

LEGACY FOUNDATION, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2019 and 2018

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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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legacy Foundation, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Estep Burkey Simmons, LLC

Muncie, Indiana
March 23, 2020

Legacy Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,337,425	\$ 7,526,045
Other assets	139,581	115,552
Investments	65,048,702	50,772,212
Property and equipment, net	<u>72,649</u>	<u>35,139</u>
	<u>\$ 67,598,357</u>	<u>\$ 58,448,948</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 22,869	\$ 37,962
Accrued expenses	7,212	4,604
Grants payable	204,339	275,036
Deferred revenue	-	1,281,912
Annuities payable	477,622	450,064
Custodial funds	<u>9,622,115</u>	<u>8,510,168</u>
Total liabilities	10,334,157	10,559,746
NET ASSETS		
Without donor restrictions	1,284,385	1,159,406
With donor restrictions	<u>55,979,815</u>	<u>46,729,796</u>
Total net assets	<u>57,264,200</u>	<u>47,889,202</u>
	<u>\$ 67,598,357</u>	<u>\$ 58,448,948</u>

The accompanying notes are an integral part of these statements.

Legacy Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31,

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support			
Contributions	\$ 73,568	\$ 4,005,808	\$ 4,079,376
Investment return (loss), net		8,081,099	8,081,099
Administrative fees	689,197		689,197
Special events and other income	15,830		15,830
Change in value of split-interest agreements		(83,034)	(83,034)
Total operating revenue and support	778,595	12,003,873	12,782,468
Net assets released from restrictions:			
Satisfaction of purpose restrictions	964,877	(964,877)	
Pursuant to spending spolicy	1,788,977	(1,788,977)	
Operating expenses			
Program services	2,151,236		2,151,236
Supporting services:			
Management and general expenses	1,087,945		1,087,945
Fundraising expenses	168,289		168,289
Total operating expenses	3,407,470		3,407,470
CHANGE IN NET ASSETS	124,979	9,250,019	9,374,998
Net assets at beginning of year	1,159,406	46,729,796	47,889,202
Net assets at end of year	\$ 1,284,385	\$ 55,979,815	\$ 57,264,200

The accompanying notes are an integral part of these statements.

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 73,622	\$ 6,367,965	\$ 6,441,587
(700)	(3,021,507)	(3,022,207)
612,831		612,831
68,017		68,017
	(1,811)	(1,811)
<u>753,770</u>	<u>3,344,647</u>	<u>4,098,417</u>
1,094,227	(1,094,227)	
1,636,326	(1,636,326)	
2,359,586		2,359,586
943,025		943,025
140,962		140,962
<u>3,443,573</u>		<u>3,443,573</u>
40,750	614,094	654,844
<u>1,118,656</u>	<u>46,115,702</u>	<u>47,234,358</u>
<u>\$ 1,159,406</u>	<u>\$ 46,729,796</u>	<u>\$ 47,889,202</u>

Legacy Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

2019

	Program Services					
	Grant-making	Community Economic Development	Total	Management & General	Fundraising	Total
Salaries and wages	\$ 146,748	\$ 43,747	\$ 190,495	\$ 250,892	\$ 75,741	\$ 517,128
Payroll taxes	10,980	3,497	14,477	18,771	5,667	38,915
Employee benefits	16,639	5,828	22,467	28,447	8,588	59,502
Conferences and meetings	11,625	1,329	12,954	19,874	6,000	38,828
Grants	1,522,282		1,522,282			1,522,282
Program expenses	280,995		280,995			280,995
Printing and publications						
Postage	1,201		1,201	2,054	620	3,875
Administrative fees				607,302		607,302
Advertising					25,608	25,608
Insurance	1,167		1,167	1,994	602	3,763
Office supplies	1,221	410	1,631	2,087	630	4,348
Professional fees	31,550		31,550	33,890		65,440
Occupancy	24,651		24,651	42,145	12,723	79,519
Telephone	1,700		1,700	2,907	877	5,484
Development					8,094	8,094
Janitorial	994		994	1,699	513	3,206
Technology	23,443	285	23,728	40,079	12,099	75,906
Equip. rent & maintenance	6,412		6,412	10,963	3,309	20,684
Special events	7,128		7,128	12,186	3,679	22,993
Miscellaneous	3,291	545	3,836	6,555	1,698	12,089
Depreciation	3,568		3,568	6,100	1,841	11,509
	<u>\$ 2,095,595</u>	<u>\$ 55,641</u>	<u>\$ 2,151,236</u>	<u>\$ 1,087,945</u>	<u>\$ 168,289</u>	<u>\$ 3,407,470</u>

The accompanying notes are an integral part of these statements.

2018

Program Services						
Grant-making	Community Economic Development		Total	Management & General	Fundraising	Total
	\$ 165,290	\$68,250				
12,441	4,960	17,401	16,476	4,708	38,585	
18,095	10,394	28,489	23,964	6,846	59,299	
10,936	3,107	14,043	14,483	4,138	32,664	
1,672,440	674	1,673,114			1,673,114	
289,217		289,217			289,217	
583	48	631	772	221	1,624	
1,758		1,758	2,328	665	4,751	
			525,336		525,336	
				20,933	20,933	
1,115		1,115	1,477	423	3,015	
2,145	635	2,780	2,840	811	6,431	
	19,500	19,500	34,864		54,364	
28,878		28,878	38,244	10,927	78,049	
2,382		2,382	3,155	901	6,438	
				11,000	11,000	
1,520		1,520	2,013	575	4,108	
13,930		13,930	18,448	5,271	37,649	
4,037	1,340	5,377	5,346	1,527	12,250	
17,857		17,857	23,648	6,757	48,262	
4,734	874	5,608	7,494	1,791	14,893	
2,446		2,446	3,240	926	6,612	
<u>\$ 2,249,804</u>	<u>\$ 109,782</u>	<u>\$ 2,359,586</u>	<u>\$ 943,025</u>	<u>\$ 140,962</u>	<u>\$ 3,443,573</u>	

Legacy Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase in net assets	\$ 9,374,998	\$ 654,844
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,509	6,612
Realized and unrealized (gains) losses on investments	(6,522,073)	4,638,861
Loss on disposal of equipment		468
Contributions to funds held in perpetuity	(1,163,742)	(922,060)
Non-cash stock contributions	(51,892)	(207,912)
(Increase) decrease in other assets	(24,029)	23,499
Increase (decrease) in liabilities:		
Accounts payable	(15,093)	18,219
Accrued expenses	2,608	1,699
Grants payable	(70,697)	94,538
Deferred revenue	(1,281,912)	1,281,912
Annuities payable	27,558	(53,665)
Custodial funds	1,111,947	(955,458)
Net cash provided by operating activities	1,399,182	4,581,557
Cash flows from investing activities:		
Purchase of property and equipment	(49,019)	(30,650)
Proceeds from the sales of investments	15,503,467	25,159,342
Purchase of investments	(23,205,992)	(24,891,645)
Net cash provided by (used in) investing activities	(7,751,544)	237,047
Cash flows from financing activities:		
Cash received for funds held in perpetuity	1,163,742	922,060
Net cash provided by financing activities	1,163,742	922,060
Net change in cash and cash equivalents	(5,188,620)	5,740,664
Cash and cash equivalents at beginning of year	7,526,045	1,785,381
Cash and cash equivalents at end of year	<u>\$ 2,337,425</u>	<u>\$ 7,526,045</u>
<u>Supplemental Disclosure</u>		
Non-cash contributions	\$ 51,892	\$ 207,912

The accompanying notes are an integral part of these statements.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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. The Community Economic Development program has a mission to collaboratively and innovatively build resilient, adaptive, and inclusive neighborhoods; bridge divides; and increase economic prosperity for all residents in all communities of Lake 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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and comprised of the Foundation's operating fund and unrestricted income from endowment funds.

Net assets with donor restrictions - 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, net assets are reclassified to net assets without donor restrictions and reported in the Statements 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 net assets without donor restrictions if the restrictions expire in the financial year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 Statements 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

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the Statements of Financial Position. Net investment return/(loss) is reported in the Statements of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 support without donor restrictions 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, 2019 and 2018, the Foundation exceeded the insured limit by \$1,819,542 and \$6,929,721, respectively.

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 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.

10. Deferred Revenue

During 2018, the Foundation received a \$1,875,000 gift from Lilly GIFT VII, which has a matching requirement. The Foundation raised \$911,268 and \$476,985 towards the matching requirement and recorded \$1,281,912 and \$593,088 as contribution revenue from the matching gift for the years ending December 31, 2019 and 2018, respectively. The unmatched portion of the Lilly GIFT VII is \$0- and \$1,281,912 as of December 31, 2019 and 2018, respectively, and is recorded as deferred revenue on the Statements of Financial Position.

11. 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 2016, 2017, and 2018 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.

12. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. Those expenses include depreciation, insurance, printing and publications, rent, telephone, repairs and maintenance, office supplies, postage, salaries and wages, payroll taxes, benefits, conferences and meetings, and miscellaneous expenses. These expenses are allocated on the basis of estimates of time and effort.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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

13. Compensated Absences

The employees of the Foundation earn vacation days based upon length of service. Vacation days must be used by the end of the calendar year, however, a two month extension can be requested. Any earned vacation days are paid to an employee upon termination based upon the employee's hourly rate. The Foundation's policy is to recognize the cost of compensated absences when actually paid to employees.

14. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - 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, 2019 and 2018

NOTE B - FAIR VALUE MEASUREMENTS - Continued

	2019			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Alternative investments*				\$ 9,256,424
Certificates of deposit	\$ 408,506			\$ 408,506
Mutual funds - equities	\$ 41,665,016			\$ 41,665,016
Mutual funds - fixed income	\$ 13,718,756			\$ 13,718,756
Total assets at fair value				\$ 65,048,702
Liabilities:				
Annuities payable		\$ 477,622		\$ 477,622
	2018			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
Alternative investments*				\$ 8,879,049
Certificates of deposit	\$ 504,018			\$ 504,018
Mutual funds - equities	\$ 30,833,490			\$ 30,833,490
Mutual funds - fixed income	\$ 10,555,655			\$ 10,555,655
Total assets at fair value				\$ 50,772,212
Liabilities:				
Annuities payable		\$ 450,064		\$ 450,064

* 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 Statements 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 for the years ended December 31, 2019 and 2018.

- 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 3.6 percent to 5.8 percent.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE B - FAIR VALUE MEASUREMENTS - Continued

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

	2019		
	Net Asset Value	Redemption Notice	Redemption Frequency
SEI Core Property Fund, LP	\$ 3,934,013	95 days notice	Quarterly
SEI Special Situations Fund LTD	\$ 2,187,240	95 days notice	Semi-annual
SEI Structured Credit Fund	\$ 3,135,171	65 days notice	Quarterly
	2018		
	Net Asset Value	Redemption Notice	Redemption Frequency
SEI Core Property Fund, LP	\$ 3,673,212	95 days notice	Quarterly
SEI Special Situations Fund LTD	\$ 2,100,000	95 days notice	Semi-annual
SEI Structured Credit Fund	\$ 3,105,837	65 days notice	Quarterly

NOTE C - LIQUIDITY

The Foundation has financial assets available within one year of the Statements of Financial Position date consisting the following:

	2019	2018
Cash and cash equivalents	\$ 860,661	\$ 774,017
Investments	355,212	341,602
	<u>\$ 1,215,873</u>	<u>\$ 1,115,619</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of Statements of Financial Position date. As part of its liquidity management, the Foundation invests cash in excess of daily requirements in various cash equivalents including money market funds and other interest earning opportunities.

NOTE D - RISKS AND UNCERTAINTIES

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

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE E - INVESTMENTS

The following is an analysis of the cost and fair value at December 31, 2019 and 2018 by type of investment.

	<u>2019</u>	<u>2018</u>
Alternative investments	\$ 9,256,424	\$ 8,879,049
Certificates of deposit	408,506	504,018
Mutual funds - equities:		
Diversified emerging markets	216,221	2,327,033
Small value	84,435	73,549
Large value	4,685,365	2,809,975
Real estate	128,844	102,987
Small growth	100,717	1,695,460
ETF	46,578	88,213
Large growth	275,774	221,409
Mid-cap growth	3,602,752	1,756,893
Foreign small/mid value	107,205	91,250
Convertibles	97,789	88,969
Mid-cap value	175,448	140,223
Small blend	11,320	14,557
Mid-cap blend	23,669	24,079
Large blend	26,926,562	11,518,571
Foreign large blend	1,137,639	9,823,977
Market neutral	8,048	7,916
Options-based	11,651	10,630
Conservative allocation		27,516
World large stock	4,024,999	10,283
Total mutual funds - equities	<u>41,665,016</u>	<u>30,833,490</u>
Mutual funds - fixed income:		
Intermediate-term bond	8,742,470	7,322,880
Corporate bonds	453,026	99,100
World bond	135,396	179,242
Short-term bond	58,718	44,123
High yield bond	1,824,489	1,411,540
Inflation-protected bond	264,660	5,032
Multisector bond	376,897	59,484
Emerging markets bond	1,825,228	1,408,906
Intermediate government	4,019	
Ultrashort bonds	33,853	25,348
Total mutual funds - fixed income	<u>13,718,756</u>	<u>10,555,655</u>
Total investments, at fair value	<u>\$ 65,048,702</u>	<u>\$ 50,772,212</u>
Total investments, at historical cost	<u>\$ 57,423,567</u>	<u>\$ 49,917,977</u>

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE F - ENDOWMENT FUNDS

At December 31, 2019 and 2018, 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 the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider 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).

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.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE F - ENDOWMENT FUNDS - Continued

Endowment net asset composition by type of fund as of December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
	<u>With Donor</u>	<u>With Donor</u>
	<u>Restrictions</u>	<u>Restrictions</u>
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 38,722,542	\$ 35,871,406
Accumulated investment gains	<u>7,756,159</u>	<u>2,945,798</u>
	<u>\$ 46,478,701</u>	<u>\$ 38,817,204</u>

Changes in endowment net assets for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
	<u>With Donor</u>	<u>With Donor</u>
	<u>Restrictions</u>	<u>Restrictions</u>
Revenue and support		
Contributions and grant income	\$ 2,470,879	\$ 986,428
Investment return (loss), net	<u>6,979,595</u>	<u>(2,381,510)</u>
Total revenue and support	9,450,474	(1,395,082)
Appropriation of endowment assets for expenditure	<u>1,788,977</u>	<u>1,636,326</u>
Change in endowment net assets	7,661,497	(3,031,408)
Endowment net assets, beginning of year	<u>38,817,204</u>	<u>41,848,612</u>
Endowment net assets, end of year	<u>\$ 46,478,701</u>	<u>\$ 38,817,204</u>

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, 2019, 4 of the 227 endowment funds had deficiencies totaling \$165,806. As of December 31, 2018, 41 of the 216 endowment funds had deficiencies totaling \$659,854. Deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the board of directors.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for a specific purpose:		
Donor advised	\$ 1,664,503	\$ 1,316,268
Scholarships	1,641,736	1,231,339
Designated	4,976,721	4,588,671
Fields of interest	529,348	459,329
Special projects	<u>641,098</u>	<u>272,365</u>
	9,453,406	7,867,972
 Proceeds from gift annuity upon death of the annuitant	 47,708	 44,619
 Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Restricted by donors for:		
Donor advised	171,627	59,921
Scholarships	669,319	561,630
Designated	3,269	35,302
Fields of interest	50,188	33,559
Community grants	<u>13,217</u>	<u>220,924</u>
	907,620	911,336
 Subject to Foundation spending and appropriation:		
Donor advised	8,344,864	7,425,642
Scholarships	5,907,281	5,056,638
Designated	13,893,261	12,090,363
Fields of interest	2,849,336	2,555,838
Community grants	14,742,145	11,437,242
Underwater endowments	<u>(165,806)</u>	<u>(659,854)</u>
	<u>45,571,081</u>	<u>37,905,869</u>
	<u>\$ 55,979,815</u>	<u>\$ 46,729,796</u>

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE H - NET ASSETS WITHOUT DONOR RESTRICTIONS

The Foundation's governing board has designated net assets without donor restrictions for the following purposes as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Board designated capital reserve	\$ 220,287	\$ 247,926
Board designated operating reserve	489,925	451,019
Operating funds without donor restrictions	<u>574,173</u>	<u>460,461</u>
	<u>\$ 1,284,385</u>	<u>\$ 1,159,406</u>

NOTE I - NET ASSETS RELEASED FROM DONOR RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Donor advised	\$ 225,284	\$ 282,373
Scholarships	132,411	152,092
Designated	144,524	224,227
Fields of interest	71,801	86,693
Special projects	<u>390,857</u>	<u>348,842</u>
	964,877	1,094,227
Restricted-purpose spending-rate distributions and appropriations:		
Donor advised	339,808	442,524
Scholarships	196,470	162,088
Designated	700,913	455,952
Fields of interest	116,226	116,259
Community grants	<u>435,560</u>	<u>459,503</u>
	<u>1,788,977</u>	<u>1,636,326</u>
	<u>\$ 2,753,854</u>	<u>\$ 2,730,553</u>

NOTE J - 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 \$585,968 and \$494,684 at December 31, 2019 and 2018, respectively. These assets are included in the level 1 inputs in Note B. 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, 2019 and 2018 were \$477,622 and \$450,064, respectively. The liabilities were determined using a discount rate of 2.0% and 3.2% as of December 31, 2019 and 2018, respectively. Changes in fair value of the charitable gift annuities are reflected as changes in net assets with donor restrictions in the Statements of Activities. During the years ending December 31, 2019 and 2018 there were no contributions to charitable gift annuities.

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE J - SPLIT-INTEREST AGREEMENTS - Continued

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 Statements of Activities in their respective net asset classification.

NOTE K - OPERATING LEASE

The Foundation entered into a lease for office space which expires in November 2024 with monthly payments of \$6,254. Rent expense was \$75,045 and \$72,602 for the years ended December 31, 2019 and 2018, respectively.

The Foundation leases office equipment under an operating lease expiring in August 2020 with monthly payments of \$443. Lease expense was \$6,004 and \$7,544 for the years ended December 31, 2019 and 2018, respectively.

The Foundation leases a vehicle under an operating lease expiring in September 2021 with monthly payments of \$1,031. Lease expense was \$9,278 and \$-0- for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments subsequent to December 31, 2019 are as follows:

2020	\$	90,960
2021		84,324
2022		75,045
2023		75,045
2024		68,791
		<u>68,791</u>
	\$	<u>394,165</u>

NOTE L - 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 years ended December 31, 2019 and 2018, the following activity occurred in the custodial funds held by the Foundation. These amounts are not reflected on the Statements of Activities.

	<u>2019</u>	<u>2018</u>
Support and revenue		
Contributions	\$ 64,718	\$ 59,721
Investment return (loss), net	<u>1,593,776</u>	<u>(543,529)</u>
	\$ 1,658,494	\$ (483,808)
Expenses		
Grants expense	464,663	384,155
Administrative fees	<u>81,884</u>	<u>87,495</u>
	<u>546,547</u>	<u>471,650</u>
Change in custodial funds	1,111,947	(955,458)
Balance at beginning of year	<u>8,510,168</u>	<u>9,465,626</u>
Balance at end of year	<u>\$ 9,622,115</u>	<u>\$ 8,510,168</u>

Legacy Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE M - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through March 23, 2020, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2019 have been incorporated into these financial statements herein.

NOTE N - ADOPTION OF NEW ACCOUNTING STANDARD

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation adopted the new standard effective January 1, 2019, the first day of the Foundation’s fiscal year, using the full retrospective method.

As part of the adoption of the ASU, the Foundation elected to use the following transition practical expedients: (i) completed contracts that begin and end in the same annual reporting period have not been restated; (ii) the Foundation used the known transaction price for completed contracts; (iii) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Foundation expects to recognize such revenue for all periods prior to the date of initial application of the ASU; and (iv) the Foundation has reflected the aggregate of all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price.

The adoption of this ASU did not have an impact on the Foundation’s financial statements. All of the Foundation’s revenue is exempt from the standard. Therefore, no changes were required to previously reported revenues as a result of the adoption.