NORTHERN INDIANA COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 2016

C O N T E N T S

Estep Burkey Simmons, LLC
Certified Public Accountants
& Consultants

Independent Auditors' Report

Board of Directors
Northern Indiana Community Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Indiana Community Foundation, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 Northern Indiana Community Foundation, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Estep Burkey Simmons, LLC

Muncie, Indiana
April 19, 2017

111 West Adams Street, Suite 103 | P.O. Box 42 | Muncie, Indiana 47308-0042 | 765.284.7554 | 765.284.7706 Fax
3900 South Memorial Drive | P.O. Box 1040 | New Castle, Indiana 47362-1040 | 765.529.5200 | 765.529.8840 Fax

Northern Indiana Community Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

Cash and cash equivalents	$ 2,584,765
Pledges receivable	1,158
Prepaid expenses	13,232
Note receivable	10,000
Beneficial interest in charitable remainder trust	154,383
Investments	30,884,615
Investment - charitable remainder trust	119,962
Property and equipment	
Office and computer equipment	98,637
Less accumulated depreciation	92,788
	5,849
	$ 33,773,964

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable and accrued expenses	$ 5,233
Grants payable	56,169
Charitable remainder trust liability	119,962
Charitable gift annuity	44,631
Agency funds	2,576,304
Total liabilities	2,802,299
NET ASSETS	
Unrestricted	8,808,290
Temporarily restricted	2,788,895
Permanently restricted	19,374,480
	30,971,665
	$ 33,773,964

The accompanying notes are an integral part of this statement.

Northern Indiana Community Foundation, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Contributions	$ 1,222,313	$ 158,476	$ 988,966	$ 2,369,755
Investment income	435,104	423,817		858,921
Realized gains on investments	126,036	126,931		252,967
Unrealized gains on investments	628,831	609,969		1,238,800
Administrative fees	494,647			494,647
Change in value of split-interest agreements		(6,983)		(6,983)
	2,906,931	1,312,210	988,966	5,208,107
Net assets released from restrictions:				
Restrictions satisfied by payments	775,037	(775,037)		
Expenses				
Program services:				
Grants and scholarships	1,094,851			1,094,851
Direct program support	227,933			227,933
Other program support	113,249			113,249
Supporting services:				
Operating expenses	193,872			193,872
Investment fees	149,718			149,718
Administrative fees	456,853			456,853
Fundraising expenses	301,332			301,332
	2,537,808			2,537,808
INCREASE IN NET ASSETS	1,144,160	537,173	988,966	2,670,299
Net assets at beginning of year	7,664,130	2,251,722	18,385,514	28,301,366
Net assets at end of year	$ 8,808,290	$ 2,788,895	$ 19,374,480	$ 30,971,665

Northern Indiana Community Foundation, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

Cash flows from operating activities:	
Increase in net assets	$ 2,670,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,230
Realized and unrealized gains	(1,491,767)
Contributions to restricted funds	(988,966)
Non-cash stock contributions	(131,088)
Beneficial interest in charitable remainder trust	3,486
(Increase) decrease in assets:	
Investment - charitable remainder trust	234
Pledges receivable	2,648
Note receivable	85,000
Prepaid expense	(383)
Increase (decrease) in liabilities:	
Accounts payable	2,174
Grants payable	19,547
Deferred revenue	(178,367)
Charitable remainder trust liability	(234)
Charitable gift annuity	13,160
Agency funds	45,993
Net cash provided by operating activities	55,966
Cash flows from investing activities:	
Purchase of property and equipment	(1,164)
Proceeds from the sales of investments	6,952,874
Purchase of investments	(8,274,690)
Net cash used in investing activities	(1,322,980)
Cash flows from financing activities:	
Cash received from contributors for restricted funds	988,966
Net cash provided by financing activities	988,966
Net decrease in cash and cash equivalents	(278,048)
Cash and cash equivalents at beginning of year	2,862,813
Cash and cash equivalents at end of year	$ 2,584,765
Supplemental Disclosure	
Non-cash contributions	$ 131,088

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Northern Indiana Community Foundation, Inc. (Foundation) is a not-for-profit corporation organized under the laws of the State of Indiana. The Foundation was organized to act for the primary benefit of the citizens of Fulton, Miami, and Starke counties plus surrounding regions. A community foundation is established to provide a permanent and growing endowment to benefit the communities, while providing ethical philanthropic leadership for the enrichment and assistance to human services, education, revitalization, social, art, and cultural endeavors. Individuals, families, businesses, private foundations, and non-profit organizations may donate to the community foundation.

2. Contributions

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

3. Cash and Cash Equivalents

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

4. Investments

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

5. Equipment and Depreciation

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

6. Deferred Revenue

During 2014, each county within the Foundation received a $500,000 donation from Lilly GIFT VI, which has a matching requirement. The Foundation raised $157,969 towards the matching requirement during 2016 and recorded $178,367 as contribution revenue from the matching gift. The matching requirement was fulfilled during the year ending December 31, 2016.

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

7. 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.

8. Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at high credit quality financial institutions. At December 31, 2016, the Foundation exceeded the insured limit by $356,374.

9. Contributed Services

During the years ended December 31, 2016, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

10. Compensated Absences

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

11. 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.

12. Uncertain Tax Positions

The Foundation recognizes a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. The Foundation has examined this issue and has determined there are no material contingent tax liabilities.

The Foundation’s federal and state exempt organization tax returns for 2013, 2014, and 2015 are subject to examination by the Internal Revenue Service and the Indiana Department of Revenue. Returns are generally subject to examination for three years after they are filed.

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.

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B - INVESTMENTS

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

	Fair Value
Certificates of deposit	$ 150,173
Common stocks	16,557,719
Preferred stocks	261,226
Mutual funds - equities:	
Mid-cap blend	750,403
Foreign large blend	1,302,674
Long/short equity	142,076
Diversified emerging markets	1,298
Small blend	812,960
Mid-cap growth	213,389
Large blend	692,765
Large value	222,777
Commodities broad basket	206,086
Total mutual funds - equities	4,344,428
Mutual funds - fixed income:	
High yield municipal bond	3,012,710
Emerging markets bond	290,044
Intermediate-term bond	1,640,426
Short-term bond	265,030
Long-term bond	261,810
World bond	182,185
Nontraditional bond	411,575
Corporate bonds	3,092,614
Bank loan	414,675
Total mutual funds - fixed income	9,571,069
Total investments, at fair value	$ 30,884,615
Total investments, at historical cost	$ 26,707,791

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

	Unrestricted	Temporarily Restricted	Total
Investment return	$ 435,104	$ 423,817	$ 858,921
Realized gains on investments	126,036	126,931	252,967
Unrealized gains on investments	628,831	609,969	1,238,800
	$ 1,189,971	$ 1,160,717	$ 2,350,688

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

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.

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Note receivable	$ 10,000		$ 10,000	
Beneficial interest in charitable remainder trust	$ 154,383		$ 154,383	
Investments	$ 31,004,577	$ 30,884,615	$ 119,962	
Liabilities:				
Charitable gift annuities	$ 44,631		$ 44,631	
Charitable remainder trust	$ 119,962		$ 119,962	

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

Fair values for beneficial interest in charitable remainder trust and investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the beneficial interest in charitable remainder trust is determined by calculating the present value of the annuity using published life expectancy tables with a discount rate of 5.0 percent. Fair value for the charitable gift annuities is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with a discount rate ranging between 4.5 percent and 6.1 percent.

NOTE E - NOTE RECEIVABLE

The Foundation holds a note receivable, which is payable through March 1, 2021. The note requires semi-annual payments of $1,250 with amortized interest of 3% incurred at the end of the loan. The receivable had a balance of $10,000 as of December 31, 2016.

NOTE F - OPERATING LEASES

The Foundation leases operating facilities and equipment under operating lease arrangements. These leases expire at various dates through 2019. Lease expense for these leases included in the statement of activities for the year ended December 31, 2016 was $37,241.

Future minimum lease payments required under the operating leases that have remaining terms in excess of one year as of December 31, 2016 are as follows:

2017	$ 31,183
2018	22,138
2019	2,400
2020	-0-
2021	-0-
	$ 55,721

NOTE G - RESTRICTIONS ON NET ASSETS

At December 31, 2016, the Foundation's endowment consists of 423 donor-restricted endowment funds established to support designated charitable purposes and organizations. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Indiana Prudent Management of Institutional Funds Act (UPMIFA) as 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:

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G - RESTRICTIONS ON NET ASSETS - Continued

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 asset composition by type of fund as of December 31, 2016 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 2,415,921	$ 19,374,480	$ 21,790,401
Board-designated endowment funds	$ 8,108,431			8,108,431
	$ 8,108,431	$ 2,415,921	$ 19,374,480	$ 29,898,832

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

	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenue and support			
Contributions and grant income	$ 967,932	$ 45,278	$ 988,966
Investment return	421,168	407,776	
Net appreciation of investments	732,213	708,188	
Total revenue and support	2,121,313	1,161,242	988,966
Appropriatation of endowment assets for expenditure	385,417	719,334	
Change in endowment net assets	1,735,896	441,908	988,966
Endowment net assets, beginning of year	6,372,535	1,974,013	18,385,514
Endowment net assets, end of year	$ 8,108,431	$ 2,415,921	$ 19,374,480

The investment objective of this Portfolio is to preserve the purchasing power of assets entrusted to the Foundation. Investment return should equal 8% annualized gross returns and investments should equal a blended index comparable to the actual money managers' blend.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year up to 4.5% of its endowment fund's average fair value over a three year rolling average return and December 31 asset value. The payout cannot exceed actual investment results unless the accumulated surplus is sufficient to cover the excess payout.

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G - RESTRICTIONS ON NET ASSETS - Continued

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, 2 of the 423 endowment funds had deficiencies totaling $90,504. 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 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.

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

Donor designated funds	$ 1,412,166
Field of interest	251,545
Scholarship funds	1,125,184
	$ 2,788,895

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

Donor designated funds	$ 4,251,828
Field of interest	842,065
Scholarship funds	6,650,359
Community funds	7,630,228
	$ 19,374,480

At December 31, 2016, net assets were allocated to individual counties and to Foundation operations as follows:

Fulton County	$ 13,952,765
Miami County	7,499,553
Starke County	8,736,078
Foundation operations	783,269
	$ 30,971,665

NOTE H - EMPLOYEE BENEFITS

The Foundation has a Simplified Employee Pension Plan (SEP). The Foundation remits 5% of the base salary of each eligible employee on a monthly basis. An employee becomes eligible for the SEP upon completion of one year of employment. The employee must be twenty one years of age and receive more than $450 in wages annually. Employer contributions to the SEP during the year ended December 31, 2016 were $15,103.

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE I - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

During 1998, a donor established a trust with a local bank naming the Foundation as the lead beneficiary of a charitable remainder unitrust. Under this type of charitable remainder trust, the donor is to receive distributions in the amount of 5% of the fair market value of the trust annually until death. Upon the death of the donor, the remaining assets in the trust pass to the Foundation for a temporarily restricted use. Based on the donor's life expectancy and 3.6% discount rate, the present value of future benefits expected to be received by the Foundation was estimated to be $154,383 at December 31, 2016, and is recorded as a temporarily restricted asset. The change in value of the split interest agreement for the year ended December 31, 2016 was $(3,486) and is reflected in the statement of activities.

NOTE J - TRUSTEE OF CHARITABLE REMAINDER UNITRUST

The Foundation was named trustee of the charitable remainder unitrust, with responsibilities to maintain assets, distribute quarterly payments to a beneficiary, and upon the death of the beneficiary, distribute the remainder of the Trust to the other charitable organizations named in the Trust. The Foundation accepted this responsibility, and in return, receives a quarterly administrative fee from the Trust.

The fair value of the invested assets of the Trust was $119,962 at December 31, 2016 and is classified on the statement of financial position as an asset and corresponding liability.

NOTE K - SPLIT-INTEREST AGREEMENT

The Foundation's split-interest agreements consist of three 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 $69,741 at December 31, 2016. These assets are included in the level 1 inputs in Note D. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of future payment obligations at December 31, 2016 was $44,631. The liabilities were determined using a discount of 6.1%. Changes in fair value of the charitable gift annuities are reflected as changes in unrestricted net assets in the statement of activities. During the year ending December 31, 2016 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 L - AGENCY FUNDS

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.

Northern Indiana Community Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE L - AGENCY FUNDS - Continued

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

Support and revenue		
Contributions and pledges	$ 164,664	
Investment income	73,870	
Realized gains on investments	21,790	
Unrealized gains on investments	105,957	
		$ 366,281
Expenses		
Grants expense	270,287	
Administrative fees	37,179	
Investment fees	12,822	
		320,288
Increase in agency funds		45,993
Balance at beginning of year		2,530,311
Balance at end of year		$2,576,304

NOTE M - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through April 19, 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.