



COMMUNITY
FOUNDATION
of WHITLEY COUNTY
FINANCIAL STATEMENTS AND ACCOUNTANTS'
AUDIT REPORT

December 31, 2015 and 2014

Independent Auditors' Report

Board of Directors
Whitley County Community Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Whitley County Community Foundation, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, 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 Whitley County Community Foundation, Inc. as of December 31, 2015 and 2014, 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 4, 2016

Whitley County Community Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 1,739,322 | \$ 2,379,767 |
| Accounts receivable | 36,838 | 9,142 |
| Investment earnings and scholarship interest receivable | 133,667 | 124,244 |
| Prepaid expenses | 3,757 | 1,894 |
| Annuity receivable | 79,004 | 98,755 |
| Scholarship loans receivable, net | 356,769 | 389,674 |
| Investments | 18,933,114 | 18,187,314 |
| Property and equipment | | |
| Building and improvements | 352,999 | 350,779 |
| Office and computer equipment | 87,622 | 87,622 |
| | <u>440,621</u> | <u>438,401</u> |
| Less accumulated depreciation | <u>251,357</u> | <u>235,076</u> |
| | 189,264 | 203,325 |
| Land | <u>56,000</u> | <u>56,000</u> |
| | <u>245,264</u> | <u>259,325</u> |
| | <u>\$ 21,527,735</u> | <u>\$ 21,450,115</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 3,303 | \$ 2,507 |
| Payroll liabilities and withholdings | 2,638 | - |
| Grants payable | 74,776 | 119,237 |
| Deferred revenue | - | 362,220 |
| Annuity reserves | 121,508 | 115,852 |
| Agency funds | 364,171 | 372,862 |
| | <u>566,396</u> | <u>972,678</u> |
| | | |
| NET ASSETS | | |
| Unrestricted | 1,042,778 | 1,492,755 |
| Temporarily restricted | 3,196,705 | 3,459,720 |
| Permanently restricted | <u>16,721,856</u> | <u>15,524,962</u> |
| | <u>20,961,339</u> | <u>20,477,437</u> |
| | <u>\$ 21,527,735</u> | <u>\$ 21,450,115</u> |

The accompanying notes are an integral part of these statements.

Whitley County Community Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31,

| | 2015 | | | Total |
|--|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenue and support | | | | |
| Contributions and pledges | \$ 7,223 | \$ 891,447 | \$ 1,324,456 | \$ 2,223,126 |
| Administrative fee income | 259,962 | | | 259,962 |
| Investment income | 137,366 | 246,356 | 16,887 | 400,609 |
| Scholarship loan related revenue | | 15,226 | | 15,226 |
| Realized gains on investments | 219,033 | 218,053 | 200,744 | 637,830 |
| Unrealized gains (losses) on investments | (339,868) | (368,046) | (345,193) | (1,053,107) |
| Change in value of split-interest agreements | | 13,341 | | 13,341 |
| | <u>283,716</u> | <u>1,016,377</u> | <u>1,196,894</u> | <u>2,496,987</u> |
| Net assets released from restrictions | | | | |
| Restrictions satisfied by payments | 1,279,392 | (1,279,392) | | |
| Expenses | | | | |
| Program services | | | | |
| Grants and scholarships | 1,346,055 | | | 1,346,055 |
| Program related expenses | 56,322 | | | 56,322 |
| Supporting services | | | | |
| Operating expenses | 131,842 | | | 131,842 |
| Administrative fees | 256,864 | | | 256,864 |
| Bank trustee fees | 72,694 | | | 72,694 |
| Fundraising expenses | 149,308 | | | 149,308 |
| | <u>2,013,085</u> | | | <u>2,013,085</u> |
| CHANGE IN NET ASSETS | (449,977) | (263,015) | 1,196,894 | 483,902 |
| Net assets at beginning of year | <u>1,492,755</u> | <u>3,459,720</u> | <u>15,524,962</u> | <u>20,477,437</u> |
| Net assets at end of year | <u>\$ 1,042,778</u> | <u>\$ 3,196,705</u> | <u>\$ 16,721,856</u> | <u>\$ 20,961,339</u> |

The accompanying notes are an integral part of these statements.

| 2014 | | | |
|---------------------|-----------------------------------|-----------------------------------|----------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| \$ 155,112 | \$ 468,504 | \$ 510,080 | \$ 1,133,696 |
| 269,359 | | | 269,359 |
| 130,787 | 222,121 | 23,638 | 376,546 |
| | 15,063 | | 15,063 |
| 83,633 | 81,883 | 68,843 | 234,359 |
| 256,575 | 247,260 | 96,400 | 600,235 |
| | (6,913) | | (6,913) |
| <u>895,466</u> | <u>1,027,918</u> | <u>698,961</u> | <u>2,622,345</u> |
| 1,098,238 | (1,098,238) | | |
| 1,139,251 | | | 1,139,251 |
| 34,880 | | | 34,880 |
| 126,316 | | | 126,316 |
| 266,084 | | | 266,084 |
| 70,978 | | | 70,978 |
| 120,714 | | | 120,714 |
| <u>1,758,223</u> | <u></u> | <u></u> | <u>1,758,223</u> |
| 235,481 | (70,320) | 698,961 | 864,122 |
| <u>1,257,274</u> | <u>3,530,040</u> | <u>14,826,001</u> | <u>19,613,315</u> |
| <u>\$ 1,492,755</u> | <u>\$ 3,459,720</u> | <u>\$ 15,524,962</u> | <u>\$ 20,477,437</u> |

Whitley County Community Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31,

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 483,902 | \$ 864,122 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 16,281 | 15,250 |
| Realized and unrealized (gains) losses | 415,277 | (834,594) |
| Contributions to restricted funds | (1,324,456) | (510,080) |
| Non-cash contributions | (454,164) | (15,250) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (27,696) | (6,424) |
| Investment income receivable | (9,423) | (2,313) |
| Annuity receivable | 19,751 | 19,751 |
| Scholarship loans receivable | 32,905 | 6,202 |
| Prepaid expense | (1,863) | 5,283 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 796 | (884) |
| Grants payable | (44,461) | 32,255 |
| Payroll taxes and withholdings | 2,638 | (2,536) |
| Deferred revenue | (362,220) | 362,220 |
| Annuity reserves | 5,656 | 2,504 |
| Agency funds | (8,691) | 11,194 |
| Net cash used in operating activities | <u>(1,255,768)</u> | <u>(53,300)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (2,220) | (12,719) |
| Proceeds from sale of investments | 2,942,604 | 2,976,986 |
| Purchase of investments | <u>(3,649,517)</u> | <u>(2,016,344)</u> |
| Net cash provided by (used in) investing activities | (709,133) | 947,923 |
| Cash flows from financing activities: | | |
| Cash received from contributors for restricted funds | <u>1,324,456</u> | <u>510,080</u> |
| Net cash provided by financing activities | 1,324,456 | 510,080 |
| Net increase (decrease) in cash and cash equivalents | (640,445) | 1,404,703 |
| Cash and cash equivalents at beginning of year | <u>2,379,767</u> | <u>975,064</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,739,322</u> | <u>\$ 2,379,767</u> |
| <u>Supplemental Disclosure</u> | | |
| Non-cash contributions | \$ 454,164 | \$ 15,250 |

The accompanying notes are an integral part of these statements.

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Whitley 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 as a responsible solicitor and manager of Whitley County, Indiana's philanthropic resources. The Foundation is committed to directing the income from its assets into areas where community needs are greatest and to using the Foundation's leadership and financial resources as catalyst for positive community change. Its donations are received from private and public organizations or individuals.

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

In accordance with the Not-for-Profit Entities - Investments - Debt and Equity Securities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), 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. Scholarship Loans Receivable

Scholarship loans receivable are carried at the principal amount outstanding, net of unamortized premiums or discounts, deferred loan fees and costs, and acquisition fair value adjustments, if any. Write-downs of the loans' carrying values attributable to credit quality are charged to the allowance for loan losses. Additionally, from time to time, certain scholarship loans receivable that have previously been written off and deemed uncollectible are recovered.

The allowance for loan losses is maintained at a level to provide for probable losses inherent in the loan portfolio as of the reporting date and is established through a provision charged to scholarship loan expenses. Management considers historical portfolio data, loan default rates published in market reports and general economic conditions to estimate the allowance for loan losses. Loans are charged off when the collection of principal and interest becomes less than fifty percent likely in management's estimation.

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

5. Scholarship Loans Receivable - Continued

Scholarship loan related revenue includes collections on previously written off loans and interest income. Interest income is recognized based upon the interest rate and principal amount outstanding in accordance with the terms of the applicable loan agreement until the outstanding balance is paid or charged off. Accrual for scholarship loan interest income ceases once the loan is written off.

Scholarship loan related expenses primarily consist of third-party costs directly attributable to the collection of delinquent loans, if any.

6. 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.

7. Deferred Revenue

During 2014, the Foundation received a \$500,000 gift from Lilly Gift VI, which has a matching requirement. The Foundation raised \$496,760 and \$211,917 towards the matching requirement and recorded \$362,220 and \$137,780 as contribution revenue from the matching gift during 2015 and 2014, respectively. The unmatched portion of the Lilly Gift VI is \$-0- and \$362,220 as of December 31, 2015 and 2014, respectively, and is recorded as deferred revenue on the Statements of Financial Position.

8. 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.

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, 2015 and 2014 was \$1,346,055 and \$1,139,251.

10. 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.

11. Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at high credit quality financial institutions. The accounts are held in trust form and are fully insured.

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

12. Contributed Services

During the years ended December 31, 2015 and 2014, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

13. Compensated Absences

The Foundation's liability for compensated absences is trivial; accordingly, no provision has been made for compensated absences.

14. Uncertain Tax Positions

The Foundation follows the Income Tax topic of the FASB ASC. 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 2012, 2013, and 2014 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.

15. 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.

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 - INVESTMENTS

Investments are stated at fair value as of December 31, 2015 and 2014 and are summarized as follows.

| | 2015 Fair Value | 2014 Fair Value |
|------------------|-----------------------|-----------------------|
| Common stocks | \$ 129,888 | \$ 141,166 |
| Charitable trust | 121,692 | 117,493 |
| Land | 477,000 | 30,000 |

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE B - INVESTMENTS - Continued

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|----------------------|----------------------|
| | Fair Value | Fair Value |
| Equities - mutual funds: | | |
| Foreign large blend | 701,196 | 986,604 |
| Large value | 1,902,908 | 2,064,154 |
| Mid-cap value | 434,248 | |
| Small value | 388,538 | |
| World allocation | | 127,264 |
| Small growth | 2,167,640 | 387,546 |
| Mid-cap blend | | 406,742 |
| Small blend | | 363,506 |
| Foreign large growth | 499,358 | |
| Foreign small/mid growth | 118,261 | |
| Large growth | | 2,224,367 |
| Mid-cap growth | 389,393 | 383,184 |
| Large blend | 3,423,229 | 3,718,141 |
| Moderate allocation | | 241,208 |
| Diversified emerging markets | 99,987 | |
| Total equities - mutual funds | <u>10,124,758</u> | <u>10,902,716</u> |
| Fixed income - mutual funds: | | |
| US Treasury bonds | 65,952 | 68,793 |
| Short-term bond | 2,030,949 | 1,849,147 |
| Intermediate-term bond | 2,015,991 | 1,208,744 |
| Nontraditional bond | 797,704 | 843,716 |
| High yield bond | 714,054 | 499,189 |
| Ultrashort bond | 1,698,174 | 1,769,983 |
| World bond | 756,952 | 756,367 |
| Total fixed income - mutual funds | <u>8,079,776</u> | <u>6,995,939</u> |
| Total investments, at fair value | <u>\$ 18,933,114</u> | <u>\$ 18,187,314</u> |
| Total investments, at historical cost | <u>\$ 15,623,837</u> | <u>\$ 14,288,099</u> |

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2015 and 2014.

| | 2015 | | | |
|-----------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Investment and scholarship income | \$ 137,366 | \$ 261,582 | \$ 16,887 | \$ 415,835 |
| Realized gains on investments | 219,033 | 218,053 | 200,744 | 637,830 |
| Unrealized losses on investments | <u>(339,868)</u> | <u>(368,046)</u> | <u>(345,193)</u> | <u>(1,053,107)</u> |
| | <u>\$ 16,531</u> | <u>\$ 111,589</u> | <u>\$ (127,562)</u> | <u>\$ 558</u> |

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE B - INVESTMENTS - Continued

| | 2014 | | | Total |
|-----------------------------------|-------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Investment and scholarship income | \$ 130,787 | \$ 237,184 | \$ 23,638 | \$ 391,609 |
| Realized gains on investments | 83,633 | 81,883 | 68,843 | 234,359 |
| Unrealized gains on investments | 256,575 | 247,260 | 96,400 | 600,235 |
| | <u>\$ 470,995</u> | <u>\$ 566,327</u> | <u>\$ 188,881</u> | <u>\$ 1,226,203</u> |

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NOTE C - RISKS AND UNCERTAINTIES

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

NOTE D - FAIR VALUE MEASUREMENTS

The Foundation follows the provisions of the Fair Value Measurements and Disclosures topic of the FASB ASC. FASB ASC-820-10-35-19 defines fair value as 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.

FASB ASC 820-10-35-37 establishes a hierarchy of inputs 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.

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE D - 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, 2015 and 2014, respectively:

| | 2015 | | | |
|--------------------|---------------|---------------|------------|------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Annuity receivable | \$ 79,004 | | \$ 79,004 | |
| Investments | \$ 18,933,114 | \$ 18,334,422 | \$ 121,692 | \$ 477,000 |
| Liabilities: | | | | |
| Annuity reserves | \$ 121,508 | \$ 121,508 | | |
| | | | | |
| | 2014 | | | |
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Annuity receivable | \$ 98,755 | | \$ 98,755 | |
| Investments | \$ 18,187,314 | \$ 18,039,821 | \$ 117,493 | \$ 30,000 |
| Liabilities: | | | | |
| Annuity reserves | \$ 115,852 | \$ 115,852 | | |

The following schedule provides further detail of the investments in land being held as a Level 3 fair value measurement using significant unobservable inputs at December 31, 2015 and 2014, respectively:

| | Level 3 | |
|-------------------|------------|-----------|
| | 2015 | 2014 |
| Beginning balance | \$ 30,000 | \$ 30,000 |
| Contribution | 447,000 | |
| Ending balance | \$ 477,000 | \$ 30,000 |

Fair values for annuity receivable and level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for level 2 investments and annuity receivable and annuity reserves are determined by reference to present value calculations. Fair values for level 3 investments is determined by appraisals on the land that is being held as an investment.

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE E - SCHOLARSHIP LOANS RECEIVABLE

ASU 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20), requires entities to provide disclosures on a disaggregated basis. The ASU defines two levels of disaggregation - portfolio segment and class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Classes of financing receivables generally are a disaggregation of a portfolio segment. The Foundation evaluates the adequacy of the allowance for loan losses for the scholarship loan portfolio as a whole. Thus, management has determined that the scholarship loan portfolio meets the definition of a portfolio segment. Accordingly, the portfolio segment basis disclosures required by ASU 2010-20 are presented in this note for the scholarship loan portfolio. In addition, as of December 31, 2015 and 2014, the Foundation does not have any impaired loans as defined in the Receivables Topic of the FASB Accounting Standards Codification (ASC).

At December 31, 2015 and 2014 four of the Foundation's funds hold assets which may be used as loans to students for educational purposes.

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Scholarship loans receivable | \$ 391,769 | \$ 424,674 |
| Less allowance for uncollectible loans | <u>35,000</u> | <u>35,000</u> |
| Scholarship loans receivable, net | <u>\$ 356,769</u> | <u>\$ 389,674</u> |

These scholarship loans are due in full within eleven to fourteen years from the date disbursed and bear interest ranging from 0% to 5% per annum. Repayment schedules are established upon completion of the student's last educational term. The loans may be secured at the discretion of the trustee.

The table below summarizes the changes in the allowance for loan loss reserve for the years ended December 31, 2015 and 2014.

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|------------------|------------------|
| Balance, beginning of the year | \$ 35,000 | \$ 35,000 |
| Provision for possible losses | 0 | 0 |
| Charges to allowance | 0 | 0 |
| Recoveries | <u>0</u> | <u>0</u> |
| Balance, end of year | <u>\$ 35,000</u> | <u>\$ 35,000</u> |

The table below shows the Foundation's student loan delinquency amounts at December 31, 2015.

| | | |
|---------------------------------------|-------------------|-------------|
| Loans current | \$ 273,277 | 70% |
| Loans delinquent 31 - 60 days | 0 | 0% |
| Loans delinquent 61 - 90 days | 0 | 0% |
| Loans delinquent greater than 90 days | <u>118,492</u> | <u>30%</u> |
| | <u>\$ 391,769</u> | <u>100%</u> |

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE F - RESTRICTIONS ON NET ASSETS

At December 31, 2015 and 2014, the Foundation's endowment consists of 186 and 164 donor-restricted endowment funds, respectively, established to support designated charitable purposes and organizations, and 1 fund 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 the maintenance of the historic dollar value for each endowed fund as defined previously by the Uniform Management of Institutional Funds Act. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those funds 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

Donor restrictions have been imposed on a significant portion of the Foundation's net assets.

Endowment net assets composition by type of fund as of December 31, 2015 and 2014 was as follows:

| | 2015 | | | |
|-------------------------------------|-------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | | \$ 2,260,407 | \$ 16,721,856 | \$ 18,982,263 |
| Board-designated endowment funds | \$ 949,443 | | | 949,443 |
| | <u>\$ 949,443</u> | <u>\$ 2,260,407</u> | <u>\$ 16,721,856</u> | <u>\$ 19,931,706</u> |

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE F - RESTRICTIONS ON NET ASSETS - Continued

| | 2014 | | | Total |
|----------------------------------|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Donor-restricted endowment funds | | \$ 2,720,269 | \$ 15,524,962 | \$ 18,245,231 |
| Board-designated endowment funds | \$ 1,152,745 | | | 1,152,745 |
| | <u>\$ 1,152,745</u> | <u>\$ 2,720,269</u> | <u>\$ 15,524,962</u> | <u>\$ 19,397,976</u> |

Changes in endowment net assets for the years ended December 31, 2015 and 2014 were as follows:

| | 2015 | | |
|---|-------------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Revenue and support | | | |
| Contributions and grant income | | \$ 33,010 | \$ 1,324,456 |
| Investment return | \$ 134,940 | 254,076 | 16,887 |
| Net depreciation of investments | (120,837) | (130,883) | (144,449) |
| Total revenue and support | 14,103 | 156,203 | 1,196,894 |
| Appropriation of endowment assets for expenditure | 217,405 | 616,065 | |
| Change in endowment net assets | (203,302) | (459,862) | 1,196,894 |
| Endowment net assets, beginning of year | 1,152,745 | 2,720,269 | 15,524,962 |
| Endowment net assets, end of year | <u>\$ 949,443</u> | <u>\$ 2,260,407</u> | <u>\$ 16,721,856</u> |

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE F - RESTRICTIONS ON NET ASSETS - Continued

| | 2014 | | |
|---|--------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Revenue and support | | | |
| Contributions and grant income | \$ 17,332 | \$ 28,120 | \$ 510,080 |
| Investment return | 128,575 | 229,683 | 23,638 |
| Net appreciation of investments | 340,208 | 297,990 | 165,243 |
| Total revenue and support | 486,115 | 555,793 | 698,961 |
| Appropriation of endowment assets for expenditure | 306,136 | 619,391 | |
| Change in endowment net assets | 179,979 | (63,598) | 698,961 |
| Endowment net assets, beginning of year | 972,766 | 2,783,867 | 14,826,001 |
| Endowment net assets, end of year | \$ 1,152,745 | \$ 2,720,269 | \$ 15,524,962 |

The investment objective of this Portfolio is to maximize total return net of inflation, spending and expenses, over a full market cycle without undue exposure to risk. It is expected that the Portfolio will outperform a weighted benchmark index over a full market cycle.

The Foundation has a policy (the spending policy) of appropriating for expenditure a percentage of its endowment fund's average fair value over the prior twelve quarters. The formula is analyzed on a yearly basis and a spending rate is determined at the beginning of each fiscal year.

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. As of December 31, 2015, 34 of the 186 endowment funds had deficiencies totaling \$207,578. As of December 31, 2014, 23 of the 164 endowment funds had deficiencies totaling \$174,918. 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.

The Foundation follows the topic Donor-Restricted Endowment Fund under FASB ASC 958. FASB ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of UPMIFA. 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.

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE F - RESTRICTIONS ON NET ASSETS - Continued

Temporarily restricted net assets are composed of the following types of funds at December 31,

| | <u>2015</u> | <u>2014</u> |
|-----------------------------|---------------------|---------------------|
| Designated | \$ 1,464,678 | \$ 1,604,983 |
| Donor advised | 583,401 | 410,510 |
| Scholarship - Designated | 417,758 | 443,734 |
| Scholarship - Donor Advised | 96,433 | 111,210 |
| Deferred | 477 | 26 |
| Organization | <u>633,958</u> | <u>889,257</u> |
| | <u>\$ 3,196,705</u> | <u>\$ 3,459,720</u> |

Permanently restricted net assets are composed of the following types of funds at December 31,

| | <u>2015</u> | <u>2014</u> |
|-----------------------------|----------------------|----------------------|
| Designated | \$ 6,016,203 | \$ 5,921,973 |
| Donor advised | 2,035,101 | 1,999,382 |
| Scholarship - Designated | 1,239,485 | 984,682 |
| Scholarship - Donor Advised | 612,065 | 614,048 |
| Field of interest | 447,000 | |
| Deferred | 365,767 | 350,115 |
| Organization | <u>6,006,235</u> | <u>5,654,762</u> |
| | <u>\$ 16,721,856</u> | <u>\$ 15,524,962</u> |

NOTE G - SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist of twelve charitable gift annuities. The assets received are recorded at their fair value. The fair market value of assets held for the charitable gift annuities totaled \$294,185 and \$269,884 at December 31, 2015 and 2014, respectively. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. These assets are included in the level 1 inputs in Note D. The present value of future payment obligations at December 31, 2015 and 2014 was \$121,508 and \$115,852, respectively. The liabilities were determined using discount rates ranging from 5.4% to 9.5%. Changes in fair value of the charitable gift annuities are reflected as changes in unrestricted net assets in the statement of activities. During the years ending December 31, 2015 and 2014 there were no contributions to charitable gift annuities.

Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of the split-interest agreements in the statement of activities in their respective net asset classification.

NOTE H - AGENCY FUNDS

In accordance with FASB ASC 958-20-15, the Foundation reports contributions as a liability when the donor has specified an unaffiliated beneficiary and not granted variance power over the gift. The Foundation reports these as Agency Funds on its statement of financial position.

Whitley County Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE H - AGENCY FUNDS - Continued

During the years ended December 31, 2015 and 2014, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the statement of activities.

| | 2015 | 2014 |
|--|--------------------------|--------------------------|
| Support and revenue | | |
| Investment income | \$ 6,975 | \$ 6,689 |
| Realized gains on investments | 9,600 | 4,147 |
| Unrealized gains (losses) on investments | (17,240) | 5,917 |
| | <u>\$ (665)</u> | <u>\$ 16,753</u> |
| Expenses | | |
| Grants expense | 3,772 | 1,207 |
| Bank trustee fees | 1,158 | 1,181 |
| Administrative fees | 3,096 | 3,171 |
| | <u>8,026</u> | <u>5,559</u> |
| Increase (decrease) in agency funds | (8,691) | 11,194 |
| Balance at beginning of year | <u>372,862</u> | <u>361,668</u> |
| Balance at end of year | <u><u>\$ 364,171</u></u> | <u><u>\$ 372,862</u></u> |

NOTE I - RELATED-PARTY TRANSACTIONS

Officers and board members made donations to the Foundation totaling \$79,593 and \$25,563 for the years ended December 31, 2015 and 2014, respectively.

NOTE J - SUBSEQUENT EVENTS

In accordance with *FASB ASC Topic 855*, Subsequent Events, the Foundation has evaluated subsequent events through April 4, 2016, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2015, have been incorporated into these financial statements herein.