

The Muskingum County Community  
Foundation and Affiliates  
*Audited Consolidated Financial Statements*

As of and for the Years Ended  
December 31, 2016 and 2015



Rea & associates

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August 9, 2017

To the Board of Trustees  
The Muskingum County Community Foundation and Affiliates  
Zanesville, Ohio

### INDEPENDENT AUDITOR'S REPORT

#### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Muskingum County Community Foundation and Affiliates (collectively, the "Foundation") which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, change in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements (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 The Muskingum County Community Foundation and Affiliates as of December 31, 2016 and 2015, and the change 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidated schedules of operating expenses on page 20 and graphs representing: grants awarded, gifts, bequests, in-kind donations, and grants received, investment income, and investment composition on pages 21 through 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Rea & Associates, Inc.*

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2016 AND 2015

ASSETS

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| <b>CURRENT ASSETS:</b>  |                      |                      |
| Cash and cash equivalents   | \$ 1,648,899         | \$ 1,439,374         |
| Certificates of deposit   | 144,651              | 114,616              |
| Pledges receivable, net of allowance for uncollectible<br>accounts of \$22,000 in 2016 and 2015 | 180,631              | 212,068              |
| Contributions receivable  | 25,000               | 470,030              |
| Accounts receivable   | 124,081              | 76,225               |
| Other receivables   | 14,657               | 14,658               |
| Other current assets  | 9,673                | 5,810                |
| Prepaid expenses  | 1,676                | 1,695                |
| Total current assets  | <u>2,149,268</u>     | <u>2,334,476</u>     |
| <br>  |                      |                      |
| PROPERTY AND EQUIPMENT, NET   | 1,459,511            | 1,473,460            |
| <br>  |                      |                      |
| <b>OTHER ASSETS:</b>  |                      |                      |
| Investments   | 17,637,938           | 16,053,954           |
| Collectibles & artwork  | 24,590               | 24,140               |
| Cash surrender value - life insurance policies  | 393,096              | 371,770              |
| Contributions receivable - charitable remainder trusts  | 77,158               | 74,220               |
| Long-term note receivable   | 7,182,500            | 7,460,498            |
| Long-term pledges receivable  | 57,800               | 80,818               |
| Debt issuance costs   | 20,944               | 30,951               |
| Total other assets  | <u>25,394,026</u>    | <u>24,096,351</u>    |
| <br>  |                      |                      |
| Total assets  | <u>\$ 29,002,805</u> | <u>\$ 27,904,287</u> |

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| <b>LIABILITIES:</b>                             |                      |                      |
| <b>Current liabilities:</b>                     |                      |                      |
| Accounts payable                                | \$ 4,654             | \$ 21,333            |
| Grants payable                                  | 29,717               | 34,061               |
| Accrued expenses                                | 7,400                | 6,372                |
| Current portion of annuity liability            | 14,100               | 14,100               |
| Current portion of capital lease                | 2,180                | 2,180                |
| Refundable advance                              | 84,775               | 135,125              |
| Current portion of long-term debt               | 150,000              | 250,000              |
| Funds held as agency endowments                 | 952,065              | 963,294              |
| <b>Total current liabilities</b>                | <u>1,244,891</u>     | <u>1,426,465</u>     |
| <b>Long-term liabilities:</b>                   |                      |                      |
| Capital lease liability, net of current portion | 4,722                | 6,902                |
| Annuity liability, net of current portion       | 48,086               | 51,377               |
| Long-term debt, net of current portion          | 2,542,550            | 2,692,550            |
| <b>Total long-term liabilities</b>              | <u>2,595,358</u>     | <u>2,750,829</u>     |
| <b>Total liabilities</b>                        | <u>3,840,249</u>     | <u>4,177,294</u>     |
| <b>NET ASSETS:</b>                              |                      |                      |
| Unrestricted                                    | 24,924,125           | 23,434,107           |
| Temporarily restricted                          | 238,431              | 292,886              |
| <b>Total net assets</b>                         | <u>25,162,556</u>    | <u>23,726,993</u>    |
| <br>  |                      |                      |
| <b>Total liabilities and net assets</b>         | <u>\$ 29,002,805</u> | <u>\$ 27,904,287</u> |

The accompanying notes are an integral part of these financial statements.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2016

|   | UNRESTRICTED  | TEMPORARILY<br>RESTRICTED | TOTAL         |
|---|---------------|---------------------------|---------------|
| <b>SUPPORT AND REVENUE:</b>                       |               |                           |               |
| Support:  |               |                           |               |
| Gifts and bequests                                | \$ 1,357,451  | \$ 58,660                 | \$ 1,416,111  |
| Grants received                                   | 219,736       | -                         | 219,736       |
| In-kind donations                                 | 65,528        | -                         | 65,528        |
| Total support                                     | 1,642,715     | 58,660                    | 1,701,375     |
| Revenue:  |               |                           |               |
| Interest and dividends                            | 595,315       | -                         | 595,315       |
| Net realized and unrealized gains on investments  | 851,552       | -                         | 851,552       |
| Administrative fees                               | 210,090       | -                         | 210,090       |
| Event revenue                                     | 63,553        | -                         | 63,553        |
| Miscellaneous income                              | 29,134        | -                         | 29,134        |
| Increase in cash surrender value - life insurance | 21,326        | -                         | 21,326        |
| Change in value of trust agreements               | 6,228         | -                         | 6,228         |
| Total revenue                                     | 1,777,198     | -                         | 1,777,198     |
| Net assets released from restrictions             | 113,115       | (113,115)                 | -             |
| Total support and revenue                         | 3,533,028     | (54,455)                  | 3,478,573     |
| <b>EXPENSES:</b>                                  |               |                           |               |
| Grants awarded                                    | 944,539       | -                         | 944,539       |
| Investment and trust expense                      | 355,126       | -                         | 355,126       |
| Operating expense                                 | 698,684       | -                         | 698,684       |
| Fundraising expense                               | 44,661        | -                         | 44,661        |
| Total expenses                                    | 2,043,010     | -                         | 2,043,010     |
| Change in net assets                              | 1,490,018     | (54,455)                  | 1,435,563     |
| NET ASSETS, beginning of year                     | 23,434,107    | 292,886                   | 23,726,993    |
| NET ASSETS, end of year                           | \$ 24,924,125 | \$ 238,431                | \$ 25,162,556 |

The accompanying notes are an integral part of these financial statements.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2015

|   | UNRESTRICTED  | TEMPORARILY<br>RESTRICTED | TOTAL         |
|---|---------------|---------------------------|---------------|
| <b>SUPPORT AND REVENUE:</b>                       |               |                           |               |
| Support:  |               |                           |               |
| Gifts and bequests                                | \$ 1,289,298  | \$ 5,000                  | \$ 1,294,298  |
| Grants received                                   | 178,671       | -                         | 178,671       |
| In-kind donations                                 | 65,866        | -                         | 65,866        |
| Total support                                     | 1,533,835     | 5,000                     | 1,538,835     |
| Revenue:  |               |                           |               |
| Interest and dividends                            | 585,975       | -                         | 585,975       |
| Net realized and unrealized losses on investments | (626,288)     | -                         | (626,288)     |
| Administrative fees                               | 210,808       | -                         | 210,808       |
| Event revenue                                     | 93,425        | -                         | 93,425        |
| Miscellaneous income                              | 34,787        | -                         | 34,787        |
| Increase in cash surrender value - life insurance | 19,228        | -                         | 19,228        |
| Change in value of trust agreements               | 8,743         | -                         | 8,743         |
| Total revenue                                     | 326,678       | -                         | 326,678       |
| Net assets released from restrictions             | 309,141       | (309,141)                 | -             |
| Total support and revenue                         | 2,169,654     | (304,141)                 | 1,865,513     |
| <b>EXPENSES:</b>                                  |               |                           |               |
| Grants awarded                                    | 1,234,795     | -                         | 1,234,795     |
| Investment and trust expense                      | 304,177       | -                         | 304,177       |
| Operating expense                                 | 738,386       | -                         | 738,386       |
| Fundraising expense                               | 43,643        | -                         | 43,643        |
| Total expenses                                    | 2,321,001     | -                         | 2,321,001     |
| Change in net assets                              | (151,347)     | (304,141)                 | (455,488)     |
| NET ASSETS, beginning of year                     | 23,585,454    | 597,027                   | 24,182,481    |
| NET ASSETS, end of year                           | \$ 23,434,107 | \$ 292,886                | \$ 23,726,993 |

The accompanying notes are an integral part of these financial statements.



THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

|   | 2016         | 2015         |
|---|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |              |              |
| Change in net assets  | \$ 1,435,563 | \$ (455,488) |
| Adjustments to reconcile change in net assets<br>to net cash provided by (used) operating activities: |              |              |
| Depreciation and amortization   | 30,626       | 31,403       |
| Increase in cash surrender value of life insurance  | (21,326)     | (19,229)     |
| Provision for loss on unconditional promises to give  | -            | 27,714       |
| Reinvested interest on certificates of deposit  | (1,254)      | (1,401)      |
| Net realized and unrealized (gain) loss on investments  | (851,552)    | 626,288      |
| (Increase) decrease in operating assets:  |              |              |
| Pledges receivable  | 54,455       | 276,427      |
| Contributions receivable  | 445,030      | (470,030)    |
| Accounts receivable   | (47,856)     | (16,892)     |
| Other current assets  | (3,862)      | 80           |
| Prepaid expenses  | 19           | (288)        |
| Contributions receivable - charitable remainder trust   | (2,938)      | 819          |
| Increase (decrease) in operating liabilities:   |              |              |
| Accounts payable  | (16,679)     | 2,370        |
| Grants payable  | (4,344)      | 34,061       |
| Accrued expenses  | 1,028        | 982          |
| Annuity liability   | (3,291)      | (9,562)      |
| Funds held as agency endowments   | (11,229)     | (118,757)    |
| Total adjustments   | (433,173)    | 363,985      |
| Net cash (used) provided by operating activities  | 1,002,390    | (91,503)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |              |              |
| Principal payments received on notes receivable   | 277,998      | 353,224      |
| Proceeds from the redemption of certificates of deposit   | 12,532       | 159,446      |
| Purchases of certificates of deposit  | (41,313)     | -            |
| Payments for the purchase of property and equipment   | (6,670)      | (9,617)      |
| Payments for the purchase of collectibles   | (450)        | -            |
| Payments for the purchase of investments  | (4,859,424)  | (8,570,112)  |
| Proceeds from redemption of investments   | 4,126,992    | 8,627,021    |
| Net cash (used) provided by investing activities  | (490,335)    | 559,962      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |              |              |
| Principal payments on notes payable   | (250,000)    | (350,000)    |
| Net proceeds (payments) on refundable advance   | (50,350)     | 135,125      |
| Principal payments on capital lease liability   | (2,180)      | (1,911)      |
| Net cash used in financing activities   | (302,530)    | (216,786)    |
| Net increase in cash and cash equivalents   | 209,525      | 251,673      |
| CASH AND CASH EQUIVALENTS, beginning of year  | 1,439,374    | 1,187,701    |
| CASH AND CASH EQUIVALENTS, end of year  | \$ 1,648,899 | \$ 1,439,374 |
| <b>SUPPLEMENTAL DISCLOSURES:</b>  |              |              |
| Cash paid for interest  | \$ 131,971   | \$ 142,666   |

The accompanying notes are an integral part of these financial statements.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Program and Supporting Services

The Muskingum County Community Foundation, formerly The Zanesville Foundation, was formed in August 1985 for the purpose of encouraging gifts from individuals, estates, corporations and other entities and to provide the means for those gifts to be accumulated and distributed for the benefit of the community of Muskingum County. The Muskingum County Community Foundation administers the funds of MCCF, Limited (a limited liability company), MCCF II, LLC (a limited liability company), MCCF III, LLC (a limited liability company) and Wooden Building, LTD (a limited liability company). The Muskingum County Community Foundation is the sole member of these four entities. MCCF Limited was formed in April 2002. MCCF II LLC and MCCF III LLC were formed in November 2004 and January 2010, respectively, and Wooden Building LTD was formed in July 2013, to support The Muskingum County Community Foundation and its charitable purposes.

Principles of Consolidation and Method of Accounting

The consolidated financial statements are prepared on the accrual basis to include The Muskingum County Community Foundation, MCCF Limited, MCCF II LLC, MCCF III LLC and Wooden Building LTD (collectively, the "Foundation"). All intercompany accounts and transactions have been eliminated.

Net assets, revenues, expenses, gains, and losses are classified based on the existence of Board designated or donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted

Those resources that may be used by the Foundation for any purpose consistent with the mission and objectives of the Foundation. Donor restricted contributions whose restrictions are met in the same year as the contributions are recorded as unrestricted net assets.

Temporarily Restricted

Those resources subject to donor imposed restrictions which will be satisfied either by action of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporary restricted net assets related to time restrictions at year end were \$238,431 and \$292,886 as of December 31, 2016 and 2015, respectively.

Permanently Restricted

Those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. The donors of these resources permitted the Foundation to use all or part of the income earned, including capital appreciation, on related investments for unrestricted or temporarily restricted purposes. The Foundation did not have any permanently restricted net assets as of December 31, 2016 and 2015.

Contributions

Contributions, gifts and bequests received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional promises to give (pledges) are recorded as received and are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded as their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk free interest rates applicable to the years in which the promises are received to discount the amounts. Amortization of the discount is included in the related contribution revenue.

Donated Materials

Donated property, marketable securities, and other non-cash donations are recorded as contributions at their fair market value at the date of transfer.

In-Kind Services

Office space, some architectural media, and legal services are furnished without charge and are accounted for as revenue and expense at fair market values as determined by comparable properties and services.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Certificates of Deposit

Certificates of deposit with original maturities of 90 days or less are considered "cash and cash equivalents." Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "current." Certificates of deposit with remaining maturities greater than one year are classified as "long-term."

Investments

Marketable debt and equity securities are stated at fair market values as determined at year-end.

Inventory

Inventory, included in "Other current assets" on the Consolidated Statements of Financial Position, consists of certain donated works of art or other assets, which are displayed for auction to the public. The Foundation auctions these items to interested parties for a specified minimum contribution or during an annual fundraising event. Gift income is recognized at the time of donation in the amount of the fair market value of the donated asset. Additional gift income is recognized for amounts contributed in excess of the fair market value at the time of the auction.

Collectibles & Artwork

The Foundation capitalizes its collectibles and artwork, which include a stained glass work of art, various framed paintings by local artists, various pottery artifacts and various other items. These pieces are held for exhibition to the public and are protected and preserved by the Foundation. It is the intent of the Foundation to hold these items indefinitely.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Accounting standards provide that if the governing body of an organization has the ability to remove a donor restriction, the contributions should be classified as unrestricted net assets. Accordingly, the financial statements classify all net assets that the Foundation has obtained variance power from the donor as unrestricted.

Property and Equipment

Purchased equipment is recorded at cost. Assets acquired through capitalized leasing arrangements are recorded at the lower of fair market value or present value of minimum required lease payments. Donated equipment is recorded as support at its estimated fair value at the time of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. As of December 31, 2016 and 2015, the Foundation did not have donated property restricted for a specific purpose. It is the Foundation's policy to capitalize expenditures for items in excess of \$400. Expenditures for replacements are capitalized and the replaced items are retired. Maintenance and repairs are charged to operations. Gains and losses from the sale of property and equipment are included in income. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

|                          |          |
|--------------------------|----------|
| Building and renovations | 39 years |
| Leasehold improvements   | 15 years |
| Equipment                | 7 years  |
| Furniture and fixtures   | 5 years  |
| Computer software        | 5 years  |

Depreciation expense for the years ended December 31, 2016 and 2015 was \$20,619 and \$21,396 respectively.

Property and equipment includes a house donated to the Foundation in 1998. Subsequent renovations have been made to the house by the Foundation, as it is intended to serve local charitable needs.

Provision for Federal Income Tax

The Muskingum County Community Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and had no unrelated business income subject to income tax for the years ended December 31, 2016 and 2015.

Generally accepted accounting principles require management to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely-than-not threshold must be quantified and recorded as a liability for unrecognized tax benefits in the accompanying consolidated statement of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management believes that none of the tax positions taken would materially impact the financial statements and no such liabilities have been recorded.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Spending Policy

Subject to giving instruments and statutory requirements, the spending policy is determined by total return. The amount to be spent in the coming year is calculated in October, using September 30<sup>th</sup> figures, and is reviewed and approved by the Board of Trustees annually. The calculation is based on a 12-quarter moving average of the market value of the total fund multiplied by an amount not to exceed 5%. Half of all fees (administration, investment management and custodianship) will be included in the multiplier. The other half of all fees will come from the principal balance. The spending policy applies to all endowment funds held by the Foundation.

Investment Policy

The Foundation's investment policy was established to give general guidance to investment managers with a goal of earning a reasonable rate of return based on market conditions while minimizing risk. Target allocations are as follows. Acceptable ranges are also given for each category.

|   |     |
|---|-----|
| US equities                             | 24% |
| International equities – developed      | 15% |
| International equities – emerging       | 15% |
| Commodities                             | 5%  |
| Real Estate                             | 5%  |
| High Yield                              | 6%  |
| Investment Grade Fixed Income           | 25% |
| Treasury Inflation Protected Securities | 5%  |

This policy applies to all of the Foundation's investments as a whole, with the exception of those assets in the Donor Advised/Pass Thru pool, which has a benchmark of 30% equity and 70% fixed income.

Subsequent Events

Subsequent events have been evaluated through August 9, 2017, which is the date the financial statements were available to be issued. Management has determined that there were no transactions or events that required disclosure through the evaluation date.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 entitled "Revenue from Contracts with Customers (Topic 606)," which may change the Foundation's method of revenue recognition. This new standard is effective for the Foundation's annual reporting periods beginning after December 15, 2018. Early implementation is permitted. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (continued)

In February 2016, FASB issued ASU No. 2016-02 entitled "Leases (Topic 842)," which may change the Foundation's statement of financial position by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants. This new standard is effective for the Foundation's annual reporting periods beginning after December 15, 2019. Early implementation is permitted. Management has not yet determined whether this new standard will have a material effect on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14 entitled "Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)" which will, among other changes, change the presentation of the Foundation's classifications of net assets from three classes to two (with donor restrictions and without donor restrictions) and require a schedule of expenses by both natural and functional classification. This new standard is effective for The Foundation's annual reporting periods beginning after December 15, 2017. Early implementation is permitted. Management has not yet determined whether this new standard will have a material effect on its financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of December 31:

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| Cash on hand, checking and savings accounts | \$ 423,639          | \$ 470,321          |
| Cash management funds                       | 1,225,260           | 969,053             |
| Total cash and cash equivalents             | <u>\$ 1,648,899</u> | <u>\$ 1,439,374</u> |

NOTE 3: PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of December 31:

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| Receivable in less than one year                      | \$ 202,631        | \$ 234,068        |
| Receivable in one to five years at face value         | 57,800            | 80,818            |
| Pledges receivable, at face value                     | 260,431           | 314,886           |
| Less: allowances for uncollectible pledges receivable | (22,000)          | (22,000)          |
| Pledges receivable, net                               | <u>\$ 238,431</u> | <u>\$ 292,886</u> |
|   | 2016              | 2015              |
| Pledges receivable, current portion, net              | \$ 180,631        | \$ 212,068        |
| Pledges receivable, long-term portion, net            | 57,800            | 80,818            |
| Pledges receivable, net                               | <u>\$ 238,431</u> | <u>\$ 292,886</u> |

NOTE 4: INVESTMENTS

Investments are recorded at fair value. The value assigned to investments received by the gift is the market value at the date of the donation. Marketable equity securities are valued at fair value determined by quoted prices as of December 31, 2016 and 2015.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: INVESTMENTS (Continued)

Investments consisted of the following as of December 31:

|                                     | <u>2016</u>          | <u>2015</u>          |
|-------------------------------------|----------------------|----------------------|
| Equity funds                        | \$ 6,550,567         | \$ 5,799,622         |
| Common stock domestic               | 5,856,652            | 5,375,385            |
| Common stock international          | 231,518              | 327,377              |
| Commodity funds                     | 236,755              | 232,319              |
| Bond funds                          | 3,548,460            | 3,308,500            |
| Corporate obligations domestic      | 922,626              | 694,191              |
| Corporate obligations international | -                    | 30,024               |
| Governmental obligations            | 164,248              | 164,723              |
| Interest in limited partnership     | 127,112              | 121,813              |
| Investments, at fair value          | <u>17,637,938</u>    | <u>16,053,954</u>    |
| Excess fair value over cost         | <u>(2,465,304)</u>   | <u>(1,756,579)</u>   |
| Investments, at cost                | <u>\$ 15,172,634</u> | <u>\$ 14,297,375</u> |

NOTE 5: CONTRIBUTIONS RECEIVABLE – CHARITABLE REMAINDER TRUSTS

For the years ended December 31, 2016 and 2015, the Foundation had contributions receivable from a unitrust of \$296,327 and \$298,347 respectively. These contributions receivable were discounted to \$77,158 for 2016 and \$74,220 for 2015 using fair market value of assets donated and a market discount rate. The unitrust is irrevocable and transfers assets upon the death of the life beneficiary. The agreement specified that a certain percentage of the net fair market value of the trust assets be paid in quarterly installments to the donor(s) from income and, to the extent income is insufficient, from principal. Any income in excess of the unitrust amount shall be added to the principal.

NOTE 6: ANNUITY LIABILITY

The Foundation is the beneficiary of a charitable remainder trust, which specified that an annual annuity payment of \$14,100 is to be made to the donors during their lifetime. Upon the death of the donors, the balance remaining in the trust will pass to the Foundation. The liability for this charitable remainder trust has been recorded at the present value of the expected future payments to be made to the donors. The present value as of December 31, 2016 and 2015, is as follows:

|                         | <u>2016</u>      | <u>2015</u>      |
|-------------------------|------------------|------------------|
| Total net present value | \$ 62,186        | \$ 65,477        |
| Less: current portion   | <u>(14,100)</u>  | <u>(14,100)</u>  |
| Long-term portion       | <u>\$ 48,086</u> | <u>\$ 51,377</u> |

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

|                                 | 2016                | 2015                |
|---------------------------------|---------------------|---------------------|
| Buildings and renovations       | \$ 494,259          | \$ 494,259          |
| Land                            | 1,061,394           | 1,061,394           |
| Leasehold improvements          | 113,875             | 118,247             |
| Office equipment                | 70,439              | 118,914             |
| Furniture and fixtures          | 49,268              | 49,268              |
| Property and equipment, at cost | 1,789,235           | 1,842,082           |
| Less: accumulated depreciation  | (329,724)           | (368,622)           |
| Property and equipment, net     | <u>\$ 1,459,511</u> | <u>\$ 1,473,460</u> |

NOTE 8: ADMINISTRATION FEES

The Foundation assesses administration fees to the various funds at a rate of 0.25% of the market value of invested assets at each quarter end. Scholarship funds were assessed fees at a rate of 0.50% per quarter. Project type funds were assessed fees at a rate of 2% of income coming into the fund.

NOTE 9: CASH SURRENDER VALUE – LIFE INSURANCE

The Foundation is the owner and beneficiary of various insurance policies given as contributions. The Foundation, in most cases, pays the premium and the donor reimburses the Foundation. Cash surrender values are determined at the end of the statement year and revenue is adjusted accordingly. For the years ended December 2016 and 2015, cash surrender values increased by \$21,326 and increased by \$19,229, respectively. The aggregate face values of the policies assigned to the Foundation are \$2,098,929 as of December 31, 2016 and 2015.

NOTE 10: CONCENTRATION OF ECONOMIC RISK

The Foundation invests its funds with local financial institutions or investment advisors. Other than funds needed for current operations, all funds are deposited with financial institution trust departments under various trust agreements and cash management arrangements. Monies are invested by the trust departments, subject to agreements and general guidelines, in cash management accounts, mutual funds, U.S. Treasury securities, agency issues of the United States government, corporate bonds, and corporate capital stock (foreign and domestic). Depository accounts are insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000 in aggregate.



THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: SEGREGATED INVESTMENTS

Certain funds are required by donor and trust agreements to be invested and maintained separately in specific financial instruments or bank trust accounts. As of December 31, 2016 and 2015, segregated funds include the Josephine Sebach Educational Fund assets with market values of \$1,798,798 and \$1,738,682, respectively, the Longaberger Quality of Life Endowment Fund assets with market values of \$1,175,514 and \$1,069,462, respectively, funds established from the estate assets of Mary Vashti Funk with market values of \$1,919,162 and \$1,886,376, respectively, funds established from the estate assets of Emmett J. France with market values of \$980,919 and \$955,514, respectively, the Sarah E. Slack Prevention of Blindness Fund with market values of \$1,241,638 and \$1,223,469, respectively, and the Cerney Charitable Remainder Trust Annuity with market values of \$146,362 and \$149,891, respectively. These funds included cash and cash equivalents of \$427,256 and \$513,783 as of December 31, 2016 and 2015, respectively.

NOTE 12: RETIREMENT PLAN

The Foundation has a Simple IRA in which employees may contribute any amount up to certain maximum limits allowable as specified in the Internal Revenue Code. The Foundation matches employee contributions up to 3%. The Foundation contributed \$8,224 and \$7,777 to the plan during the years ended December 31, 2016 and 2015, respectively.

NOTE 13: CAPITAL LEASE

The Foundation entered into a capital lease for office equipment with a term of five years and no interest beginning February 1, 2015 (imputed interest is not significant to the financial statements). Assets under lease are depreciated over the term of the lease. Depreciation of assets under capital lease is included in depreciation expense. The following is a summary of the property held under capital lease, which is included in property and equipment in the financial statements for the years ended December 31, 2016 and 2015:

|                                | 2016            | 2015            |
|--------------------------------|-----------------|-----------------|
| Office equipment               | \$ 10,993       | \$ 10,993       |
| Less: accumulated depreciation | (4,214)         | (2,015)         |
| Office equipment, net          | <u>\$ 6,779</u> | <u>\$ 8,978</u> |

NOTE 14: OPERATING LEASES

The Foundation leases its offices from a non-profit organization. The term of the lease is 20 years through 2019 and can be automatically renewed for an additional 20-year term upon notification to the lessor at least one year prior to the expiration of the primary term. The Foundation is required to set aside \$500 per month to provide for maintenance and repairs of the building. If this fund reaches \$6,000 of unneeded and uncommitted funds, the monthly set aside may cease as long as the sum of \$6,000 is maintained in the accounts. The Foundation recognizes the fair value of the building rent in the amount of \$60,000 annually as an in-kind contribution and corresponding rental expense.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: AGENCY FUNDS

The Foundation has adopted provisions of the “Revenue Recognition” topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Provisions of this topic establish standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. Provisions also specifically require that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

The Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. However, in accordance with the “Revenue Recognition” topic of the FASB ASC, a liability has been established for the fair value of the funds, which is equivalent to the funds current fair market value.

As of December 31, 2016 and 2015, the Foundation was the owner of 20 agency endowment funds with a combined value of \$952,065 and \$963,294, respectively. The following table summarizes activity in such funds during the years ended December 31, 2016 and 2015:

|   | 2016              | 2015              |
|---|-------------------|-------------------|
| Agency Endowment Fund balances as of January 1            | \$ 963,294        | \$ 1,082,051      |
| Amounts raised  | 12,000            | 35,100            |
| Investment income, net of administrative and bank fees    | 1,964             | 291               |
| Net unrealized and realized gains (losses) on investments | 40,475            | (42,478)          |
| Grants  | (65,668)          | (111,670)         |
| Agency Endowment Fund balances as of December 31          | <u>\$ 952,065</u> | <u>\$ 963,294</u> |

NOTE 16: ASSETS AND LIABILITIES – FAIR VALUE INFORMATION

In accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC, all financial instruments that are being measured and reported on a fair value basis must be classified and disclosed in one of the following three categories:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has 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, and 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.

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

The asset’s 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: ASSETS AND LIABILITIES – FAIR VALUE INFORMATION (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2016 and 2015.

*Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Corporate and government bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

*Mutual funds and limited partnerships:* Valued at the net asset value (NAV) of shares held by the plan at year end. NAV is based on the value of underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. NAV is a quoted price in an active market.

Assets measured at fair value on a recurring basis were as follows:

| Description                     | December 31, 2016    |                      |             |             |
|---------------------------------|----------------------|----------------------|-------------|-------------|
|                                 | Total                | Level 1              | Level 2     | Level 3     |
| Equity funds                    | \$ 6,550,568         | \$ 6,550,568         | \$ -        | \$ -        |
| Common stock domestic           | 5,856,652            | 5,856,652            | -           | -           |
| Common stock international      | 231,518              | 231,518              | -           | -           |
| Commodity funds                 | 236,755              | 236,755              | -           | -           |
| Bond funds                      | 3,548,459            | 3,548,459            | -           | -           |
| Corporate obligations domestic  | 922,626              | 922,626              | -           | -           |
| Government obligations          | 164,248              | 164,248              | -           | -           |
| Interest in limited partnership | 127,112              | 127,112              | -           | -           |
| Total                           | <u>\$ 17,637,938</u> | <u>\$ 17,637,938</u> | <u>\$ -</u> | <u>\$ -</u> |

| Description                         | December 31, 2015    |                      |             |             |
|-------------------------------------|----------------------|----------------------|-------------|-------------|
|                                     | Total                | Level 1              | Level 2     | Level 3     |
| Equity funds                        | \$ 5,799,622         | \$ 5,779,622         | \$ -        | \$ -        |
| Common stock domestic               | 5,375,385            | 5,375,385            | -           | -           |
| Common stock international          | 327,377              | 327,377              | -           | -           |
| Commodity funds                     | 232,319              | 232,319              | -           | -           |
| Bond funds                          | 3,308,500            | 3,308,500            | -           | -           |
| Corporate obligations domestic      | 694,191              | 694,191              | -           | -           |
| Corporate obligations international | 30,023               | 30,023               | -           | -           |
| Government obligations              | 164,724              | 164,724              | -           | -           |
| Interest in limited partnership     | 121,813              | 121,813              | -           | -           |
| Total                               | <u>\$ 16,053,954</u> | <u>\$ 16,053,954</u> | <u>\$ -</u> | <u>\$ -</u> |

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: REFUNDABLE ADVANCES

During 2015, the Foundation received a refundable advance on behalf of the Friends of Sulsberger Stadium, Inc. to aid in the renovation of Sulsberger Stadium. The funds have been included in the Friends of Sulsberger Stadium Fund held at the Foundation. The Foundation then uses pledges received by the Fund to repay the refundable advance in accordance with the payment terms of the promissory note the Friends of Sulsberger Stadium, Inc. has with a bank. The balance of this refundable advance was \$84,775 and \$135,125 as of December 31, 2016 and 2015, respectively.

NOTE 18: LONG-TERM DEBT

Long-term debt consisted of the following as of December 31:

|  | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| Bridge note payable with PNC Bank, interest at 3.84% paid quarterly, principal payments due annually, matures December 2017. | \$ 150,000          | \$ 400,000          |
| Term note payable with PNC Bank, interest at 4.31% paid quarterly, principal balance due in lump sum January 2020.           | <u>2,542,550</u>    | <u>2,542,550</u>    |
|  | 2,692,550           | 2,942,550           |
| Current portion of long-term debt  | <u>(150,000)</u>    | <u>(250,000)</u>    |
|  | <u>\$ 2,542,550</u> | <u>\$ 2,692,550</u> |

Annual maturities of long-term debt for the next five years and thereafter are as follows:

| <u>Years Ended December 31,</u> | <u>Amount</u>       |
|---------------------------------|---------------------|
| 2017                            | \$ 150,000          |
| 2018                            | 0                   |
| 2019                            | 0                   |
| 2020                            | 2,542,550           |
| 2021                            | <u>0</u>            |
| Total                           | <u>\$ 2,692,550</u> |

The Foundation and two other third parties signed pledge agreements with PNC Bank regarding the two notes payable. Each party grants \$1.5 million security interest in the notes and pledges to PNC Bank to provide collateral for the notes payable.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: LONG-TERM NOTE RECEIVABLE

Long-term note receivable consisted of the following as of December 31:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Note receivable from Muskingum Investment Fund, LLC, interest at 2.519% paid quarterly. Beginning January 2020 quarterly interest and principal payments due. This loan matures January 2042. | \$ 7,182,500        | \$ 7,182,500        |
| Note receivable from 310 Charter LLC, interest at 6.25% payable on annual installments of \$55,000 due each December. Paid in full in 2016.   | 0                   | 277,998             |
| Total   | <u>\$ 7,182,500</u> | <u>\$ 7,460,498</u> |

NOTE 20: COMMITMENT

In 2012, the Foundation signed a five year licensing agreement with their software provider. The agreement automatically renews for three years unless either party provides notice of its intent not to renew within 365 days prior to the end of the term. The Foundation pays a license fee of \$2,100/month the first 12 months, \$2,300/month the second 12 months, \$2,600/month the third 12 months, thereafter the fee is calculated daily based on the Foundation's asset value, approximated here at \$2300/month.

Minimum payments as of December 31, 2016 are approximated as follows:

| <u>Years Ended December 31,</u> | <u>Amount</u>    |
|---------------------------------|------------------|
| 2017                            | \$ 27,600        |
| 2018                            | 6,900            |
|                                 | <u>\$ 34,500</u> |

Expense associated with the above commitment, for the years ended December 31, 2016 and 2015, totaled \$29,302 and \$32,900 respectively.

NOTE 21: RECLASSIFICATION

Certain amounts in the Statement of Activities for the year ended December 31, 2015 and information in the supplementary information for years prior to 2016 have been reclassified to conform to the 2016 financial statement presentation. These reclassifications did not affect the total net assets or Statement of Financial Position.

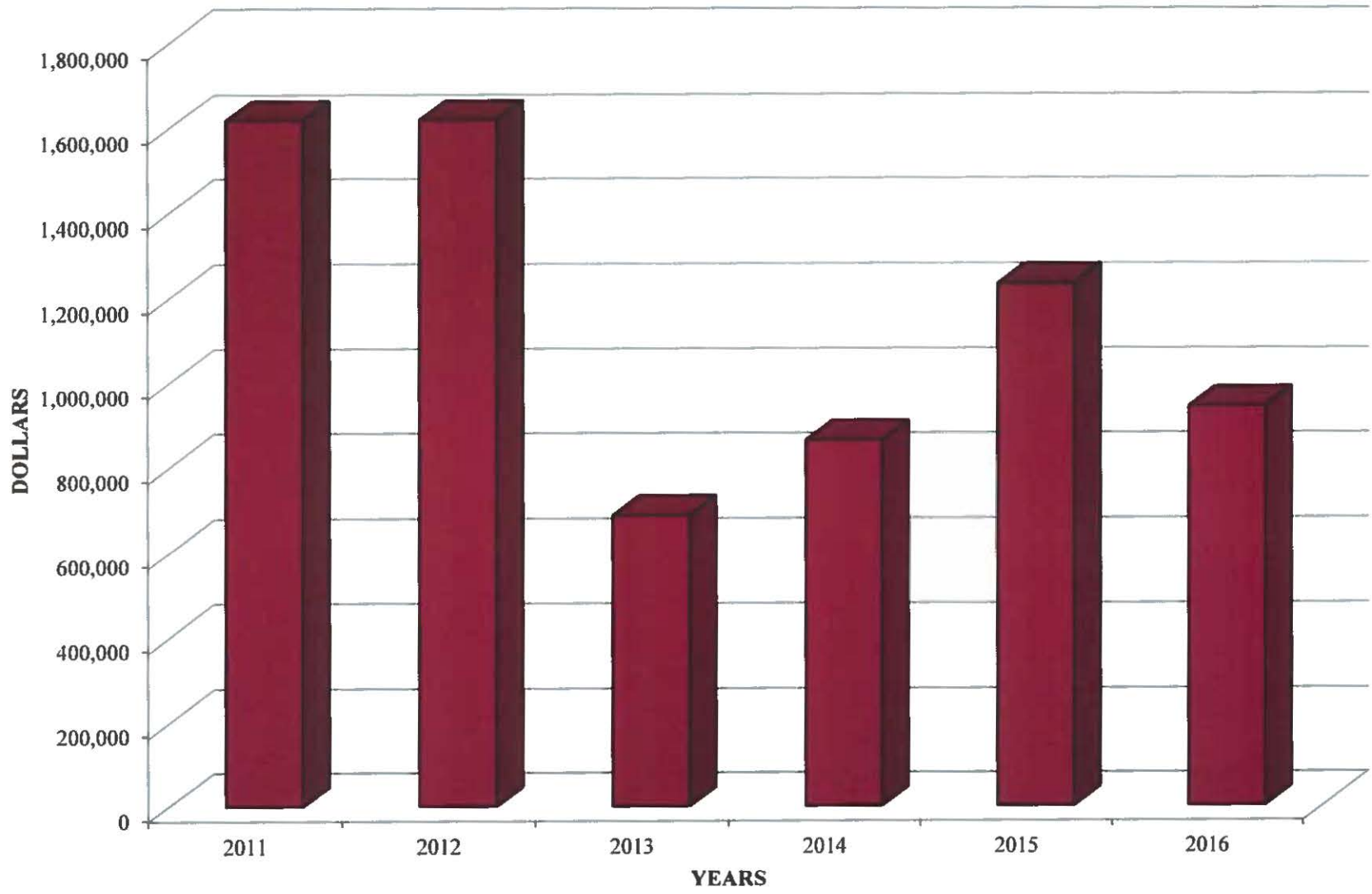
THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED SCHEDULES OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

|                                       | 2016              | 2015              |
|---------------------------------------|-------------------|-------------------|
| OPERATING EXPENSES:                   |                   |                   |
| Salaries and wages                    | \$ 215,511        | \$ 174,413        |
| Interest Expense                      | 131,971           | 142,666           |
| In-kind rent (office)                 | 60,000            | 60,000            |
| Special project expense               | 47,283            | 28,857            |
| Software license fees                 | 40,822            | 36,002            |
| Depreciation and amortization expense | 30,626            | 31,403            |
| Audit and accounting fees             | 21,980            | 20,836            |
| Payroll and unemployment taxes        | 18,498            | 19,420            |
| Custodial expenses                    | 16,596            | 15,826            |
| Legal fees                            | 14,523            | 17,927            |
| Unitrust annuity                      | 14,100            | 14,100            |
| Telephone and internet                | 10,737            | 11,352            |
| Meetings and conferences              | 9,179             | 8,588             |
| Utilities                             | 9,003             | 9,209             |
| Retirement plan employer match        | 8,224             | 7,777             |
| Life insurance premium                | 7,361             | 8,415             |
| Miscellaneous expense                 | 6,801             | 12,512            |
| Office supplies                       | 6,765             | 8,740             |
| Public relations                      | 6,705             | 11,523            |
| Equipment rental and maintenance      | 3,601             | 2,339             |
| Health insurance                      | 3,485             | 7,392             |
| Dues and subscriptions                | 2,796             | 3,691             |
| Business insurance                    | 2,141             | 2,617             |
| Disability insurance                  | 1,947             | 1,307             |
| Director and officer insurance        | 1,753             | 1,753             |
| Employee expense reimbursement        | 1,708             | 13,185            |
| Postage and shipping                  | 1,369             | 348               |
| Life insurance - employees            | 1,292             | 821               |
| Credit card processing fees           | 656               | 560               |
| Workers' compensation                 | 602               | 385               |
| Commercial crime bond insurance       | 449               | 449               |
| Filing fees                           | 200               | 205               |
| Contracted services                   | -                 | 36,054            |
| Bad debt expense                      | -                 | 27,714            |
| Total operating expenses              | <u>\$ 698,684</u> | <u>\$ 738,386</u> |

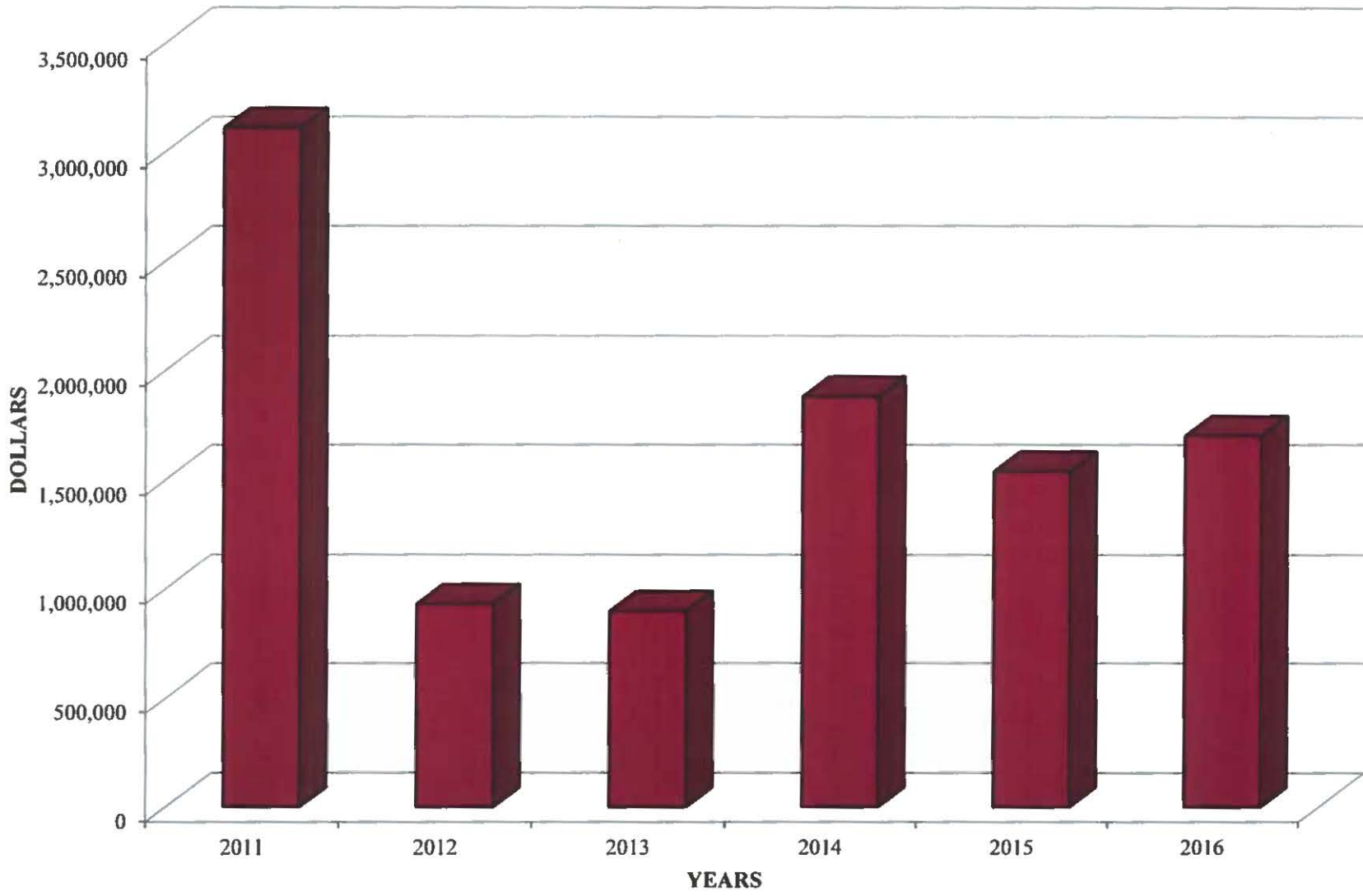
See independent auditor's report.

**MUSKINGUM COUNTY COMMUNITY FOUNDATION  
GRANTS AWARDED  
FOR THE YEARS ENDED DECEMBER 31**



See Independent Auditor's Report

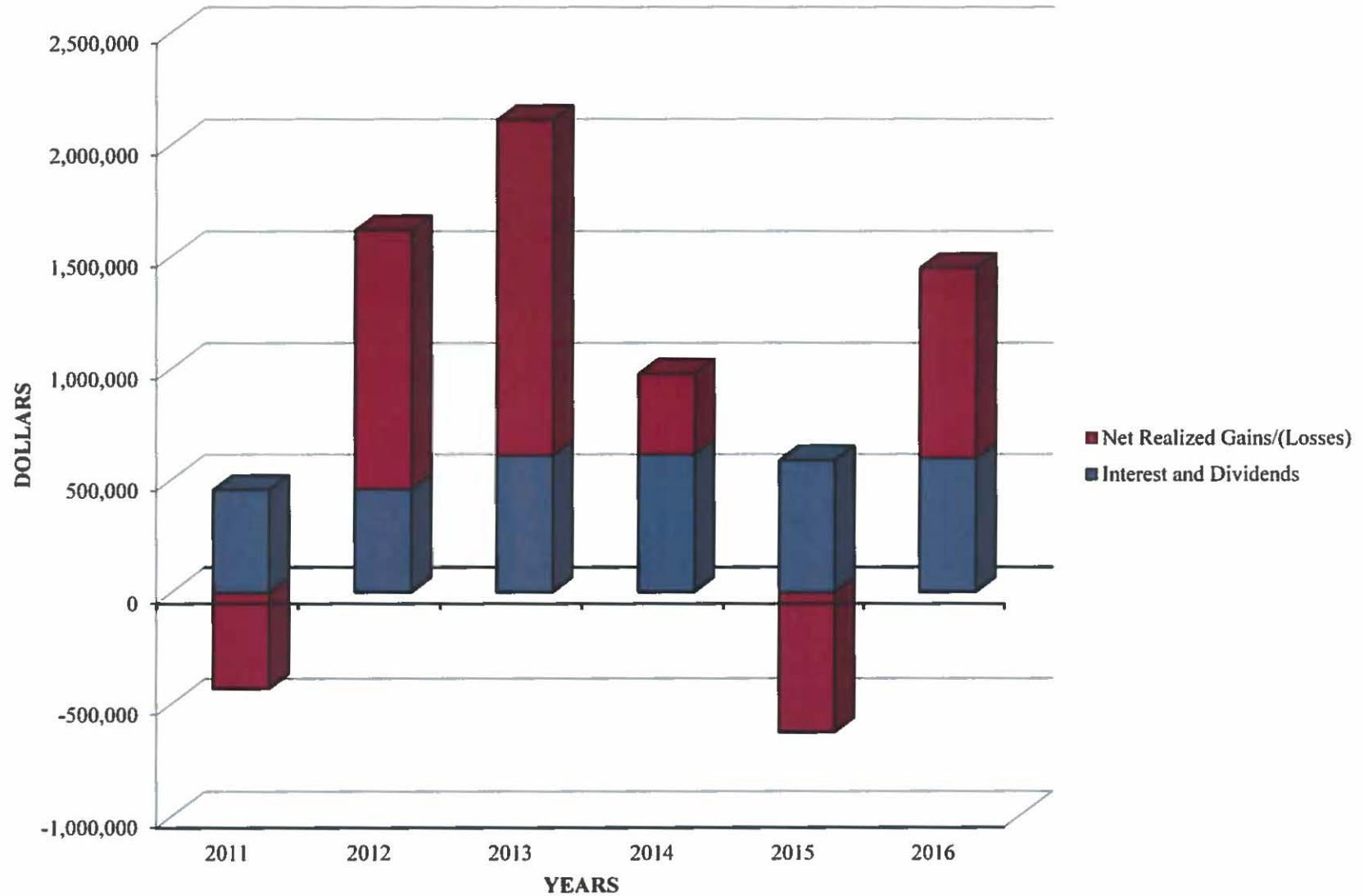
**THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
GIFTS, BEQUESTS, IN-KIND DONATIONS, AND GRANTS  
FOR THE YEARS ENDED DECEMBER 31**



See Independent Auditor's Report

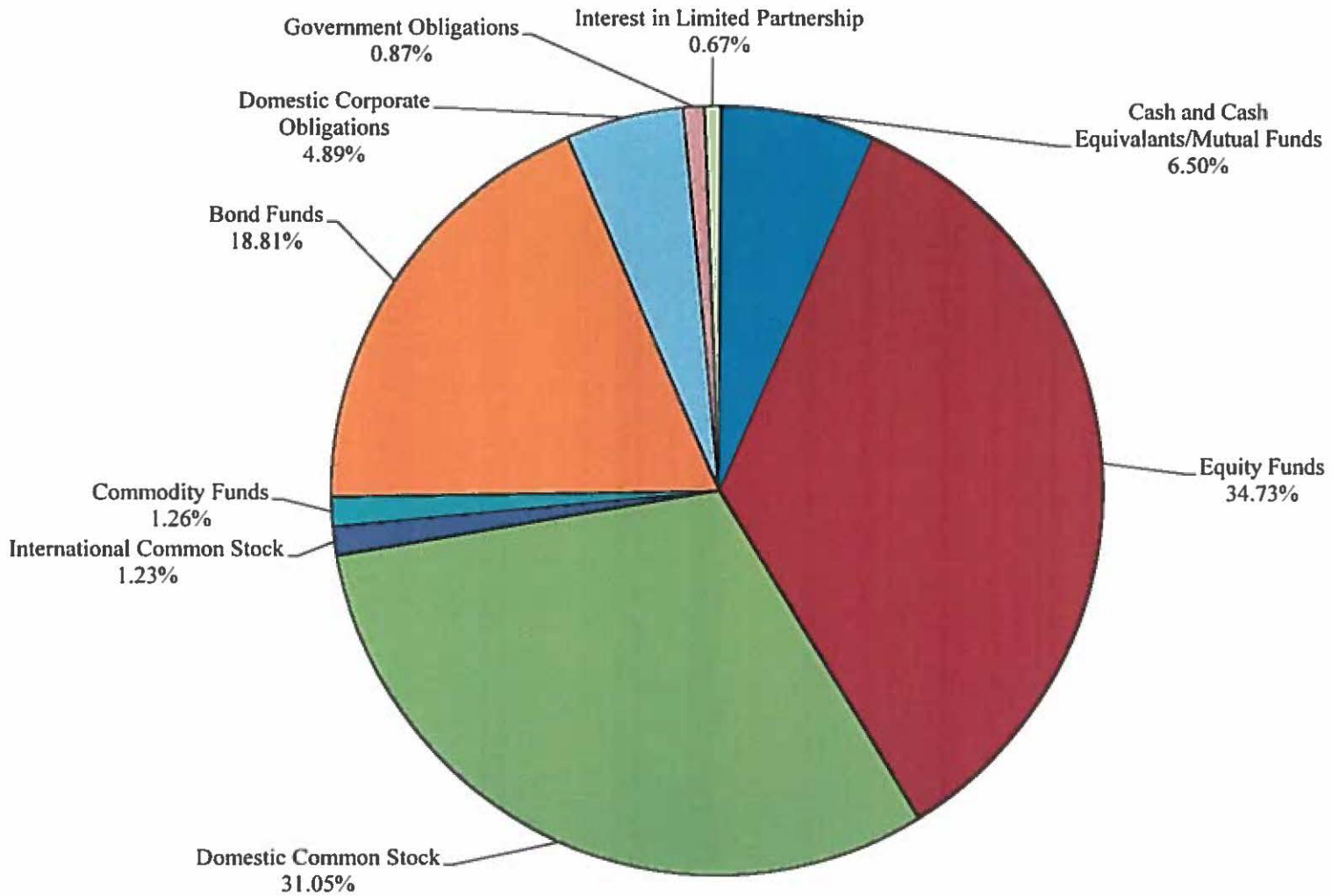


**THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
 INVESTMENT INCOME (EXCLUDING UNREALIZED GAINS/(LOSSES))  
 FOR THE YEARS ENDED DECEMBER 31**



See Independent Auditor's Report

**THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
INVESTMENT (COMPOSITION - AT MARKET)  
FOR THE YEAR ENDED DECEMBER 31, 2016**



See Independent Auditor's Report