

*Consolidated Financial Statements*

**Steuben County Community  
Foundation, Inc. and Affiliate**

June 30, 2014 and 2013

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

***Consolidated Financial Statements  
June 30, 2014 and 2013***

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Certified Public Accountants • Business Consultants

## **Independent Auditors' Report**

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

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

We have audited the accompanying consolidated financial statements of Steuben County Community Foundation, Inc. and Affiliate (Organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Qualified Opinion**

As more fully described in Note 1 to the financial statements, Steuben County Community Foundation (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. In our opinion, accounting principles generally accepted in the United States of America require that these investments and return on investments be recorded as a liability. The effect on the financial statements of this departure from those accounting principles is not reasonably determinable.

### **Qualified Opinion**

In our opinion, except for the effects of the matter discussed in the preceding 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 as of June 30, 2014 and 2013, 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.



**BADEN, GAGE & SCHROEDER, LLC**

Fort Wayne, Indiana  
October 21, 2014

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

**Consolidated Statements of Financial Position  
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 987,272	\$ 1,056,531
Accounts receivable	9,988	34,663
Grants receivable	-	103,857
Prepaid expenses and other	9,911	9,282
Promises to give receivable	811,865	1,222,445
Investments	17,346,030	15,264,669
Cash value of life insurance policy	347,448	141,937
Split-interest agreements	905,778	729,118
Land, building and equipment - net	807,802	858,768
Fiber optic network and website - net	2,461,200	2,382,681
Construction in progress	<u>319,055</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 24,006,349</u></b>	<b><u>\$ 21,803,951</u></b>
<b>LIABILITIES</b>		
Accounts payable and other current liabilities	\$ 208,352	\$ 192,348
Deferred income	42,675	38,650
Grants payable	145,749	71
Annuities payable	<u>8,212</u>	<u>53,544</u>
Total Liabilities	404,988	284,613
<b>NET ASSETS</b>		
Unrestricted	3,100,514	3,087,225
Temporarily restricted	4,310,162	2,700,402
Permanently restricted	<u>16,190,685</u>	<u>15,731,711</u>
Total Net Assets	<u>23,601,361</u>	<u>21,519,338</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 24,006,349</u></b>	<b><u>\$ 21,803,951</u></b>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Activities  
Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions and grants	\$ 220,235	\$ 522,558	\$ 598,909	\$ 1,341,702
Management fees	202,125	-	-	202,125
Program fees, net	164,251	-	-	164,251
Interest and dividends	370	365,104	-	365,474
Realized gain on investments	250	568,555	-	568,805
Unrealized gain on investments	742	1,242,611	-	1,243,353
Outside management fee expense	(164)	(129,243)	-	(129,407)
Increase in value of annuities	-	50,429	5,489	55,918
Increase in value of split-interest agreements	-	-	176,660	176,660
Write down in value of promises to give receivable	-	-	(410,480)	(410,480)
Total Revenue and Support	587,809	2,620,014	370,578	3,578,401
<b>NET ASSETS RELEASED FROM RESTRICTION</b>				
Restrictions satisfied	925,299	(925,299)	-	-
Donor directed release of funds	-	(24,059)	24,059	-
Total Net Assets Released from Restrictions	1,513,108	1,670,656	394,637	3,578,401
<b>EXPENSES</b>				
Programs:				
Grants and programs	893,935	-	-	893,935
Management fees	202,125	-	-	202,125
Total Program Expenses	1,096,060	-	-	1,096,060
Administration	328,269	-	-	328,269
Fund-raising	72,049	-	-	72,049
Total Expenses	1,496,378	-	-	1,496,378
<b>INCREASE IN NET ASSETS</b>	16,730	1,670,656	394,637	2,082,023
<b>NET ASSET TRANSFERS</b>	(3,441)	(60,896)	64,337	-
<b>CHANGE IN NET ASSETS</b>	13,289	1,609,760	458,974	2,082,023
<b>NET ASSETS AT BEGINNING OF YEAR</b>	3,087,225	2,700,402	15,731,711	21,519,338
<b>NET ASSETS AT END OF YEAR</b>	\$ 3,100,514	\$ 4,310,162	\$ 16,190,685	\$ 23,601,361

See Notes to Consolidated Financial Statements.

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

*Consolidated Statement of Activities*  
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions and grants	\$ 375,675	\$ 1,113,715	\$ 2,417,284	\$ 3,906,674
Management fees	177,592	-	-	177,592
Program fees, net	162,568	-	-	162,568
Interest and dividends	384	334,950	-	335,334
Realized gain on investments	137	297,844	-	297,981
Unrealized gain on investments	1,185	774,672	-	775,857
Outside management fee expense	(163)	(108,704)	-	(108,867)
Increase in value of annuities	-	-	1,875	1,875
Increase in value of split-interest agreements	-	-	19,172	19,172
	<u>717,378</u>	<u>2,412,477</u>	<u>2,438,331</u>	<u>5,568,186</u>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>				
Restrictions satisfied	1,198,778	(1,198,778)	-	-
Donor directed release of funds	<u>-</u>	<u>31,451</u>	<u>(31,451)</u>	<u>-</u>
	1,916,156	1,245,150	2,406,880	5,568,186
<b>EXPENSES</b>				
Programs:				
Grants and programs	1,175,718	-	-	1,175,718
Management fees	<u>177,592</u>	<u>-</u>	<u>-</u>	<u>177,592</u>
Total Program Expenses	1,353,310	-	-	1,353,310
Administration	300,641	-	-	300,641
Fund-raising	<u>76,802</u>	<u>-</u>	<u>-</u>	<u>76,802</u>
Total Expenses	<u>1,730,753</u>	<u>-</u>	<u>-</u>	<u>1,730,753</u>
<b>INCREASE IN NET ASSETS</b>	185,403	1,245,150	2,406,880	3,837,433
<b>NET ASSET TRANSFERS</b>	<u>16,656</u>	<u>(78,815)</u>	<u>62,159</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	202,059	1,166,335	2,469,039	3,837,433
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>2,885,166</u>	<u>1,534,067</u>	<u>13,262,672</u>	<u>17,681,905</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 3,087,225</u>	<u>\$ 2,700,402</u>	<u>\$ 15,731,711</u>	<u>\$ 21,519,338</u>

See Notes to Consolidated Financial Statements.

# **STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

## **Consolidated Statements of Cash Flows Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 2,082,023	\$ 3,837,433
Adjustments to Reconcile Change in Net Assets to Net Cash Provided		
By Operating Activities:		
Depreciation	186,823	178,448
Bad debts	-	2,043
Write down in value of promises to give receivable	410,480	-
Increase in value of split-interest agreements	(176,660)	(19,172)
Increase in value of annuities	(55,918)	(1,875)
Reinvested dividends	(365,474)	(335,334)
Net realized and unrealized gains	(1,812,158)	(1,073,838)
(Increase) Decrease in Assets:		
Accounts receivable	24,675	(26,056)
Grants receivable	103,857	(103,857)
Prepaid expenses and other	(629)	1,983
Promises to give receivable	100	(1,208,695)
Cash value of life insurance policy	(190,118)	(6,961)
Increase (Decrease) in Liabilities:		
Accounts payable and other current liabilities	16,005	170,287
Deferred income	4,025	10,712
Grants payable	145,678	(30,314)
Annuities payable	(4,807)	(1,334)
Net Cash Provided By Operating Activities	367,902	1,393,470
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investment securities	(5,320,115)	(6,217,940)
Proceeds from sale or maturity of investment securities	5,416,384	5,291,744
Purchase of equipment and fiber optic network	(533,430)	(391,891)
Net Cash Used In Investing Activities	(437,161)	(1,318,087)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(69,259)	75,383
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,056,531</b>	<b>981,148</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 987,272</b>	<b>\$ 1,056,531</b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:</b>		
Increase in value of split-interest agreements	\$ 176,660	\$ 19,172
Increase in value of annuities	55,918	1,875
Write down in value of estate interest receivable	41,759	410,480
Reinvested investment income, net of fees	365,474	335,334

See Notes to Consolidated Financial Statements.



# **STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

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## **Note 1. Nature of Activities and Significant Accounting Policies**

### **Nature of Activities:**

The Steuben County Community Foundation, Inc. (the 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.

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 reaches 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 will be used to support endowments of the Foundation.

### **Principles of Consolidation:**

The consolidated financial statements include the accounts of the Foundation and I-MAN (collectively, the 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. Therefore, the Foundation has both control and economic interest, requiring the consolidation of the two entities. All significant inter-entity accounts and transactions have been eliminated in consolidation.

### **Financial Statement Presentation:**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations, except for the departure described below. The Organization reports information about its financial position and activities using three classes of net assets that recognize the existence and nature of restrictions on its net assets.

*Unrestricted Net Assets:* Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets:* Net assets that are available for use, but expendable only for those purposes specified by the donor or grantor. The restrictions are satisfied either by the passage of time or by actions of the Organization.

*Permanently Restricted Net Assets:* Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization.

# **STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**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. The Foundation has recognized revenue and support for the fair value of the assets and investment income and reports expenses when the assets are transferred to the beneficiary.

**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.

**Cash and Cash Equivalents:**

The Organization considers bank accounts and money market funds as cash and cash equivalents.

**Accounts and Grants Receivable:**

Accounts and grants receivable are recorded at their contract amounts adjusted for any charge-offs and the allowance for doubtful accounts. Receivables are considered past due based on their individual contract terms. The amount of the allowance is based on management's evaluation of the collectibility of the accounts, including the credit concentrations, trends in historical loss experience, specific impaired accounts receivable, and economic conditions. Management of the Organization has not provided an allowance for doubtful accounts because the estimate of any loss is deemed to be immaterial to the financial statements.

**Promises to Give Receivable:**

The Organization recognizes contributions as public support in the year the promise is made. The present value of these estimated future cash flows is recorded as a receivable. The promises to give are believed to be settled within one year; therefore, the discount to net present value was not deemed necessary. Management considers all contributions receivable to be fully collectible and, therefore, has not established a provision for uncollectible contributions.

**Investments:**

Investments are stated 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 5 for discussion of fair value measurements.

# **STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Investments:** (continued)

Purchases and sales of securities 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 gains and losses on investments are reflected in the statements of activities.

**Accrued Interest Receivable:**

Accrued interest earned on bonds and certificates of deposit is included in investments.

**Land, Building and Equipment:**

Land, building and equipment is stated at cost or, if donated, at fair value at the date of the gift. Equipment with a useful life of one year or more is capitalized. Additions and improvements that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred. The Organization follows the policy of providing depreciation on the straight-line method for financial reporting purposes over the estimated useful lives of the related assets.

**Fiber Optic Network and Website:**

The fiber optic network and website is stated at cost or, if donated, at fair value at the date of the gift. Expenditures with a useful life of one year or more are capitalized. Costs incurred for repairs and maintenance are expensed as incurred. The Organization follows the policy of providing depreciation on the straight-line method for financial reporting purposes over the estimated useful lives of the related assets.

**Deferred Income:**

Monthly fees are charged for fiber optic services provided by I-MAN. Fees are billed at the beginning of each quarter. Deferred income represents amounts invoiced to customers for fiber optic services that have not yet been provided by I-MAN.

**Grants Payable:**

Grants are recorded as payable upon their unconditional approval by the Board of Directors. Grants payable in more than one year are initially recognized at fair value using present value methods at the time the grants are made. Management has deemed the adjustment to discount future cash flows immaterial and, therefore, is not recorded.

# ***STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE***

***Notes to Consolidated Financial Statements (Continued)***  
**June 30, 2014 and 2013**

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## **Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

### **Contributions:**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. All 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.

### **Program Fees:**

Monthly fees to provide fiber optic services are billed at the beginning of each quarter and are recognized in the month that services are provided. 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).

### **Net Asset Transfers:**

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

### **Income Taxes:**

The Foundation and I-MAN are exempt corporations under Section 501(a) of the Internal Revenue code as organizations described in Section 501(c)(3). The Foundation and I-MAN are not considered to be private foundations as determined by the Internal Revenue Service and are not subject to income taxes.

The accounting standard that provides guidance on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business income tax (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended June 30, 2014 and 2013.

The Foundation and I-MAN file tax returns in the U.S. federal jurisdiction and the State of Indiana. The Organization believes it is no longer subject to tax examinations for years prior to 2011.

# STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)  
June 30, 2014 and 2013

**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Reclassifications:**

Certain prior year amounts have been reclassified to conform to the current year's presentation.

**Subsequent Events:**

Management has evaluated events and transactions for possible recognition or disclosure through October 21, 2014, the date the consolidated financial statements were available to be issued.

**Note 2. Promises to Give Receivable**

At June 30, 2014 and 2013, the Foundation has unconditional promises to give that are temporarily restricted for time and/or purpose related to the following:

	<u>2014</u>	<u>2013</u>
Estate of Martha Rogers	\$ 811,865	\$ 1,222,345
Other	<u>-</u>	<u>100</u>
	<u>\$ 811,865</u>	<u>\$ 1,222,445</u>

The estate of Martha Rogers consists primarily of real estate, which is currently listed for sale. The value is based on the net sales price of the real estate, which is an estimate based on current market conditions. During the year ended June 30, 2014, the estate of Martha Rogers was written down in the amount of \$410,480 due to changes in the assumptions regarding market conditions. Due to the level of risk associated with this promise to give, it is at least reasonably possible that additional changes in the estimate may occur in the near term and that such change could materially affect amounts reported in the financial statements.

**Note 3. Investments**

Investments at June 30, 2014, are stated at fair value and are summarized as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
Certificates of deposit	\$ 328,458	\$ 1,269	\$ 660	\$ 329,067
U.S. Government securities	2,726,116	37,372	3,899	2,759,589
Corporate bonds	2,082,014	26,547	5,726	2,102,835
Mutual funds	2,736,301	510,168	4,129	3,242,340
Common stock	6,236,764	2,099,889	55,018	8,281,635
Partnership	<u>640,387</u>	<u>-</u>	<u>9,823</u>	<u>630,564</u>
	<u>\$ 14,750,040</u>	<u>\$ 2,675,245</u>	<u>\$ 79,255</u>	<u>\$ 17,346,030</u>

# **STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

## **Notes to Consolidated Financial Statements (Continued)** **June 30, 2014 and 2013**

### **Note 3. Investments (Continued)**

Investments at June 30, 2013, are stated at fair value and are summarized as follows:

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Market Value</b>
Certificates of deposit	\$ 840,861	\$ 16	\$ 17,288	\$ 823,589
U.S. Government securities	2,216,621	33,383	16,006	2,233,998
Corporate bonds	1,908,751	19,855	42,184	1,886,422
Mutual funds	1,848,812	159,484	21,415	1,986,881
Common stock	6,344,303	1,382,698	129,105	7,597,896
Partnership	752,683	-	16,800	735,883
	<b>\$ 13,912,031</b>	<b>\$ 1,595,436</b>	<b>\$ 242,798</b>	<b>\$ 15,264,669</b>

Investment return, including interest on money market funds and bank accounts consists of the following:

	<b>2014</b>	<b>2013</b>
Interest and dividends	\$ 365,474	\$ 335,334
Net realized gain on investments	568,805	297,981
Net unrealized gain on investments	1,243,353	775,857
Less: Outside management fee expenses	(129,407)	(108,867)
	<b>\$ 2,048,225</b>	<b>\$ 1,300,305</b>

### **Note 4. Split-Interest Agreements**

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 (\$564,000) at the date the gift was received multiplied by the remainder interest factor, based on mortality tables. The fair value has been revalued annually. The value of the remainder interest in real estate is \$321,990 and \$205,160 as of June 30, 2014 and 2013, respectively. The charitable remainder trusts held by third party trustees are valued at the fair value of the underlying assets, and are adjusted annually for changes in the fair value. The fair values of the two charitable remainder trusts as of June 30, 2014, are \$249,257 and \$334,531, and as of June 30, 2013, are \$215,286, and \$308,672.

In July 2014, the grantor of one of the remainder trusts passed away, leaving the Foundation \$423,254, which was \$88,723 in excess of the fair value recorded in the financial statements.

# **STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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## **Note 5. Fair Value Measurements**

Fair value measurements are based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, and are determined by either the principal market or the most advantageous market.

Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below with Level 1 measurements having the highest priority and Level 3 measurements having the lowest priority.

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access at the measurement date.

Level 2: Fair value is based on quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Fair value is based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation techniques and inputs used for each major class of assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

*Certificates of deposit:* Valued at cost plus accrued interest at year end, which approximates fair value due to the short-term nature of the instruments.

*U.S. Government securities:* Values are estimated by using pricing models that vary by asset class and incorporate available trade, bid, and other market information and, for structured securities, cash flow and performance data. Examples of such instruments include obligations of U.S. Government agencies and mortgage-backed securities.

*Corporate bonds:* Valued on yields currently available on comparable securities of issuers with similar credit ratings.

*Mutual funds:* Valued at the quoted market prices, which represent the net asset value (NAV) of shares held at year end.

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

# **STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE**

**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

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**Note 5. Fair Value Measurements (Continued)**

*Partnership:* Recorded at the NAV which is calculated by dividing net assets of the trust by the total outstanding units. Citi Fund Services serves as an independent administrator and provides investors with monthly valuations of their investment in The Endowment Fund.

*Remainder value of life estate (split-interest):* Estimated based on the value of the real estate times a remainder interest factor, based on mortality tables.

*Charitable remainder trusts (split-interest):* Estimated based on the fair value of the underlying assets at the end of the year.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 tables set forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of June 30, 2014 and 2013.



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

**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note 5. Fair Value Measurements (Continued)**

	<b>Assets at Fair Value as of June 30, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Certificates of deposit	\$ 228,973	\$ 100,094	\$ -	\$ 329,067
U.S. Government securities	-	2,759,589	-	2,759,589
Corporate bonds	-	2,102,835	-	2,102,835
Mutual funds				
Income	655,343	-	-	655,343
Aggressive income	134,182	-	-	134,182
Growth & income	1,651,408	-	-	1,651,408
Growth	631,123	-	-	631,123
Aggressive	<u>170,284</u>	<u>-</u>	<u>-</u>	<u>170,284</u>
Total mutual funds	3,242,340	-	-	3,242,340
Common stock				
<i>Domestic stock</i>				
Healthcare	697,701	-	-	697,701
Financial services	1,231,371	-	-	1,231,371
Energy	685,474	-	-	685,474
Utilities	264,700	-	-	264,700
Consumer goods	735,370	-	-	735,370
Industrial and material	1,288,024	-	-	1,288,024
Technology	1,148,121	-	-	1,148,121
Communication services	182,442	-	-	182,442
Consumer discretionary	717,563	-	-	717,563
Unclassified	<u>12,500</u>	<u>-</u>	<u>-</u>	<u>12,500</u>
Total domestic stock	6,963,266	-	-	6,963,266
<i>Foreign stock</i>				
Healthcare	137,807	-	-	137,807
Financial services	227,642	-	-	227,642
Energy	75,025	-	-	75,025
Consumer goods	144,491	-	-	144,491
Industrial and material	212,034	-	-	212,034
Technology	105,821	-	-	105,821
Communication services	79,604	-	-	79,604
Consumer discretionary	144,647	-	-	144,647
Unclassified	<u>191,298</u>	<u>-</u>	<u>-</u>	<u>191,298</u>
Total foreign stock	<u>1,318,369</u>	<u>-</u>	<u>-</u>	<u>1,318,369</u>
Total common stock	8,281,635	-	-	8,281,635
Partnership	<u>-</u>	<u>-</u>	<u>630,564</u>	<u>630,564</u>
Total investments	11,752,948	4,962,518	630,564	17,346,030
Split-interest agreements	<u>-</u>	<u>-</u>	<u>905,778</u>	<u>905,778</u>
Total assets at fair value	<u>\$ 11,752,948</u>	<u>\$ 4,962,518</u>	<u>\$ 1,536,342</u>	<u>\$ 18,251,808</u>

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

**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note 5. Fair Value Measurements (Continued)**

	<b>Assets at Fair Value as of June 30, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Certificates of deposit	\$ 443,045	\$ 380,544	\$ -	\$ 823,589
U.S. Government securities	-	2,233,998	-	2,233,998
Corporate bonds	-	1,886,422	-	1,886,422
Mutual funds				
Income	248,424	-	-	248,424
Aggressive income	177,618	-	-	177,618
Growth & income	910,199	-	-	910,199
Growth	466,765	-	-	466,765
Aggressive	<u>183,875</u>	<u>-</u>	<u>-</u>	<u>183,875</u>
Total mutual funds	1,986,881	-	-	1,986,881
Common stock				
<i>Domestic stock</i>				
Healthcare	647,317	-	-	647,317
Financial services	1,505,250	-	-	1,505,250
Energy	650,528	-	-	650,528
Utility	219,383	-	-	219,383
Consumer goods	876,847	-	-	876,847
Industrial and material	1,083,071	-	-	1,083,071
Technology	866,591	-	-	866,591
Communication services	184,707	-	-	184,707
Consumer discretionary	659,392	-	-	659,392
Unclassified	<u>65,604</u>	<u>-</u>	<u>-</u>	<u>65,604</u>
Total domestic stock	6,758,690	-	-	6,758,690
<i>Foreign stock</i>				
Healthcare	95,357	-	-	95,357
Financial services	165,046	-	-	165,046
Energy	62,081	-	-	62,081
Consumer goods	90,361	-	-	90,361
Industrial and material	133,663	-	-	133,663
Technology	80,486	-	-	80,486
Communication services	53,629	-	-	53,629
Consumer discretionary	110,192	-	-	110,192
Unclassified	<u>48,391</u>	<u>-</u>	<u>-</u>	<u>48,391</u>
Total foreign stock	<u>839,206</u>	<u>-</u>	<u>-</u>	<u>839,206</u>
Total common stock	7,597,896	-	-	7,597,896
Partnership	<u>-</u>	<u>-</u>	<u>735,883</u>	<u>735,883</u>
Total investments	10,027,822	4,500,964	735,883	15,264,669
Split-interest agreements	<u>-</u>	<u>-</u>	<u>729,118</u>	<u>729,118</u>
Total assets at fair value	<u>\$ 10,027,822</u>	<u>\$ 4,500,964</u>	<u>\$ 1,465,001</u>	<u>\$ 15,993,787</u>

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

**Notes to Consolidated Financial Statements (Continued)**  
June 30, 2014 and 2013

**Note 5. Fair Value Measurements (Continued)**

**Level 3 Gains and Losses**

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended June 30, 2014 and 2013.

	<u>Partnership</u>	<u>Split-interest agreements</u>
Balance, July 1, 2012	\$ 745,386	\$ 709,946
Partnership loss	(9,503)	-
Unrealized gains	<u>-</u>	<u>19,172</u>
Balance, June 30, 2013	735,883	729,118
Partnership loss	(105,319)	-
Unrealized gains	<u>-</u>	<u>176,660</u>
Balance, June 30, 2014	<u>\$ 630,564</u>	<u>\$ 905,778</u>

Unrealized gains and losses included in the changes in net assets for the years above are reported in the statements of activities.

**Note 6. Land, Building and Equipment**

Land, building and equipment consist of the following:

	<u>Estimated Useful Lives</u>	<u>2014</u>	<u>2013</u>
Land		\$ 382,781	\$ 382,781
Building and improvements	39 years	431,075	431,075
Office furniture and equipment	3 - 7 years	<u>301,793</u>	<u>301,793</u>
		1,115,649	1,115,649
Less: Accumulated depreciation		<u>307,847</u>	<u>256,881</u>
		<u>\$ 807,802</u>	<u>\$ 858,768</u>

Depreciation expense for the years ended June 30, 2014 and 2013, amounted to \$50,966 and \$52,802, respectively.

**STEUBEN COUNTY COMMUNITY FOUNDATION, INC.  
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**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note 7. Fiber Optic Network and Website**

The fiber optic network and website, which supports the I-MAN program, consist of the following:

	<u>Estimated Useful Lives</u>	<u>2014</u>	<u>2013</u>
Fiber optic network	20 years	\$ 2,882,538	\$ 2,668,162
Website	5 years	<u>4,100</u>	<u>4,100</u>
		2,886,638	2,672,262
Less: Accumulated depreciation		<u>425,438</u>	<u>289,581</u>
		<u>\$ 2,461,200</u>	<u>\$ 2,382,681</u>

A majority of the funding for the fiber optic network was from governmental units within Steuben County and totaled \$139,824 and \$318,085 for the years ended June 30, 2014 and 2013, respectively. Depreciation expense for the years ended June 30, 2014 and 2013, amounted to \$135,857 and \$125,646, respectively.

**Note 8. Charitable Gift Annuities**

The Foundation has entered into two charitable gift annuity agreements whereby the donor contributes assets in exchange for distributions over the remaining life of the donor. Assets received are recorded at fair value on the date of the agreement and a liability is recorded equal to the present value of the future expected distributions (based on mortality tables). The difference between the fair value of the assets received and the liability to the donor is recognized as contribution revenue. Annually, the Foundation will revalue the liability based on applicable mortality tables and discount rate (currently 2.2%). As of June 30, 2014, one of these agreements terminated due to the death of the donor.

**Note 9. Program Fees, Net**

The I-MAN program provides fiber optic services to businesses, schools, hospitals, and local government offices in the area. The following table summarizes the fees charged for these services:

	<u>2014</u>	<u>2013</u>
Monthly service fees	\$ 167,225	\$ 130,650
Customer connection fees	40,972	110,524
Cost of customer connections	<u>(43,946)</u>	<u>(78,606)</u>
	<u>\$ 164,251</u>	<u>\$ 162,568</u>

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

**Notes to Consolidated Financial Statements (Continued)**  
June 30, 2014 and 2013

**Note 10. Administration Management**

The Foundation assesses an administrative charge of 0.75% to 2.0% on permanent endowment and temporarily restricted 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, 2014 and 2013, these fees were \$202,125 and \$177,592, respectively.

**Note 11. Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2014</u>	<u>2013</u>
Specific organization fund	\$ 1,994,835	\$ 1,312,525
General funds	1,032,022	585,224
Operating funds	456,494	337,736
Scholarships	<u>826,811</u>	<u>464,917</u>
	<u>\$ 4,310,162</u>	<u>\$ 2,700,402</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	<u>2014</u>	<u>2013</u>
Specific organization fund	\$ 371,219	\$ 248,983
General funds	182,048	673,860
Management fees	202,125	177,592
Operating funds	3	5
Scholarships	<u>169,904</u>	<u>98,338</u>
	<u>\$ 925,299</u>	<u>\$ 1,198,778</u>

**Note 12. Permanently Restricted Net Assets**

Net assets were permanently restricted for the following purposes at June 30:

	<u>2014</u>	<u>2013</u>
Specific organization endowment funds	\$ 6,745,648	\$ 6,834,222
General endowment funds	4,711,795	5,108,789
Operating endowment funds	1,286,915	776,771
Scholarships	<u>3,446,327</u>	<u>3,011,929</u>
	<u>\$ 16,190,685</u>	<u>\$ 15,731,711</u>

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

# ***STEUBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE***

***Notes to Consolidated Financial Statements (Continued)***  
**June 30, 2014 and 2013**

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## **Note 13. Endowment**

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. As required by accounting principals generally accepted in the United States of America (GAAP), 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 UPMIFA:

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (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 stipulations 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:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

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 or for a donor-specified period(s) 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% annually. Actual returns in any given year may vary from this amount.

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

**Notes to Consolidated Financial Statements (Continued)**  
**June 30, 2014 and 2013**

**Note 13. Endowment (Continued)**

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 4% to 6%, limited to accumulated earnings, of its endowment fund's average fair value over the preceding sixteen calendar quarters of the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4% to 6% annually. 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.

Funds with Deficiencies:

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, there are no deficiencies of this nature reported in unrestricted net assets as of June 30, 2014 and 2013.

Endowment net asset composition by type of fund at June 30, 2014 and 2013, was:

	<b>2014</b>			
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Donor-restricted endowment funds	\$ -	\$ 2,417,391	\$ 10,281,954	\$ 12,699,345
Board-designated endowment funds	<u>-</u>	<u>1,287,549</u>	<u>5,908,731</u>	<u>7,196,280</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 3,704,940</u>	<u>\$ 16,190,685</u>	<u>\$ 19,895,625</u>

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

*Notes to Consolidated Financial Statements (Continued)*  
June 30, 2014 and 2013

**Note 13. Endowment (Continued)**

	<b>2013</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,477,901	\$ 9,860,401	\$ 11,338,302
Board-designated endowment funds	<u>-</u>	<u>764,046</u>	<u>5,871,310</u>	<u>6,635,356</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 2,241,947</u>	<u>\$ 15,731,711</u>	<u>\$ 17,973,658</u>

Changes in endowment net assets for the years ended June 30, 2014 and 2013, were:

	<b>2014</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,241,947	\$ 15,731,711	\$ 17,973,658
Investment return				
Investment income	-	234,328	-	234,328
Net appreciation	<u>-</u>	<u>1,807,522</u>	<u>-</u>	<u>1,807,522</u>
Total investment return	-	2,041,850	-	2,041,850
Contributions and grants	-	180,645	598,909	779,554
Change in value of annuities	-	50,429	5,489	55,918
Change in value of split-interest agreements	-	-	176,660	176,660
Change in value of promises to give receivable	-	-	(410,480)	(410,480)
Donor directed intrafund transfer	-	(127,566)	88,396	(39,170)
Appropriation for expenditure	<u>-</u>	<u>(682,365)</u>	<u>-</u>	<u>(682,365)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,704,940</u>	<u>\$ 16,190,685</u>	<u>\$ 19,895,625</u>



**STEUBEN COUNTY COMMUNITY FOUNDATION, INC.  
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*Notes to Consolidated Financial Statements (Continued)*  
June 30, 2014 and 2013

**Note 13. Endowment (Continued)**

	<b>2013</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ (1,335)	\$ 1,129,498	\$ 13,262,672	\$ 14,390,835
Investment return				
Investment income	-	225,180	-	225,180
Net appreciation	<u>1,335</u>	<u>1,072,232</u>	<u>-</u>	<u>1,073,567</u>
Total investment return	1,335	1,297,412	-	1,298,747
Contributions and grants	-	385,882	2,417,284	2,803,166
Change in value of annuities	-	-	1,875	1,875
Change in value of split- interest agreements	-	-	19,172	19,172
Donor directed intrafund transfer	-	(37,732)	30,708	(7,024)
Appropriation for expenditure	<u>-</u>	<u>(533,113)</u>	<u>-</u>	<u>(533,113)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,241,947</u>	<u>\$ 15,731,711</u>	<u>\$ 17,973,658</u>

**Note 14. Management Agreement**

In April 2013, I-MAN entered into a five year agreement with I-MANAGE for certain administrative and network management services pertaining to the fiber optic network and development of the digital infrastructure. I-MAN pays ten percent of the total cost to build to a customer for I-MANAGE's services, \$51.75 per hour for administrative services, and \$33.75 per connection per month for I-MANAGE's network management services.

**Note 15. Concentration of Credit Risk**

The Foundation maintains several accounts at various banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Foundation's cash balances exceed the limits of FDIC coverage from time to time. In addition, the Foundation has cash equivalents of \$818,109 and \$721,987 at June 30, 2014 and 2013, respectively, which were held in uninsured brokerage accounts.

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, 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 amounts reported in the financial statements.

***STEUBEN COUNTY COMMUNITY FOUNDATION, INC.  
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***Notes to Consolidated Financial Statements (Continued)***  
**June 30, 2014 and 2013**

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**Note 16. Subsequent Events**

The Foundation was awarded a grant from the Lilly Endowment in the amount of \$500,000 for matching contributions during the period August 1, 2014 through April 30, 2016.