

Financial Statements

HAROLD W. McMILLEN CENTER FOR HEALTH EDUCATION, INC.

*Years ended June 30, 2014 and 2013
with Report of Independent Auditors*

Harold W. McMillen Center for Health Education, Inc.

Financial Statements

Years ended June 30, 2014 and 2013

Contents

| | |
|--|---|
| Report of Independent Auditors..... | 1 |
| Financial Statements | |
| Statements of Financial Position..... | 3 |
| Statements of Activities and Changes in Net Assets | 4 |
| Statements of Functional Expenses | 5 |
| Statements of Cash Flows..... | 7 |
| Notes to Financial Statements..... | 8 |



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, 2014 and 2013, 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, 2014 and 2013, 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, Asenbarger & Skiba, LLC

August 14, 2014

Harold W. McMillen Center for Health Education, Inc.

Statements of Financial Position

| | June 30 | |
|---|---------------------|---------------------|
| | 2014 | 2013 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 65,790 | \$ 173,340 |
| Receivables: | | |
| Pledges | 46,151 | 67,997 |
| Admission fees and other | 89,622 | 12,458 |
| | <u>135,773</u> | <u>80,455</u> |
| Prepaid expenses and other current assets | 20,770 | 9,363 |
| Total current assets | <u>222,333</u> | <u>263,158</u> |
| Investments | 1,864,372 | 1,689,091 |
| Land, building, exhibits, and equipment: | | |
| Land | 94,735 | 94,735 |
| Building and improvements | 1,790,105 | 1,774,253 |
| Exhibits and equipment | 1,288,070 | 1,229,052 |
| | <u>3,172,910</u> | <u>3,098,040</u> |
| Less accumulated depreciation | 2,635,113 | 2,577,789 |
| | <u>537,797</u> | <u>520,251</u> |
| Total assets | <u>\$ 2,624,502</u> | <u>\$ 2,472,500</u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Line of credit | \$ 66,625 | \$ - |
| Accounts payable | 9,489 | 8,110 |
| Accrued expenses | 24,822 | 36,653 |
| Deferred revenue | 2,418 | 1,595 |
| Total current liabilities | <u>103,354</u> | <u>46,358</u> |
| Net assets: | | |
| Unrestricted | 908,151 | 683,924 |
| Temporarily restricted | 119,675 | 248,896 |
| Permanently restricted | 1,493,322 | 1,493,322 |
| Total net assets | <u>2,521,148</u> | <u>2,426,142</u> |
| Total liabilities and net assets | <u>\$ 2,624,502</u> | <u>\$ 2,472,500</u> |

See accompanying notes.

Harold W. McMillen Center for Health Education, Inc.

Statements of Activities and Changes in Net Assets

| | Year ended June 30 | |
|---|---------------------------|---------------------|
| | 2014 | 2013 |
| Changes in unrestricted net assets | | |
| Support, revenues, and gains: | | |
| Contributions | \$ 134,424 | \$ 97,498 |
| Contributed services and materials | 22,652 | 26,303 |
| Admission fees | 126,518 | 127,785 |
| Merchandise sales, net of cost | 86,004 | - |
| Interest and dividends | 61,591 | 64,872 |
| Realized and unrealized gain on investments, net | 182,848 | 136,812 |
| Special events | 19,213 | 17,338 |
| Loss on disposal of exhibits and equipment | (1,351) | - |
| Other | 200 | 7,156 |
| | <u>632,099</u> | 477,764 |
| Net assets released from restrictions | <u>337,019</u> | 509,857 |
| Total unrestricted support, revenues, and gains | <u>969,118</u> | 987,621 |
| Expenses: | | |
| Program services—health education | 473,370 | 487,529 |
| Supporting services: | | |
| Management and general | 186,420 | 146,260 |
| Development | 85,101 | 101,350 |
| Total expenses | <u>744,891</u> | 735,139 |
| Increase in unrestricted net assets | <u>224,227</u> | 252,482 |
| Changes in temporarily restricted net assets | | |
| Contributions | 207,798 | 401,495 |
| Net assets released from restrictions | (337,019) | (309,857) |
| Increase (decrease) in temporarily restricted net assets | <u>(129,221)</u> | 91,638 |
| Changes in permanently restricted net assets—net assets released from restrictions | <u>-</u> | (200,000) |
| Increase in net assets | 95,006 | 144,120 |
| Net assets at beginning of year | 2,426,142 | 2,282,022 |
| Net assets at end of year | <u>\$ 2,521,148</u> | <u>\$ 2,426,142</u> |

Harold W. McMillen Center for Health Education, Inc.

Statement of Functional Expenses

Year ended June 30, 2014

| | Program Services Health Education | Supporting Services Management and General | Development | Total Expenses |
|------------------------------------|--|---|--------------------|---------------------------|
| Salaries, wages, and benefits | \$ 279,153 | \$ 153,845 | \$ 50,442 | \$ 483,440 |
| Computer expense | 3,354 | 1,243 | 1,200 | 5,797 |
| Insurance | 14,067 | 1,907 | 440 | 16,414 |
| Interest | - | 3,486 | - | 3,486 |
| Office supplies and expense | 20,123 | 1,908 | 1,613 | 23,644 |
| Operating supplies and expense | 33,108 | 2,580 | 4,088 | 39,776 |
| Public relations | 14,285 | - | 7,359 | 21,644 |
| Professional fees | 3,344 | 14,540 | 548 | 18,432 |
| Provision for bad debts | - | 135 | - | 135 |
| Repairs and maintenance | 17,862 | 106 | 318 | 18,286 |
| Special event expenses | - | - | 9,885 | 9,885 |
| Telephone | 2,147 | 631 | 253 | 3,031 |
| Training | 2,675 | 1,489 | 237 | 4,401 |
| Travel | 3,538 | 1,213 | 1,139 | 5,890 |
| Utilities | 28,678 | 299 | 896 | 29,873 |
| Total expenses before depreciation | 422,334 | 183,382 | 78,418 | 684,134 |
| Depreciation | 51,036 | 3,038 | 6,683 | 60,757 |
| Total expenses | \$ 473,370 | \$ 186,420 | \$ 85,101 | \$ 744,891 |

Harold W. McMillen Center for Health Education, Inc.

Statement of Functional Expenses

Year ended June 30, 2013

| | Program Services Health Education | Supporting Services Management and General | Development | Total Expenses |
|------------------------------------|--|---|--------------------|---------------------------|
| 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 | <u>\$ 487,529</u> | <u>\$ 146,260</u> | <u>\$ 101,350</u> | <u>\$ 735,139</u> |

Harold W. McMillen Center for Health Education, Inc.

Statements of Cash Flows

| | Year ended June 30 | |
|--|---------------------------|-------------------|
| | 2014 | 2013 |
| Operating activities | | |
| Increase in net assets | \$ 95,006 | \$ 144,120 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 60,757 | 56,556 |
| Realized and unrealized gain on investments, net | (182,848) | (136,812) |
| Loss of disposal of exhibit and equipment | 1,351 | - |
| Changes in operating assets and liabilities: | | |
| Receivables | (55,318) | 16,090 |
| Prepaid expenses and other current assets | (11,407) | 1,028 |
| Accounts payable | 1,379 | (6,771) |
| Accrued expenses | (11,831) | 12,327 |
| Deferred revenue | 823 | (1,408) |
| Cash provided by (used in) operating activities | <u>(102,088)</u> | 85,130 |
| Investing activities | | |
| Purchases of land, building, exhibits, and equipment | (79,654) | - |
| Purchases of investments | (893,824) | (695,876) |
| Proceeds from sale and maturities of investments | 901,391 | 908,993 |
| Cash provided by (used in) investing activities | <u>(72,087)</u> | 213,117 |
| Financing activities—borrowings (payments) on line of credit, net | <u>66,625</u> | (137,136) |
| Increase (decrease) in cash and cash equivalents | (107,550) | 161,111 |
| Cash and cash equivalents at beginning of year | 173,340 | 12,229 |
| Cash and cash equivalents at end of year | <u>\$ 65,790</u> | <u>\$ 173,340</u> |

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements

June 30, 2014

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 41,000 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, 2011.

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, 2014 or 2013. 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 they become known. McMillen Center received the largest portion of its admission fees from Fort Wayne Community School Corporation in 2014 and 2013.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

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

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, 2014 and 2013.

Revenue from merchandise sales, primarily dental care books and DVD's, is recognized when the product is shipped to the customer and is recorded net of customer returns and discounts. Cost of sales for the year ended June 30, 2014 were \$80,050.

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, 2014 and 2013, the value of contributed services and materials recognized as revenue in the accompanying statements of activities and changes in net assets was \$22,652 and \$26,303, 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, 2014 and 2013, 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, 2013 have been reclassified to conform with the presentation for the year ended June 30, 2014.

2. Pledges Receivable

Pledges receivable represent unconditional promises to give. At June 30, 2014 and 2013, McMillen Center had pledges receivable of \$46,151 and \$67,997, 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 | |
|---------------------------------------|---------------------|---------------------|
| | 2014 | 2013 |
| Money market funds | \$ 33,154 | \$ 10,028 |
| Trust preferred securities | 35,100 | 34,236 |
| Mutual funds | 1,369,276 | 1,230,734 |
| Exchange traded funds | 365,018 | 360,945 |
| | 1,802,548 | 1,635,943 |
| Funds held by the Community | | |
| Foundation of Greater Fort Wayne Inc. | 61,824 | 53,148 |
| Total investments | \$ 1,864,372 | \$ 1,689,091 |
| Permanently restricted by donors | \$ 1,493,322 | \$ 1,493,322 |
| Board designated as endowment funds | 309,226 | 142,621 |
| Total endowment funds invested | 1,802,548 | 1,635,943 |
| Funds held by the Community | | |
| Foundation of Greater Fort Wayne Inc. | 61,824 | 53,148 |
| Total investments | \$ 1,864,372 | \$ 1,689,091 |

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 \$11,811 and \$9,717 at June 30, 2014 and 2013, 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 | |
|------------------------------------|---------------------------|-------------|
| | 2014 | 2013 |
| Investment income: | | |
| Interest and dividends | \$ 61,591 | \$ 64,872 |
| Net realized gain on investments | 60,234 | 31,327 |
| Net unrealized gain on investments | 132,183 | 114,859 |
| | 254,008 | 211,058 |
| Investment expenses | (9,569) | (9,374) |
| Net investment income | \$ 244,439 | \$ 201,684 |

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, 2014 and 2013.

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, 2014 and 2013:

| | Assets at Fair Value at June 30, 2014 | | | |
|--|--|------------------|----------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market fund | \$ 33,154 | \$ - | \$ - | \$ 33,154 |
| Trust preferred securities | - | 35,100 | - | 35,100 |
| Mutual funds | | | | |
| Equity funds: | | | | |
| Large growth | 288,608 | - | - | 288,608 |
| Large blend | 90,875 | - | - | 90,875 |
| Diversified emerging markets | 91,402 | - | - | 91,402 |
| Diversified—international | 232,212 | - | - | 232,212 |
| Global real estate | 55,166 | - | - | 55,166 |
| Fixed income funds: | | | | |
| Intermediate-term bond | 325,229 | - | - | 325,229 |
| World bond | 194,088 | - | - | 194,088 |
| World allocation—large value | 91,696 | - | - | 91,696 |
| | <u>1,369,276</u> | - | - | <u>1,369,276</u> |
| Exchange traded funds | | | | |
| Large blend | 365,018 | - | - | 365,018 |
| Funds held by the Community Foundation of Greater Fort Wayne Inc. | | | | |
| | - | 61,824 | - | 61,824 |
| Total assets at fair value | <u>\$ 1,767,448</u> | <u>\$ 96,924</u> | <u>\$ -</u> | <u>\$ 1,864,372</u> |

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, 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 | \$ 1,601,707 | \$ 87,384 | \$ - | \$ 1,689,091 |

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, 2014 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. | 61,824 | - | - | 61,824 |
| Other | 309,226 | - | - | 309,226 |
| | 371,050 | - | - | 371,050 |
| Total funds | <u>\$ 371,050</u> | <u>\$ -</u> | <u>\$ 1,493,322</u> | <u>\$ 1,864,372</u> |

Changes in endowment net assets for the year ended June 30, 2014 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets at beginning of year | \$ 195,769 | \$ - | \$ 1,493,322 | \$ 1,689,091 |
| Investment return: | | | | |
| Interest and dividends | 61,591 | - | - | 61,591 |
| Realized and unrealized gain on investments, net of investment expenses | 182,848 | - | - | 182,848 |
| Total investment return | 244,439 | - | - | 244,439 |
| Other changes: | | | | |
| Distribution of endowment net assets for expenditures | (69,158) | - | - | (69,158) |
| Endowment net assets at end of year | <u>\$ 371,050</u> | <u>\$ -</u> | <u>\$ 1,493,322</u> | <u>\$ 1,864,372</u> |

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)

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 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, 2014 and 2013, the annual distribution was \$69,158 and \$66,450, respectively.

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)

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 | |
|---------------------------------------|-------------------|-------------------|
| | 2014 | 2013 |
| Future operations and programs | \$ 108,117 | \$ 87,896 |
| Interactive video conferencing studio | - | 80,000 |
| Van purchase | - | 30,000 |
| Dental health education | 11,558 | 50,000 |
| Displays | - | 1,000 |
| | <u>\$ 119,675</u> | <u>\$ 248,896</u> |

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 financed the renovation of a teaching theater into a state-of-the-art studio. Cutting edge technology was purchased which allowed McMillen Center to incorporate green screen technology into their classes, which are broadcast nationwide and in Canada. This new studio spurred growth of live video conferencing classes and created new opportunities for revenue through developing educational videos.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

6. Net Assets (continued)

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 | |
|--|---------------------------|--------------------------|
| | 2014 | 2013 |
| Satisfaction of program requirements and other operational restrictions | \$ 226,019 | \$ 309,857 |
| Satisfaction of purchase requirements | 111,000 | - |
| | <u>\$ 337,019</u> | <u>\$ 309,857</u> |

Permanently restricted net assets consist of funds provided by:

| | June 30 | |
|---------------------|---------------------------|---------------------------|
| | 2014 | 2013 |
| McMillen Foundation | \$1,010,986 | \$1,010,986 |
| Others | 482,336 | 482,336 |
| | <u>\$1,493,322</u> | <u>\$1,493,322</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 October 5, 2018. 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, 2014), which is due and payable monthly. Borrowings pursuant of this line of credit arrangement were \$66,625 at June 30, 2014.

The debt arrangements contain customary representations, warranties, and covenants, including the incurrence of other debt and other terms and conditions. At June 30, 2014, the McMillen Center was in compliance with its debt covenants, terms, and conditions.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

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.

10. Subsequent Events

Management has evaluated subsequent events through August 14, 2014, the date on which the financial statements were available to be issued.