

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

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 30, 2017

Kosciusko County Community Foundation, Inc. and Affiliate
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 June 30,

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,100,829	\$ 2,386,125
Interest and dividends receivable	9,927	43,696
Accounts receivable	1,146	-
Pledges and grants receivable, net of discount	300,581	286,543
Prepaid expenses	24,522	29,976
Investments	49,344,034	45,497,677
Charitable remainder trusts	3,277,653	3,203,566
Property, building and equipment, net of accumulated depreciation	480,005	386,660
	\$ 54,538,697	\$ 51,834,243
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 190,529	\$ 437,956
Accrued payroll, taxes and benefits	54,156	54,007
Payroll taxes and benefits withheld	6,131	6,054
Grants payable	738,069	726,490
Annuity reserves	60,702	70,133
Agency endowments	2,126,045	1,953,633
	3,175,632	3,248,273
NET ASSETS		
Unrestricted	47,711,655	43,928,575
Temporarily restricted	3,651,410	4,657,395
	51,363,065	48,585,970
	\$ 54,538,697	\$ 51,834,243

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,

	2017		
	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions and bequests	\$ 2,428,037	\$ 18,039	\$ 2,446,076
Administrative fee income	724,999		724,999
Investment income	938,571		938,571
Realized gains (losses) on investments	303,876		303,876
Unrealized gains (losses) on investments	3,619,961		3,619,961
Annuity payments and change in value of split-interest agreements	3,779	74,087	77,866
Discount on pledge receivable		2,038	2,038
Other income	7,522		7,522
	<u>8,026,745</u>	<u>94,164</u>	<u>8,120,909</u>
Net assets released from restrictions			
Satisfaction of time restrictions	-	-	
Satisfaction of use restrictions	1,100,149	(1,100,149)	
	<u>1,100,149</u>	<u>(1,100,149)</u>	
Expenses			
Program Services			
Grants and scholarships	2,428,813		2,428,813
Program expenses	1,244,623		1,244,623
Supporting Services			
Management and general	619,718		619,718
Administrative fees	703,268		703,268
Fundraising and promotion	347,392		347,392
	<u>5,343,814</u>		<u>5,343,814</u>
INCREASE (DECREASE) IN NET ASSETS	3,783,080	(1,005,985)	2,777,095
Net assets at beginning of year	<u>43,928,575</u>	<u>4,657,395</u>	<u>48,585,970</u>
Net assets at end of year	<u>\$ 47,711,655</u>	<u>\$ 3,651,410</u>	<u>\$ 51,363,065</u>

The accompanying notes are an integral part of these statements.

2016		
Unrestricted	Temporarily Restricted	Total
\$ 5,045,248	\$ 130,086	\$ 5,175,334
665,978		665,978
1,117,806		1,117,806
(858,951)		(858,951)
(864,254)		(864,254)
(4,208)	(166,687)	(170,895)
	10,075	10,075
6,089		6,089
<u>5,107,708</u>	<u>(26,526)</u>	<u>5,081,182</u>
500	(500)	
1,889,642	(1,889,642)	
<u>1,890,142</u>	<u>(1,890,142)</u>	
2,419,713		2,419,713
2,038,947		2,038,947
598,763		598,763
645,711		645,711
345,072		345,072
<u>6,048,206</u>		<u>6,048,206</u>
949,644	(1,916,668)	(967,024)
<u>42,978,931</u>	<u>6,574,063</u>	<u>49,552,994</u>
<u>\$ 43,928,575</u>	<u>\$ 4,657,395</u>	<u>\$ 48,585,970</u>

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,777,095	\$ (967,024)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	49,722	40,575
Realized (gains) losses on investments	(303,876)	859,034
Unrealized (gains) losses on investments	(3,619,961)	864,254
Change in value of split interest agreements	(77,866)	170,895
Non-cash contributions	(758,215)	(539,538)
(Increase) decrease in assets:		
Interest and dividends receivable	33,769	(35,741)
Accounts receivable	(1,146)	55,558
Pledges and grants receivable	(14,038)	66,292
Prepaid expenses	5,454	(9,967)
Increase (decrease) in liabilities:		
Accounts payable	(247,427)	(301,069)
Grants payable	11,579	143,467
Accrued and withheld taxes and expenses	226	6,476
Deferred revenue		(255,266)
Annuity reserves	(9,431)	51,170
Agency endowments	172,412	(101,166)
Net cash provided by (used in) operating activities	<u>(1,981,703)</u>	<u>47,950</u>
Cash flows from investing activities:		
Cash paid for purchases of fixed assets	(151,040)	(21,874)
Proceeds from sale of investments	7,554,130	10,713,181
Purchases of investments	<u>(6,706,683)</u>	<u>(12,609,129)</u>
Net cash provided by (used in) investing activities	<u>696,407</u>	<u>(1,917,822)</u>
Net decrease in cash and cash equivalents	(1,285,296)	(1,869,872)
Cash and cash equivalents at beginning of year	<u>2,386,125</u>	<u>4,255,997</u>
Cash and cash equivalents at end of year	<u>\$ 1,100,829</u>	<u>\$ 2,386,125</u>
<u>Supplemental Disclosure</u>		
Non-cash contributions	\$ 758,215	\$ 539,538

The accompanying notes are an integral part of these statements.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Kosciusko County Community Foundation, Inc. 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. Kosciusko County Community Foundation, Inc. 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. 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 consolidated financial statements of Kosciusko County Community Foundation, Inc. and Orthopedics Capital Foundation, Inc. (together "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

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 accounts receivable have a contractual maturity of one year or less, and therefore are exempted from disclosure requirements. Accounts receivable 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, 2017 and 2016

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

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, 2017 and 2016 was \$49,722 and \$40,575, 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, 2017 and 2016

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

11. 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.

12. 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, 2017 and 2016, the Foundation exceeded the insured limit by \$409,622 and \$1,092,249, respectively.

13. 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, 2017 and 2016, the value of contributed services meeting the requirements for recognition in the financial statements was \$-0- and \$5,700 for the years ending June 30, 2017 and 2016, respectively.

14. 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.

15. Uncertain Tax Positions

The Foundation 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 2013, 2014, and 2015 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.

16. 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.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE B - INVESTMENTS

Investments are stated at fair value as of June 30, 2017 and 2016 and are summarized as follows.

	<u>2017</u>	<u>2016</u>
	<u>Fair</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>
Cash surrender value of life insurance	\$ 60,976	\$ 58,322
Real estate	-0-	525,000
Investment in MLP LLC	1,345,144	1,320,078
Mutual funds - equities:		
Foreign large blend	2,181,122	4,073,189
Foreign large growth	2,543,963	-0-
Foreign large value	2,200,096	1,819,960
Foreign small/mid value	2,579,805	2,002,939
Large value	4,709,464	4,822,551
Small value	3,047,561	2,500,849
World large stock	1,472,906	1,149,677
Managed futures	1,211,990	1,387,744
Mid-cap blend	2,082,438	1,782,202
Large blend	-0-	2,681,717
Long/short equity	4,575,899	4,551,737
Diversified emerging markets	5,802,665	4,382,892
Real estate	1,244,542	1,274,476
Multialternative	1,367,422	-0-
Total mutual funds - equities	<u>35,019,873</u>	<u>32,429,933</u>
Mutual funds - fixed income:		
US Treasury bonds and notes	56	72
Nontraditional bonds	1,418,298	-0-
Intermediate-term bonds	8,078,219	8,187,290
Intermediate government	329,278	264,120
World bond	385,834	277,756
Multisector bonds	2,706,356	2,435,106
Total mutual funds - fixed income	<u>12,918,041</u>	<u>11,164,344</u>
Total investments, at fair value	<u>\$ 49,344,034</u>	<u>\$ 45,497,677</u>
Total investments, at historical cost	<u>\$ 43,810,605</u>	<u>\$ 43,226,721</u>

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017 and 2016.

	2017		
	Unrestricted	Temporarily Restricted	Total
Investment return	\$ 938,571	\$ -0-	\$ 938,571
Realized gains on investments	303,876	-0-	303,876
Unrealized gains on investments	3,619,961	-0-	3,619,961
	<u>\$ 4,862,408</u>	<u>\$ -0-</u>	<u>\$ 4,862,408</u>
	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>

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, 2017 and 2016 totaled \$300,581 and \$286,543, respectively, and are due as follows.

June 30, 2018	\$ 3,000
2019	3,000
2020	3,000
2021	3,000
2022 and thereafter	337,128
	<u>349,128</u>
Less discount to present value	48,547
	<u>\$ 300,581</u>

NOTE D - FAIR VALUE MEASUREMENTS

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.

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

A hierarchy of inputs is 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, 2017 and 2016, respectively:

	2017			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Pledge receivable, net of discount	\$ 300,581		\$ 300,581	
Charitable remainder trusts	\$ 3,277,653		\$ 3,277,653	
Investments	\$ 49,344,034	\$ 47,937,914	\$ 60,976	\$ 1,345,144
Liabilities:				
Annuity reserves	\$ 60,702		\$ 60,702	

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

	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	

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,

	2017	2016
Beginning balance	\$ 525,000	\$ 1,000,000
Sale of real estate	(525,000)	(475,000)
Ending balance	\$ -0-	\$ 525,000

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,

	2017	2016
Beginning balance	\$ 1,320,078	\$ -0-
Purchase of investment	-0-	1,200,000
Net appreciation of investment	25,066	120,078
Ending balance	\$ 1,345,144	\$ 1,320,078

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, 2017 and 2016

NOTE E - PROPERTY, BUILDING AND EQUIPMENT

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

	2017	2016
Land	\$ 15,000	\$ 15,000
Building and improvements	854,454	833,529
Furnishing and equipment	245,644	218,662
	<u>1,115,098</u>	<u>1,067,191</u>
Less accumulated depreciation	<u>635,093</u>	<u>680,531</u>
	<u>\$ 480,005</u>	<u>\$ 386,660</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 \$3,277,653 and \$3,203,566 at June 30, 2017 and 2016, 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, 2017 and 2016 was \$60,702 and \$70,133, 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, 2017 and 2016, \$724,999 and \$665,978, respectively, is included as support and revenue and \$703,268 and \$645,711, 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, 2017 and 2016, the Foundation's endowment consists of 290 and 283 funds, respectively, designated by the Board of Directors to function as endowments to provide unrestricted support for Foundation programs. As required by accounting principles generally accepted in the United States of America, 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, 2017 and 2016

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, 2017 and 2016 was as follows:

	2017		
	Unrestricted	Temporarily Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -
Board-designated endowment funds	42,898,718	-	42,898,718
	<u>\$ 42,898,718</u>	<u>\$ -</u>	<u>\$ 42,898,718</u>
	2016		
	Unrestricted	Temporarily Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -
Board-designated endowment funds	39,746,436	-	39,746,436
	<u>\$ 39,746,436</u>	<u>\$ -</u>	<u>\$ 39,746,436</u>

Kosciusko County Community Foundation, Inc. and Affiliate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE H - ENDOWMENT FUNDS - Continued

Changes in endowment net assets for the years ended June 30, 2017 and 2016, were as follows:

	2017	
	Unrestricted	Temporarily Restricted
Revenue and support		
Contributions and grant income	\$ 947,600	\$ -
Investment return	840,672	-
Net appreciation of investments	3,735,999	-
Total revenue and support	5,524,271	-
Appropriation of endowment assets for expenditure	2,371,989	-
Change in endowment net assets	3,152,282	-
Endowment net assets, beginning of year	39,746,436	-
Endowment net assets, end of year	<u>\$ 42,898,718</u>	<u>\$ -</u>
	2016	
	Unrestricted	Temporarily Restricted
Revenue and support		
Contributions and grant income	\$ 3,556,083	\$ -
Investment return	1,025,664	-
Net depreciation of investments	(1,712,954)	-
Total revenue and support	2,868,793	-
Appropriation of endowment assets for expenditure	2,163,440	-
Change in endowment net assets	705,353	-
Endowment net assets, beginning of year	39,041,083	-
Endowment net assets, end of year	<u>\$ 39,746,436</u>	<u>\$ -</u>

NOTE I - AGENCY FUNDS

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, 2017 and 2016

NOTE I - AGENCY FUNDS - Continued

During the years ended June 30, 2017 and 2016, the following activity occurred in the agency funds held by the Foundation. These amounts are not reflected on the statement of activities.

	<u>2017</u>	<u>2016</u>
Support and revenue		
Contributions and pledges	\$ 39,552	\$ 28,733
Investment income	41,664	52,659
Realized gains (losses) on investments	15,212	(42,792)
Unrealized gains (losses) on investments	<u>164,857</u>	<u>(47,263)</u>
	\$ 261,285	\$ (8,663)
Expenses		
Grants expense	62,642	68,388
Bank trustee fees	4,500	3,851
Administrative fees	<u>21,731</u>	<u>20,264</u>
	<u>88,873</u>	<u>92,503</u>
Increase (decrease) in agency funds	172,412	(101,166)
Balance at beginning of year	<u>1,953,633</u>	<u>2,054,799</u>
Balance at end of year	<u><u>\$2,126,045</u></u>	<u><u>\$1,953,633</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, 2017 and 2016, officers and board members made donations to the Foundation totaling \$104,075 and \$69,764, respectively. Three 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. Two committee members are partners of financial institutions 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

The Foundation has evaluated subsequent events through August 30, 2017, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2017, 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, 2017 and 2016, and have issued our report thereon dated August 30, 2017, 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 30, 2017

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

June 30,

2017

	2017			
	Kosciusko County Community Foundation, Inc.	Orthopedics Capital Foundation, Inc.	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 741,514	\$ 359,315	\$ -	\$ 1,100,829
Interest and dividends receivable	9,927	-	-	9,927
Accounts receivable	1,146	-	-	1,146
Pledges and grants receivable, net	300,581	-	-	300,581
Prepaid expenses	24,522	-	-	24,522
Investments	49,344,034	-	-	49,344,034
Charitable remainder trusts	3,277,653	-	-	3,277,653
Property, building and equipment, net	480,005	-	-	480,005
	<u>\$ 54,179,382</u>	<u>\$ 359,315</u>	<u>\$ -</u>	<u>\$ 54,538,697</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 43,245	\$ 147,284	\$ -	\$ 190,529
Accrued payroll, taxes and benefits	54,156	-	-	54,156
Payroll taxes and benefits withheld	6,131	-	-	6,131
Grants payable	738,069	-	-	738,069
Annuity reserves	60,702	-	-	60,702
Agency endowments	2,126,045	-	-	2,126,045
Total liabilities	3,028,348	147,284	-	3,175,632
NET ASSETS				
Unrestricted	47,566,761	144,894	-	47,711,655
Temporarily restricted	3,584,273	67,137	-	3,651,410
	<u>51,151,034</u>	<u>212,031</u>	<u>-</u>	<u>51,363,065</u>
	<u>\$ 54,179,382</u>	<u>\$ 359,315</u>	<u>\$ -</u>	<u>\$ 54,538,697</u>

2016

Kosciusko County Community Foundation, Inc.	Orthopedics Capital Foundation, Inc.	Eliminations	Total
\$ 650,335	\$ 1,735,790	\$ -	\$ 2,386,125
43,696	-	-	43,696
-	-	-	-
286,543	-	-	286,543
29,976	-	-	29,976
45,497,677	-	-	45,497,677
3,203,566	-	-	3,203,566
386,660	-	-	386,660
<u>\$ 50,098,453</u>	<u>\$ 1,735,790</u>	<u>\$ -</u>	<u>\$ 51,834,243</u>
\$ 11,653	\$ 426,303	\$ -	\$ 437,956
54,007	-	-	54,007
6,054	-	-	6,054
726,490	-	-	726,490
70,133	-	-	70,133
1,953,633	-	-	1,953,633
2,821,970	426,303	-	3,248,273
43,786,374	142,201	-	43,928,575
3,490,109	1,167,286	-	4,657,395
<u>47,276,483</u>	<u>1,309,487</u>	<u>-</u>	<u>48,585,970</u>
<u>\$ 50,098,453</u>	<u>\$ 1,735,790</u>	<u>\$ -</u>	<u>\$ 51,834,243</u>

Kosciusko County Community Foundation, Inc. and Affiliate

CONSOLIDATING STATEMENTS OF ACTIVITIES

Years Ended June 30,

2017

	Kosciusko County Community Foundation, Inc.		Orthopedics Capital Foundation, Inc.		Eliminations	Total
	Unrestricted	Temporarily	Unrestricted	Temporarily		
		Restricted		Restricted		
Support and revenue						
Contributions and bequests	\$ 2,428,032	\$ 18,039	\$ 5			\$ 2,446,076
Administrative fee income	764,999				\$ (40,000)	724,999
Investment income	935,883		2,688			938,571
Realized gains (losses) on investments	303,876					303,876
Unrealized gains (losses) on investments	3,619,961					3,619,961
Annuity payments and change in value of split-interest agreements	3,779	74,087				77,866
Discount on pledge receivable		2,038				2,038
Other income	7,522					7,522
	<u>8,064,052</u>	<u>94,164</u>	<u>2,693</u>		<u>(40,000)</u>	<u>8,120,909</u>
Net assets released from restrictions						
Satisfaction of time restrictions						
Satisfaction of use restrictions			1,100,149	(1,100,149)		
			<u>1,100,149</u>	<u>(1,100,149)</u>		
Expenses						
Program Services						
Grants and scholarships	2,428,813					2,428,813
Program expenses	248,816		995,807			1,244,623
Supporting Services						
Management and general	619,387		331			619,718
Administrative fees	703,268		40,000		(40,000)	703,268
Fundraising and promotion	283,381		64,011			347,392
	<u>4,283,665</u>		<u>1,100,149</u>		<u>(40,000)</u>	<u>5,343,814</u>
INCREASE (DECREASE) IN NET ASSETS	3,780,387	94,164	2,693	(1,100,149)		2,777,095
Nets assets at beginning 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>
Net assets at end of year	<u>\$ 47,566,761</u>	<u>\$ 3,584,273</u>	<u>\$ 144,894</u>	<u>\$ 67,137</u>		<u>\$ 51,363,065</u>

2016

Kosciusko County Community Foundation, Inc.		Orthopedics Capital Foundation, Inc.		Eliminations	Total
Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
\$ 5,045,248			\$ 130,086		\$ 5,175,334
765,978				\$ (100,000)	665,978
1,108,278		\$ 9,528			1,117,806
(858,951)					(858,951)
(864,254)					(864,254)
(4,208)	\$ (166,687)				(170,895)
	10,075				10,075
6,089					6,089
5,198,180	(156,612)	9,528	130,086	(100,000)	5,081,182
500	(500)				
		1,889,642	(1,889,642)		
500	(500)	1,889,642	(1,889,642)		
2,419,713					2,419,713
303,630		1,735,317			2,038,947
598,763					598,763
645,711		100,000		(100,000)	645,711
290,747		54,325			345,072
4,258,564		1,889,642		(100,000)	6,048,206
940,116	(157,112)	9,528	(1,759,556)		(967,024)
42,846,258	3,647,221	132,673	2,926,842		49,552,994
<u>\$ 43,786,374</u>	<u>\$ 3,490,109</u>	<u>\$ 142,201</u>	<u>\$ 1,167,286</u>		<u>\$ 48,585,970</u>