

KOSCIUSKO COUNTY COMMUNITY FOUNDATION, INC.
AND AFFILIATE,
ORTHOPEDICS CAPITAL FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2016 and 2015

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Independent Auditors' Report

Board of Directors
Kosciusko County Community Foundation, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kosciusko County Community Foundation, Inc. and Affiliate which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kosciusko County Community Foundation, Inc. and Affiliate as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Estep Burkey Simmons, LLC

Muncie, Indiana
August 31, 2016

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 2,386,125	\$ 4,255,997
Interest and dividends receivable	43,696	7,955
Accounts receivable	-	55,558
Pledges and grants receivable, net of discount	286,543	352,835
Prepaid expenses	29,976	20,009
Investments	45,497,677	44,789,604
Charitable remainder trusts	3,203,566	3,370,253
Property, building and equipment, net of accumulated depreciation	386,660	405,444
	<u>\$ 51,834,243</u>	<u>\$ 53,257,655</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 437,956	\$ 739,025
Accrued payroll, taxes and benefits	54,007	48,430
Payroll taxes and benefits withheld	6,054	5,155
Grants payable	726,490	583,023
Deferred revenue	-	255,266
Annuity reserves	70,133	18,963
Agency endowments	1,953,633	2,054,799
	<u>3,248,273</u>	<u>3,704,661</u>
Total liabilities	3,248,273	3,704,661
NET ASSETS		
Unrestricted	43,928,575	42,978,931
Temporarily restricted	4,657,395	6,574,063
	<u>48,585,970</u>	<u>49,552,994</u>
	<u>\$ 51,834,243</u>	<u>\$ 53,257,655</u>

The accompanying notes are an integral part of these statements.

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended June 30,

	2016		
	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions and bequests	\$ 5,045,248	\$ 130,086	\$ 5,175,334
Administrative fee income	665,978		665,978
Investment income	1,117,806		1,117,806
Realized gains (losses) on investments	(858,951)		(858,951)
Unrealized losses on investments	(864,254)		(864,254)
Annuity payments and change in value of split-interest agreements	(4,208)	(166,687)	(170,895)
Discount on pledge receivable		10,075	10,075
Other income	6,089		6,089
	<u>5,107,708</u>	<u>(26,526)</u>	<u>5,081,182</u>
Net assets released from restrictions			
Satisfaction of time restrictions	500	(500)	
Satisfaction of use restrictions	1,889,642	(1,889,642)	
	<u>1,890,142</u>	<u>(1,890,142)</u>	
Expenses			
Program Services			
Grants and scholarships	2,419,713		2,419,713
Program expenses	2,038,947		2,038,947
Supporting Services			
Management and general	598,763		598,763
Administrative fees	645,711		645,711
Fundraising and promotion	345,072		345,072
	<u>6,048,206</u>		<u>6,048,206</u>
INCREASE (DECREASE) IN NET ASSETS	949,644	(1,916,668)	(967,024)
Net assets at beginning of year	<u>42,978,931</u>	<u>6,574,063</u>	<u>49,552,994</u>
Net assets at end of year	<u>\$ 43,928,575</u>	<u>\$ 4,657,395</u>	<u>\$ 48,585,970</u>

The accompanying notes are an integral part of these statements.

2015		
Unrestricted	Temporarily Restricted	Total
\$ 4,286,676	\$ 203,526	\$ 4,490,202
676,385		676,385
1,232,625		1,232,625
1,393,252		1,393,252
(3,578,517)		(3,578,517)
(1,805)	(88,516)	(90,321)
	3,255	3,255
6,754		6,754
<u>4,015,370</u>	<u>118,265</u>	<u>4,133,635</u>
471,937	(471,937)	
2,183,321	(2,183,321)	
<u>2,655,258</u>	<u>(2,655,258)</u>	
2,513,488		2,513,488
2,260,177		2,260,177
569,357		569,357
654,837		654,837
290,855		290,855
<u>6,288,714</u>		<u>6,288,714</u>
381,914	(2,536,993)	(2,155,079)
<u>42,597,017</u>	<u>9,111,056</u>	<u>51,708,073</u>
<u>\$ 42,978,931</u>	<u>\$ 6,574,063</u>	<u>\$ 49,552,994</u>

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (967,024)	\$ (2,155,079)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	40,575	40,819
Realized (gains) losses on investments	858,951	(1,393,252)
Unrealized losses on investments	864,254	3,578,517
Loss on disposal of asset	83	
Change in value of split interest agreements	170,895	90,321
Non-cash contributions	(539,538)	(1,349,865)
(Increase) decrease in assets:		
Interest and dividends receivable	(35,741)	(1,515)
Accounts receivable	55,558	(55,558)
Pledges and grants receivable	66,292	148,094
Prepaid expenses	(9,967)	(1,132)
Deposits		275
Increase (decrease) in liabilities:		
Accounts payable	(301,069)	480,432
Grants payable	143,467	(54,815)
Accrued and withheld taxes and expenses	6,476	(8,803)
Deferred revenue	(255,266)	255,266
Annuity reserves	51,170	(882)
Agency endowments	(101,166)	(106,519)
Net cash provided by (used in) operating activities	47,950	(533,696)
Cash flows from investing activities:		
Cash paid for purchases of fixed assets	(21,874)	(65,823)
Proceeds from sale of investments	10,713,181	19,639,399
Purchases of investments	(12,609,129)	(20,867,730)
Net cash used in investing activities	(1,917,822)	(1,294,154)
Net decrease in cash and cash equivalents	(1,869,872)	(1,827,850)
Cash and cash equivalents at beginning of year	4,255,997	6,083,847
Cash and cash equivalents at end of year	<u>\$ 2,386,125</u>	<u>\$ 4,255,997</u>
<u>Supplemental Disclosure</u>		
Non-cash contributions	\$ 539,538	\$ 1,349,865

The accompanying notes are an integral part of these statements.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Kosciusko County Community Foundation, Inc. (Foundation) was organized in 1968 in trust form under the laws of the State of Indiana to operate for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. On February 4, 2002, a corporation was formed, and on July 1, 2002, all assets and liabilities were transferred to the newly formed corporation. The Foundation supports programs of other not-for-profit organizations, provides scholarships for education and other assistance for individuals in need primarily in Kosciusko County, Indiana.

Orthopedics Capital Foundation, Inc. (Foundation) was formed as a not-for-profit affiliate of the Kosciusko County Community Foundation, Inc. on September 22, 2009. Orthopedics Capital Foundation, Inc. targets an integrated set of educational, workforce, cultural, communication, logistical and entrepreneurial initiatives to advance the orthopedics sector and the Warsaw, Indiana community.

2. Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America.

3. Net Assets and Spending Policy

The financial statements have been prepared in accordance with *FASB ASC 958-205-05*. Under the provisions, net assets are classified based upon the existence or absence of donor-imposed restrictions. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of the Foundation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Foundation.

Permanently restricted net assets represent the part of the net assets of the Foundation resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

The investment performance objective is to maximize total return of the Portfolio net of inflation, spending and expenses, over a full market cycle (generally defined as a three to five year period) without undue exposure to risk (not exceeding a standard deviation of 1.2 times a weighted benchmark index). It is expected that the Portfolio will outperform this weighted benchmark index over a full market cycle.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 4% of its endowment fund's average fair value over each of the prior twenty quarters using the Foundation's fiscal year ending June 30 asset value.

4. Accounts Receivable

The Foundation's trade receivables have a contractual maturity of one year or less, and therefore are exempted from the disclosure requirements of FASB ASU 2010-20. Trade receivables are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the financial year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

6. Cash and Cash Equivalents

The Foundation maintains its cash in accounts at local financial institutions, which are insured by agencies of the U.S. Government up to \$250,000. For purposes of the statement of cash flows, the Foundation considers all cash and demand accounts to be cash equivalents.

7. Investments

In accordance with the Not-for-Profit Entities - Investments - Debt and Equity Securities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), investments are recorded at fair value. The changes in the difference between fair value and cost are reflected in the financial statements as net unrealized gains or losses on investments. Investment income, net realized and unrealized gains or losses are classified as unrestricted, temporarily restricted or permanently restricted revenue or expenses, depending on the existence and/or nature of any donor restrictions.

8. Investment Risks and Uncertainties

The investment policy provides for various investment options. The underlying investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

9. Investment Pools

The Foundation maintains master investment accounts for its endowment funds. Interest, dividends, and realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly based on the relationship of the market value of each endowment fund to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

10. Property and Equipment

Property and equipment are stated at cost or, if donated to the Foundation, at fair market value on the date of the acquisition. Expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of various classes of assets on the straight-line method. Depreciation expense for the years ended June 30, 2016 and 2015 was \$40,575 and \$40,819, respectively. The estimated useful lives are as follows:

Building	30 years
Equipment and furnishings	3 to 10 years

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Deferred Revenue

During 2015, the Foundation received a \$1,000,000 gift from Lilly GIFT VI, which has a matching requirement. The Foundation raised \$751,892 and \$681,097 towards the matching requirement and recorded \$255,266 and \$744,734 as contribution revenue from the matching gift during the years ending June 30, 2016 and 2015, respectively. The unmatched portion of the Lilly GIFT VI is \$-0- and \$255,266 as of June 30, 2016 and 2015, respectively, and is recorded as deferred revenue on the Statements of Financial Position.

12. Income Taxes

The Foundation is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the Foundation has been determined not to be a private foundation under Section 509(a) of the Internal Revenue Code.

13. Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed the federally insured limit of \$250,000. At June 30, 2016 and 2015, the Foundation exceeded the insured limit by \$1,092,249 and \$2,842,237, respectively.

14. Contributed Services and Materials

Contribution of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2016 and 2015, the value of contributed services meeting the requirements for recognition in the financial statements was \$5,700 and \$-0- for the years ending June 30, 2016.

15. Expense Classification

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

16. Uncertain Tax Positions

The Foundation follows the Income Tax topic of the FASB ASC. The Foundation now recognizes a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. The Foundation has examined this issue and has determined there are no material contingent tax liabilities.

The Foundation's federal and state exempt organization tax returns for 2012, 2013, and 2014 are subject to examination by the Internal Revenue Service and the Indiana Department of Revenue. Returns are generally subject to examination for three years after they are filed.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued

17. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - INVESTMENTS

Investments are stated at fair value as of June 30, 2016 and 2015 and are summarized as follows.

	<u>2016</u> <u>Fair</u> <u>Value</u>	<u>2015</u> <u>Fair</u> <u>Value</u>
Cash surrender value of life insurance	\$ 58,322	\$ 58,150
Real estate	525,000	1,000,000
Investment in MLP LLC	1,320,078	-0-
Mutual funds - equities:		
Foreign large blend	4,073,189	2,069,980
Foreign large value	1,819,960	2,016,497
Foreign small/mid value	2,002,939	2,207,888
Large value	4,822,551	4,089,770
Small value	2,500,849	2,692,837
World stock	1,149,677	1,014,249
Managed futures	1,387,744	1,330,637
Mid-cap blend	1,782,202	1,774,474
Large blend	2,681,717	-0-
Equity energy	-0-	1,319,310
Long/short equity	4,551,737	5,496,557
Commodities broad basket	-0-	1,050,660
Diversified emerging markets	4,382,892	5,672,432
Real estate	1,274,476	-0-
Multialternative	-0-	1,398,669
Total mutual funds - equities	<u>32,429,933</u>	<u>32,133,960</u>
Mutual funds - fixed income:		
US Treasury bonds and notes	72	81
Nontraditional bonds	-0-	1,403,328
Intermediate-term bonds	8,187,290	7,235,464
Intermediate government	264,120	248,988
World bond	277,756	299,593
Multisector bonds	2,435,106	2,410,040
Total mutual funds - fixed income	<u>11,164,344</u>	<u>11,597,494</u>
Total investments, at fair value	<u>\$ 45,497,677</u>	<u>\$ 44,789,604</u>
Total investments, at historical cost	<u>\$ 43,226,721</u>	<u>\$ 41,132,138</u>

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE B - INVESTMENTS - Continued

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2016 and 2015.

	2016		
	Unrestricted	Temporarily Restricted	Total
Investment return	\$ 1,117,806	\$ -0-	\$ 1,117,806
Realized losses on investments	(858,951)	-0-	(858,951)
Unrealized losses on investments	(864,254)	-0-	(864,254)
	<u>\$ (605,399)</u>	<u>\$ -0-</u>	<u>\$ (605,399)</u>
	2015		
	Unrestricted	Temporarily Restricted	Total
Investment return	\$ 1,232,625	\$ -0-	\$ 1,232,625
Realized gains on investments	1,393,252	-0-	1,393,252
Unrealized losses on investments	(3,578,517)	-0-	(3,578,517)
	<u>\$ (952,640)</u>	<u>\$ -0-</u>	<u>\$ (952,640)</u>

NOTE C - PLEDGES RECEIVABLE

Pledges receivable represent promises to give which have been made by donors but have not yet been received by the Foundation. Pledge balances due and payable more than one year from the date of the Statement of Financial Position are adjusted for discounted present value of future payments. Pledges receivable at June 30, 2016 and 2015 totaled \$286,543 and \$352,835, respectively, and are due as follows.

June 30, 2017	\$ -0-
2018	-0-
2019	-0-
2020	-0-
2021 and thereafter	<u>337,128</u>
	337,128
Less discount to present value	<u>50,585</u>
	<u>\$ 286,543</u>

NOTE D - FAIR VALUE MEASUREMENTS

The Foundation follows the provisions of the Fair Value Measurements and Disclosures topic of the FASB ASC. FASB ASC-820-10-35-19 defines fair value as 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.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE D - FAIR VALUE MEASUREMENTS - Continued

FASB ASC 820-10-35-37 establishes a hierarchy of inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables set forth financial assets measured at fair value in the Consolidated Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2016 and 2015, respectively:

	2016			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Pledge receivable, net of discount	\$ 286,543		\$ 286,543	
Charitable remainder trusts	\$ 3,203,566		\$ 3,203,566	
Investments	\$ 45,497,677	\$ 43,594,277	\$ 58,322	\$ 1,845,078
Liabilities:				
Annuity reserves	\$ 70,133		\$ 70,133	

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE D - FAIR VALUE MEASUREMENTS - Continued

	2015			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Pledge receivable, net of discount	\$ 276,968		\$ 276,968	
Charitable remainder trusts	\$ 3,370,253		\$ 3,370,253	
Investments	\$ 44,789,604	\$ 43,731,454	\$ 58,150	\$ 1,000,000
Liabilities:				
Annuity reserves	\$ 18,963		\$ 18,963	

The following schedule provides further detail of the real estate being held as Level 3 fair value measurements using significant unobservable inputs at June 30,

	2016	2015
Beginning Balance	\$ 1,000,000	\$ 525,000
Contribution of real estate	-0-	475,000
Sale of real estate	(475,000)	-0-
Ending Balance	<u>\$ 525,000</u>	<u>\$ 1,000,000</u>

The following schedule provides further detail of the investment in MLP LLC being held as a Level 3 fair value measurement using significant unobservable inputs at June 30,

	2016	2015
Beginning Balance	\$ -0-	\$ -0-
Purchase of investment	1,200,000	-0-
Net appreciation of investment	120,078	-0-
Ending Balance	<u>\$ 1,320,078</u>	<u>\$ -0-</u>

Fair values for level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of the level 2 input investments, which is the cash surrender value of life insurance, is determined by reference to the annual statement provided by the insurance provider. Fair values for pledges receivable are determined using a present value calculation based on the donor's life expectancy. Fair values for charitable remainder trusts are determined by the present value calculations based on the market value of the assets in the trust. Fair values for annuity reserves are determined by reference to present value calculations. Fair value of the level 3 investments in real estate is based on appraisals of the real estate that is being held as an investment. Fair value of the level 3 investment in MLP LLC is based on monthly statements provided by the fund advisor.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE E - PROPERTY, BUILDING AND EQUIPMENT

The amounts of fixed assets, net of depreciation, consist of the following at June 30,

	<u>2016</u>	<u>2015</u>
Land	\$ 15,000	\$ 15,000
Building and improvements	833,529	827,709
Furnishing and equipment	<u>218,662</u>	<u>203,610</u>
	1,067,191	1,046,319
Less accumulated depreciation	<u>680,531</u>	<u>640,875</u>
	<u>\$ 386,660</u>	<u>\$ 405,444</u>

NOTE F - SPLIT - INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist of charitable remainder trusts and annuities. The assets received are recorded at their fair (present) value and are revalued annually. The fair value of assets held for split-interest agreements totaled \$3,203,566 and \$3,370,253 at June 30, 2016 and 2015, respectively. Changes in fair value of charitable remainder trusts are reflected as changes in temporarily restricted net assets in the statement of activities.

On an annual basis, the Foundation revalues the liability for the annuity based on actuarial assumptions. The fair value of future payment obligations at June 30, 2016 and 2015 was \$70,133 and \$18,963, respectively. The liabilities were determined using discount rates. Changes in fair value of the annuities are reflected as changes in unrestricted net assets in the statement of activities.

Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of the split-interest agreements in the statement of activities in their respective net asset classification.

NOTE G - ADMINISTRATIVE CHARGES

The Foundation assesses an administrative charge of 1.0% to 2.0% on endowment and non-permanent funds. For endowment funds, one fourth of the fee is assessed each quarter to the funds based upon the ending quarter balances, beginning with September 30 information and ending with June 30 information. For non-permanent funds, one fourth of the fee is assessed each quarter to the funds based upon the beginning balance plus all new gifts to the fund. At fiscal year end, all non-permanent funds, with the exception of non-permanent donor advised funds, will be assessed the full 2% fee regardless of the timing of gifts received. Non-permanent donor advised funds will be assessed a tiered fee of 0.25% to 2.0% based upon the value of the fund. The administrative charge is used primarily to support the operations of the Foundation.

For the fiscal years ended June 30, 2016 and 2015, \$665,978 and \$676,385, respectively, is included as support and revenue and \$645,711 and \$654,837, respectively, as an expense, less fees from agency endowments. Due to the fact that administrative charges to various funds are considered a significant measure of the operations of community foundations, these fees have not been eliminated in the financial statements.

NOTE H - ENDOWMENT FUNDS

At June 30, 2016 and 2015, the Foundation's endowment consists of 283 and 261 funds, respectively, designated by the Board of Directors to function as endowments to provide unrestricted support for Foundation programs. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - ENDOWMENT FUNDS - Continued

The Board of Directors of the Foundation has interpreted the Indiana Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to exercise its variance power when necessary. Therefore, the maintenance of the historic dollar value for each endowed fund as defined previously by UPMIFA is desired but not required. As a result of this interpretation, the Foundation classifies as unrestricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In addition, the remaining portion of the endowment fund to be appropriated for expenditure for the Foundation is also classified as unrestricted net assets in accordance with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

Endowment net assets composition by type of fund as of June 30, 2016 and 2015 was as follows:

	2016		
	Unrestricted	Temporarily Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -
Board-designated endowment funds	<u>39,746,437</u>	<u>-</u>	<u>39,746,437</u>
	<u>\$ 39,746,437</u>	<u>\$ -</u>	<u>\$ 39,746,437</u>
	2015		
	Unrestricted	Temporarily Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -
Board-designated endowment funds	<u>39,041,083</u>	<u>-</u>	<u>39,041,083</u>
	<u>\$ 39,041,083</u>	<u>\$ -</u>	<u>\$ 39,041,083</u>

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - ENDOWMENT FUNDS - Continued

Changes in endowment net assets for the years ended June 30, 2016 and 2015, were as follows:

	2016	
	Unrestricted	Temporarily Restricted
Revenue and support		
Contributions and grant income	\$ 3,556,083	\$ -
Investment return	1,025,664	-
Net depreciation of investments	(1,712,953)	-
Total revenue and support	2,868,794	-
Appropriation of endowment assets for expenditure	2,163,440	-
Change in endowment net assets	705,354	-
Endowment net assets, beginning of year	39,041,083	-
Endowment net assets, end of year	\$ 39,746,437	\$ -
	2015	
	Unrestricted	Temporarily Restricted
Revenue and support		
Contributions and grant income	\$ 3,457,048	\$ -
Investment return	1,132,517	-
Net depreciation of investments	(2,122,202)	-
Total revenue and support	2,467,363	-
Appropriation of endowment assets for expenditure	2,010,027	-
Change in endowment net assets	457,336	-
Endowment net assets, beginning of year	38,583,747	-
Endowment net assets, end of year	\$ 39,041,083	\$ -

NOTE I - AGENCY FUNDS

In accordance with FASB ASC-958-20-15, the Foundation reports contributions as a liability when third party organizations transfer these assets to the Foundation and specify themselves, or their affiliates, as the beneficiary. These liabilities are offset by the Foundation's investments.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE I - AGENCY FUNDS - Continued

During the years ended June 30, 2016 and 2015, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the statement of activities.

	<u>2016</u>	<u>2015</u>
Support and revenue		
Contributions and pledges	\$ 28,733	\$ 33,864
Investment income	52,659	61,072
Realized gains (losses) on investments	(42,792)	83,546
Unrealized losses on investments	<u>(47,263)</u>	<u>(197,895)</u>
	\$ (8,663)	\$ (19,413)
Expenses		
Grants expense	68,388	60,719
Bank trustee fees	3,851	4,843
Administrative fees	<u>20,264</u>	<u>21,544</u>
	<u>92,503</u>	<u>87,106</u>
Increase (decrease) in agency funds	(101,166)	(106,519)
Balance at beginning of year	<u>2,054,799</u>	<u>2,161,318</u>
Balance at end of year	<u><u>\$ 1,953,633</u></u>	<u><u>\$ 2,054,799</u></u>

NOTE J - RETIREMENT PLAN

Full-time and part-time Foundation employees earning a minimum of \$5,000 are eligible to participate in its Simple IRA plan. Under the plan, the employees may contribute a specified portion of their compensation, and the Foundation will match the employee contribution, up to 3% of eligible employees' gross wages.

NOTE K - RELATED-PARTY TRANSACTIONS

During the fiscal year ended June 30, 2016 and 2015, officers and board members made donations to the Foundation totaling \$69,764 and \$283,009 and pledges totaling \$0- and \$17,100, respectively. Four board members of the Foundation are also employees of financial institutions which maintain investments and cash accounts for the Foundation. Also, a board member and a committee member are partners at a legal firm which provides legal services for the Foundation. A committee member is a partner of a financial institution which maintains investment accounts for the Foundation.

NOTE L - IRREVOCABLE TRUST

Irrevocable trusts are recorded when the Foundation is notified by the executor or other representative of a trust of an amount due the Foundation. The Foundation has been notified that it has been named as a beneficiary of an irrevocable trust; however no amount has been disclosed.

NOTE M - SUBSEQUENT EVENTS

In accordance with FASB ASC Topic 855, Subsequent Events, the Foundation has evaluated subsequent events through August 31, 2016, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2016, have been incorporated into these financial statements herein.

SUPPLEMENTAL INFORMATION

**Independent Auditors' Report
on Supplemental Information**

**Board of Directors
Kosciusko County Community Foundation, Inc. and Affiliate**

We have audited the consolidated financial statements of Kosciusko County Community Foundation, Inc. and Affiliate as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon dated August 31, 2016, which contained an unqualified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Estep Burkey Simmons, LLC

Muncie, Indiana
August 31, 2016

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

June 30,

2016

	Kosciusko County Community Foundation, Inc.	Orthopedics Capital Foundation, Inc.	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 650,335	\$ 1,735,790	\$ -	\$ 2,386,125
Interest and dividends receivable	43,696	-	-	43,696
Accounts receivable	-	-	-	-
Pledges and grants receivable, net	286,543	-	-	286,543
Prepaid expenses	29,976	-	-	29,976
Investments	45,497,677	-	-	45,497,677
Charitable remainder trusts	3,203,566	-	-	3,203,566
Property, building and equipment, net	386,660	-	-	386,660
	\$ 50,098,453	\$ 1,735,790	\$ -	\$ 51,834,243
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 11,653	\$ 426,303	\$ -	\$ 437,956
Accrued payroll, taxes and benefits	54,007	-	-	54,007
Payroll taxes and benefits withheld	6,054	-	-	6,054
Grants payable	726,490	-	-	726,490
Deferred revenue	-	-	-	-
Annuity reserves	70,133	-	-	70,133
Agency endowments	1,953,633	-	-	1,953,633
Total liabilities	2,821,970	426,303	-	3,248,273
NET ASSETS				
Unrestricted	43,786,374	142,201	-	43,928,575
Temporarily restricted	3,490,109	1,167,286	-	4,657,395
	47,276,483	1,309,487	-	48,585,970
	\$ 50,098,453	\$ 1,735,790	\$ -	\$ 51,834,243

2015

Kosciusko County Community Foundation, Inc.	Orthopedics Capital Foundation, Inc.	Eliminations	Total
\$ 608,437	\$ 3,647,560	\$ -	\$ 4,255,997
7,955	-	-	7,955
55,558	-	-	55,558
276,968	75,867	-	352,835
20,009	-	-	20,009
44,789,604	-	-	44,789,604
3,370,253	-	-	3,370,253
405,444	-	-	405,444
<u>\$ 49,534,228</u>	<u>\$ 3,723,427</u>	<u>\$ -</u>	<u>\$ 53,257,655</u>
\$ 75,113	\$ 663,912	\$ -	\$ 739,025
48,430	-	-	48,430
5,155	-	-	5,155
583,023	-	-	583,023
255,266	-	-	255,266
18,963	-	-	18,963
2,054,799	-	-	2,054,799
3,040,749	663,912	-	3,704,661
42,846,258	132,673	-	42,978,931
3,647,221	2,926,842	-	6,574,063
<u>46,493,479</u>	<u>3,059,515</u>	<u>-</u>	<u>49,552,994</u>
<u>\$ 49,534,228</u>	<u>\$ 3,723,427</u>	<u>\$ -</u>	<u>\$ 53,257,655</u>

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF ACTIVITIES

Years Ended June 30,

2016

	Kosciusko County Community Foundation, Inc.		Orthopedics Capital Foundation, Inc.		Eliminations	Total
	Unrestricted	Temporarily	Unrestricted	Temporarily		
		Restricted		Restricted		
Support and revenue						
Contributions and bequests	\$ 5,045,248			\$ 130,086		\$ 5,175,334
Administrative fee income	765,978				\$ (100,000)	665,978
Investment income	1,108,278		\$ 9,528			1,117,806
Realized gains (losses) on investments	(858,951)					(858,951)
Unrealized losses on investments	(864,254)					(864,254)
Annuity payments and change in value of split-interest agreements	(4,208)	\$ (166,687)				(170,895)
Discount on pledge receivable		10,075				10,075
Other income	6,089					6,089
	<u>5,198,180</u>	<u>(156,612)</u>	<u>9,528</u>	<u>130,086</u>	<u>(100,000)</u>	<u>5,081,182</u>
Net assets released from restrictions						
Satisfaction of time restrictions	500	(500)				
Satisfaction of use restrictions			1,889,642	(1,889,642)		
	<u>500</u>	<u>(500)</u>	<u>1,889,642</u>	<u>(1,889,642)</u>		
Expenses						
Program Services						
Grants and scholarships	2,419,713					2,419,713
Program expenses	303,630		1,735,317			2,038,947
Supporting Services						
Management and general	598,763					598,763
Administrative fees	645,711		100,000		(100,000)	645,711
Fundraising and promotion	290,747		54,325			345,072
	<u>4,258,564</u>		<u>1,889,642</u>		<u>(100,000)</u>	<u>6,048,206</u>
INCREASE (DECREASE) IN NET ASSETS	940,116	(157,112)	9,528	(1,759,556)		(967,024)
Nets assets at beginning of year	<u>42,846,258</u>	<u>3,647,221</u>	<u>132,673</u>	<u>2,926,842</u>		<u>49,552,994</u>
Net assets at end of year	<u>\$ 43,786,374</u>	<u>\$ 3,490,109</u>	<u>\$ 142,201</u>	<u>\$ 1,167,286</u>		<u>\$ 48,585,970</u>

2015

Kosciusko County Community Foundation, Inc.		Orthopedics Capital Foundation, Inc.		Eliminations	Total
Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
\$ 4,286,676			\$ 203,526		\$ 4,490,202
776,385				\$ (100,000)	676,385
1,217,292		\$ 15,333			1,232,625
1,393,280		(28)			1,393,252
(3,578,517)					(3,578,517)
(1,805)	\$ (88,516)				(90,321)
	3,255				3,255
6,754					6,754
4,100,065	(85,261)	15,305	203,526	(100,000)	4,133,635
471,937	(471,937)				
		2,183,321	(2,183,321)		
471,937	(471,937)	2,183,321	(2,183,321)		
2,513,488					2,513,488
199,497		2,060,680			2,260,177
569,341		16			569,357
654,837		100,000		(100,000)	654,837
268,230		22,625			290,855
4,205,393		2,183,321		(100,000)	6,288,714
366,609	(557,198)	15,305	(1,979,795)		(2,155,079)
42,479,649	4,204,419	117,368	4,906,637		51,708,073
<u>\$ 42,846,258</u>	<u>\$ 3,647,221</u>	<u>\$ 132,673</u>	<u>\$ 2,926,842</u>		<u>\$ 49,552,994</u>