

LEGACY FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2010

LEGACY FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statement of financial position of the Legacy Foundation, Inc. (the "Foundation") as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 2 that were applied to restate the beginning balances in these financial statements as of July 1, 2009. In our opinion, such adjustments are appropriate and have been properly applied.

Blue & Co., LLC

September 28, 2010

LEGACY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION JUNE 30, 2010

ASSETS

Cash and cash equivalents	\$ 948,522
Certificates of deposit	315,274
Investments	23,370,105
Accounts receivable	1,895
Property and equipment, net	1,969
Restricted cash	128,175
Restricted investments	<u>8,155,185</u>
	<u>\$ 32,921,125</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 29,666
Accrued expenses	4,470
Grants payable	46,600
Annuities payable	731,385
Custodial funds	<u>8,283,360</u>
Total liabilities	9,095,481
Net assets	
Unrestricted:	
Operating	628,618
Board designated operating reserve	111,310
Deficiency in endowment funds	<u>(929,739)</u>
	(189,811)
Temporarily restricted	14,381,844
Permanently restricted	<u>9,633,611</u>
Total net assets	<u>23,825,644</u>
	<u>\$ 32,921,125</u>

See accompanying notes to financial statements.

LEGACY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Contributions	\$ 70,738	\$ 1,457,139	\$ 735,335	\$ 2,263,212
Investment return, net	866,250	2,317,938	-0-	3,184,188
Administrative income	350,573	-0-	-0-	350,573
Miscellaneous income	19,135	-0-	-0-	19,135
Net assets released from restrictions	<u>1,771,430</u>	<u>(1,771,430)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	3,078,126	2,003,647	735,335	5,817,108
Expenses				
Grants	1,618,245	-0-	-0-	1,618,245
Program	183,993	-0-	-0-	183,993
Administrative fees	270,752	-0-	-0-	270,752
Personnel costs	280,946	-0-	-0-	280,946
Professional services	14,893	-0-	-0-	14,893
Outside services	17,154	-0-	-0-	17,154
Office operations	45,870	-0-	-0-	45,870
Occupancy costs	44,047	-0-	-0-	44,047
Marketing and development	7,868	-0-	-0-	7,868
Depreciation	<u>3,229</u>	<u>-0-</u>	<u>-0-</u>	<u>3,229</u>
Total expenses	<u>2,486,997</u>	<u>-0-</u>	<u>-0-</u>	<u>2,486,997</u>
Change in net assets	<u>\$ 591,129</u>	<u>\$ 2,003,647</u>	<u>\$ 735,335</u>	<u>\$ 3,330,111</u>
Net assets, beginning of year				
As previously reported	\$ 302,461	\$ 442,257	\$ 20,103,385	\$ 20,848,103
Prior period adjustments				
Correct recognition of net asset classification	(1,083,401)	12,288,510	(11,205,109)	-0-
Correct recognition of custodial funds	-0-	21,139	-0-	21,139
Correct recognition of annuities payable	<u>-0-</u>	<u>(373,709)</u>	<u>-0-</u>	<u>(373,709)</u>
As restated	(780,940)	12,378,197	8,898,276	20,495,533
Change in net assets	<u>591,129</u>	<u>2,003,647</u>	<u>735,335</u>	<u>3,330,111</u>
Net assets, end of year	<u>\$ (189,811)</u>	<u>\$ 14,381,844</u>	<u>\$ 9,633,611</u>	<u>\$ 23,825,644</u>

See accompanying notes to financial statements.

LEGACY FOUNDATION, INC.

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2010

Operating activities

Change in net assets	\$ 3,330,111
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	3,229
Realized and unrealized gains on investments	(2,497,008)
Contributions restricted to endowment funds	(735,335)
Changes in assets and liabilities:	
Restricted cash and investments	(2,346,623)
Accounts payable	18,273
Accrued expenses	(2,927)
Grants payable	(39,960)
Annuities payable	(94,553)
Custodial funds	<u>2,346,623</u>
Net cash flows from operating activities	(18,170)

Investing activities

Net change in certificates of deposit	167,585
Net change in investments	<u>(914,992)</u>
Net cash flows from investing activities	(747,407)

Financing activities

Contributions restricted to endowment funds	<u>735,335</u>
Net change in cash and cash equivalents	(30,242)

Cash and cash equivalents, beginning of year 978,764

Cash and cash equivalents, end of year \$ 948,522

See accompanying notes to financial statements.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Management's Estimates

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

Basis of Presentation

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. While most gift instruments give the Foundation's Board of Directors the right to vary the terms of the gift, this only allows for a limited right of modification and does not relieve the restrictions imposed by the donor. Accordingly, the net assets of the Foundation are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and primarily made up of the Foundation's operating fund. The Foundation maintains unrestricted funds as follows:

Operating – used to fund current operations of the Foundation

Board Designated Operating Reserve – used to fund future operations of the Foundation as designated by the Board

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

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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

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

Cash and Cash Equivalents

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

Investments and Investment Return

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

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

Property and Equipment

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

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

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Restricted Cash and Investments

Restricted cash and investments consist of monies received from organizations that have named themselves as the beneficiary of the income from funds they established for their own benefit and pass-through grant programs. These amounts are also reported as custodial funds at June 30, 2010.

Support, Revenues and Expense Recognition

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

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

Administrative Fees

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

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

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

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Subsequent Events

The Foundation has evaluated events or transactions occurring subsequent to the Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is September 28, 2010.

2. RESTATEMENT

The Foundation has restated its financial statements to correct the classification of board designated and donor restricted endowments as of July 1, 2009. The reclassification of net assets from permanently restricted to either unrestricted or temporarily restricted at July 1, 2009 was \$11,205,109.

The Foundation also modified its interpretation of the classification of certain funds as custodial funds. The effect of this prior period adjustment on the opening temporarily restricted net assets was \$21,139 at July 1, 2009.

The Foundation also modified the liability of annuities payable and has restated its net assets as of July 1, 2009. The effect of this prior period adjustment on the opening temporarily restricted net assets is \$373,709 at July 1, 2009.

The impact of these adjustments on the change in net assets for the year ending June 30, 2009 is \$58,866.

3. CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following at June 30, 2010:

<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>
\$ 254,318	3/22/2011	1.00%
<u>60,956</u>	5/16/2011	1.84%
<u>\$ 315,274</u>		

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

4. INVESTMENTS

Investments (including restricted investments) at June 30, 2010 consist of the following:

Cash and money market funds	\$ 1,220,077
Government securities	47,308
Corporate bonds	40,583
Domestic equity securities	7,580
Domestic equity mutual funds	14,811,522
Domestic fixed income mutual funds	6,252,423
Foreign equity mutual funds	4,896,960
Foreign fixed income mutual funds	845,026
Real estate investment trust fund	471,176
Hedge funds	<u>2,932,635</u>
	<u>\$ 31,525,290</u>

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

Interest and dividend income	\$ 759,818
Realized losses	(4,105,392)
Unrealized gains	6,602,400
Investment fees	<u>(72,638)</u>
	<u>\$ 3,184,188</u>

5. RISKS AND UNCERTAINTIES

The Foundation holds a variety of investments (Note 4). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and the lowest priority to unobservable value inputs. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement. The hierarchy of inputs as follows:

- Level 1 – Unadjusted quoted prices for identical assets and liabilities in active markets
- Level 2 – Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

The following table sets forth financial assets and liabilities measured at fair value in the Statement of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2010:

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 23,370,105	\$ 22,018,416	\$ 1,351,689	\$ -0-
Restricted investments	8,155,185	8,155,185	-0-	-0-
Liabilities:				
Annuities payable	731,385	-0-	-0-	731,385

Fair values for investments and restricted investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the hedge fund is based on the net asset value of the fund as determined by the reported valuations of underlying investment managers. Fair values for annuities payable are determined by calculating the present value of future payments to beneficiaries using published life expectancy tables, and discount rates ranging from 3.8 percent to 5.8 percent.

The progression of annuities payable during the year ended June 30, 2010 is as follows:

Beginning balance	\$ 825,938
Payments	(69,671)
Change in present value	<u>(24,882)</u>
Ending balance	<u>\$ 731,385</u>

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

7. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2010 is as follows:

Furniture and equipment	\$ 76,695
Less accumulated depreciation	<u>(74,726)</u>
	<u>\$ 1,969</u>

8. ANNUITIES PAYABLE

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donors are recorded at fair value. The Foundation has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiaries at June 30, 2010 under these agreements. The liability was calculated based on the applicable mortality tables and discount rates ranging from 3.8 percent to 5.8 percent. The present value of amounts expected to be paid to the donors or their named beneficiaries was \$731,385 at June 30, 2010.

9. CUSTODIAL FUNDS

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

Following is a progression of custodial funds during 2010:

Beginning balance	\$ 5,936,737
Contributions	1,926,147
Investment return, net	916,107
Administrative fees	(79,304)
Grants	<u>(416,327)</u>
Ending balance	<u>\$ 8,283,360</u>

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets represent endowment funds not yet appropriated for expenditure of \$14,381,844 at June 30, 2010. Permanently restricted net assets in the amount of \$9,633,611 at June 30, 2010 are donor-restricted assets whereby the principal amount is never to be expended. Income earned from these principal amounts includes both temporarily restricted and unrestricted amounts.

11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amount of \$1,771,430 based on endowment funds appropriated for expenditure for the year ended June 30, 2010.

12. ENDOWMENT

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

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the historic gift value 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 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 UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
 - (2) The purposes of the Foundation and the donor-restricted endowment fund
 - (3) General economic conditions
 - (4) The possible effect of inflation and deflation
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LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. The Foundation expects its endowment funds, over time, to grow at a rate equal or greater than the Consumer Price Index plus any distributions and administrative expenses. Actual returns in any given year may vary from this amount.

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

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

Endowed funds by net asset type at June 30, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 111,310	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(929,739)</u>	<u>14,381,844</u>	<u>9,633,611</u>
	<u>\$ (818,429)</u>	<u>\$ 14,381,844</u>	<u>\$ 9,633,611</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$929,739 as of June 30, 2010.

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Changes in endowment net assets for the year ending June 30, 2010, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ (1,371,394)	\$ 12,378,197	\$ 8,898,276
Contributions and grants	-0-	1,457,139	735,335
Investment return, net	855,625	2,317,938	-0-
Appropriation of endowment assets for expenditure	<u>(302,660)</u>	<u>(1,771,430)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ (818,429)</u>	<u>\$ 14,381,844</u>	<u>\$ 9,633,611</u>

13. FUNCTIONAL EXPENSES

The Foundation serves as a vehicle for residents of Lake County to donate to various organizations and projects in the county. Expenses related to providing this service for the year ended June 30, 2010, are classified as follows:

Development of Lake County	\$ 2,056,736
Fundraising	243,042
General and administrative expenses	<u>187,219</u>
	<u>\$ 2,486,997</u>

14. OPERATING LEASES

The Foundation entered into a three year office space lease with monthly payments adjusted annually. Rent expense was \$39,576 for the year ended June 30, 2010. Future minimum lease payments subsequent to June 30, 2010 under this lease are as follows:

	Amount
2011	\$ 39,431
2012	39,431
2013	<u>26,287</u>
	<u>\$ 105,149</u>

LEGACY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

15. SIMPLE IRA PLAN

The Foundation has a Simple IRA pension plan, covering all employees who earned \$5,000 or more, per year, during any prior year of employment. The Foundation will make a matching contribution to each eligible employee's Simple IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the year. The employer contribution for the year ended was June 30, 2010 were \$5,916.

16. CONCENTRATIONS OF CREDIT RISK

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

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