

LEGACY FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

CPAs / ADVISORS



LEGACY FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Legacy Foundation, Inc.
Merrillville, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Legacy Foundation, Inc. (the "Foundation") which comprise the statements of financial position as of June 30, 2014 and 2013, 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 audits 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 June 30, 2014 and 2013, 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.

Blue & Co., LLC
Seymour, Indiana

October 14, 2014

LEGACY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2014 AND 2013

ASSETS

	2014	2013 As Restated
Cash and cash equivalents	\$ 1,061,388	\$ 780,692
Certificates of deposit	437,077	435,153
Investments	48,517,882	45,541,564
Other assets	32,479	1,895
Property and equipment, net	54,594	60,367
	<u>\$ 50,103,420</u>	<u>\$ 46,819,671</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 23,808	\$ 2,022
Accrued expenses	7,257	13,883
Grants payable	82,609	26,198
Annuities payable	580,884	604,472
Custodial funds	10,578,087	12,082,300
Total liabilities	11,272,645	12,728,875

Net assets

Unrestricted:		
Operating	273,428	376,574
Board designated operating reserve	97,963	93,397
Deficiency in endowment funds	(85,467)	(413,084)
	285,924	56,887
Temporarily restricted	27,401,033	23,702,718
Permanently restricted	11,143,818	10,331,191
Total net assets	38,830,775	34,090,796
	<u>\$ 50,103,420</u>	<u>\$ 46,819,671</u>

See accompanying notes to financial statements.

LEGACY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

	2014			2013 As Restated	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenues					
Contributions	\$ 48,680	\$ 1,356,538	\$ 812,627	\$ 2,217,845	\$ 1,682,687
Investment return, net	336,077	4,682,923	-0-	5,019,000	4,157,230
Administrative income	538,678	-0-	-0-	538,678	488,365
Change in value of split-interest agreements	-0-	(34,383)	-0-	(34,383)	(54,178)
Miscellaneous income	1,103	-0-	-0-	1,103	-0-
Net assets released from restrictions	<u>2,306,763</u>	<u>(2,306,763)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	3,231,301	3,698,315	812,627	7,742,243	6,274,104
Expenses					
Grants	1,723,828	-0-	-0-	1,723,828	1,270,833
Program	155,873	-0-	-0-	155,873	75,142
Administrative fees	417,405	-0-	-0-	417,405	373,556
Personnel costs	252,661	-0-	-0-	252,661	414,746
Professional services	234,398	-0-	-0-	234,398	29,310
Outside services	44,926	-0-	-0-	44,926	20,566
Office operations	73,585	-0-	-0-	73,585	58,940
Occupancy costs	63,717	-0-	-0-	63,717	62,440
Marketing and development	19,242	-0-	-0-	19,242	23,852
Depreciation	<u>16,629</u>	<u>-0-</u>	<u>-0-</u>	<u>16,629</u>	<u>14,522</u>
Total expenses	<u>3,002,264</u>	<u>-0-</u>	<u>-0-</u>	<u>3,002,264</u>	<u>2,343,907</u>
Change in net assets	229,037	3,698,315	812,627	4,739,979	3,930,197
Net assets, beginning of year	<u>56,887</u>	<u>23,702,718</u>	<u>10,331,191</u>	<u>34,090,796</u>	<u>30,160,599</u>
Net assets, end of year	<u>\$ 285,924</u>	<u>\$ 27,401,033</u>	<u>\$ 11,143,818</u>	<u>\$ 38,830,775</u>	<u>\$ 34,090,796</u>

See accompanying notes to financial statements.

LEGACY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2013 (AS RESTATED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Contributions	\$ 42,149	\$ 939,085	\$ 701,453	\$ 1,682,687
Investment return, net	391,568	3,765,662	-0-	4,157,230
Administrative income	488,365	-0-	-0-	488,365
Change in value of split-interest agreements	-0-	(54,178)	-0-	(54,178)
Net assets released from restrictions	<u>1,286,540</u>	<u>(1,286,540)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	2,208,622	3,364,029	701,453	6,274,104
Expenses				
Grants	1,270,833	-0-	-0-	1,270,833
Program	75,142	-0-	-0-	75,142
Administrative fees	373,556	-0-	-0-	373,556
Personnel costs	414,746	-0-	-0-	414,746
Professional services	29,310	-0-	-0-	29,310
Outside services	20,566	-0-	-0-	20,566
Office operations	58,940	-0-	-0-	58,940
Occupancy costs	62,440	-0-	-0-	62,440
Marketing and development	23,852	-0-	-0-	23,852
Depreciation	<u>14,522</u>	<u>-0-</u>	<u>-0-</u>	<u>14,522</u>
Total expenses	<u>2,343,907</u>	<u>-0-</u>	<u>-0-</u>	<u>2,343,907</u>
Change in net assets	<u>\$ (135,285)</u>	<u>\$ 3,364,029</u>	<u>\$ 701,453</u>	<u>\$ 3,930,197</u>
Net assets, beginning of year				
As previously reported	\$ (270,987)	\$ 20,326,370	\$ 10,105,216	\$ 30,160,599
Prior period adjustments				
Correct recognition of net asset classification	<u>463,159</u>	<u>12,319</u>	<u>(475,478)</u>	<u>-0-</u>
As restated	192,172	20,338,689	9,629,738	30,160,599
Change in net assets	<u>(135,285)</u>	<u>3,364,029</u>	<u>701,453</u>	<u>3,930,197</u>
Net assets, end of year	<u>\$ 56,887</u>	<u>\$ 23,702,718</u>	<u>\$ 10,331,191</u>	<u>\$ 34,090,796</u>

See accompanying notes to financial statements.

LEGACY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013 As Restated
Operating activities		
Change in net assets	\$ 4,739,979	\$ 3,930,197
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	16,629	14,522
Reinvested interest and dividends received on investments	(1,061,724)	(1,542,654)
Realized and unrealized gains on investments	(5,841,800)	(4,300,457)
Change in value of split-interest agreements	34,383	54,178
Contributions restricted to endowment funds	(812,627)	(701,453)
Changes in assets and liabilities:		
Other assets	(30,584)	5,142
Accounts payable	21,786	(32,927)
Accrued expenses	(6,626)	(2,998)
Grants payable	56,411	(95,411)
Annuities payable	(57,971)	(57,971)
Custodial funds	(1,504,213)	1,183,924
Net cash flows from operating activities	(4,446,357)	(1,545,908)
Investing activities		
Purchases of property and equipment	(10,856)	(41,581)
Purchases of certificates of deposit	(437,077)	(435,153)
Maturities of certificates of deposit	435,153	434,277
Purchases of investments	(38,855,678)	(65,081,641)
Sales of investments	42,782,884	66,132,436
Net cash flows from investing activities	3,914,426	1,008,338
Financing activities		
Contributions restricted to endowment funds	812,627	701,453
Net change in cash and cash equivalents	280,696	163,883
Cash and cash equivalents, beginning of year	<u>780,692</u>	<u>616,809</u>
Cash and cash equivalents, end of year	<u>\$ 1,061,388</u>	<u>\$ 780,692</u>

See accompanying notes to financial statements.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Legacy Foundation, Inc. (the "Foundation") is a not-for-profit organization. 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.

Management's Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

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 primarily made up of the Foundation's operating fund. The Foundation maintains unrestricted funds as follows:

Operating – used to fund current operations of the Foundation

Board designated operating reserve – used to fund future operations of the Foundation as designated by the Board

Deficiency in endowment funds – permanent funds in which investment activity caused the funds to fall below historical gift amounts

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

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Included in this classification are endowment funds that are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity and invested for the purpose of producing present and future income. In accordance with the Foundation's spending policy, the historic gift value of those funds that specifically request that the principal shall not be invaded are classified as permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market investments and exclude amounts held by the Foundation's fund managers and included in investments.

Investments and Investment Return

The Foundation carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Statements of Activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as unrestricted or temporarily restricted based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Foundation's spending policy.

Property and Equipment

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

Property and equipment is depreciated over its estimated useful life ranging from three to seven years using the straight line method.

Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (contributions receivable), are recognized as revenues in the period the contribution is received or the promise is made.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Support and revenues are reported as increases in either unrestricted, temporarily restricted, or permanently restricted net assets in accordance with the classification of the fund as it relates to the Foundation's spending policy. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either unrestricted or temporarily restricted net assets in accordance with the classification of the fund as it relates to the Foundation's spending policy. All other revenue is recorded when earned.

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 Statements of Activities. The administrative fees from custodial funds are not included as expenses on the Statements of Activities because they are included in the change in custodial funds.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

Income Taxes

Legacy Foundation, Inc. is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Subsequent Events

The Foundation has evaluated events or transactions occurring subsequent to the Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is October 14, 2014.

Reclassifications

Certain prior year amounts have been reclassified herein to conform to the current method of presentation.

2. RESTATEMENT

The Foundation has restated its financial statements to correct the classification of board designated and donor restricted endowments as of July 1, 2012. The correction resulted in an increase in unrestricted net assets of \$463,159, an increase in temporarily restricted net assets of \$12,319, and a decrease in permanently restricted net assets of \$475,478 at July 1, 2012.

The changes reflected in the financial statements as of and for the year ended June 30, 2013 are as follows:

	2013 as Previously Reported	Adjustment	2013 Restated
Unrestricted net assets	\$ (428,916)	\$ 485,803	\$ 56,887
Temporarily restricted net assets	23,644,085	58,633	23,702,718
Permanently restricted net assets	10,875,627	(544,436)	10,331,191
Temporarily restricted contributions	870,127	68,958	939,085
Permanently restricted contributions	770,411	(68,958)	701,453
Unrestricted investment return, net	431,747	(40,179)	391,568
Temporarily restricted investment return, net	3,725,483	40,179	3,765,662
Unrestricted net assets released from restrictions	1,223,717	62,823	1,286,540
Temporarily restricted net assets released from restrictions	(1,223,717)	(62,823)	(1,286,540)

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

3. CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following at June 30, 2014 and 2013:

2014			2013		
Amount	Maturity	Interest Rate	Amount	Maturity	Interest Rate
\$ 258,971	9/19/2014	0.10%	\$ 258,282	3/22/2014	0.35%
115,082	11/11/2014	0.25%	114,775	10/11/2013	0.30%
63,024	11/18/2015	0.25%	62,096	5/8/2014	0.25%
\$ 437,077			\$ 435,153		

4. INVESTMENTS

Investments at June 30, 2014 and 2013 consist of the following:

	2014	2013
Cash and money market funds	\$ 109,120	\$ 222,838
Equity mutual funds:		
Large	26,008,799	20,733,738
Small/mid	2,862,865	2,033,886
Real estate	-0-	1,951,832
Multi asset	-0-	2,674,203
Fixed income mutual funds:		
Short	-0-	1,616,717
Intermediate term bond	4,132,321	10,090,205
High yield	2,834,974	-0-
World bond	905,294	-0-
Emerging markets	1,923,171	-0-
Multi-alternative	4,578,303	-0-
Other	88,404	420,645
Exchange traded funds:		
Large	-0-	796,303
Small/mid	2,765,900	1,800,057
Alternative investments	2,308,731	3,201,140
	\$ 48,517,882	\$ 45,541,564

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

The following schedule summarizes the investment return, excluding the investment return on investments related to custodial funds, and its classification in the Statements of Activities:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 780,150	\$ 1,112,600
Realized and unrealized gains	4,352,908	3,149,385
Investment fees	<u>(114,058)</u>	<u>(104,755)</u>
	<u>\$ 5,019,000</u>	<u>\$ 4,157,230</u>

5. RISKS AND UNCERTAINTIES

The Foundation holds a variety of investments (Note 4). 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.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The Foundation's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. There were no transfers between levels in 2014 and 2013. The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

- *Mutual funds/Exchange traded funds*: Valued at the daily closing price as reported by the fund. Mutual 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.
- *Alternative investments*: Valued at the net asset value (NAV) of the fund as determined by the reported valuations of underlying investment managers.
- *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.

	2014		
	Fair Value	Level 1	Level 2
Assets:			
Mutual funds	\$ 43,334,131	\$ 43,334,131	\$ -0-
Exchange traded funds	2,765,900	2,765,900	-0-
Alternative investments	2,308,731	-0-	2,308,731
Liabilities:			
Annuities payable	580,884	-0-	580,884

	2013		
	Fair Value	Level 1	Level 2
Assets:			
Mutual funds	\$ 39,521,226	\$ 39,521,226	\$ -0-
Exchange traded funds	2,596,360	2,596,360	-0-
Alternative investments	3,201,140	-0-	3,201,140
Liabilities:			
Annuities payable	604,472	-0-	604,472

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Alternative investments, including balances, restrictions on redemptions, and investment objectives consist of the following as of June 30, 2014 and 2013:

	2014	2013	Redemption Notice	Redemption Frequency
SEI Core Property Fund, LP	\$ 2,308,731	\$ -0-	65 days notice	Quarterly
FEG Equity Access Fund	-0-	1,585,949	95 days notice	Semi-annually
Private Advisors Stable Value Fund	-0-	1,615,191	95 days notice	Annually

SEI Core Property Fund, LP

The investment objective is to seek both current income and long term capital appreciation by investing directly and indirectly in a diversified pool of private investment vehicles that invest in commercial real estate properties. The investments in the fund may be redeemed at the net asset value with a 65 day pre-notification of redemption during each quarter, and a 10% holdback on final payment until the completion of the fund's annual audit. However, it is possible that these redemption rights may be restricted or eliminated by the fund in the future in accordance with the underlying fund agreements.

FEG Equity Access Fund

The investment objective is to meet or exceed the return of the broad equity markets over a full market cycle with less volatility than the equity markets as measured by the S & P 500 Index. The investments in the fund may be redeemed at the net asset value on a semi-annual basis and there is a twelve month restriction on withdrawals as defined in the agreement based on the date of entry. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements.

Private Advisors Stable Value Fund

The investment objective is to achieve consistent, positive returns, which are not dependent upon a rising equity market, while attempting to reduce risk and volatility. The investments in the fund may be redeemed at the net asset value at the end of any fiscal year provided that the shareholder has been a shareholder for a minimum of twelve months and proper written notification was presented.

The alternative investments are classified as Level 2 based on the Foundation's ability to redeem them.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Foundation's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Foundation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

7. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 119,211	\$ 108,354
Less accumulated depreciation	<u>(64,617)</u>	<u>(47,987)</u>
	<u>\$ 54,594</u>	<u>\$ 60,367</u>

8. ANNUITIES PAYABLE

The Foundation has five active charitable gift annuities, under which the Foundation received \$957,600. The Foundation is required to make payments to the donor or their named beneficiaries in amounts ranging from \$690 to \$54,756 annually for the remainder of the donors' lifetimes. Upon the death of the specified persons, the remaining amount of the gift is to be used by the Foundation for endowments. The Foundation has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiaries at June 30, 2014 and 2013 under these agreements. The liability was calculated based on the applicable mortality tables and discount rates ranging from 3.8 percent to 5.8 percent. The present value of amounts expected to be paid to the donors or their named beneficiaries was \$580,884 and \$604,472 at June 30, 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

9. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Foundation by other organizations based on their individual board resolutions. In addition, the Foundation has entered into agreements to serve as fiscal agents of funds for certain individuals and organizations. The Foundation accounts for these transfers as a liability in accordance with applicable accounting standards. Income is added to these funds periodically in accordance with the Foundation's investment allocation policies. Contributions by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Statements of Activities.

Following is a progression of custodial funds during 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 12,082,300	\$ 10,898,376
Contributions	263,194	433,919
Interest and dividend income	281,574	430,054
Realized and unrealized gains	1,488,892	1,151,072
Investment fees	(37,190)	(34,585)
Administrative fees	(120,773)	(114,309)
Grants and program expenses	<u>(3,379,910)</u>	<u>(682,227)</u>
Ending balance	<u>\$ 10,578,087</u>	<u>\$ 12,082,300</u>

10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets represent endowment funds not yet appropriated for expenditure of \$27,401,033 and \$23,702,718 at June 30, 2014 and 2013, respectively. Permanently restricted net assets in the amount of \$11,143,818 and \$10,331,191 at June 30, 2014 and 2013, respectively, are donor-restricted assets whereby the principal amount is never to be expended. Income earned from these principal amounts includes both temporarily restricted and unrestricted amounts.

11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amount of \$2,306,763 and \$1,286,540 based on endowment funds appropriated for expenditure for the years ended June 30, 2014 and 2013, respectively.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

12. ENDOWMENT

The majority of the Foundation's funds consist of endowed funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation also has certain donor-restricted endowment funds recognized as permanently restricted due to specifications in those fund agreements. The Foundation classified 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 was added to the fund. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

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

LEGACY FOUNDATION, INC.

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

The Foundation has a policy in which distributions from funds are calculated semi-annually. Each distribution amount will be 2.5 percent of a rolling quarter average. Quarters are applied in increments of two quarters to the rolling quarter average up to a maximum of twenty quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Endowed funds by net asset type at June 30, 2014 and 2013 were as follows:

	2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 97,963	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(85,467)</u>	<u>27,401,033</u>	<u>11,143,818</u>
	<u>\$ 12,496</u>	<u>\$ 27,401,033</u>	<u>\$ 11,143,818</u>
	2013 (As Restated)		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 93,397	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(413,084)</u>	<u>23,702,718</u>	<u>10,331,191</u>
	<u>\$ (319,687)</u>	<u>\$ 23,702,718</u>	<u>\$ 10,331,191</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$85,467 and \$413,084 as of June 30, 2014 and 2013, respectively.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

Changes in endowment net assets for the years ended June 30, 2014 and 2013, were as follows:

	2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ (319,687)	\$ 23,702,718	\$ 10,331,191
Contributions and grants	2,716	1,356,538	812,627
Investment return, net	331,692	4,682,923	-0-
Other	-0-	(34,383)	-0-
Appropriation of endowment assets for expenditure	(2,225)	(2,306,763)	-0-
Endowment net assets, end of year	\$ 12,496	\$ 27,401,033	\$ 11,143,818
	2013 (As Restated)		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ (287,211)	\$ 20,338,689	\$ 9,629,738
Contributions and grants	-0-	939,085	701,453
Investment return, net	392,920	3,765,662	-0-
Other	-0-	(54,178)	-0-
Appropriation of endowment assets for expenditure	(425,396)	(1,286,540)	-0-
Endowment net assets, end of year	\$ (319,687)	\$ 23,702,718	\$ 10,331,191

13. FUNCTIONAL EXPENSES

The Foundation serves as a vehicle for residents of Lake County to donate to various organizations and projects in the county. Expenses related to providing this service for the years ended June 30, 2014 and 2013, are classified as follows:

	2014	2013
Development of Lake County	\$ 2,275,634	\$ 1,716,277
Fundraising	355,690	310,991
General and administrative expenses	370,940	316,639
	\$ 3,002,264	\$ 2,343,907

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

14. OPERATING LEASES

The Foundation leases its office space under a ten year commitment which expires in February 2020 with monthly payments adjusted annually. Rent expense was \$63,694 and \$62,440 for the years ended June 30, 2014 and 2013, respectively. Future minimum lease payments subsequent to June 30, 2014 under this lease are as follows:

	<u>Amount</u>
2015	\$ 64,120
2016	64,120
2017	64,120
2018	64,120
2019	64,120
Thereafter	<u>42,747</u>
	<u>\$ 363,347</u>

15. SIMPLE IRA PLAN

The Foundation has a Simple IRA pension plan, covering all employees who earned \$5,000 or more, per year, during any prior year of employment. The Foundation will make a matching contribution to each eligible employee's Simple IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the year. The employer contribution for the years ended June 30, 2014 and 2013 was \$2,624 and \$9,021, respectively.

16. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Marketable securities and money market funds are maintained with multiple investment firms. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.