change in value of split-interest agreements	(55,792)	47,772
Non-cash contributions	(18,242)	(1,054)
(Increase) decrease in assets:		
Pledges receivable	(2,880)	52,484
Other receivables	(394)	(71)
Prepaid expenses	(715)	(2,933)
Property held for sale	29,700	100
Increase (decrease) in liabilities:		
Accounts payable	11,782	3,118
Accrued payroll	491	1,141
Accrued vacation	788	(1,006)
Deferred revenue		(78,931)
Agency funds	458,304	175,908
Net cash provided by operating activities	<u>1,283,070</u>	<u>1,304,212</u>
Cash flows from investing activities:		
Proceeds from sale of investments	14,896,096	7,805,518
Purchase of investments	(16,129,869)	(8,989,135)
Payments on gift annuities	(3,150)	(4,576)
Purchases of property and equipment	(37,987)	(18,198)
Net cash used in investing activities	<u>(1,274,910)</u>	<u>(1,206,391)</u>
Cash flows from financing activities:		
Payments on long-term debt	(13,496)	(12,752)
Net cash used in financing activities	<u>(13,496)</u>	<u>(12,752)</u>
Net increase (decrease) in cash and cash equivalents	(5,336)	85,069
Cash and cash equivalents at beginning of year	<u>762,288</u>	<u>677,219</u>
Cash and cash equivalents at end of year	<u>\$ 756,952</u>	<u>\$ 762,288</u>
Supplemental disclosures		
Cash paid during the year for interest	\$ 6,947	\$ 7,771
Non-cash contributions	\$ 18,242	\$ 1,054

The accompanying notes are an integral part of these statements.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016, the Foundation exceeded the insured limit by \$158,049 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, 2017 and 2016, 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. 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 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.

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.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B - PLEDGES RECEIVABLE

Unconditional pledges receivable consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 4,525	\$ 1,645
One to five years	-	-
	<u>\$ 4,525</u>	<u>\$ 1,645</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, 2017 and 2016.

NOTE C - INVESTMENTS

The following is an analysis of the fair value at December 31, 2017 and 2016 by type of investment. The investments are held in insured bank and uninsured trust accounts at various financial institutions.

	<u>2017</u>	<u>2016</u>
Common stocks	\$ -	\$ 828,937
Life insurance	119,707	66,216
Certificates of deposit	-	100,565
Corporate bonds		
Manufacturing	121,443	101,977
Healthcare	142,232	115,446
Banking	422,183	457,336
Retail	170,209	246,969
Energy	248,727	161,780
Technology	299,840	303,719
Food	110,612	110,256
Other	94,898	-
Government bonds		
Municipal securities	155,677	194,724
Treasury securities	581,112	111,616
Federal agency securities	742,913	1,140,229
Domestic fixed income mutual funds		
Intermediate-term bond	4,645,299	4,049,609
Inflation-protected bond	511,702	501,758

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C - INVESTMENTS - Continued

	<u>2017</u>	<u>2016</u>
Domestic equity mutual funds		
Large growth	1,392,668	-
Large blend	-	4,674,101
Small blend	-	1,490,508
Large value	10,504,229	4,123,461
Small value	2,083,194	-
Small growth	-	369,877
Managed futures	-	567,249
Multialternative	-	661,032
Pacific/Asia ex-Japan stk	-	1,301,838
Energy limited partnership	398,754	608,176
Foreign equity mutual funds		
Large blend	1,474,463	4,175,009
Large value	4,207,910	-
Large growth	1,641,687	-
Natural resources	787,534	885,033
Hedge funds	813,504	266,406
Real estate investment trust fund	<u>381,481</u>	<u>360,423</u>
Total investments, at fair value	<u>\$ 32,051,978</u>	<u>\$ 27,974,250</u>
Total investments, at historical cost	<u>\$ 30,415,892</u>	<u>\$ 25,949,059</u>

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

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Investment income	\$ 189,894	\$ 692,295	\$ 882,189
Realized gains on investments	696,798	2,204,146	2,900,944
Unrealized losses on investments	<u>(19,409)</u>	<u>(109,314)</u>	<u>(128,723)</u>
	<u>\$ 867,283</u>	<u>\$ 2,787,127</u>	<u>\$ 3,654,410</u>
	<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, 2017 and 2016

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 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, 2017 and 2016, respectively:

	2017			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 32,051,978	\$ 31,118,767	\$ 119,707	\$ 813,504
Property held for sale	\$ 3,300		\$ 3,300	
Beneficial interest in charitable remainder trusts	\$ 198,435			\$ 198,435
Liabilities:				
Gift annuities payable	\$ 62,005			\$ 62,005

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE E - FAIR VALUE MEASUREMENTS - Continued

	2016			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 27,873,685	\$ 27,541,063	\$ 113,739	\$ 218,883
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

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 of 2.6 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 2.6 percent.

The progression of beneficial interest in charitable remainder trusts during the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Beginning balance	\$ 199,472	\$ 204,762
Change in present value	(1,037)	(5,290)
Ending balance	<u>\$ 198,435</u>	<u>\$ 199,472</u>

The progression of gift annuities payable during the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Beginning balance	\$ 68,493	\$ 72,803
Payments	(3,150)	(4,576)
Change in present value	(3,338)	266
Ending balance	<u>\$ 62,005</u>	<u>\$ 68,493</u>

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE E - FAIR VALUE MEASUREMENTS - Continued

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.

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity - distressed/special situations (a)	\$ 126,449	\$ 124,925	Request	
Hedged equity fund (b)	166,923		Ineligible	
Life settlements fund (c)	520,132		Ineligible	
	<u>\$ 813,504</u>	<u>\$ 124,925</u>		
	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity - distressed/special situations	\$ 68,883	\$ 175,909	Request	
Hedged equity fund (b)	150,000		Ineligible	
	<u>\$ 218,883</u>	<u>\$ 175,909</u>		

- (a) This category consists of an investment in a fund that targets complex and/or capital constrained situations, and invests opportunistically across sectors and the capital structure to maximize potential returns. It is still too early for meaningful financial metrics, but thus far the fund appears to be on track and has not experienced significant losses. 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 an investment in a specialist long/short financials equity fund with a supermajority of its net worth invested alongside investors. The fund takes advantage of dispersion in the financials sector, particularly in the small bank sub-sector. The fund's relatively modest size and discipline in controlling its asset base allows the fund to stay focused in less efficient micro, small, and mid-cap banks where the opportunity to deliver excess returns is high. 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 an investment in a fund that invests in life settlements. A life settlement is a life insurance policy that is sold by the original policyholder to a third party investor who becomes the new owner and beneficiary of the policy. 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.

NOTE F - PROPERTY HELD FOR SALE

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

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 \$198,435 and \$199,472 at December 31, 2017 and 2016, respectively. In calculating the present value of the amount to be received upon termination of the trusts, the discount rate used was 2.6%. 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 \$(1,037) and \$(5,290) for the years ended December 31, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016. 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 \$62,005 and \$68,493 at December 31, 2017 and 2016, respectively. The change in the present value of the amounts expected to be paid under these gift annuities was \$3,337 and \$(266) for the years ended December 31, 2017 and 2016, respectively.

NOTE I - TERM DEBT

Term debt is comprised of the following.

	<u>2017</u>	<u>2016</u>
Real estate mortgage on the Partnership Center payable to a bank that matures in January 2019. Monthly payments are \$513, which includes principal and interest at 3.3% annually. The mortgage is secured by the real estate.	\$ 5,819	\$ 11,796
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>128,868</u>	<u>136,387</u>
	<u>134,687</u>	<u>148,183</u>
Current maturities	<u>13,960</u>	<u>5,193</u>
	<u>\$ 120,727</u>	<u>\$ 142,990</u>

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE I - TERM DEBT - Continued

Maturities of term debt subsequent to December 31, 2017 are as follows:

2018	\$	13,960
2019		8,552
2020		8,983
2021		9,436
2022		9,912
Thereafter		<u>83,844</u>
	\$	<u><u>134,687</u></u>

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, 2017 and 2016, the following activity occurred in the agency funds 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	\$ 20,459	\$ 10,812
Investment return	<u>562,243</u>	<u>315,619</u>
	\$ 582,702	\$ 326,431
Expenses		
Grants expense	77,177	107,604
Investment management fees	12,549	11,864
Administrative fees	<u>34,672</u>	<u>31,055</u>
	<u>124,398</u>	<u>150,523</u>
Change in agency funds	458,304	175,908
Balance at beginning of year	<u>3,836,211</u>	<u>3,660,303</u>
Balance at end of year	<u><u>\$4,294,515</u></u>	<u><u>\$3,836,211</u></u>

For the years ended December 31, 2017 and 2016, the Foundation had gifts to agency funds from other funds held at the Foundation in the amount of \$-0- and \$2,255, respectively. These gifts are shown as contributions to the agency funds and grants from the donating funds.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE K - ENDOWMENT

At December 31, 2017 and 2016, the Foundation's endowment consists of 254 and 251 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

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		\$ 26,863,599	\$ 208,053	\$ 27,071,652
Board-designated endowment funds	\$ 861,576			861,576
	<u>\$ 861,576</u>	<u>\$ 26,863,599</u>	<u>\$ 208,053</u>	<u>\$ 27,933,228</u>
	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>

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE K - ENDOWMENT - Continued

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		\$ 979,079	
Appreciation of investments	\$ 677,389	2,131,026	
Investment return	189,705	687,163	
Total revenue and support	867,094	3,797,268	
Appropriation of endowment assets for expenditure	348,316	872,850	
Change in endowment net assets	518,778	2,924,418	
Endowment net assets, beginning of year	342,798	23,939,181	\$ 208,053
Endowment net assets, end of year	\$ 861,576	\$ 26,863,599	\$ 208,053
	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	\$ 342,798	\$ 23,939,181	\$ 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.

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE K - ENDOWMENT - Continued

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, 2017, 3 of the 254 endowment funds had deficiencies totaling \$2,171. As of December 31, 2016, 9 of the 251 endowment funds had deficiencies totaling \$22,218. 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.

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>2017</u>	<u>2016</u>
Time restrictions related to:		
Charitable trusts	\$ 198,435	\$ 199,472
Endowment funds not yet appropriated for expenditure	26,863,599	23,939,181
Non-endowed pass-thru funds	<u>266,588</u>	<u>248,299</u>
	<u>\$ 27,328,622</u>	<u>\$ 24,386,952</u>

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

The Putnam County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE M - RELATED PARTY TRANSACTIONS

The Foundation received \$23,312 and \$17,740 in contributions from members of the Foundation's Board of Directors and staff during the years ended December 31, 2017 and 2016, respectively.

NOTE N - OTHER REVENUES

The Foundation received other revenues during the years ended 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Copy income	\$ 1,293	\$ 1,025
Rent income	12,087	10,667
Other income	<u>24,499</u>	<u>10,842</u>
	<u>\$ 37,879</u>	<u>\$ 22,534</u>

NOTE O - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through April 18, 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.

SUPPLEMENTAL INFORMATION



Independent Auditors' Report
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, 2017 and 2016, and have issued our report thereon dated April 18, 2018, 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
April 18, 2018

The Putnam County Community Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2017				Supplemental Information	
	Program Services	Supporting Services	Fundraising	Total	Agency Fund Activity	Total
Personnel costs						
Salaries and wages	\$ 84,128	\$ 80,184	\$ 48,374	\$ 212,686		\$ 212,686
Payroll taxes and benefits	11,038	10,283	6,347	27,668		27,668
Insurance	2,674	2,473	1,537	6,684		6,684
Administrative and development costs						
Office supplies		1,879	350	2,229		2,229
Computer expenses	2,229	14,231	8,777	25,237		25,237
Printing and copying	255	4,436	8,993	13,684		13,684
Postage and shipping	318	614	3,100	4,032		4,032
Dues and subscriptions		100	1,058	1,158		1,158
Credit card fees		453		453		453
Consulting fees			2,494	2,494		2,494
Insurance		4,446		4,446		4,446
Communications expense	1,004	1,542	802	3,348		3,348
Legal and accounting		28,090		28,090		28,090
Miscellaneous	1,309	1,960	19	3,288		3,288
Advertising	1,865		472	2,337		2,337
Travel and entertainment	241	3,727	907	4,875		4,875
Board and committee meetings	52	650		702		702
Event expenses	9,074		6,766	15,840		15,840
Occupancy costs						
Depreciation		18,619		18,619		18,619
Repairs and maintenance		6,342		6,342		6,342
Utilities		6,229		6,229		6,229
Interest expense		6,947		6,947		6,947
Total operating expenses	114,187	193,205	89,996	397,388		397,388
Investment management fees		73,280		73,280	\$ 12,549	85,829
Grants and scholarships	730,521			730,521	77,177	807,698
Other program expenses	80,644			80,644		80,644
Total expenses	\$ 925,352	\$ 266,485	\$ 89,996	\$ 1,281,833	\$ 89,726	\$ 1,371,559

2016				Supplemental Information	
Program Services	Supporting Services	Fundraising	Total	Agency Fund Activity	Total
\$ 84,030	\$ 75,035	\$ 46,595	\$ 205,660		\$ 205,660
11,584	8,583	6,398	26,565		26,565
3,111	3,279	1,713	8,103		8,103
46	3,257	174	3,477		3,477
1,449	11,441	8,196	21,086		21,086
911	7,668	7,055	15,634		15,634
585	595	2,766	3,946		3,946
	4,749	1,134	5,883		5,883
	607		607		607
		2,679	2,679		2,679
	4,850		4,850		4,850
772	1,137	427	2,336		2,336
	28,966		28,966		28,966
305	2,852	1,247	4,404		4,404
3,079	149		3,228		3,228
159	2,184	208	2,551		2,551
1,080	596		1,676		1,676
19,346	330	6,695	26,371		26,371
	19,443		19,443		19,443
	6,680		6,680		6,680
	5,353		5,353		5,353
	7,771		7,771		7,771
126,457	195,525	85,287	407,269		407,269
	67,904		67,904	\$ 11,864	79,768
771,937			771,937	107,604	879,541
76,075			76,075		76,075
<u>\$ 974,469</u>	<u>\$ 263,429</u>	<u>\$ 85,287</u>	<u>\$ 1,323,185</u>	<u>\$ 119,468</u>	<u>\$ 1,442,653</u>