

Battle Creek  
Community  
Foundation  
and Its Supporting  
Organization



*For good. For ever. For all.*

For the Years  
Ended March 31,  
2014 and 2013

Combining  
Financial  
Statements

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Combining Financial Statements For the Years Ended March 31, 2014 and 2013	
Combining Statements of Financial Position	4
Combining Statements of Activities	6
Combining Statements of Cash Flows	10
Notes to Combining Financial Statements	12



**INDEPENDENT AUDITORS' REPORT**

July 1, 2014

Board of Trustees  
Battle Creek Community Foundation  
and Its Supporting Organization  
Battle Creek, Michigan

We have audited the accompanying combining financial statements of the Battle Creek Community Foundation and Its Supporting Organization (a Michigan not-for-profit corporation, the "Foundation"), which comprise the combining statements of financial position as of March 31, 2014 and 2013, and the related combining statements of activities and cash flows for the years then ended, and the related notes to the combining financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combining 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.

*Independent Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining 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 combining financial statements referred to above present fairly, in all material respects, the individual and combined financial positions of the Battle Creek Community Foundation and Its Supporting Organization as of March 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Emphasis of Matter*

As discussed in Note 16 to the combining financial statements, the 2013 financial statements have been restated to include certain activity previously disclosed but not reported on the face of the financial statements. Our opinion is not modified with respect to this matter.

*Rehmann Lohman LLC*

This page intentionally left blank.

**BATTLE CREEK COMMUNITY FOUNDATION  
AND ITS SUPPORTING ORGANIZATION**

**Combining Statements of Financial Position**

March 31, 2014 and 2013

	March 31, 2014			Combined
	Battle Creek Community Foundation and Subsidiary	Legacy Scholars	Eliminations	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,729,858	\$ 49,088	\$ -	\$ 2,778,946
Investments, at fair value	104,664,300	-	-	104,664,300
Contributions receivable	545,309	-	-	545,309
Accounts receivable	55,034	-	-	55,034
Other assets	403,577	1,224	-	404,801
Property and equipment, net	6,392,785	-	-	6,392,785
<b>Total assets</b>	<b>\$114,790,863</b>	<b>\$ 50,312</b>	<b>\$ -</b>	<b>\$114,841,175</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 199,448	\$ 7,756	\$ -	\$ 207,204
Grants payable	2,549,937	-	-	2,549,937
Loans payable	582,105	-	-	582,105
Obligations under charitable gift annuities	582,894	-	-	582,894
Custodial funds managed for others	6,816,972	-	-	6,816,972
<b>Total liabilities</b>	<b>10,731,356</b>	<b>7,756</b>	<b>-</b>	<b>10,739,112</b>
<b>Net assets</b>				
Unrestricted:				
Net investment in property and equipment	6,392,785	-	-	6,392,785
Other unrestricted net assets	89,293,213	-	-	89,293,213
	95,685,998	-	-	95,685,998
Temporarily restricted	5,699,231	42,556	-	5,741,787
Permanently restricted	2,674,278	-	-	2,674,278
<b>Total net assets</b>	<b>104,059,507</b>	<b>42,556</b>	<b>-</b>	<b>104,102,063</b>
<b>Total liabilities and net assets</b>	<b>\$114,790,863</b>	<b>\$ 50,312</b>	<b>\$ -</b>	<b>\$114,841,175</b>

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



March 31, 2013			
Battle Creek Community Foundation and Subsidiary	Legacy Scholars	Eliminations	Combined
\$ 1,915,611	\$ 192,516	\$ -	\$ 2,108,127
98,278,750	-	-	98,278,750
560,040	-	-	560,040
119,344	-	-	119,344
376,203	1,560	-	377,763
5,896,678	-	-	5,896,678
<u>\$107,146,626</u>	<u>\$ 194,076</u>	<u>\$ -</u>	<u>\$107,340,702</u>
\$ 109,406	\$ 3,184	\$ -	\$ 112,590
4,615,375	-	-	4,615,375
673,345	-	-	673,345
800,534	-	-	800,534
6,062,890	-	-	6,062,890
<u>12,261,550</u>	<u>3,184</u>	<u>-</u>	<u>12,264,734</u>
5,896,678	-	-	5,896,678
81,453,509	-	-	81,453,509
87,350,187	-	-	87,350,187
4,860,611	190,892	-	5,051,503
2,674,278	-	-	2,674,278
<u>94,885,076</u>	<u>190,892</u>	<u>-</u>	<u>95,075,968</u>
<u>\$107,146,626</u>	<u>\$ 194,076</u>	<u>\$ -</u>	<u>\$107,340,702</u>

**BATTLE CREEK COMMUNITY FOUNDATION  
AND ITS SUPPORTING ORGANIZATION**

**Combining Statement of Activities**

For the Year Ended March 31, 2014

	Battle Creek Community Foundation and Subsidiary			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support, revenues and gains				
Contributions, grants and bequests	\$ 1,767,997	\$ 1,496,895	\$ -	\$ 3,264,892
Investment earnings	3,239,828	265,253	-	3,505,081
Net appreciation in fair value of investments	7,105,948	603,287	-	7,709,235
Changes in charitable gift annuities	(25,603)	130,084	-	104,481
Fund management fees	72,913	-	-	72,913
Rental income	88,869	383,869	-	472,738
Other revenues	44,635	100,724	-	145,359
Net assets released from restrictions - satisfied by grant and expense payments	2,141,492	(2,141,492)	-	-
<b>Total public support, revenues and gains</b>	<b>14,436,079</b>	<b>838,620</b>	<b>-</b>	<b>15,274,699</b>
Grants and expenses				
Grants	2,307,406	-	-	2,307,406
Community project operating and management	1,659,325	-	-	1,659,325
Management and general	2,133,537	-	-	2,133,537
<b>Total grants and expenses</b>	<b>6,100,268</b>	<b>-</b>	<b>-</b>	<b>6,100,268</b>
Change in net assets	8,335,811	838,620	-	9,174,431
Net assets, beginning of year, as restated	87,350,187	4,860,611	2,674,278	94,885,076
Net assets, end of year	\$ 95,685,998	\$ 5,699,231	\$ 2,674,278	\$ 104,059,507

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



Legacy Scholars				
Unrestricted	Temporarily Restricted	Total	Eliminations	Combined
\$ -	\$ 145,128	\$ 145,128	\$ (130,000)	\$ 3,280,020
-	226	226	-	3,505,307
-	-	-	-	7,709,235
-	-	-	-	104,481
-	-	-	(30,000)	42,913
-	-	-	-	472,738
-	-	-	-	145,359
<u>293,690</u>	<u>(293,690)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>293,690</u>	<u>(148,336)</u>	<u>145,354</u>	<u>(160,000)</u>	<u>15,260,053</u>
-	-	-	(130,000)	2,177,406
293,690	-	293,690	(30,000)	1,923,015
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,133,537</u>
<u>293,690</u>	<u>-</u>	<u>293,690</u>	<u>(160,000)</u>	<u>6,233,958</u>
-	(148,336)	(148,336)	-	9,026,095
-	190,892	190,892	-	95,075,968
<u>\$ -</u>	<u>\$ 42,556</u>	<u>\$ 42,556</u>	<u>\$ -</u>	<u>\$104,102,063</u>

**BATTLE CREEK COMMUNITY FOUNDATION  
AND ITS SUPPORTING ORGANIZATION**

**Combining Statement of Activities**  
For the Year Ended March 31, 2013

	Battle Creek Community Foundation and Subsidiary			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support, revenues and gains				
Contributions, grants and bequests	\$ 2,147,925	\$ 1,569,116	\$ -	\$ 3,717,041
Investment earnings	2,268,859	191,699	-	2,460,558
Net appreciation in fair value of investments	5,481,361	456,558	-	5,937,919
Changes in charitable gift annuities	(41,892)	(38,741)	-	(80,633)
Fund management fees	36,673	-	-	36,673
Rental income	86,344	361,508	-	447,852
Other revenues	33,635	54,573	-	88,208
Net assets released from restrictions - satisfied by grant and expense payments	2,239,983	(2,239,983)	-	-
<b>Total public support, revenues and gains</b>	<b>12,252,888</b>	<b>354,730</b>	<b>-</b>	<b>12,607,618</b>
Grants and expenses				
Grants	6,693,451	-	-	6,693,451
Community project operating and management	2,130,791	-	-	2,130,791
Management and general	2,267,114	-	-	2,267,114
<b>Total grants and expenses</b>	<b>11,091,356</b>	<b>-</b>	<b>-</b>	<b>11,091,356</b>
Change in net assets	1,161,532	354,730	-	1,516,262
Net assets, beginning of year	86,188,655	4,505,881	2,674,278	93,368,814
Net assets, end of year, as restated	\$ 87,350,187	\$ 4,860,611	\$ 2,674,278	\$ 94,885,076

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



Legacy Scholars				
Unrestricted	Temporarily Restricted	Total	Eliminations	Combined
\$ -	\$ 31,859	\$ 31,859	\$ (30,000)	\$ 3,718,900
-	753	753	-	2,461,311
-	-	-	-	5,937,919
-	-	-	-	(80,633)
-	-	-	-	36,673
-	-	-	-	447,852
-	-	-	-	88,208
288,010	(288,010)	-	-	-
288,010	(255,398)	32,612	(30,000)	12,610,230
-	-	-	-	6,693,451
288,010	-	288,010	(30,000)	2,388,801
-	-	-	-	2,267,114
288,010	-	288,010	(30,000)	11,349,366
-	(255,398)	(255,398)	-	1,260,864
-	446,290	446,290	-	93,815,104
\$ -	\$ 190,892	\$ 190,892	\$ -	\$ 95,075,968

**BATTLE CREEK COMMUNITY FOUNDATION  
AND ITS SUPPORTING ORGANIZATION**

**Combining Statements of Cash Flows**

	For the Year Ended March 31, 2014			
	Battle Creek Community Foundation and Subsidiary	Legacy Scholars	Eliminations	Combined
Cash flows from operating activities				
Change in net assets	\$ 9,174,431	\$ (148,336)	\$ -	\$ 9,026,095
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation	188,767	-	-	188,767
Net appreciation in fair value of investments	(7,709,235)	-	-	(7,709,235)
Realized (gains) losses on sale of investments	(901,500)	-	-	(901,500)
Obligations under charitable gift annuities	(151,963)	-	-	(151,963)
Noncash contributions	147,951	-	-	147,951
Changes in operating assets and liabilities that provided (used) cash:				
Contributions receivable	14,731	-	-	14,731
Accounts receivable	64,310	-	-	64,310
Other assets	(27,374)	336	-	(27,038)
Accounts payable and accrued expenses	90,042	4,572	-	94,614
Grants payable	(2,065,438)	-	-	(2,065,438)
Custodial funds managed for others	754,082	-	-	754,082
Net cash used in operating activities	<u>(421,196)</u>	<u>(143,428)</u>	<u>-</u>	<u>(564,624)</u>
Cash flows from investing activities				
Purchase of property and equipment	(684,874)	-	-	(684,874)
Purchase of investments	(5,596,997)	-	-	(5,596,997)
Proceeds from sale of investments	7,674,231	-	-	7,674,231
Net cash provided by investing activities	<u>1,392,360</u>	<u>-</u>	<u>-</u>	<u>1,392,360</u>
Cash flows from financing activities				
Payments under charitable gift annuities	(65,677)	-	-	(65,677)
Net debt borrowings (payments)	(91,240)	-	-	(91,240)
Net cash used in financing activities	<u>(156,917)</u>	<u>-</u>	<u>-</u>	<u>(156,917)</u>
Net change in cash and cash equivalents	814,247	(143,428)	-	670,819
Cash and cash equivalents, beginning of year	1,915,611	192,516	-	2,108,127
Cash and cash equivalents, end of year	<u>\$ 2,729,858</u>	<u>\$ 49,088</u>	<u>\$ -</u>	<u>\$ 2,778,946</u>

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

For the Year Ended March 31, 2013

Battle Creek Community Foundation and Subsidiary	Legacy Scholars	Eliminations	Combined
\$ 1,516,262	\$ (255,398)	\$ -	\$ 1,260,864
184,872	-	-	184,872
(5,937,919)	-	-	(5,937,919)
3,663	-	-	3,663
75,043	-	-	75,043
109,674	-	-	109,674
70,588	-	-	70,588
74,325	-	-	74,325
20,956	(1,560)	-	19,396
(74,540)	1,427	-	(73,113)
2,792,817	-	-	2,792,817
350,920	-	-	350,920
<u>(813,339)</u>	<u>(255,531)</u>	<u>-</u>	<u>(1,068,870)</u>
(29,518)	-	-	(29,518)
(5,318,957)	-	-	(5,318,957)
8,022,007	-	-	8,022,007
<u>2,673,532</u>	<u>-</u>	<u>-</u>	<u>2,673,532</u>
(75,531)	-	-	(75,531)
(181,099)	-	-	(181,099)
<u>(256,630)</u>	<u>-</u>	<u>-</u>	<u>(256,630)</u>
1,603,563	(255,531)	-	1,348,032
312,048	448,047	-	760,095
<u>\$ 1,915,611</u>	<u>\$ 192,516</u>	<u>\$ -</u>	<u>\$ 2,108,127</u>

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### 1. MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

The Battle Creek Community Foundation (the “Foundation”), a Michigan not-for-profit organization, is a public foundation established to aggregate funds created by individuals, families and corporations, to benefit programs and services primarily for residents in the Battle Creek, Michigan area.

In February 2008, the Foundation formed the Burnham Brook Community Center Title Holding Corporation (the “Corporation”), a nonprofit corporation and wholly-owned subsidiary of the Foundation. The Foundation appoints the board of directors of the Corporation, which is a non-stock corporation. The Corporation’s purpose is to hold, administer and lease the Burnham Brook Community Center, which was transferred to the Corporation on February 29, 2008, and to pay any net proceeds from this activity to the parent organization (i.e., the Foundation). Inter-organization balances and transactions between the Foundation and the Corporation have been eliminated in consolidation.

Legacy Scholars, a Michigan not-for-profit organization, is a supporting organization of the Battle Creek Community Foundation. Its purpose is to create and administer a community-based, collaborative scholarship program to ensure that underserved, low-income students in the Battle Creek area graduate from high school and successfully complete post-secondary education. Legacy Scholars was incorporated during fiscal 2006 and became a supporting organization at that time.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the liability associated with charitable gift annuities and the estimate for scholarships payable.

#### Basis of Presentation and Significant Accounting Policies

##### *Combining Financial Statements*

The Foundation appoints a voting majority of the Legacy Scholars board of directors. Accordingly, as required in Accounting Standards Codification (ASC) Topic 958-810 regarding the *Reporting of Related Entities by Not-for-Profit Organizations*, the financial statements of this entity are included herein as part of the reporting entity. Inter-entity transactions and balances, if any, are eliminated in combination.

##### *Internal Reporting*

To ensure observance of limitations and restrictions placed on the use of available resources, for internal accounting and stewardship purposes, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and internal reporting into funds established according to their nature and purpose.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### *External Reporting*

For external financial reporting purposes, the Foundation reports resources classified into net asset categories according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. Accordingly, net assets and changes therein are classified as follows:

- *Unrestricted Net Assets* are net assets that are not subject to donor-imposed restrictions including the carrying value of equipment. Resources that are reported in this net asset category include unrestricted gifts and the investment earnings thereon, and related expenses associated with the operations of the Foundation.
- *Temporarily Restricted Net Assets* are net assets subject to donor-imposed restrictions that will be satisfied by actions of the Foundation. Resources reported in this net asset category include gifts for which restrictions have not been met and the investment earnings thereon, and realized and unrealized earnings on endowment funds. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been met) are reported as reclassifications between the applicable classes of net assets.
- *Permanently Restricted Net Assets* are resources subject to donor-imposed stipulations that the corpus (original principal value of endowment gifts) be maintained permanently by the Foundation. The donors of these assets permit the Foundation to spend only the income earned on the related investments.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of amounts maintained in bank demand deposit and money market accounts. For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Foundation maintains demand deposits in several banks which are insured by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the cash balances may exceed insured limits. Management believes the Foundation is not exposed to any significant interest rate or other financial risk on these deposits.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### *Investments*

Purchased investments are initially recorded at cost; investments received by gift are recorded at fair value at the date of donation. Thereafter, the carrying value of such investments are adjusted to fair value, which is determined using published exchange market quotations, where applicable, or estimated fair values provided by external investment managers or other sources. The net appreciation (depreciation) in fair value of investments is reflected in the combining statements of activities. Investment earnings consist of interest, dividends and realized gains and losses on marketable securities.

### *Fair Value Measurements*

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. The liability described in Note 11 is classified as Level 3; see that Note for a description of the changes in this liability.

For a further discussion of Fair Value Measurements, refer to Note 3 to the combining financial statements.

### *Contributions Receivable*

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows at the time of receipt or notification of the pledge. The discounts on those amounts are computed using a risk-adjusted interest rate applicable to the year in which the promise is received. Discount amortization is included in contribution revenue.



# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### *Other Assets*

Other assets consist of prepaid expenses and the cash surrender value of life insurance policies. Payments to vendors for services that will benefit periods beyond the Foundation's fiscal year end are recorded as prepaid expenses. The Foundation is the holder of certain life insurance policies. In the event that a policy is voluntarily terminated before its maturity, an amount will be paid to the Foundation. The cash surrender value is provided to the Foundation by the insurance company in the annual policy statements.

### *Property and Equipment*

Property and equipment is recorded at cost. Donated assets are recorded at fair value when received. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred, while major improvements and renewals are capitalized.

### *Custodial Funds Managed for Others*

The Foundation has entered into agreements with other organizations to receive, invest and manage certain funds. In accordance with ASC Topic 958 regarding *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the Foundation reports a liability for these resources since the other organizations have either named themselves as beneficiaries or retained the unilateral right to withdraw or otherwise redirect the use of those funds.

### *Income Taxes*

The Foundation is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Accordingly, no provisions have been made for income taxes in these financial statements. Although the Foundation was granted an income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income, such as interest received from sources other than directly from contributions. The Foundation has not been classified as a private foundation.

The Foundation has evaluated its income tax filing positions for fiscal years 2010 through 2013, the years which remain subject to examination as of March 31, 2014. The Foundation concluded that there are no significant uncertain tax positions requiring recognition in the Foundation's financial statements. The Foundation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at March 31, 2014 or 2013, and is not aware of any claims for such amounts by federal or state income tax authorities.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### *Endowment Net Asset Classifications*

ASC Topic 958-205, regarding *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”).

The State of Michigan adopted its version of UPMIFA effective September 10, 2009 (“SPMIFA”). The Board of Trustees has determined that a majority of the Foundation’s net assets meet the definition of endowment funds under SPMIFA. The Foundation is governed by its bylaws and most contributions are received subject to the terms and conditions of these bylaws.

Pursuant to the bylaws, the Board has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest or fund as the Board in its sole discretion shall determine. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

As a result of the ability to distribute corpus, the Board has determined that all contributions received subject to the bylaws and SPMIFA, are classified as unrestricted net assets. Contributions that are subject to other gift instruments and SPMIFA may be recorded as permanently restricted, temporarily restricted or unrestricted, depending on the specific terms of the agreement and the donor’s intent. Generally, if the corpus of a contribution will at some future time become available for spending it is recorded as temporarily restricted, and if the corpus never becomes available for spending it will be reported as permanently restricted.

### *Reclassifications*

Certain amounts presented in the prior year data have been reclassified in order to conform with the current year’s presentation.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### *Related Party Transactions*

As an organization with broad participation from individuals throughout the community on the Foundation's board and committees, it is reasonable to expect that related party transactions may occur from time to time. To ensure that any such transactions are minimized and conducted only within the constraints of its internal control, the Foundation has a conflict of interest policy that is followed and all potential related party transactions are closely monitored. The Foundation entered into a construction contract with a company owned by a member of the Philanthropic Development Committee. Expenses incurred under the contract for the years ending March 31, 2014 and 2013 were approximately \$560,000 and \$175,000, respectively. In addition, the spouse of a Foundation board member is the owner of an architectural company utilized for the Burnham Brook construction project. Expenses incurred for these services for the years ended March 31, 2014 and 2013 were approximately \$118,000 and \$7,000, respectively.

For the years ended March 31, 2014 and 2013, the Foundation had other inconsequential related party transactions that were for amounts immaterial to the financial statements.

### *Subsequent Events*

In preparing these combining financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2014, the most recent combining statement of financial position presented herein, through July 1, 2014, the date the combining financial statements were available to be issued. No significant such events or transactions were identified.

## 2. WHOLLY-OWNED SUBSIDIARY

The Corporation was established in response to an identified need to separate the grant-funded operations of the local Area Agency on Aging from the financial and administrative burden of also operating a senior activities center. Prior to fiscal 2008, those operations/services were handled by the Burnham Brook Center (renamed to Region 3B Area Agency on Aging during fiscal 2009), an unrelated nonprofit corporation, with diminishing success and concern from the area agency on aging grantor agencies (primarily the State of Michigan) that the senior center was draining resources from the grant-funded programs.

Following the creation of the Corporation, the Burnham Brook Center transferred the senior center property to the Corporation with an estimated net fair value of \$4.6 million.

## 3. FAIR VALUE MEASUREMENTS

The Foundation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Marketable securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Foundation may be required to record at fair value other assets on a nonrecurring basis, such as inventory, non-marketable equity securities, goodwill and other long lived assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

### Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

### Marketable Securities

Marketable securities classified as available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include mutual funds traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds.

### Remainder Interest in Real Estate

The Foundation's remainder interest in real estate under a charitable gift annuity was carried at its appraised value at the date of donation through March 31, 2013. Subsequent to March 31, 2014, the annuitant passed away and the Foundation took title to the property. The estimated realizable proceeds from sale of the property, based on the listing price less real estate agent fees, was used at the basis for determining fair value at March 31, 2014.

### Loans Payable

The fair values of the Foundation's loans payable are estimated using discounted cash flow analyses based on the Foundation's current incremental borrowing rates for similar types of borrowing arrangements.

### Obligations Under Charitable Gift Annuities

Charitable gift annuities are recorded at present value based on the donor's life expectancy using actuarial tables provided by the Internal Revenue Service (IRS).

### Debt Guarantee

The Foundation is the guarantor of an outstanding line of credit for an unrelated entity. The liability was recorded at fair value in 2008, the year in which the guarantee was made. The difference between the fair value at donation and the maximum loan guarantee is being amortized over the term of the related debt (10 years) using a discount rate of 7.5%.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets and liabilities measured at fair value on a recurring basis as of March 31:

			Fair Value Level	
	2014	2013	2014	2013
Mutual funds:				
Domestic equity	\$ 38,550,266	\$ 41,948,001	1	1
International equity	29,732,313	22,023,559	1	1
Fixed income	30,757,264	28,855,447	1	1
Real estate investment trust	4,384,660	4,152,620	1	1
Total mutual funds	<u>103,424,503</u>	<u>96,979,627</u>		
Remainder interest in real estate	230,389	318,057	2	2
Money market	<u>1,009,408</u>	<u>981,066</u>	1	1
	<u>\$ 104,664,300</u>	<u>\$ 98,278,750</u>		

### Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, the Foundation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Foundation's combining balance sheets are as follows:

	2014		2013	
	Carrying Value	Estimated Value	Carrying Value	Estimated Value
<b>Assets</b>				
Cash and cash equivalents	\$ 2,778,946	\$ 2,778,946	\$ 2,108,127	\$ 2,108,127
<b>Liabilities</b>				
Loans payable	582,105	582,105	673,345	673,345
Obligations under charitable gift annuities (Note 7)	582,894	582,894	800,534	800,534
Debt guarantee (Note 11)	1,123,201	1,123,201	1,393,117	1,393,117

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### 4. CONTRIBUTIONS RECEIVABLE

The Foundation is the recipient of bequests through specific identification in certain closed estates and expects to receive benefits in the future when assets are distributed. In addition, the Foundation receives pledges of contributions through various fund drives. Contributions receivable at March 31, 2014, representing unconditional promises to give, totaled \$545,309. Of this total, \$19,600 was expected to be collected within one year; the balance of \$525,709 was expected to be collected thereafter. At March 31, 2013, amounts representing unconditional promises to give totaled \$560,040. Of this total \$19,600, was expected to be collected within one year; the balance of \$540,440 was expected to be collected thereafter.

### 5. PROPERTY, PLANT & EQUIPMENT

A summary of property, plant and equipment is as follows at March 31:

	2014	2013	Depreciable Life (Years)
Land	\$ 744,900	\$ 744,900	0
Construction in progress	76,628	-	0
Buildings	6,283,936	5,743,235	40
Furniture, fixtures and equipment	726,388	658,843	5-15
Total property and equipment	7,831,852	7,146,978	
Less accumulated depreciation	<u>(1,439,067)</u>	<u>(1,250,300)</u>	
Property and equipment, net	<u>\$ 6,392,785</u>	<u>\$ 5,896,678</u>	

Land and buildings consist of the Burnham Brook Community Center, transferred to the Foundation in February 2008 through its wholly-owned subsidiary as discussed in Notes 1 and 2. Buildings also include an office building in Battle Creek that the Foundation rents to both related and unrelated nonprofit organizations pursuant to lease agreements that are accounted for as operating leases. Lease revenue from all sources amounted to \$402,904 and \$387,558 for the years ended March 31, 2014 and 2013, respectively. Depreciation expense was \$188,767 and \$184,872 for the years ended March 31, 2014 and 2013, respectively.

Construction in progress includes projects at Burnham Brook as well as initial architectural costs for relocation of the Foundation's offices. The balance remaining on construction contracts at March 31, 2014 and 2013 was approximately \$919,000 and \$0, respectively.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### 6. GRANTS PAYABLE

The Foundation has awarded grants to other organizations or individuals (in the case of scholarships) that are expected to be paid subsequent to March 31 as follows:

	2014	2013
Payable in less than one year	\$ 608,877	\$ 995,588
Payable in one to five years	817,859	2,226,670
Payable in six to ten years	<u>1,123,201</u>	<u>1,393,117</u>
Total grants payable	<u>\$ 2,549,937</u>	<u>\$ 4,615,375</u>

The above payable includes estimated obligations for Legacy scholarships in the amount of \$572,542 (payable in less than one year of \$370,008 and payable in one to five years of \$202,534) and \$2,669,094 (payable in less than one year of \$442,424 and payable in one to five years of \$2,226,670) for the years ending March 31, 2014 and 2013, respectively.

The amounts shown above as payable in six to ten years represent the fair value of the Foundation's guarantee of debt as described in Note 11.

### 7. OBLIGATIONS UNDER CHARITABLE GIFT ANNUITIES

The Foundation operates a charitable gift annuity program whereby donors receive life income in exchange for assets conveyed to the Foundation under an annuity contract. The Foundation's liability under the annuity contracts is recorded at present value based on the donor's life expectancy. Payments to contract holders amounted to \$65,677 and \$75,531 for the years ended March 31, 2014 and 2013, respectively, and have been recorded as a reduction in the liability under charitable gift annuities. Under the terms of the contracts, the assets are restricted until the death of the donors. Actuarial gains and losses and amortization of the present value discount on annuity obligations are reflected in the combining statements of activities as changes in charitable gift annuities. The assets related to these charitable gift annuities are included in the pooled investments of the Foundation.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### 8. CUSTODIAL FUNDS MANAGED FOR OTHERS

A summary of the changes in the Foundation's custodial funds managed for others for the years ended March 31 is as follows:

	2014	2013
Balance in custodial funds, beginning of year	\$ 4,562,890	\$ 4,211,970
Deposits / contributions	284,749	120,330
Investment earnings	137,505	120,323
Net appreciation in fair value of investments	418,574	278,764
Withdrawals / grants	(115,741)	(131,862)
Management fees	(39,260)	(36,635)
	<u>5,248,717</u>	<u>4,562,890</u>
Balance in custodial funds, end of year	5,248,717	4,562,890
Amounts due to others held in non-custodial funds	<u>1,568,255</u>	<u>1,500,000</u>
	<u>\$ 6,816,972</u>	<u>\$ 6,062,890</u>

### 9. LEASES

The Foundation leases office space from a trust to which the Foundation makes monthly lease payments of \$1,425. The Foundation is able to extend this lease in five year extensions at the same rate. The current extension is through June 2015. Rent expense for this property totaled \$17,100 each year for the years ended March 31, 2014 and 2013. The aggregate amount of future minimum lease payments expected to be paid by the Foundation, exclusive of expected extensions, in years after March 31, 2014 are as follows:

Year Ended March 31,	Amount
2015	\$ 17,100
2016	<u>4,275</u>
	<u>\$ 21,375</u>

### 10. LOANS PAYABLE

During the year ended March 31, 2010, the Foundation borrowed funds to support amounts expended for the construction and cash flow needs of the Corporation including repayment of a prior line of credit. These loans are unsecured and are direct obligations of the Foundation and Corporation. At March 31, 2014 and 2013, loans outstanding consisted of:

*CSCC loan.* The original loan was refinanced in August 2012; \$561,748 loan outstanding (\$631,006 borrowed in refinancing) as of March 31, 2014 due in monthly installments of \$5,343 through August 2017 when a balloon payment is due; interest of 3.35%. The balance at March 31, 2013 was \$605,850.



# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

*Deficit funding loan.* \$20,357 loan outstanding (\$218,000 originally borrowed) as of March 31, 2014 due in monthly installments of \$4,123 through August 2014; interest of 5.00%. The balance at March 31, 2013 was \$67,495.

Annual debt service requirements to maturity for all loans outstanding as of March 31, 2014, are as follows:

Year Ended March 31,	Principal	Interest
2015	\$ 66,362	\$ 18,365
2016	50,271	16,518
2017	53,943	14,759
2018	<u>411,529</u>	<u>5,611</u>
Total	<u>\$ 582,105</u>	<u>\$ 55,253</u>

## 11. DEBT GUARANTOR

In January 2008, the Foundation entered into an agreement with a local bank to serve as guarantor on a \$2 million line of credit made by the bank to Comprehensive Senior Care Corporation ("CSCC"), an unrelated nonprofit corporation. At that time, CSCC was a start-up entity that signed a 15-year agreement with the Corporation to lease approximately 25% of the Burnham Brook property. As the Corporation's single largest tenant, CSCC is offering a range of services to the senior and aging population in the Battle Creek area, some of which are new services to the market. In March 2014, this agreement was amended to reduce the guarantee to \$1.5 million. The balance on this line of credit was \$1,363,921 and \$1,420,980 for the years ended March 31, 2014 and 2013, respectively.

At the time of donation, the fair value of the Foundation's guarantee was recorded as grant expense and included in grants payable. Subsequent changes in the fair value are recorded as increases or decreases in grant expense in the year of the change. The change from the March 31, 2013 balance of \$1,393,117 to the March 31, 2014 balance of \$1,123,201 (a decrease in the liability of \$269,916) reflects the amortization of the maximum loan guarantee liability over a ten year period at a discount rate of 7.5% and a reduction of the guarantee to \$1,500,000.

## 12. RETIREMENT PLAN

The Foundation provides retirement benefits to its employees by contributing an amount equal to five percent of each employee's base salary to individual annuity accounts. Retirement plan expense amounted to \$49,677 and \$48,345 for the years ended March 31, 2014 and 2013, respectively.

## 13. CONCENTRATIONS

During the year ended March 31, 2014, two donors contributed approximately 57% of the Foundation's total contribution revenue. During the year ended March 31, 2013, one donor contributed approximately 34% of the Foundation's total contribution revenue.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### 14. ENDOWMENT

The Foundation's endowment consists of approximately 1,000 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Foundation has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

For the Board-designated endowments, the Foundation classifies as unrestricted net assets (a) the original value of endowment gifts donated to the Foundation, (b) the original value of subsequent gifts to the endowment, and (c) any earnings related to the endowment. See Note 1 for further discussion related to the net asset classifications.

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that were reported in unrestricted net assets were \$213,199 (5 funds) and \$219,848 (6 funds) as of March 31, 2014 and 2013, respectively. These deficiencies resulted from recent unfavorable market fluctuations and community mission investments. Management believes that the deficiencies will be recouped through future activities.

#### Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 8.0% to 9.0% annually. Actual returns in any given year may vary from this range.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Following is a summary of the Foundation's endowment and changes therein:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Asset Comparison by Type of Fund as of March 31, 2014</b>				
Donor-restricted endowment funds	\$ (213,199)	\$ 2,860,108	\$ 2,674,278	\$ 5,321,187
Board-designated endowment funds	90,480,273	-	-	90,480,273
	<u>\$ 90,267,074</u>	<u>\$ 2,860,108</u>	<u>\$ 2,674,278</u>	<u>\$ 95,801,460</u>
<b>Changes in Endowment Net Assets for the Year Ended March 31, 2014</b>				
Investment return:				
Investment income	\$ 3,171,479	\$ 158,997	\$ -	\$ 3,330,476
Net appreciation (realized and unrealized)	6,993,586	333,837	-	7,327,423
Net investment return	10,165,065	492,834	-	10,657,899
Contributions and other revenues	1,705,500	103,998	-	1,809,498
Appropriation of endowment assets for expenditure	(4,196,718)	(217,292)	-	(4,414,010)
Changes to endowment net assets	7,673,847	379,540	-	8,053,387
Endowment net assets:				
Beginning of year	82,593,227	2,480,568	2,674,278	87,748,073
End of year	<u>\$ 90,267,074</u>	<u>\$ 2,860,108</u>	<u>\$ 2,674,278</u>	<u>\$ 95,801,460</u>

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Asset Comparison by Type of Fund as of March 31, 2013</b>				
Donor-restricted endowment funds	\$ (219,848)	\$ 2,480,568	\$ 2,674,278	\$ 4,934,998
Board-designated endowment funds	82,813,075	-	-	82,813,075
	<u>\$ 82,593,227</u>	<u>\$ 2,480,568</u>	<u>\$ 2,674,278</u>	<u>\$ 87,748,073</u>
<b>Changes in Endowment Net Assets for the Year Ended March 31, 2013</b>				
Investment return:				
Investment income	\$ 2,228,284	\$ 113,841	\$ -	\$ 2,342,125
Net appreciation (realized and unrealized)	5,372,230	259,463	-	5,631,693
Net investment return	7,600,514	373,304	-	7,973,818
Contributions and other revenues	1,650,811	3,734	-	1,654,545
Appropriation of endowment assets for expenditure	(7,819,188)	(393,260)	-	(8,212,448)
Changes to endowment net assets	1,432,137	(16,222)	-	1,415,915
Endowment net assets:				
Beginning of year	81,161,090	2,496,790	2,674,278	86,332,158
End of year	<u>\$ 82,593,227</u>	<u>\$ 2,480,568</u>	<u>\$ 2,674,278</u>	<u>\$ 87,748,073</u>

### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has an annual spending policy of 5.0% of its endowment fund's average fair value over the prior 16 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return of its endowment. Accordingly, over the long-term, the Foundation expects its current spending policy to allow its endowment to grow at an average of 3.0% to 4.0% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

# BATTLE CREEK COMMUNITY FOUNDATION AND ITS SUPPORTING ORGANIZATION

## Notes to Combining Financial Statements

### 15. NET ASSET RESTRICTIONS

Temporarily restricted net assets of the Foundation are held for specific purposes or are limited by time or availability restrictions as follows at March 31:

	2014	2013
Community projects	\$ 1,156,464	\$ 777,011
Charitable gift annuities	2,197,134	1,921,229
Donor imposed uses	<u>2,345,633</u>	<u>2,162,371</u>
Total	<u>\$ 5,699,231</u>	<u>\$ 4,860,611</u>

Permanently restricted net assets of \$2,674,278 as of both March 31, 2014 and 2013, are limited by donor imposed restrictions that require the gift to be maintained in perpetuity and are not subject to the Foundation's variance power.

The temporarily restricted net assets of Legacy Scholars of \$42,556 and \$190,892 as of March 31, 2014 and 2013, respectively, are restricted for the administration of the Legacy Scholarship Program.

### 16. PRIOR PERIOD RESTATEMENT

In August 2012, the Foundation received a revocable gift whereby the donor contributed the sum of \$1,500,000 to the Foundation in exchange for an annual annuity of \$75,000 (5.0%) to be paid in quarterly installments by the Foundation to a beneficiary. The fair value of the remainder trust assets was \$1,604,440 at March 31, 2013. Because the agreement permits the beneficiary to draw the remainder trust assets if needed for his/her health, education, support or maintenance, the Foundation had initially not recorded the asset, liability, or related activity in its 2013 financial statements, and had instead disclosed the arrangement in the notes to the combining financial statements. In the current year, management determined that it was more appropriate to recognize the asset, liability, and related activity in its financial statements. Accordingly, the 2013 financial statements have been restated to reflect this activity. As a result of this restatement, the amounts reported for the year ended March 31, 2013 reflect an increase in investments of \$1,604,440, an increase in liabilities of \$1,500,000 (as shown in Note 8), and an increase in investment earnings of \$104,440.

