LEGACY FOUNDATION, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 2017

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6

Estep Burkey Simmons, LLC
Certified Public Accountants
& Consultants

Independent Auditors' Report

Board of Directors
Legacy Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Legacy Foundation, Inc., which comprise the statement of financial position as of December 31, 2017, 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 Legacy Foundation, Inc. as of December 31, 2017, 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
March 27, 2018

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

Legacy Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

Cash and cash equivalents	$ 1,785,381
Other assets	139,051
Investments	55,470,858
Property and equipment, net	11,569
	$ 57,406,859

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable	$ 19,743
Accrued expenses	2,905
Grants payable	180,498
Annuities payable	503,729
Custodial funds	9,465,626
Total liabilities	10,172,501
NET ASSETS	
Unrestricted:	
Operating	399,852
Other unrestricted	1,925,358
Board designated operating reserve	714,624
	3,039,834
Temporarily restricted	44,194,524
Total net asssets	47,234,358
	$ 57,406,859

The accompanying notes are an integral part of this statement.

Legacy Foundation, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Contributions	$ 76,684	$ 1,975,691	$ 2,052,375
Investment income	467,797	1,305,110	1,772,907
Realized gains on investments	56,825	189,424	246,249
Unrealized gains on investments	1,188,775	3,189,263	4,378,038
Administrative fees	586,913		586,913
Specal events and other income	7,123		7,123
Change in value of split-interest agreements		2,189	2,189
	2,384,117	6,661,677	9,045,794
Net assets released from restrictions:			
Restrictions satisfied by payments	2,193,540	(2,193,540)	
Expenses			
Program services:			
Grants and scholarships	1,576,110		1,576,110
Program expenses	475,496		475,496
Supporting services:			
Operating expenses	236,774		236,774
Investment fees	212,000		212,000
Administrative fees	499,403		499,403
Fundraising expenses	229,317		229,317
	3,229,100		3,229,100
INCREASE IN NET ASSETS	1,348,557	4,468,137	5,816,694
Net assets at beginning of year	1,691,277	39,726,387	41,417,664
Net assets at end of year	$ 3,039,834	$ 44,194,524	$ 47,234,358

Legacy Foundation, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

Cash flows from operating activities:	
Increase in net assets	$ 5,816,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,603
Realized and unrealized gains	(4,624,287)
Non-cash stock contributions	(1,014,793)
Increase in other assets	(1,037)
Increase (decrease) in liabilities:	
Accounts payable	15,213
Grants payable	(77,361)
Annuities payable	(57,666)
Custodial funds	862,798
Net cash provided by operating activities	922,164
Cash flows from investing activities:	
Purchase of property and equipment	(8,884)
Proceeds from the sales of investments	3,289,878
Purchase of investments	(4,205,476)
Net cash used in investing activities	(924,482)
Net decrease in cash and cash equivalents	(2,318)
Cash and cash equivalents at beginning of year	1,787,699
Cash and cash equivalents at end of year	$ 1,785,381
Supplemental Disclosure	
Non-cash contributions	$ 1,014,793

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

Legacy Foundation, Inc. (Foundation) is a not-for-profit corporation organized under the laws of the State of Indiana. The Foundation was established primarily to serve Lake County by managing and distributing charitable contributions, supporting qualified not-for-profit organizations, and providing philanthropic leadership to improve the quality of life in the county.

2. Basis of Presentation

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 comprised of the Foundation's operating fund and unrestricted income from endowment funds.

Temporarily restricted net assets - Net assets not yet appropriated for expenditure by the Foundation's Board of Directors in accordance with their spending policy or that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

3. 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 restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

4. 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.

5. Investments

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

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

6. Property and Equipment

Property and equipment is stated at cost. Donated equipment is recorded as support at the estimated fair 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 with useful lives ranging from three to seven years.

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, 2017, the Foundation exceeded the insured limit by $1,116,656.

9. Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Foundation. Administrative fees from all funds are reflected as revenue on the Statement of Activities. The administrative fees from custodial funds are not included as expenses on the Statement of Activities because they are included in the change in custodial funds.

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 Statement 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 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.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE B - INVESTMENTS

The following is an analysis of the cost and fair value at December 31, 2017 by type of investment.

	Fair Value
Alternative investments	$ 3,371,012
Common stock	1,003,181
Certificate of Deposit	601,845
Mutual funds - equities:	
Diversified emerging markets	2,806,499
Small value	92,966
Large value	7,682,694
Real estate	111,529
Small growth	1,111,393
EFT	116,790
Large growth	254,390
Mid-cap growth	1,719,418
Foreign small/mid value	114,287
Convertibles	99,169
Mid-cap value	164,231
Small blend	20,739
Mid-cap blend	34,160
Large blend	13,583,642
Foreign large blend	8,389,491
Market neutral	7,885
Options-based	11,245
Conservative allocation	2,273,640
World large stock	11,325
Total mutual funds - equities	38,605,493
Mutual funds - fixed income:	
Intermediate-term bond	3,700,304
World bond	179,638
Short-term bond	2,854,576
High yield bond	2,418,978
Inflation-protected bond	5,126
Multisector bond	913,460
Emerging markets bond	1,799,186
Ultrashort bonds	18,059
Total mutual funds - fixed income	11,889,327
Total investments, at fair value	$ 55,470,858
Total investments, at historical cost	$ 47,609,621

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE B – INVESTMENTS - Continued

The following schedule summarizes the investment return, excluding the investment return on investments related to custodial funds, and its classification in the statement of activities for the years ended December 31, 2017.

	Unrestricted	Temporarily Restricted	Total
Investment return	$ 467,797	$ 1,305,110	$ 1,772,907
Realized gains on investments	56,825	189,424	246,249
Unrealized gains on investments	1,188,775	3,189,263	4,378,038
	$ 1,713,397	$ 4,683,797	$ 6,397,194

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.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE D - FAIR VALUE MEASUREMENTS - Continued

	Level 1	Level 2	Level 3	Total
Assets:				
Investments	$ 52,099,846			$ 52,099,846
Alternative investments*				3,371,012
Total assets at fair value				$ 55,470,858
Liabilities:				
Annuities payable		$ 503,729		$ 503,729

* In accordance with Accounting Standards, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the statement of financial position.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

- Investments: Valued at the daily closing price as reported by the mutual fund or exchange traded fund. Mutual funds and exchange traded funds ("funds") are held by the Foundation and are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Foundation are deemed to be actively traded.
- Annuities payable: Fair value is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables, and discount rates ranging from 3.8 percent to 5.8 percent.

Alternative investments, including balances, restrictions on redemptions, and investment objectives consist of the following as of December 31, 2017:

	Net Asset Value	Redemption Notice	Redemption Frequency
SEI Core Property Fund, LP	$ 3,371,012	95 days notice	Quarterly

NOTE E - SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements consist of three charitable gift annuities. The assets received are recorded at their fair value. The fair value of assets held for the charitable gift annuities totaled $655,471 at December 31, 2017. 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, 2017 was $503,729. The liabilities were determined using a discount rate of 2.6%. 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, 2017 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.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE F - OPERATING LEASE

The Foundation leased its office space under a commitment which expired in December 2017 and converted to a month-to-month lease until March 31, 2018 with monthly payments adjusted annually. The Foundation entered into a lease for office space which expires in November 2024 with monthly payments of $6,254. Rent expense was $65,292 for the year ended December 31, 2017.

The Foundation leases office equipment under an operating lease expiring in August 2020 with monthly payments of $443. Lease expense was $6,442 for the year ended December 31, 2017.

Future minimum lease payments subsequent to December 31, 2017 are as follows:

2018	$ 77,920
2019	80,361
2020	78,589
2021	75,045
2022	75,045
	$ 386,961

NOTE G - ENDOWMENT FUNDS

At December 31, 2017, the Foundation's endowment consists of 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 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 prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets to 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. The Foundation expects its endowment funds, over time, to grow at a rate equal or greater than the Consumer Price Index plus any distributions and administrative expenses. Actual returns in any given year may vary from this amount.

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).

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE G - ENDOWMENT FUNDS - Continued

The Foundation has a policy of appropriating for distribution each year five percent of its endowment funds' average fair value over the twenty prior quarters, 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.

Endowment net asset composition by type of fund as of December 31, 2017 was as follows:

	Unrestricted	Temporarily Restricted	Total
Donor-restricted endowment funds		$ 39,923,254	$ 39,923,254
Board-designated endowment funds	$ 1,925,358		1,925,358
	$ 1,925,358	$ 39,923,254	$ 41,848,612

Changes in endowment net assets for the year ended December 31, 2017 was as follows:

	Unrestricted	Temporarily Restricted
Revenue and support		
Contributions and grant income		$ 200,061
Investment return	$ 467,797	1,160,307
Net appreciation of investments	1,245,600	3,066,252
Total revenue and support	1,713,397	4,426,620
Appropriatation of endowment assets for expenditure	523,898	1,125,370
Change in endowment net assets	1,189,499	3,301,250
Endowment net assets, beginning of year	735,859	36,622,004
Endowment net assets, end of year	$ 1,925,358	$ 39,923,254

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, 5 of the 184 endowment funds had deficiencies totaling $156,697. 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.

NOTE H - TEMPORARILY RESTRICTED AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets represent endowment funds not yet appropriated for expenditure of $44,194,524 at December 31, 2017. Net assets were released from donor restrictions in the amount of $2,193,540 based on endowment funds appropriated for expenditure for the year ended December 31, 2017.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE I - CUSTODIAL FUNDS

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

During the year ended December 31, 2017, the following activity occurred in the custodial funds held by the Foundation. These amounts are not reflected on the statement of activities.

Support and revenue		
Contributions	$ 26,798	
Investment income	354,967	
Realized gains on investments	60,567	
Unrealized gains on investments	962,492	
		$1,404,824
Expenses		
Grants expense	413,299	
Administrative fees	87,513	
Investment fees	41,214	
		542,026
Increase in custodial funds		862,798
Balance at beginning of year		8,602,828
Balance at end of year		$9,465,626

NOTE J - RECLASSIFICATIONS

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

NOTE K - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through March 27, 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.