

Financial Statements

HAROLD W. McMILLEN CENTER FOR HEALTH EDUCATION, INC.

*Years ended June 30, 2013 and 2012
with Report of Independent Auditors*

Harold W. McMillen Center for Health Education, Inc.

Financial Statements

Years ended June 30, 2013 and 2012

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Report of Independent Auditors

The Board of Directors
Harold W. McMillen Center
for Health Education, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Harold W. McMillen Center for Health Education, Inc. (McMillen Center) which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McMillen Center as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Haines, Lumbarger & Skiba, LLC

August 15, 2013

Harold W. McMillen Center for Health Education, Inc.

Statements of Financial Position

	June 30	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 173,340	\$ 12,229
Receivables:		
Pledges	67,997	82,900
Admission fees and other	12,458	13,645
	<u>80,455</u>	<u>96,545</u>
Prepaid expenses and other current assets	9,363	10,391
Total current assets	<u>263,158</u>	<u>119,165</u>
Investments	1,689,091	1,765,396
Land, building, exhibits, and equipment:		
Land	94,735	94,735
Building and improvements	1,774,253	1,774,253
Exhibits and equipment	1,229,052	1,239,028
	<u>3,098,040</u>	<u>3,108,016</u>
Less accumulated depreciation	2,577,789	2,531,209
	<u>520,251</u>	<u>576,807</u>
Total assets	<u>\$ 2,472,500</u>	<u>\$ 2,461,368</u>
Liabilities and net assets		
Current liabilities:		
Line of credit	\$ -	\$ 137,136
Accounts payable	8,110	14,881
Accrued expenses	36,653	24,326
Deferred revenue	1,595	3,003
Total current liabilities	<u>46,358</u>	<u>179,346</u>
Net assets:		
Unrestricted	683,924	431,442
Temporarily restricted	248,896	157,258
Permanently restricted	1,493,322	1,693,322
Total net assets	<u>2,426,142</u>	<u>2,282,022</u>
Total liabilities and net assets	<u>\$ 2,472,500</u>	<u>\$ 2,461,368</u>

See accompanying notes.

Harold W. McMillen Center for Health Education, Inc.

Statements of Activities and Changes in Net Assets

	Year ended June 30	
	2013	2012
Changes in unrestricted net assets		
Support, revenues, and gains:		
Contributions	\$ 97,498	\$ 98,987
Contributed services and materials	26,303	47,415
Admission fees	127,785	109,453
Interest and dividends	64,872	85,961
Realized and unrealized gain (loss) on investments, net	136,812	(43,599)
Special events, net	17,338	31,788
Other	7,156	55
	<u>477,764</u>	330,060
Net assets released from restrictions	509,857	220,644
Total unrestricted support, revenues, and gains	<u>987,621</u>	550,704
Expenses:		
Program services—health education	487,529	456,164
Supporting services:		
Management and general	146,260	135,474
Development	101,350	110,626
Total expenses	<u>735,139</u>	702,264
Increase (decrease) in unrestricted net assets	<u>252,482</u>	(151,560)
Changes in temporarily restricted net assets		
Contributions	401,495	249,217
Net assets released from restrictions	<u>(309,857)</u>	(220,644)
Increase in temporarily restricted net assets	<u>91,638</u>	28,573
Changes in permanently restricted net assets		
Realized and unrealized loss on investments, net	-	(87,953)
Net assets released from restrictions	<u>(200,000)</u>	-
Decrease in permanently restricted net assets	<u>(200,000)</u>	(87,953)
Increase (decrease) in net assets	144,120	(210,940)
Net assets at beginning of year	2,282,022	2,492,962
Net assets at end of year	<u>\$ 2,426,142</u>	<u>\$ 2,282,022</u>

See accompanying notes.

Harold W. McMillen Center for Health Education, Inc.

Statement of Functional Expenses

Year ended June 30, 2013

	Program Services Health Education	Supporting Services		Total Expenses
		Management and General	Development	
Salaries, wages, and benefits	\$ 287,565	\$ 109,399	\$ 72,540	\$ 469,504
Computer expense	-	3,229	-	3,229
Insurance	13,647	2,247	144	16,038
Interest	-	2,285	-	2,285
Office supplies and expense	31,303	1,448	1,597	34,348
Operating supplies and expense	13,544	4,175	1,699	19,418
Public relations	43,360	-	201	43,561
Professional fees	4,210	13,810	1,684	19,704
Provision for bad debts	-	670	-	670
Repairs and maintenance	11,136	364	94	11,594
Special event expenses	-	-	17,517	17,517
Telephone	2,369	816	665	3,850
Training	1,532	654	629	2,815
Travel	2,921	1,288	1,249	5,458
Utilities	27,162	1,144	286	28,592
Total expenses before depreciation	438,749	141,529	98,305	678,583
Depreciation	48,780	4,731	3,045	56,556
Total expenses	\$ 487,529	\$ 146,260	\$ 101,350	\$ 735,139

Harold W. McMillen Center for Health Education, Inc.

Statement of Functional Expenses

Year ended June 30, 2012

	Program Services Health Education	Supporting Services Management and General	Development	Total Expenses
Salaries, wages, and benefits	\$ 267,729	\$ 85,962	\$ 88,827	\$ 442,518
Computer expense	27,042	6,768	3,808	37,618
Insurance	13,220	2,228	139	15,587
Interest	-	6,454	-	6,454
Office supplies and expense	18,090	1,518	1,412	21,020
Operating supplies and expense	10,778	8,840	924	20,542
Public relations	11,385	1,200	11	12,596
Professional fees	6,613	14,060	1,526	22,199
Repairs and maintenance	12,982	407	102	13,491
Special event expenses	-	-	7,344	7,344
Telephone	2,328	535	346	3,209
Training	1,776	450	466	2,692
Travel	3,378	967	2,238	6,583
Utilities	28,274	1,190	298	29,762
Total expenses before depreciation	403,595	130,579	107,441	641,615
Depreciation	52,569	4,895	3,185	60,649
Total expenses	\$ 456,164	\$ 135,474	\$ 110,626	\$ 702,264

Harold W. McMillen Center for Health Education, Inc.

Statements of Cash Flows

	Year ended June 30	
	2013	2012
Operating activities		
Increase (decrease) in net assets	\$ 144,120	\$ (210,940)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	56,556	60,649
Realized and unrealized loss (gain) on investments	(136,812)	122,032
Changes in operating assets and liabilities:		
Receivables	16,090	(17,078)
Prepaid expenses and other current assets	1,028	(4,505)
Accounts payable	(6,771)	(6,979)
Accrued expenses	12,327	7,008
Deferred revenue	(1,408)	2,493
Cash provided by (used in) operating activities	<u>85,130</u>	<u>(47,320)</u>
Investing activities		
Additions to land, building, exhibits, and equipment	-	(4,400)
Purchase of investments	(695,876)	(1,866,002)
Proceeds from sale and maturities of investments	908,993	1,939,056
Cash provided by investing activities	<u>213,117</u>	<u>68,654</u>
Financing activities —borrowings (payments) on line of credit, net	<u>(137,136)</u>	<u>(9,688)</u>
Increase in cash and cash equivalents	161,111	11,646
Cash and cash equivalents at beginning of year	12,229	583
Cash and cash equivalents at end of year	<u>\$ 173,340</u>	<u>\$ 12,229</u>

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements

June 30, 2013

1. Organization and Summary of Significant Accounting Policies

Organization

The Mission of the Harold W. McMillen Center for Health Education, Inc. (McMillen Center) is:

to provide vital and effective preventive health education that promotes physical, emotional and social well-being.

McMillen Center provides health education programs to nearly 40,000 youth and other individuals annually. Programs are presented either at the McMillen Center facility, at a site of the customer's choice, or via interactive videoconferencing. Program curriculum is interdisciplinary in approach, with the staff using a variety of teaching methods and tools including role playing, interactive games, and technology.

McMillen Center is a nonprofit voluntary health and welfare organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies for the 50 percent charitable contributions deduction limitation. McMillen Center has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. Management believes McMillen Center is no longer subject to examination by taxing authorities for years before June 30, 2010.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents with the exception on money market funds. McMillen Center maintains cash accounts at a local bank.

Investments

McMillen Center's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See *Note 4* for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income from securities is recorded as earned on an accrual basis. Capital gain distributions are included in dividend income.

Net realized and unrealized investment gains or losses are determined by comparison of asset cost, using the specific identification method, to net proceeds received at the time of sale and changes in the difference between market values and cost, respectively.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Land, Building, Exhibits, and Equipment

Land, building, exhibits, and equipment are stated at cost or if donated, at fair market value at date of donation, except for land, building, exhibits, and equipment that have been impaired. For impaired assets, the carrying amount is reduced to the estimated fair market value. There were no impaired assets as of June 30, 2013 or 2012. Items with a cost of \$1,500 or more and a useful life of one year or more are capitalized. Depreciation is computed by the straight-line method over the following estimated useful lives:

Building and improvements	7 – 40 years
Exhibits and equipment	5 – 10 years

Expenses for normal repairs and maintenance are expensed as incurred.

Net Assets

Net assets are allocated to and accounted for based upon the donor's intended purpose. Unrestricted net assets have no donor imposed restrictions placed upon them. In addition, McMillen Center has received certain net assets for specific purposes or for later periods of time or after specified dates, and these amounts are reported as temporarily or permanently restricted net assets. Temporarily restricted net assets include amounts whose use is limited by donor imposed stipulations that can be met and removed by actions of McMillen Center pursuant to those stipulations, occurrence of a stated event, or passage of a specified time period. When donor imposed stipulations are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Permanently restricted net assets include amounts whose use is limited by donor imposed restrictions which stipulate that resources be maintained permanently, but permits McMillen Center to expend part or all of the income derived from the donated assets for either unrestricted or temporarily restricted purposes. Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be donor restricted.

Concentration of Credit Risk

McMillen Center grants credit to the users of its services, which are primarily schools in the northeastern Indiana area. McMillen Center performs ongoing credit evaluations, provides an allowance for uncollectible receivables, if necessary, and writes off uncollectible amounts as

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk (continued)

they become known. McMillen Center received the largest portion of its admission fees from Fort Wayne Community School Corporation in 2013 and 2012.

McMillen Center's investment portfolio consists of a diverse mix of investments, without concentration of risk by type, industry, or geographic area, which are managed by professional investment managers in compliance with the investment policy established by the Board of Directors. Investments are exposed to various risks, such as interest rate, market volatility and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments may occur in the near term and that such changes could materially affect account balances.

Revenue

McMillen Center recognizes revenue upon admission and contractual delivery of health education services and instruction or completion of a special event. Accordingly, funds received for admissions or special events related to future periods are recorded as deferred revenue.

Special events included the Vitality Awards in the years ended June 30, 2013 and 2012. Special events revenue is presented in the statements of activities and changes in net assets net of expenses. Expenses related to these special events amounted to \$13,187 and \$5,843 for the years ended June 30, 2013 and 2012, respectively.

Contributions and Pledges Receivable

Contributions, including gifts, grants, bequests, pledges, and other unconditional promises to give, without restrictions or stipulations are recorded as support (revenue) in the period received. Contributions are reported as temporarily restricted or permanently restricted support if they are received with donor imposed stipulations that limit their use.

Contributions of assets other than cash are recorded at their fair market value.

Contributions of services are recognized as revenue if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and typically need to be purchased if not provided by donation. During the years ended June 30, 2013 and 2012, the value of contributed services and materials recognized as revenue in the accompanying statements of activities and changes in net assets was \$26,303 and \$47,415, respectively.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable (continued)

Unconditional promises or pledges are recorded at net realizable value. McMillen Center provides an allowance for uncollectible pledges which is based on historical collection experience and management's estimate of the losses that will be incurred in the collection of all pledges receivable. As of June 30, 2013 and 2012, no allowance for uncollectible pledges was deemed necessary.

Financial Instruments

Financial instruments consist of cash, cash equivalents, receivables, investments, accounts payable, and accrued expenses. The carrying amounts reported in the statements of financial position for cash and cash equivalents, admission fees, pledges, other, accrued interest and dividends receivable, accounts payable, and accrued expenses approximate their fair value. Management's estimate of the fair value of investments is as previously described and is in *Notes 3 and 4* to the financial statements.

Use of Estimates

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing the program and other activities has been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Reclassifications

Certain amounts for the year ended June 30, 2012 have been reclassified to conform with the presentation for the year ended June 30, 2013.

2. Pledges Receivable

Pledges receivable represent unconditional promises to give. At June 30, 2013 and 2012, McMillen Center had pledges receivable of \$67,997 and \$82,900, respectively.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

3. Investments

The fair value of investments is as follows:

	June 30	
	2013	2012
Money market funds	\$ 10,028	\$ 53,039
Invested cash	-	996
Trust preferred securities	34,236	68,742
Mutual funds	1,230,734	1,396,106
Exchange traded funds	360,945	197,352
	1,635,943	1,716,235
Funds held by the Community		
Foundation of Greater Fort Wayne Inc.	53,148	49,161
Total investments	\$ 1,689,091	\$ 1,765,396
Permanently restricted by donors	\$ 1,493,322	\$ 1,693,322
Board designated as endowment funds	142,621	22,913
Total endowment funds invested	1,635,943	1,716,235
Funds held by the Community		
Foundation of Greater Fort Wayne Inc.	53,148	49,161
Total investments	\$ 1,689,091	\$ 1,765,396

The investments held by the Community Foundation of Greater Fort Wayne Inc. (Foundation) are the result of an agreement whereby McMillen Center has transferred assets to the Foundation and has specified itself as the beneficiary of the assets. McMillen Center may draw up to a certain percent of the value of the assets each year, subject to certain conditions and limitations, but may only obtain a return of the full value of the assets upon consent of the Foundation. McMillen Center's beneficial interest in these funds is included in investments.

Additionally, the Foundation holds investment assets, with a value of \$9,717 and \$8,806 at June 30, 2013 and 2012, respectively, for the benefit of McMillen Center. McMillen Center is precluded from recognizing these assets held by the Foundation because the donors explicitly granted variance power to the Foundation. Accordingly, McMillen Center only recognizes its annual grants by the Foundation from these funds as contributions.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

3. Investments (continued)

The composition of investment return recognized in the statements of activities and changes in net assets are as follows:

	Year ended June 30	
	2013	2012
Investment income:		
Interest and dividends	\$ 64,872	\$ 85,961
Net realized gain on investments	31,327	11,314
Net unrealized gain (loss) on investments	114,859	(133,346)
	211,058	(36,071)
Investment expenses	(9,374)	(9,520)
Net investment income (loss)	\$ 201,684	\$ (45,591)

4. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 (ASC 820), *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that McMillen Center has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability; 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.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

4. Fair Value Measurements (continued)

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

Invested cash: Recorded at cost plus accrued interest (carrying value), which approximates fair value.

Money market funds: The money market funds are valued at quoted market prices in an exchange and active market, which represent the net asset values of shares held by McMillen Center at year end.

Trust preferred securities: The Trust Preferred Securities held by McMillen Center are hybrid securities with characteristics of both subordinated debt and preferred stock issued by JPMorgan Chase & Co. These securities are valued at the closing market price on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by McMillen Center at year-end.

Exchange traded funds: Valued at the net asset value (NAV) of shares held by McMillen Center at year-end. The NAV is based on the value of the underlying assets owned by the fund, less liabilities, divided by the number of shares outstanding. Exchange traded funds that are publicly traded on major exchanges are valued at the closing price reported on the major market on which the individual securities are traded.

Beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.: Valued at the fair market value of the underlying investments, as reported by the Community Foundation of Greater Fort Wayne Inc. at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while McMillen Center 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.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

4. Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, McMillen Center's assets at fair value as of June 30, 2013 and 2012:

	Assets at Fair Value at June 30, 2013			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 10,028	\$ -	\$ -	\$ 10,028
Trust preferred securities	34,236	-	-	34,236
Mutual funds				
Equity funds:				
Large growth	227,125	-	-	227,125
Large blend	90,865	-	-	90,865
Small blend	97,566	-	-	97,566
Diversified emerging markets	79,405	-	-	79,405
Diversified—Pacific/Asia	78,532	-	-	78,532
Global real estate	31,526	-	-	31,526
Fixed income funds:				
Intermediate-term bond	118,422	-	-	118,422
Multisector bond	169,336	-	-	169,336
World bond	149,712	-	-	149,712
World allocation—large blend	95,930	-	-	95,930
World allocation—large value	92,315	-	-	92,315
	1,230,734	-	-	1,230,734
Exchange traded funds				
Large blend	360,945	-	-	360,945
Funds held by the Community Foundation of Greater Fort Wayne Inc.	-	53,148	-	53,148
Total assets at fair value	\$ 1,635,943	\$ 53,148	\$ -	\$ 1,689,091

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

4. Fair Value Measurements (continued)

	Assets at Fair Value at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Invested cash	\$ 996	\$ -	\$ -	\$ 996
Money market fund	53,039	-	-	53,039
Trust preferred securities	68,742	-	-	68,742
Mutual funds				
Equity funds:				
Large growth	181,178	-	-	181,178
Small blend	81,455	-	-	81,455
Diversified—Pacific/Asia	181,180	-	-	181,180
Energy	40,837	-	-	40,837
Fixed income funds:				
Intermediate-term bond	88,768	-	-	88,768
Multisector bond	243,088	-	-	243,088
Nontraditional bond	86,252	-	-	86,252
World bond	86,017	-	-	86,017
World allocation—large blend	170,749	-	-	170,749
World allocation—large value	236,582	-	-	236,582
	<u>1,396,106</u>	<u>-</u>	<u>-</u>	<u>1,396,106</u>
Exchange traded funds				
Large blend	197,352	-	-	197,352
Funds held by the Community				
Foundation of Greater Fort				
Wayne Inc.	-	49,161	-	49,161
Total assets at fair value	<u>\$ 1,716,235</u>	<u>\$ 49,161</u>	<u>\$ -</u>	<u>\$ 1,765,396</u>

5. Endowment Funds

ASC 958, *Not-for-Profit Entities*, requires certain net asset classification changes for institutional endowment funds under Uniform Prudent Management of Institutional Funds Act (UPMIFA). Effective July 1, 2007, the Indiana General Assembly adopted UPMIFA.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

5. Endowment Funds (continued)

McMillen Center may hold donor restricted endowment funds where the gift instrument clearly stipulates that McMillen Center is not to spend the principal or some other portion of the gift, in which case such gift instrument will supersede McMillen Center's ability to spend the whole fund. ASC 958 requires the classification of a portion of a donor restricted endowment fund of perpetual duration to be classified as permanently restricted.

McMillen Center's endowment consists of several individual 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.

Interpretation of Relevant Law

The Board of Directors of McMillen Center has interpreted UPMIFA 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 stipulation to the contrary. As a result of this interpretation, McMillen Center 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. In accordance with UPMIFA, McMillen Center 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 McMillen Center and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation (depreciation) of investments.
- Other resources of McMillen Center.
- The investment policies of McMillen Center.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

5. Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
McMillen Foundation	\$ -	\$ -	\$ 1,010,986	\$ 1,010,986
Other	-	-	482,336	482,336
	-	-	1,493,322	1,493,322
Board-designated endowment funds:				
Funds held by the Community Foundation of Greater Fort Wayne Inc.	53,148	-	-	53,148
Other	142,621	-	-	142,621
	195,769	-	-	195,769
Total funds	\$ 195,769	\$ -	\$ 1,493,322	\$ 1,689,091

Changes in endowment net assets for the year ended June 30, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 72,074	\$ -	\$ 1,693,322	\$ 1,765,396
Investment return:				
Interest and dividends	64,872	-	-	64,872
Realized and unrealized gain on investments, net of investment expenses	136,812	-	-	136,812
Total investment return	201,684	-	-	201,684
Other changes:				
Distribution of endowment net assets for expenditures	(76,306)	-	(200,000)	(276,306)
Distribution of funds held by the Community Foundation of Greater Fort Wayne Inc.	(2,069)	-	-	(2,069)
Other	386	-	-	386
Endowment net assets at end of year	\$ 195,769	\$ -	\$ 1,493,322	\$ 1,689,091

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

5. Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
McMillen Foundation	\$ -	\$ -	\$ 1,210,986	\$ 1,210,986
Other	-	-	482,336	482,336
	-	-	1,693,322	1,693,322
Board-designated endowment funds:				
Funds held by the Community Foundation of Greater Fort Wayne Inc.	49,161	-	-	49,161
Other	22,913	-	-	22,913
	72,074	-	-	72,074
Total funds	\$ 72,074	\$ -	\$ 1,693,322	\$ 1,765,396

Changes in endowment net assets for the year ended June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 179,207	\$ -	\$ 1,781,275	\$ 1,960,482
Investment return:				
Interest and dividends	85,961	-	-	85,961
Realized and unrealized loss on investments, net of investment expenses	(43,599)	-	(87,953)	(131,552)
Total investment return	42,362	-	(87,953)	(45,591)
Other changes:				
Distribution of endowment net assets for expenditures	(145,468)	-	-	(145,468)
Distribution of funds held by the Community Foundation of Greater Fort Wayne Inc.	(4,027)	-	-	(4,027)
Endowment net assets at end of year	\$ 72,074	\$ -	\$ 1,693,322	\$ 1,765,396

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

5. Endowment Funds (continued)

Return Objectives and Risk Parameters

McMillen Center has adopted investment and spending 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Pursuant to this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of certain investment benchmark indices while assuming a moderate level of investment risk. McMillen Center expects its endowment funds, over time, to provide an average rate of return in excess of the annual distribution percentage plus inflation annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, McMillen Center 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). McMillen Center 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

McMillen Center's Board of Directors has approved a spending policy whereby a predetermined amount of investment income on unrestricted investment funds is designated to fund current operations. This annual distribution is calculated at 4 percent (5 percent in prior year) of the 12 quarter rolling average on March 31 and is limited to the unrestricted portion of the endowment fund.

McMillen Center obtained original donor approval to modify its original McMillen Foundation endowment fund earnings and distribution terms and conditions. On October 24, 2012, the Board of Directors voted to apply its spending policy to those McMillen Foundation endowment funds and permit a special distribution of \$200,000 consistent with the modified McMillen Foundation endowment fund terms and conditions.

During the years ended June 30, 2013 and 2012, the annual distribution was \$66,450 and \$85,468, respectively. The Board of Directors also authorized a \$69,856 distribution with

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

5. Endowment Funds (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)

\$60,000 distributed from the unrestricted portion of the endowment funds during the year ended June 30, 2012 pursuant to its spending policy. The remaining \$9,856 was distributed on August 14, 2012.

In establishing this policy, McMillen Center considered the long-term expected return on its endowment. Accordingly, over the long term, McMillen Center expects the current spending policy to allow its endowment to grow. This is consistent with McMillen Center's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

6. Net Assets

Temporarily restricted net assets are to be used for the following purposes:

	June 30	
	2013	2012
Future operations and programs	\$ 87,896	\$ 157,258
Interactive video conferencing studio	80,000	-
Van purchase	30,000	-
Dental health education	50,000	-
Displays	1,000	-
	<u>\$ 248,896</u>	<u>\$ 157,258</u>

Temporarily restricted net assets released from donor restrictions as a result of incurring expenses to satisfy the restricted purposes or by occurrence of other events specified by donors were as follows:

	Year ended June 30	
	2013	2012
Satisfaction of program requirements and other operational restrictions	\$ 309,857	\$ 203,817
Satisfaction of purchase requirements	-	16,827
	<u>\$ 309,857</u>	<u>\$ 220,644</u>

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

6. Net Assets (continued)

Permanently restricted net assets consist of funds provided by:

	June 30	
	2013	2012
McMillen Foundation	\$1,010,986	\$1,210,986
Others	482,336	482,336
	<u>\$1,493,322</u>	<u>\$1,693,322</u>

7. Debt Arrangements

Pursuant to a revolving line of credit arrangement with a bank, McMillen Center may borrow up to \$200,000 subject to certain terms and conditions. This line of credit arrangement is secured by McMillen Center's inventory, accounts receivable, and general intangibles and expires on December 5, 2013. The line of credit arrangement bears interest at the bank base rate plus .5 percent, but not less than 4.5 percent (4.5 percent at June 30, 2013), which is due and payable monthly. Borrowings pursuant to this line of credit arrangement were \$137,136 at June 30, 2012.

The debt arrangements contain customary representations, warranties, and covenants, including the incurrence of other debt and other terms and conditions. At June 30, 2013, the McMillen Center was in compliance with its debt covenants, terms, and conditions.

8. Employee Retirement Plan

McMillen Center sponsors a Section 403(b) plan. All employees are eligible to participate in the plan, which allows the maximum employee contribution permitted under the Internal Revenue Code. McMillen Center does not provide matching funds.

9. Related Party Transactions

Certain members of the Board of Directors are employed by organizations that have paid admission fees to or provided services for McMillen Center. The fees received or paid for these services were based on customary and reasonable rates for such services.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

10. Subsequent Events

During the year ended June 30, 2013, McMillen Center received a grant of \$80,000 from the McMillen Foundation to create a new Interactive Video Conferencing Studio. Funds from this grant will finance the renovation of a teaching theater into a state-of-the-art studio. Cutting edge technology will be purchased which will allow McMillen Center to incorporate green screen technology into their classes, which are broadcast nationwide and in Canada. This new studio will spur growth of live video conferencing classes and create new opportunities for revenue through developing educational videos.

Subsequent to year end and in conjunction with that grant, management has entered into a contract in the amount of approximately \$61,000 pursuant to this project.

Management has evaluated subsequent events through August 15, 2013, the date on which the financial statements were available to be issued.