

Financial Statements

HAROLD W. McMILLEN CENTER FOR HEALTH EDUCATION, INC.

*Years ended June 30, 2016 and 2015
with Report of Independent Auditors*

Harold W. McMillen Center for Health Education, Inc.

Financial Statements

Years ended June 30, 2016 and 2015

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HAINES, ISENBARGER & SKIBA, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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., doing business as McMillen Health, (McMillen Health) which comprise the statements of financial position as of June 30, 2016 and 2015, 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 Health as of June 30, 2016 and 2015, 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 10, 2016

Harold W. McMillen Center for Health Education, Inc.

Statements of Financial Position

	June 30	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 490,959	\$ 149,375
Receivables:		
Current portion of pledges receivable	32,650	63,920
Admission fees and other receivables	56,145	6,710
Accrued interest receivable	1,320	-
	<u>90,115</u>	<u>70,630</u>
Inventory	73,005	46,029
Prepaid expenses and other current assets	12,027	9,431
Total current assets	<u>666,106</u>	<u>275,465</u>
Investments	1,791,252	1,832,937
Pledges receivable, less current portion	-	5,000
Land, building, exhibits, and equipment:		
Land	94,735	94,735
Building and improvements	2,019,139	1,944,359
Exhibits and equipment	1,297,613	1,276,913
	<u>3,411,487</u>	<u>3,316,007</u>
Less accumulated depreciation	2,684,072	2,652,031
	<u>727,415</u>	<u>663,976</u>
Total assets	<u>\$ 3,184,773</u>	<u>\$ 2,777,378</u>
Liabilities and net assets		
Current liabilities:		
Line of credit	\$ -	\$ 50,000
Accounts payable	28,206	11,664
Accrued expenses	87,354	23,603
Deferred revenue	2,408	7,244
Total current liabilities	<u>117,968</u>	<u>92,511</u>
Net assets:		
Unrestricted	1,058,450	986,022
Temporarily restricted	515,033	205,523
Permanently restricted	1,493,322	1,493,322
Total net assets	<u>3,066,805</u>	<u>2,684,867</u>
Total liabilities and net assets	<u>\$ 3,184,773</u>	<u>\$ 2,777,378</u>

See accompanying notes.

Harold W. McMillen Center for Health Education, Inc.

Statements of Activities and Changes in Net Assets

	Year ended June 30	
	2016	2015
Changes in unrestricted net assets		
Support, revenues, and gains:		
Contributions	\$ 128,665	\$ 128,779
Government grants	87,253	-
Contributed services and materials	6,499	15,696
Admission fees	130,318	135,697
Merchandise sales, net of cost	215,574	82,949
Interest and dividends	39,793	65,572
Realized and unrealized loss on investments, net	(5,739)	(25,432)
Change in value of beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	(2,949)	(1,548)
Special events	16,175	39,748
Other	2,077	1,384
	<u>617,666</u>	442,845
Net assets released from restrictions	308,658	434,049
Total unrestricted support, revenues, and gains	<u>926,324</u>	876,894
Expenses:		
Program services—health education	571,026	539,148
Supporting services:		
Management and general	189,383	171,823
Development	93,487	88,052
Total expenses	<u>853,896</u>	799,023
Increase in unrestricted net assets	72,428	77,871
Changes in temporarily restricted net assets		
Contributions	280,801	194,673
Capital campaign contributions for renovation project	337,367	325,224
Net assets released from restrictions	(308,658)	(434,049)
Increase in temporarily restricted net assets	<u>309,510</u>	85,848
Increase in net assets	381,938	163,719
Net assets at beginning of year	2,684,867	2,521,148
Net assets at end of year	<u><u>\$ 3,066,805</u></u>	<u><u>\$ 2,684,867</u></u>

Harold W. McMillen Center for Health Education, Inc.

Statement of Functional Expenses

Year ended June 30, 2016

	Program Services Health Education	Supporting Services Management and General	Development	Total Expenses
Salaries, wages, and benefits	\$ 362,464	\$ 149,179	\$ 55,554	\$ 567,197
Computer expense	2,163	1,144	1,792	5,099
Insurance	15,606	2,419	488	18,513
Interest	-	763	-	763
Office supplies and expense	18,517	2,225	1,481	22,223
Operating supplies and expense	40,009	3,534	4,155	47,698
Professional fees	3,308	14,198	542	18,048
Provision for uncollectible receivables	-	2,025	-	2,025
Public relations	10,608	-	5,477	16,085
Repairs and maintenance	24,649	134	402	25,185
Special event expenses	-	-	10,468	10,468
Telephone	1,909	561	225	2,695
Training	727	513	81	1,321
Travel	7,951	8,511	3,503	19,965
Utilities	15,698	164	491	16,353
Total expenses before depreciation	<u>503,609</u>	<u>185,370</u>	<u>84,659</u>	<u>773,638</u>
Depreciation	67,417	4,013	8,828	80,258
Total expenses	<u>\$ 571,026</u>	<u>\$ 189,383</u>	<u>\$ 93,487</u>	<u>\$ 853,896</u>

Harold W. McMillen Center for Health Education, Inc.

Statement of Functional Expenses

Year ended June 30, 2015

	Program Services Health Education	Supporting Services Management and General	Development	Total Expenses
Salaries, wages, and benefits	\$ 351,382	\$ 138,396	\$ 40,149	\$ 529,927
Computer expense	2,956	1,127	1,151	5,234
Insurance	14,269	2,206	446	16,921
Interest	-	3,181	-	3,181
Office supplies and expense	11,320	1,655	1,603	14,578
Operating supplies and expense	35,389	2,710	4,189	42,288
Public relations	13,125	-	7,135	20,260
Professional fees	3,144	14,445	515	18,104
Repairs and maintenance	16,292	114	327	16,733
Special event expenses	-	-	22,403	22,403
Telephone	1,631	480	192	2,303
Training	881	111	20	1,012
Travel	6,667	3,881	1,954	12,502
Utilities	27,905	291	872	29,068
Total expenses before depreciation	484,961	168,597	80,956	734,514
Depreciation	54,187	3,226	7,096	64,509
Total expenses	<u>\$ 539,148</u>	<u>\$ 171,823</u>	<u>\$ 88,052</u>	<u>\$ 799,023</u>

Harold W. McMillen Center for Health Education, Inc.

Statements of Cash Flows

	Year ended June 30	
	2016	2015
Operating activities		
Increase in net assets	\$ 381,938	\$ 163,719
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	80,258	64,509
Realized and unrealized loss on investments, net	5,739	25,432
Change in value of beneficial interest in funds held by the Community Foundation of Greater Fort Wayne Inc.	2,949	1,548
Changes in operating assets and liabilities:		
Pledges receivables	36,270	(22,769)
Admissions fees and other receivables	(49,435)	82,912
Accrued interest receivable	(1,320)	-
Inventory	(26,976)	(30,139)
Prepaid expenses and other current assets	(2,596)	(4,551)
Accounts payable	16,542	2,175
Accrued expenses	63,751	(1,219)
Deferred revenue	(4,836)	4,826
Cash provided by operating activities	<u>502,284</u>	286,443
Investing activities		
Additions to land, building, exhibits, and equipment	(143,697)	(190,688)
Purchases of investments	(2,512,463)	(600,465)
Proceeds from sale and maturities of investments	2,545,460	604,920
Cash used in investing activities	<u>(110,700)</u>	(186,233)
Financing activities —payments on line of credit, net	<u>(50,000)</u>	(16,625)
Increase in cash and cash equivalents	341,584	83,585
Cash and cash equivalents at beginning of year	149,375	65,790
Cash and cash equivalents at end of year	<u>\$ 490,959</u>	<u>\$ 149,375</u>

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements

June 30, 2016

1. Organization and Summary of Significant Accounting Policies

Organization

The mission of the Harold W. McMillen Center for Health Education, Inc., doing business as McMillen Health, (McMillen Health) is:

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

McMillen Health provides health education programs to over 50,000 youth and adults annually. Programs are presented either at the McMillen Health facility, at a site of the customer's choice, or via interactive videoconferencing. McMillen Health also serves over 60,000 preschool age children nationwide through oral health curriculum and develops educational video through their green screen film studio.

McMillen Health 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 Health has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. Management believes McMillen Health is no longer subject to examination by taxing authorities for years before June 30, 2013.

During the year ended June 30, 2015, McMillen Health began a capital campaign to raise approximately \$725,000 to upgrade its facility, road, parking lot and certain technology (Renovation Project). Completion of the Renovation Project is expected in 2017.

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 of money market funds. McMillen Health maintains cash accounts at a local bank. At various times during the year, cash accounts exceeded federally insured limits.

Investments

McMillen Health'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.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

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

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.

Land, Building, Exhibits, and Equipment

Land, building, exhibits, and equipment are stated at cost or if donated, at fair market value at the 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, 2016 or 2015. 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 Health 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 Health 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 Health 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.

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

McMillen Health grants credit to the users of its services, which are primarily schools in the northeastern Indiana area. McMillen Health performs ongoing credit evaluations, provides an allowance for uncollectible receivables, if necessary, and writes off uncollectible amounts as they become known. McMillen Health received the largest portion of its admission fees from Fort Wayne Community School Corporation in 2016 and 2015.

McMillen Health'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 Health 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, 2016 and 2015.

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, 2016 and 2015 were \$115,875 and \$79,726, respectively.

During the year ended June 30, 2016, McMillen Health provided services and developed and integrated oral health materials and products into the Indiana State Department of Health's Women, Infants and Children (WIC) Program through a contract with The Health and Hospital Corporation of Marion County, Indiana d/b/a Marion County Public Health Department (MCPHD).

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.

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)

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, 2016 and 2015, the value of contributed services and materials recognized as revenue in the accompanying statements of activities and changes in net assets was \$6,499 and \$15,696, respectively.

Unconditional promises or pledges are recorded at net realizable value. McMillen Health 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, 2016 and 2015, no allowance for uncollectible pledges was deemed necessary.

Conditional promises or pledges are recognized when the conditions on which they depend are substantially met. During the year ended June 30, 2015, McMillen Health was awarded a \$300,000 matching (challenge) grant from the McMillen Foundation that will support McMillen Center's Renovation Project. For every \$3 raised by McMillen Center, \$2 will be contributed pursuant to the challenge grant to a maximum of \$300,000. For the years ended June 30, 2016 and 2015, qualifying matching gifts received resulted in conditional grant funds of \$134,947 and \$130,089, respectively, being recognized in the financial statements.

Government Grants

Government grants are recognized as the McMillen Health performs the contracted services pursuant to grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. The government grants originated from the Maternal and Child Health Division of the Indiana State Department of Health.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

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

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, 2015 have been reclassified to conform with the presentation for the year ended June 30, 2016.

2. Pledges Receivable

Unconditional promises to give to McMillen Health are recorded as pledges receivable at the present value of future cash flows. McMillen Health's pledges receivable are as follows:

	June 30	
	2016	2015
Amounts due in:		
Less than one year	\$ 32,650	\$ 63,920
One to five years	-	5,000
	<u>\$ 32,650</u>	<u>\$ 68,920</u>

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	
	2016	2015
Money market funds	\$ 46,305	\$ 20,775
Common stock	545,330	-
Mutual funds and exchange traded funds	1,142,290	1,751,886
	<u>1,733,925</u>	<u>1,772,661</u>
Funds held by the Community		
Foundation of Greater Fort Wayne Inc.	57,327	60,276
Total investments	<u>\$ 1,791,252</u>	<u>\$ 1,832,937</u>

	June 30	
	2016	2015
Permanently restricted by donors	\$ 1,493,322	\$ 1,493,322
Board designated as endowment funds	240,603	279,339
Total endowment funds invested	1,733,925	1,772,661
Funds held by the Community		
Foundation of Greater Fort Wayne Inc.	57,327	60,276
Total investments	<u>\$ 1,791,252</u>	<u>\$ 1,832,937</u>

The investments held by the Community Foundation of Greater Fort Wayne Inc. (Foundation) are the result of an agreement whereby McMillen Health has transferred assets to the Foundation and has specified itself as the beneficiary of the assets. McMillen Health 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 Health's beneficial interest in these funds is included in investments.

Additionally, the Foundation holds investment assets, with a value of \$11,624 and \$11,717 at June 30, 2016 and 2015, respectively, for the benefit of McMillen Health. McMillen Health is precluded from recognizing these assets held by the Foundation because of the explicitly granted variance power held by the Foundation. Accordingly, McMillen Health 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	
	2016	2015
Investment income:		
Interest and dividends	\$ 37,706	\$ 65,542
Interest on cash equivalents	2,087	30
Net realized gain on investments	249,913	32,307
Net unrealized loss on investments	(249,556)	(47,801)
	<u>40,150</u>	<u>50,078</u>
Investment expenses	(6,096)	(9,938)
Net investment income	<u>\$ 34,054</u>	<u>\$ 40,140</u>

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 Health 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, 2016 and 2015.

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 Health at year-end.

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

Mutual funds and exchange traded funds: Valued at the daily closing price as reported by the fund. Mutual funds held by McMillen Health are open-end funds that are registered with the Securities and Exchange Commission. Exchange traded funds are open-end funds that can be bought and sold throughout the day on a stock exchange. Mutual funds are required to publish their daily net asset value and to transact at that price. The mutual funds and exchange traded funds held by McMillen Health are deemed to be actively 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 Health 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 Health's assets at fair value as of June 30, 2016 and 2015:

	Assets at Fair Value at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 46,305	\$ -	\$ -	\$ 46,305
Common stock				
Industrials	75,850	-	-	75,850
Consumer discretionary	87,168	-	-	87,168
Consumer staples	36,244	-	-	36,244
Energy	33,632	-	-	33,632
Financial	78,111	-	-	78,111
Materials	21,946	-	-	21,946
Information technology	95,014	-	-	95,014
Utilities	24,400	-	-	24,400
Healthcare	81,239	-	-	81,239
Telecommunication services	11,726	-	-	11,726
	<u>545,330</u>	-	-	<u>545,330</u>
Mutual funds and exchange traded funds				
Equity funds:				
Large Growth	60,407	-	-	60,407
Long cap value	108,860	-	-	108,860
Long-short equity	48,420	-	-	48,420
Mid cap growth	38,259	-	-	38,259
Mid cap value	36,028	-	-	36,028
Small growth	30,896	-	-	30,896
Diversified emerging markets	34,523	-	-	34,523
Diversified—international	158,597	-	-	158,597
Real estate	56,801	-	-	56,801
Fixed income funds:				
Intermediate-term bond	275,552	-	-	275,552
Short-term bond	34,479	-	-	34,479
Corporate bond	79,883	-	-	79,883
World bond	53,932	-	-	53,932
Bank loan	55,541	-	-	55,541
Nontraditional bond	70,112	-	-	70,112
	<u>1,142,290</u>	-	-	<u>1,142,290</u>
Funds held by the Community				
Foundation of Greater Fort Wayne Inc.	-	57,327	-	57,327
Total assets at fair value	<u>\$ 1,733,925</u>	<u>\$ 57,327</u>	<u>\$ -</u>	<u>\$ 1,791,252</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, 2015			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 20,775	\$ -	\$ -	\$ 20,775
Mutual funds and exchange traded funds				
Equity funds:				
Large growth	308,138	-	-	308,138
Large blend	408,710	-	-	408,710
Diversified emerging markets	107,993	-	-	107,993
Diversified—international	269,250	-	-	269,250
Commodities	36,883	-	-	36,883
Fixed income funds:				
Intermediate-term bond	228,903	-	-	228,903
Short-term bond	90,039	-	-	90,039
Nontraditional bond	85,371	-	-	85,371
World bond	127,257	-	-	127,257
World allocation—large value	89,342	-	-	89,342
	<u>1,751,886</u>	-	-	<u>1,751,886</u>
Funds held by the Community Foundation of Greater Fort Wayne Inc.	-	60,276	-	60,276
Total assets at fair value	<u>\$ 1,772,661</u>	<u>\$ 60,276</u>	<u>\$ -</u>	<u>\$ 1,832,937</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 Health may hold donor restricted endowment funds where the gift instrument clearly stipulates that McMillen Health is not to spend the principal or some other portion of the gift, in which case such gift instrument will supersede McMillen Health'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 Health'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 Health 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 Health 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 Health 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 Health 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 Health.
- The investment policies of McMillen Health.

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, 2016 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.	57,327	-	-	57,327
Other	240,603	-	-	240,603
	297,930	-	-	297,930
Total funds	\$ 297,930	\$ -	\$ 1,493,322	\$ 1,791,252

Changes in endowment net assets for the year ended June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 339,615	\$ -	\$ 1,493,322	\$ 1,832,937
Investment return:				
Interest and dividends	37,706	-	-	37,706
Realized and unrealized loss on investments, net of investment expenses	(5,739)	-	-	(5,739)
Change in value of beneficial interest on funds held by the Community Foundation Greater Fort Wayne Inc.	(2,949)	-	-	(2,949)
Total investment return	29,018	-	-	29,018
Other changes:				
Distribution of endowment net assets for expenditures	(70,703)	-	-	(70,703)
Endowment net assets at end of year	\$ 297,930	\$ -	\$ 1,493,322	\$ 1,791,252

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, 2015 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.	60,276	-	-	60,276
Other	279,339	-	-	279,339
	339,615	-	-	339,615
Total funds	<u>\$ 339,615</u>	<u>\$ -</u>	<u>\$ 1,493,322</u>	<u>\$ 1,832,937</u>

Changes in endowment net assets for the year ended June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 371,050	\$ -	\$ 1,493,322	\$ 1,864,372
Investment return:				
Interest and dividends	65,542	-	-	65,542
Realized and unrealized loss on investments, net of investment expenses	(25,432)	-	-	(25,432)
Change in value of beneficial interest on funds held by the Community Foundation Greater Fort Wayne Inc.	(1,548)	-	-	(1,548)
Total investment return	38,562	-	-	38,562
Other changes:				
Distribution of endowment net assets for expenditures	(69,997)	-	-	(69,997)
Endowment net assets at end of year	<u>\$ 339,615</u>	<u>\$ -</u>	<u>\$ 1,493,322</u>	<u>\$ 1,832,937</u>

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

5. Endowment Funds (continued)

Return Objectives and Risk Parameters

McMillen Health 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 Health 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 Health 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 Health 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 Health'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.

During the years ended June 30, 2016 and 2015, the annual distribution was \$70,703 and \$69,997, respectively.

In establishing this policy, McMillen Health considered the long-term expected return on its endowment. Accordingly, over the long-term, McMillen Health expects the current spending policy to allow its endowment to grow. This is consistent with McMillen Health'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.

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

6. Net Assets

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

	June 30	
	2016	2015
Future operations and programs	\$ 133,158	\$ 45,381
Capital campaign for renovation project	329,324	144,242
Dental health education	52,551	15,900
	<u>\$ 515,033</u>	<u>\$ 205,523</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	
	2016	2015
Satisfaction of program requirements and other operational restrictions	\$ 156,373	\$ 253,067
Satisfaction of capital campaign requirements for renovation project	152,285	180,982
	<u>\$ 308,658</u>	<u>\$ 434,049</u>

Permanently restricted net assets consist of funds provided by:

	June 30	
	2016	2015
McMillen Foundation	\$1,010,986	\$1,010,986
Others	482,336	482,336
	<u>\$1,493,322</u>	<u>\$1,493,322</u>

Harold W. McMillen Center for Health Education, Inc.

Notes to Financial Statements (continued)

7. Debt Arrangements

Pursuant to a revolving line of credit arrangement with a bank, McMillen Health may borrow up to \$200,000 subject to certain terms and conditions. This line of credit arrangement expires on October 9, 2016. The line of credit arrangement bears interest at the bank base rate plus .5 percent (4 percent at June 30, 2016), which is due and payable monthly. Borrowings pursuant of this line of credit arrangement were \$50,000 at June 30, 2015.

The debt arrangements contain customary representations, warranties, and covenants, including the incurrence of other debt and other terms and conditions. At June 30, 2016, the McMillen Health was in compliance with its debt covenants, terms, and conditions.

8. Employee Retirement Plan

McMillen Health 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 Health 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 Health. 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 10, 2016, the date on which the financial statements were available to be issued.