

Consolidated Financial Statements

**STEBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

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

Steuben County Community Foundation, Inc. and Affiliate

Consolidated Financial Statements

Years ended June 30, 2016 and 2015

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## Report of Independent Auditors

The Board of Directors  
Steuben County Community Foundation, Inc. and Affiliate

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the Steuben County Community Foundation, Inc. (Foundation) and Affiliate, I-MAN, Inc., which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated 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 consolidated 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 consolidated 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.

### **Basis for Qualified Opinion**

As more fully described in Note 1 to the consolidated financial statements, the Foundation accepts assets from donors and agrees to use those assets on behalf of or transfer those assets, the related return on investment of those assets, or both, to another entity that is specified by the donor; however, the Foundation does not recognize the fair value of those assets and the related return on investment of those assets as a liability to the specified beneficiary. The Foundation records all assets received from donors as revenues and all transfers as grants. Accounting principles generally accepted in the United States of America require that these investments and return on investments be recorded as a liability. The effects on the accompanying consolidated financial statements of this departure from accounting principles have not been determined.

### **Qualified Opinion**

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steuben County Community Foundation, Inc. and Affiliate, I-MAN, Inc., as of June 30, 2016 and 2015, and the changes in its net assets and its 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 17, 2016

Steuben County Community Foundation, Inc. and Affiliate

Consolidated Statements of Financial Position

	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 212,816	\$ 135,742
Accounts receivable	101,837	37,877
Pledges receivable	-	699,890
Prepaid expenses and other	22,755	18,404
Total current assets	<u>337,408</u>	<u>891,913</u>
Investments	19,778,036	19,332,336
Land, building and equipment:		
Land	382,781	382,781
Building and improvements	466,990	431,075
Office furniture and equipment	276,422	301,793
Fiber optic network	4,358,505	4,008,786
Website	-	4,100
	<u>5,484,698</u>	<u>5,128,535</u>
Less accumulated depreciation	<u>1,170,710</u>	<u>961,797</u>
	4,313,988	4,166,738
Other assets:		
Cash value of life insurance policy	383,685	365,180
Beneficial interest in trusts	520,068	546,399
Total assets	<u>\$ 25,333,185</u>	<u>\$ 25,302,566</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 62,014	\$ 67,029
Current portion of grants and scholarships payable	270,955	119,900
Current portion of long-term debt	165,900	129,733
Current portion of deferred revenue	91,288	67,200
Total current liabilities	<u>590,157</u>	<u>383,862</u>
Grants and scholarships payable, less current portion	28,000	52,000
Long-term debt, less current portion	484,446	480,448
Deferred revenue, less current portion	86,000	-
Total liabilities	<u>1,188,603</u>	<u>916,310</u>
Net assets:		
Unrestricted	3,140,945	2,949,870
Temporarily restricted	3,493,751	4,186,441
Permanently restricted	17,509,886	17,249,945
Total net assets	<u>24,144,582</u>	<u>24,386,256</u>
Total liabilities and net assets	<u>\$ 25,333,185</u>	<u>\$ 25,302,566</u>

See accompanying notes to consolidated financial statements.

Steuben County Community Foundation, Inc. and Affiliate

Consolidated Statements of Activities and Changes in Net Assets

	Year ended June 30							
	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support, revenues and gains (losses)</b>								
Contributions and grants	\$ 57,189	\$ 502,009	\$ 206,098	\$ 765,296	\$ 23,803	\$ 641,835	\$ 1,006,729	\$ 1,672,367
Management fees	235,068	-	-	235,068	225,662	-	-	225,662
Program fees, net	585,035	-	-	585,035	285,401	-	-	285,401
Interest and dividends	361	509,968	-	510,329	532	634,180	-	634,712
Realized and unrealized								
loss on investments, net	(166)	(159,934)	-	(160,100)	(177)	(110,444)	-	(110,621)
Change in value of cash value								
of life insurance policy	-	17,909	-	17,909	-	10,648	6,459	17,107
Change in value of beneficial interest in trusts	-	-	(27,658)	(27,658)	-	-	62,558	62,558
Other	-	-	-	-	-	-	(111,975)	(111,975)
Total support, revenues, and gains (losses)								
before net assets released from restrictions	877,487	869,952	178,440	1,925,879	535,221	1,176,219	963,771	2,675,211
Net assets released from restrictions	1,423,872	(1,447,604)	23,732	-	1,211,944	(1,239,489)	27,545	-
Total support, revenues and gains (losses)	2,301,359	(577,652)	202,172	1,925,879	1,747,165	(63,270)	991,316	2,675,211
<b>Expenses</b>								
Program services:								
Grants and programs	1,534,033	-	-	1,534,033	1,250,581	-	-	1,250,581
Management fees	235,157	-	-	235,157	225,662	-	-	225,662
	1,769,190	-	-	1,769,190	1,476,243	-	-	1,476,243
Supporting services:								
Fundraising	53,389	-	-	53,389	59,481	-	-	59,481
Management and general	344,974	-	-	344,974	354,592	-	-	354,592
	398,363	-	-	398,363	414,073	-	-	414,073
Total expenses	2,167,553	-	-	2,167,553	1,890,316	-	-	1,890,316
Increase (decrease) in net assets	133,806	(577,652)	202,172	(241,674)	(143,151)	(63,270)	991,316	784,895
Net asset transfers	57,269	(115,038)	57,769	-	(7,493)	(60,451)	67,944	-
Net assets at beginning of year	2,949,870	4,186,441	17,249,945	24,386,256	3,100,514	4,310,162	16,190,685	23,601,361
Net assets at end of year	\$ 3,140,945	\$ 3,493,751	\$ 17,509,886	\$ 24,144,582	\$ 2,949,870	\$ 4,186,441	\$ 17,249,945	\$ 24,386,256

See accompanying notes to consolidated financial statements.

Steuben County Community Foundation, Inc. and Affiliate

Consolidated Statements of Cash Flows

	<b>Year ended June 30</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ (241,674)	\$ 784,895
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on investments	29,317	(28,714)
Depreciation	238,384	228,512
Proceeds from charitable remainder trust	-	423,254
Loss (gain) on beneficial interest in trusts and change in value of other assets	26,331	(63,875)
Changes in operating assets and liabilities:		
Accounts receivable	(63,960)	(27,889)
Pledges receivable	699,890	111,975
Prepaid expenses and other	(4,351)	(8,493)
Cash value of life insurance policy	(18,505)	(17,732)
Accounts payable and other current liabilities	(5,015)	(149,535)
Grants and scholarships payable	127,055	26,151
Deferred revenue	24,088	24,525
Net cash provided by operating activities	<u>811,560</u>	1,303,074
<b>Investing activities</b>		
Purchases of investments	(8,943,230)	(7,038,604)
Proceeds from sale and maturities of investments	8,468,213	5,899,121
Purchases of land, building and equipment	(385,634)	(807,193)
Net cash used in investing activities	<u>(860,651)</u>	(1,946,676)
<b>Financing activities</b>		
Proceeds from issuance of long-term debt	172,601	674,000
Payments on long-term debt	(132,436)	(63,819)
Net cash provided by financing activities	<u>40,165</u>	610,181
Increase (decrease) in cash and cash equivalents	(8,926)	(33,421)
Cash and cash equivalents at beginning of year	135,742	169,163
Cash and cash equivalents at end of year	<u>\$ 126,816</u>	<u>\$ 135,742</u>

See accompanying notes to consolidated financial statements.

# Steuben County Community Foundation, Inc. and Affiliate

## Notes to Consolidated Financial Statements

June 30, 2016

### 1. Organization and Summary of Significant Accounting Policies

#### Organization

The Steuben County Community Foundation, Inc. (Foundation) is a not-for-profit corporation organized under the laws of the state of Indiana. The Foundation was organized for the purpose of meeting the charitable needs of primarily Steuben County, Indiana. The Foundation supports new and existing programs of not-for-profit organizations for specific charitable purposes. The Foundation's support is derived principally from contributions received from private and public organizations or individuals.

The mission of the Foundation is:

*“connecting people who care with needs that matter to our community.”*

I-MAN, Inc. (I-MAN) is a not-for-profit corporation organized under the laws of the state of Indiana. I-MAN's mission is to develop and implement the mechanisms necessary for improving future generations' quality and standard of life in Steuben County and surrounding communities by the creation of digital real-estate that reached education facilities, the community, businesses, the county, state and the world. I-MAN is a supporting entity of the Foundation. Earnings from I-MAN's operations are used to support endowments of the Foundation.

The Foundation and I-MAN are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of state law. However, the Foundation and I-MAN are subject to federal income tax on any unrelated business taxable income. Management believes the Foundation and I-MAN are no longer subject to examination by tax authorities for years before June 30, 2013.

The Foundation and I-MAN have entered into a Broadband Expansion Agreement, as amended as of May 15, 2014, whereby the Foundation provides staff and facilities for the operations of I-MAN. An annual administrative fee is charged in the amount of \$20,000 payable quarterly in \$5,000 installments due on or before the last day of each calendar quarter.

Pursuant to the Broadband Expansion Agreement between I-MAN and the Foundation, I-MAN borrowed \$410,000 from the Foundation during the year ended June 30, 2015, in addition to \$200,000 borrowed previously, for total borrowings of \$610,000 (Funds). In exchange for the use of the Funds, I-MAN must pay 7 percent interest, due annually on or before June 30. Interest paid pursuant to this agreement was \$44,000 and \$14,000 for the years ended June 30, 2016 and 2015, respectively. The Foundation had interest receivable of \$24,868 and \$26,168 from I-MAN at June 30, 2016 and 2015, respectively.



# Steuben County Community Foundation, Inc. and Affiliate

## Notes to Consolidated Financial Statements (continued)

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

#### **Principles of Consolidation**

The consolidated financial statements include the Foundation and I-MAN (collectively, Organization). Accounting principles generally accepted in the United States of America require consolidation of not-for-profit entities if one entity has both control and an economic interest in another entity. The Foundation has control of I-MAN's Board of Directors and an agreement with I-MAN that includes a significant economic interest. All significant inter-organization accounts and transactions have been eliminated in consolidation.

#### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

#### **Departure from Accounting Principles Generally Accepted in the United States of America**

The Foundation accepts assets from donors and agrees to use those assets on behalf of or transfer those assets, the related return on investment of those assets, or both, to another entity that is specified by the donor; however, the Foundation does not recognize the fair value of those assets as a liability to the specified beneficiary when the assets are received, and does not recognize an additional liability for any investment income earned on the related asset. Furthermore, the Foundation recognizes revenue and support for the fair value of the assets and investment income and reports expenses when the assets are transferred to the beneficiary.

#### **Cash and Cash Equivalents**

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents, except those short-term investments managed as part of long-term investment strategies. The Organization maintains cash accounts at local banks. From time to time during the year, the Organization's cash accounts exceeded federally insured limits due to the transfer of funds to pay for grants awarded.

## Steuben County Community Foundation, Inc. and Affiliate

### Notes to Consolidated Financial Statements (continued)

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

##### **Accounts Receivable**

Accounts receivable are stated at the amount billed to I-Man customers. The Organization provides an allowance for doubtful accounts for estimated losses in the collections of accounts receivable, which is based upon an analysis of outstanding receivables, taking into consideration the age of past due accounts, an assessment of the customer's ability to pay and historical collection information. When specific accounts are deemed uncollectible, in whole or in part, such amounts are removed from the accounts, although collection efforts may continue. As of June 30, 2016 and 2015, no allowance for doubtful accounts was deemed necessary.

##### **Contributions and Pledges Receivable**

Contributions, including gifts, grants, bequests, pledges and other unconditional promises to give without restrictions or stipulations are recorded as support 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.

Conditional promises or pledges are recognized when the conditions on which they depend are substantially met.

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

Unconditional promises or pledges are recorded at net realizable value. The Foundation 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.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

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

**Investments and Investment Income**

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

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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. These amounts are reported in the consolidated statements of activities and changes in net assets as net realized and unrealized gain (loss) on investments.

The Foundation maintains a significant and diverse investment portfolio, without concentration of risk by type, industry, or geographic area, which is 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, 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 will occur in the near term and that such changes could materially affect account balances.

**Land, Building and Equipment**

Land, building and equipment are stated at cost or if donated, at fair value at the date of the donation, except for land, building 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 at June 30, 2016 and 2015. Items which cost \$5,000 or more and have 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	39 years
Office furniture and equipment	3-7 years
Fiber optic network	20 years
Website	5 years

Expenditures for normal repairs and maintenance are expensed when incurred.

# Steuben County Community Foundation, Inc. and Affiliate

## Notes to Consolidated Financial Statements (continued)

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

#### 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. The Organization has received certain net assets for specific purposes, 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 the Organization 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 statement 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 the Organization to expend part or all of the income derived from the donated assets for either unrestricted or temporarily restricted purposes.

Net asset transfers occur when a donor approves a transfer of assets from one net asset classification to another and/or from one fund to another. The amount reported on the statements of activities is a net amount of all such transfers that occurred during the year.

#### Program Fees and Deferred Revenue

Monthly fees are charged for fiber optic services provided by I-MAN. Fees are billed at the beginning of each quarter and recognized in the month in which services are provided. Deferred revenue represents amounts invoiced to customers for fiber optic services that have not yet been provided by I-MAN. Customer connection fees are recognized at the time of completion (i.e. the customer is connected to the fiber optic network and is ready to begin receiving monthly service). The following table summarizes the fees charged for these services:

	<b>Year ended June 30</b>	
	<b>2016</b>	<b>2015</b>
Program fees, net:		
Monthly service fees	\$ 415,679	\$ 280,530
Customer connection fees—main lines	163,727	-
Customer connection fees to customer facility	83,953	68,458
Cost of customer connections	(78,324)	(63,587)
	<u>\$ 585,035</u>	<u>\$ 285,401</u>

# Steuben County Community Foundation, Inc. and Affiliate

## Notes to Consolidated Financial Statements (continued)

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

#### **Grants and Scholarships**

Grants and scholarships are considered incurred and recorded as payable upon their approval by the Board of Directors and communication to designated grantees. Grants payable in more than one year are initially recognized at fair value using present value methods at the time the grants are made.

#### **Use of Estimates**

Preparation of the consolidated 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

#### **New Accounting Pronouncements**

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent). The standard removes the requirement to present investments for which the practical expedient is used to measure fair value at net asset value (NAV) within the fair value hierarchy table. Instead, an entity is required to include those investments as a reconciling item so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the statement of net assets. The Foundation elected to early adopt ASU 2015-07 as of June 30, 2016, as permitted, and has applied ASU 2015-07 retrospectively, as required. The adoption has been reflected in Note 3. The adoption had no impact on the Statements of Financial Position as of June 30, 2016 and 2015 or the Statements of Activities and Changes in Net Assets for the years then ended.

#### **Reclassifications**

Certain amounts as of and for the year ended June 30, 2015 have been reclassified to conform with the presentation as of and for the year ended June 30, 2016. The classifications had no impact on net assets as of June 30, 2015.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**2. Investments**

Investments consist of the following:

	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
Money market funds	\$ 486,793	\$ 584,913
Certificates of deposit	229,179	249,419
U.S. Government securities	2,730,515	2,946,978
Corporate bonds and other debt securities	1,817,772	2,255,785
Preferred stock	25,138	9,438
Mutual funds	7,005,060	4,067,193
Common stock	6,830,286	8,541,235
Limited partnership	653,293	677,375
Total investments, at fair value	<u>\$ 19,778,036</u>	<u>\$ 19,332,336</u>
Total investments, at historical cost	<u>\$ 18,581,590</u>	<u>\$ 17,611,403</u>

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

	<b>Year ended June 30</b>	
	<b>2016</b>	<b>2015</b>
Investment income:		
Interest and dividends	\$ 510,329	\$ 634,712
Net realized gain on investments	495,170	903,771
Net unrealized loss on investments	(524,487)	(875,057)
	<u>481,012</u>	<u>663,426</u>
Less investment management and custodial fees	130,783	139,335
Net investment income	<u>\$ 350,229</u>	<u>\$ 524,091</u>

**3. Beneficial Interest in Trusts**

The Foundation was bequeathed a remainder interest in real estate located in Steuben County, Indiana, and has been named the beneficiary of two charitable remainder trusts that are held by third-party trustees.

The real estate interest, received in 1999, was valued at fair value at the date the gift was received multiplied by the remainder interest factor, based on mortality tables. The fair value is revalued annually and was \$277,690 and \$300,780 at June 30, 2016 and 2015, respectively.

## Steuben County Community Foundation, Inc. and Affiliate

### Notes to Consolidated Financial Statements (continued)

#### 3. Beneficial Interest in Trusts (continued)

The charitable remainder trust, held by a third-party trustee, is valued at the fair value of the underlying assets and is adjusted annually for changes in the fair value. The fair value of the charitable remainder trust as of June 30, 2016 and 2015 was \$242,378 and \$245,619, respectively.

#### 4. Fair Value Measurements

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 the Foundation 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.

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.

## Steuben County Community Foundation, Inc. and Affiliate

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements (continued)

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.

*Money market funds:* Valued at quoted market prices in an exchange and active market, which represent the net asset values of shares held by the Foundation at year-end.

*Certificates of deposit:* Recorded at cost plus accrued interest (carrying value), which approximates fair value.

*United States Treasury and government agency obligations, corporate bond and other debt securities and preferred stock:* Valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar obligations or bonds, the obligation or bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

*Mutual funds:* Valued at the daily closing price. Mutual funds held by the Foundation are open-end funds that are registered with the Securities and Exchange Commission. The mutual funds held by the Foundation are deemed to be actively traded.

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

*Limited partnership:* Valued based on periodic financial information received from the investment advisor and/or managing member and the Foundation's percentage ownership in the alternative investment entity. The limited partnership is a public investment vehicle, valued using the NAV provided by the managing member of the limited partnership, that focus on accumulating earnings while maintaining the appropriate level of diversified risk. The NAV is based on the value of the underlying assets owned by the partnership, minus its liabilities, and then divided by the number of shares outstanding.

*Cash value of life insurance policies:* Valued at the redemption value as determined by the insurance carrier at year-end.

*Beneficial interest in trusts:* Valued at its proportional interest in the underlying trust assets which are valued at the fair value. The remainder interest in real estate is valued based on the fair value of the real estate times a remainder interest factor, based on mortality tables.



Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**4. Fair Value Measurements (continued)**

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 the Foundation 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.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016 and 2015:

	<b>Assets at Fair Value at June 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market funds	\$ 486,793	\$ -	\$ -	\$ 486,793
Certificates of deposit	-	229,179	-	229,179
U.S. Government securities	-	2,730,515	-	2,730,515
Corporate bonds and other debt securities	-	1,817,772	-	1,817,772
Preferred stock	-	25,138	-	25,138
Mutual funds:				
Income	1,619,632	-	-	1,619,632
Aggressive income	449,321	-	-	449,321
Growth and income	3,885,307	-	-	3,885,307
Growth	540,553	-	-	540,553
Aggressive growth	318,565	-	-	318,565
International funds	191,682	-	-	191,682
Total mutual funds	7,005,060	-	-	7,005,060
Common stock:				
Domestic stock:				
Healthcare	850,395	-	-	850,395
Financial services	1,016,718	-	-	1,016,718
Energy	512,333	-	-	512,333
Utilities	209,425	-	-	209,425
Consumer goods	801,042	-	-	801,042
Industrial and material	800,903	-	-	800,903
Technology	1,422,854	-	-	1,422,854
Communication services	133,805	-	-	133,805
Consumer discretionary	581,897	-	-	581,897
Diversified and other	57,009	-	-	57,009
Total domestic stock	6,386,381	-	-	6,386,381

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**4. Fair Value Measurements (continued)**

<b>Assets at Fair Value at June 30, 2016 (continued)</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign stock:				
Healthcare	\$ 49,096	\$ -	\$ -	\$ 49,096
Financial services	75,375	-	-	75,375
Energy	13,805	-	-	13,805
Consumer goods	65,165	-	-	65,165
Industrial and material	88,959	-	-	88,959
Technology	41,993	-	-	41,993
Communication services	39,152	-	-	39,152
Consumer discretionary	58,107	-	-	58,107
Other	12,253	-	-	12,253
Total foreign stock	<u>443,905</u>	-	-	<u>443,905</u>
Total common stock	<u>6,830,286</u>	-	-	<u>6,830,286</u>
Total investments at fair value	<b>14,322,139</b>	<b>4,802,604</b>	-	<b>19,124,743</b>
Cash value of life insurance policies	-	383,685	-	383,685
Beneficial interest in trusts	-	-	520,068	520,068
Total other assets at fair value	<u>-</u>	<u>383,685</u>	<u>520,068</u>	<u>903,753</u>
Assets in the fair value hierarchy	<u><b>\$ 14,322,139</b></u>	<u><b>\$ 5,186,289</b></u>	<u><b>\$ 520,068</b></u>	<u><b>\$ 20,028,496</b></u>
Limited Partnership valued at NAV				<u>653,293</u>
Total assets at fair value				<u><b>\$ 20,681,789</b></u>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**4. Fair Value Measurements (continued)**

	<b>Assets at Fair Value at June 30, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market funds	\$ 584,913	\$ -	\$ -	\$ 584,913
Certificates of deposit	-	249,419	-	249,419
U.S. Government securities	-	2,946,978	-	2,946,978
Corporate bonds and other debt securities	-	2,255,785	-	2,255,785
Preferred stocks	-	9,438	-	9,438
Mutual funds:				
Income	1,079,893	-	-	1,079,893
Aggressive income	298,183	-	-	298,183
Growth and income	1,704,485	-	-	1,704,485
Growth	660,995	-	-	660,995
Aggressive growth	317,217	-	-	317,217
Real estate funds	6,420	-	-	6,420
Total mutual funds	4,067,193	-	-	4,067,193
Common and preferred stock:				
Domestic stock:				
Healthcare	1,011,533	-	-	1,011,533
Financial services	1,316,680	-	-	1,316,680
Energy	501,560	-	-	501,560
Utilities	229,506	-	-	229,506
Consumer goods	955,145	-	-	955,145
Industrial and material	1,270,090	-	-	1,270,090
Technology	1,600,764	-	-	1,600,764
Communication services	103,505	-	-	103,505
Consumer discretionary	676,930	-	-	676,930
Unclassified	8,894	-	-	8,894
Total domestic stock	7,674,607	-	-	7,674,607

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**4. Fair Value Measurements (continued)**

<b>Assets at Fair Value at June 30, 2015 (continued)</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign stock:				
Healthcare	\$ 149,041	\$ -	\$ -	\$ 149,041
Financial services	163,651	-	-	163,651
Energy	22,174	-	-	22,174
Consumer goods	117,777	-	-	117,777
Industrial and material	143,705	-	-	143,705
Technology	46,639	-	-	46,639
Communication services	72,789	-	-	72,789
Consumer discretionary	123,632	-	-	123,632
Unclassified	27,220	-	-	27,220
Total foreign stock	<u>866,628</u>	-	-	<u>866,628</u>
Total common stock	<u>8,541,235</u>	-	-	<u>8,541,235</u>
Total investments at fair value	13,193,341	5,461,620	-	18,654,961
Cash value of life insurance policies	-	365,180	-	365,180
Beneficial interest in trusts	-	-	546,399	546,399
Total other assets at fair value	<u>-</u>	<u>365,180</u>	<u>546,399</u>	<u>911,579</u>
Assets in the fair value hierarchy	<u>\$ 13,193,341</u>	<u>\$ 5,826,800</u>	<u>\$ 546,399</u>	<u>\$ 19,566,540</u>
Limited Partnership valued at NAV				<u>677,375</u>
Total assets at fair value				<u>\$ 20,243,915</u>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**4. Fair Value Measurements (continued)**

The changes in assets classified as Level 3 are as follows:

	<b>Remainder Value of Life Estate</b>	<b>Charitable Remainder Trust</b>	<b>Total</b>
<b>Year ended June 30, 2016</b>			
Balance at beginning of year	\$ 300,780	\$ 245,619	\$ 546,399
Actual return on assets—net unrealized gain (loss) relating to assets still held at year-end	<u>(23,090)</u>	<u>(3,241)</u>	<u>(26,331)</u>
Balance at end of year	<u>\$ 277,690</u>	<u>\$ 242,378</u>	<u>\$ 520,068</u>
<b>Year ended June 30, 2015</b>			
Balance at beginning of year	\$ 321,990	\$ 583,788	\$ 905,778
Redemption	-	(423,254)	(423,254)
Actual return on assets—net unrealized gain (loss) relating to assets still held at year-end	<u>(21,210)</u>	<u>85,085</u>	<u>63,875</u>
Balance at end of year	<u>\$ 300,780</u>	<u>\$ 245,619</u>	<u>\$ 546,399</u>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**5. Grants and Scholarships Payable**

The following summarizes the changes in grants and scholarships payable:

	<b>Year ended June 30</b>	
	<b>2016</b>	<b>2015</b>
Grants and scholarships payable at beginning of year	\$ 171,900	\$ 145,749
Unconditional grants and scholarships expensed	1,230,163	986,282
Less payments made	1,103,108	960,131
Grants and scholarships payable at end of year	<u>\$ 298,955</u>	<u>\$ 171,900</u>

Grants and scholarships payable at June 30, 2016 are scheduled to be disbursed as follows:

2017	\$ 270,955
2018	18,000
2019	10,000
	<u>\$ 298,955</u>

**6. Charitable Gift Annuity Payable**

The Foundation has entered into a charitable gift annuity in which the donor contributes assets to the Foundation in exchange for the right to receive a fixed dollar annual return during his/her lifetime or, for joint annuitants, the lifetime of the donor's spouse, whichever is longer. The fair value of the assets contributed over the present value of the liability for future payments has been recognized as a contribution at the date of the gift. Annually, the Foundation revalues the liability based on applicable mortality tables and discount rate. The discount rate at June 30, 2016 and 2015 was two percent, respectively. The charitable gift annuity payable was \$7,356 and \$7,770 at June 30, 2016 and 2015, respectively, and is included in accounts payable and other current liabilities in the consolidated statements of financial position.

# Steuben County Community Foundation, Inc. and Affiliate

## Notes to Consolidated Financial Statements (continued)

### 7. Debt Arrangements

Pursuant to debt agreements, I-MAN pays monthly principal and interest installments of \$11,959 with a final payment due on December 28, 2019, and monthly principal and interest installments of \$3,063 with a final payment due on June 28, 2016, on various notes payable for the purchase of fiber optic cable deployed to cellular towers. The notes payable bear interest at a fixed rate of 2.5 percent and are secured by the cellular towers.

Maturities on the notes payable as of June 30, 2016 are as follows:

Year ended June 30, 2017	<b>\$ 165,900</b>
Year ended June 30, 2018	<b>170,095</b>
Year ended June 30, 2019	<b>174,396</b>
Year ended June 30, 2020	<b>106,677</b>
Year ended June 30, 2021	<b>33,277</b>
	<b><u>\$ 650,345</u></b>

Interest paid was \$14,134 and \$7,935 for the years ended June 30, 2016 and 2015, respectively.

### 8. Temporarily Restricted Net Assets

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

	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
Specific organization fund	<b>\$ 1,882,298</b>	\$ 2,038,522
General funds	<b>515,916</b>	941,299
Operating funds	<b>459,106</b>	473,625
Scholarships	<b>636,431</b>	732,995
	<b><u>\$ 3,493,751</u></b>	<b><u>\$ 4,186,441</u></b>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**8. Temporarily Restricted Net Assets (continued)**

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

	<b>Year ended June 30</b>	
	<b>2016</b>	<b>2015</b>
Specific organization fund	\$ 775,156	\$ 618,634
General funds	478,783	323,116
Operating funds	24,276	33,298
Scholarships	169,389	264,441
Net assets released from restrictions for operations	<u>\$ 1,447,604</u>	<u>\$ 1,239,489</u>

**9. Permanently Restricted Net Assets**

Net assets were permanently restricted for the following purposes:

	<b>June 30</b>	
	<b>2016</b>	<b>2015</b>
Specific organization funds	\$ 7,158,422	\$ 7,045,835
General funds	5,188,774	5,158,749
Operating funds	1,572,541	1,556,134
Scholarships	3,590,150	3,489,227
	<u>\$ 17,509,887</u>	<u>\$ 17,249,945</u>

Income from the general endowment funds is to be used for programs benefiting Steuben County residents.

**10. Endowment Funds**

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



## Steuben County Community Foundation, Inc. and Affiliate

### Notes to Consolidated Financial Statements (continued)

#### **10. Endowment Funds (continued)**

The Foundation's endowment consists of approximately 160 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. 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 the Foundation 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, the Foundation 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent 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 donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Foundation 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 the Foundation.
- The investment policies of the Foundation.

## Steuben County Community Foundation, Inc. and Affiliate

### Notes to Consolidated Financial Statements (continued)

#### **10. Endowment Funds (continued)**

##### **Return Objectives and Risk Parameters**

The Foundation 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 Foundation must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that compare favorably with the performance of publicly traded market indices, including the S&P 500 or other recognized indices. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 10 percent 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, the Foundation 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). The Foundation 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**

The Foundation has a policy of appropriating for distribution each year a percentage of its endowment funds' average fair value over the preceding sixteen calendar quarters of the fiscal year in which the distribution is planned, limited to accumulated earnings. During the year ended June 30, 2015 the Board of Directors approved a reduction in the appropriation percentage from five percent to four percent for external funds effective in the year ended June 30, 2017, a reduction in the appropriation percentage from five percent to four and one-half percent for internal funds effective in the year ended June 30, 2016, and a reduction in the appropriation percentage from four and one-half percent to four percent for internal funds effective in the year ended June 30, 2017. In establishing the policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**10. Endowment Funds (continued)**

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-advised and agency endowment funds	\$ -	\$ 1,646,684	\$ 10,839,882	\$ 12,486,566
Board-advised endowment funds	-	784,212	6,670,005	7,454,217
<b>Total funds</b>	<b>\$ -</b>	<b>\$ 2,430,896</b>	<b>\$ 17,509,887</b>	<b>\$ 19,940,783</b>

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ -	\$ 3,280,609	\$ 17,249,945	\$ 20,530,554
Investment income:				
Investment income	-	543,036	-	543,036
Realized and unrealized loss on investments, net	-	(154,701)	-	(154,701)
<b>Total investment return</b>	<b>-</b>	<b>388,335</b>	<b>-</b>	<b>388,335</b>
Other changes:				
Contributions and grants	-	73,299	206,098	279,397
Change in cash value of life insurance	-	17,820	-	17,820
Change in value of beneficial interests in trusts	-	-	(27,658)	(27,658)
Donor directed intrafund transfers	-	(106,893)	81,502	(25,391)
Appropriation for expenditure	-	(1,222,274)	-	(1,222,274)
<b>Endowment net assets at end of year</b>	<b>\$ -</b>	<b>\$ 2,430,896</b>	<b>\$ 17,509,887</b>	<b>\$ 19,940,783</b>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

**10. Endowment Funds (continued)**

Endowment net asset composition by type of fund as of June 30, 2015, is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-advised and agency endowment funds	\$ -	\$ 2,076,849	\$ 10,875,567	\$ 12,952,416
Board-advised endowment funds	-	1,203,760	6,374,378	7,578,138
<b>Total funds</b>	<b>\$ -</b>	<b>\$ 3,280,609</b>	<b>\$ 17,249,945</b>	<b>\$ 20,530,554</b>

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ -	\$ 3,704,940	\$ 16,190,685	\$ 19,895,625
Investment income:				
Investment income	-	657,499	-	657,499
Realized and unrealized loss on investments, net	-	(107,812)	-	(107,812)
<b>Total investment return</b>	<b>-</b>	<b>549,687</b>	<b>-</b>	<b>549,687</b>
Other changes:				
Contributions and grants	-	47,064	1,006,729	1,053,793
Change in cash value of life insurance	-	-	6,459	6,459
Change in value of beneficial interests in trusts	-	-	62,558	62,558
Change in value of promise to give receivable	-	-	(111,975)	(111,975)
Donor directed intrafund transfers	-	(99,730)	95,489	(4,241)
Appropriation for expenditure	-	(921,352)	-	(921,352)
<b>Endowment net assets at end of year</b>	<b>\$ -</b>	<b>\$ 3,280,609</b>	<b>\$ 17,249,945</b>	<b>\$ 20,530,554</b>

## Steuben County Community Foundation, Inc. and Affiliate

### Notes to Consolidated Financial Statements (continued)

#### **11. Management Fees**

The Foundation assesses an administrative charge of 0.75 percent to two percent of the average asset balance on endowment funds and 2 percent to 5 percent on pass-through funds. This amount is used primarily to support the operations of the Foundation. The amount assessed is computed quarterly based on the funds' market value at the end of March, June, September and December. For the years ended June 30, 2016 and 2015, these fees were \$235,157 and \$225,662, respectively.

#### **12. Subsequent Events**

Management has evaluated subsequent events through August 17, 2016, the date on which the financial statements were available to be issued.