

Consolidated Financial Statements

STEBEN COUNTY COMMUNITY FOUNDATION, INC. AND AFFILIATE

*Years ended June 30, 2018 and 2017
with Independent Auditor's Report*

Steuben County Community Foundation, Inc. and Affiliate

Consolidated Financial Statements

Years ended June 30, 2018 and 2017

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Independent Auditor's Report

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, 2018 and 2017, 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, 2018 and 2017, 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 24, 2018

Steuben County Community Foundation, Inc. and Affiliate

Consolidated Statements of Financial Position

	June 30	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 368,242	\$ 236,731
Accounts receivable	50,035	62,302
Prepaid expenses and other	35,042	26,931
Total current assets	<u>453,319</u>	325,964
Investments	22,849,039	21,346,385
Land, building and equipment:		
Land	382,781	382,781
Building and improvements	466,990	466,990
Office furniture and equipment	276,422	276,422
Fiber optic network	4,580,963	4,529,819
	<u>5,707,156</u>	5,656,012
Less accumulated depreciation	1,646,747	1,406,988
	<u>4,060,409</u>	4,249,024
Other assets:		
Cash value of life insurance policies	422,186	402,850
Beneficial interest in trusts	678,165	591,668
Total assets	<u>\$ 28,463,118</u>	<u>\$ 26,915,891</u>
Liabilities		
Current liabilities:		
Accounts payable and other current liabilities	\$ 70,359	\$ 33,265
Current portion of grants and scholarships payable	130,550	142,850
Current portion of long-term debt	174,396	170,095
Current portion of deferred revenue	113,511	111,631
Total current liabilities	<u>488,816</u>	457,841
Grants and scholarships payable, less current portion	88,999	52,500
Long-term debt, less current portion	139,955	314,351
Deferred revenue, less current portion	72,277	82,492
Total liabilities	<u>790,047</u>	907,184
Net assets:		
Unrestricted	3,408,452	3,333,812
Temporarily restricted	5,595,038	4,684,608
Permanently restricted	18,669,581	17,990,287
Total net assets	<u>27,673,071</u>	26,008,707
Total liabilities and net assets	<u>\$ 28,463,118</u>	<u>\$ 26,915,891</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							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues and gains								
Contributions and grants	\$ 12,741	\$ 1,646,612	\$ 538,655	\$ 2,198,008	\$ 37	\$ 365,210	\$ 321,205	\$ 686,452
Management fees	304,167	-	-	304,167	243,797	-	-	243,797
Program fees, net	642,734	-	-	642,734	553,083	-	-	553,083
Interest and dividends, net	877	559,873	-	560,750	604	396,147	-	396,751
Realized and unrealized gain on investments, net	50	861,445	-	861,495	715	1,565,498	-	1,566,213
Change in value of cash value of life insurance policies	-	16,914	-	16,914	-	18,192	-	18,192
Gain on beneficial interest in trusts	-	-	89,684	89,684	-	-	70,440	70,440
Total support, revenues and gains before net assets released from restrictions	960,569	3,084,844	628,339	4,673,752	798,236	2,345,047	391,645	3,534,928
Net assets released from restrictions	2,171,580	(2,180,812)	9,232	-	1,033,600	(1,049,202)	15,602	-
Total support, revenues and gains	3,132,149	904,032	637,571	4,673,752	1,831,836	1,295,845	407,247	3,534,928
Expenses								
Program services:								
Grants and programs	2,268,903	-	-	2,268,903	1,031,335	-	-	1,031,335
Management fees	304,167	-	-	304,167	243,797	-	-	243,797
	2,573,070	-	-	2,573,070	1,275,132	-	-	1,275,132
Supporting services:								
Fundraising	49,114	-	-	49,114	54,310	-	-	54,310
Management and general	387,204	-	-	387,204	341,361	-	-	341,361
	436,318	-	-	436,318	395,671	-	-	395,671
Total expenses	3,009,388	-	-	3,009,388	1,670,803	-	-	1,670,803
Increase in net assets	122,761	904,032	637,571	1,664,364	161,033	1,295,845	407,247	1,864,125
Net asset transfers	(48,121)	6,398	41,723	-	31,834	(104,988)	73,154	-
Net assets at beginning of year	3,333,812	4,684,608	17,990,287	26,008,707	3,140,945	3,493,751	17,509,886	24,144,582
Net assets at end of year	\$ 3,408,452	\$ 5,595,038	\$ 18,669,581	\$ 27,673,071	\$ 3,333,812	\$ 4,684,608	\$ 17,990,287	\$ 26,008,707

See accompanying notes to consolidated financial statements.

Steuben County Community Foundation, Inc. and Affiliate

Consolidated Statements of Cash Flows

	Year ended June 30	
	2018	2017
Operating activities		
Increase in net assets	\$ 1,664,364	\$ 1,864,125
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(861,495)	(1,566,213)
Depreciation	239,759	236,278
Gain on beneficial interest in trusts	(86,497)	(71,600)
Changes in operating assets and liabilities:		
Accounts receivable	12,267	39,535
Prepaid expenses and other	(8,111)	(4,176)
Cash value of life insurance policies	(19,336)	(19,165)
Accounts payable and other current liabilities	37,094	(28,749)
Grants and scholarships payable	24,199	(103,605)
Deferred revenue	(8,335)	16,835
Net cash provided by operating activities	993,909	363,265
Investing activities		
Purchases of investments	(8,218,776)	(7,549,793)
Proceeds from sale and maturities of investments	7,577,617	7,547,657
Purchases of land, building and equipment	(51,144)	(171,314)
Net cash used in investing activities	(692,303)	(173,450)
Financing activity —payments on long-term debt	(170,095)	(165,900)
Increase in cash and cash equivalents	131,511	23,915
Cash and cash equivalents at beginning of year	236,731	212,816
Cash and cash equivalents at end of year	\$ 368,242	\$ 236,731

See accompanying notes to consolidated financial statements.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

1. Organization

The Steuben County Community Foundation, Inc. (Foundation) is a not-for-profit corporation organized pursuant to 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., d/b/a Steuben County Fiber Network (SCFN) is a not-for-profit corporation organized under the laws of the state of Indiana. SCFN'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. SCFN is a supporting entity of the Foundation. Earnings from SCFN's operations are used to support endowments of the Foundation.

The Foundation and SCFN 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 SCFN are subject to federal income tax on any unrelated business taxable income. Management believes the Foundation and SCFN are no longer subject to examination by tax authorities for years before June 30, 2015.

The Foundation and SCFN 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 SCFN. 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 SCFN and the Foundation, SCFN 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, SCFN must pay 7 percent interest, due annually on or before June 30. Interest paid pursuant to this agreement was \$42,700 and \$67,568 for the years ended June 30, 2018 and 2017, respectively.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the Foundation and SCFN (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 SCFN's Board of Directors and an agreement with SCFN 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.

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

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

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, 2018 and 2017, 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, 2018 and 2017, no allowance for uncollectible pledges was deemed necessary.

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 5* 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.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments and Investment Income (continued)

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, 2018 and 2017. 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.

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

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

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 SCFN. 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 SCFN. 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:

	Year ended June 30	
	2018	2017
Program fees, net:		
Monthly service fees	\$ 602,439	\$ 550,286
Customer connection fees—main lines	38,366	-
Customer connection fees to customer facility	88,758	115,115
Cost of customer connections	(86,829)	(112,318)
	\$ 642,734	\$ 553,083

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. 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.

Reclassification

Certain amounts as of and for the year ended June 30, 2017 have been reclassified to conform with the presentation as of and for the year ended June 30, 2018.

New Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958)*, to change the way a not-for-profit entity (NFP) classifies and presents net assets on the face of the consolidated financial statements and presents information in the consolidated financial statements and accompanying notes about the NFP's liquidity, financial performance and cash flows. The ASU changes the way a NFP reports classes of net assets, from the currently required three classes to two, by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions. The amendment also requires the NFP to provide enhanced disclosure about various types of donor-imposed restrictions, the NFP's management of its liquidity to meet short-term demands for cash, and the types of resources used and how they are allocated to carrying out the NFP's activities. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Early application is permitted. The Organization is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Organization is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to require a lessee to recognize a right-of-use asset and a lease liability for both operating and finance leases, whereas previous U.S. GAAP require the asset and liability be recognized only for capital leases. The amendment also requires qualitative and specific quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Organization is evaluating the guidance of ASU 2016-02 and the impact that the adoption of this update will have on its consolidated financial statements.

3. Investments

Investments consist of the following:

	June 30	
	2018	2017
Money market funds	\$ 721,932	\$ 748,224
Certificates of deposit	229,040	200,042
U.S. Government securities	2,376,693	2,155,104
Corporate bonds and other debt securities	2,192,982	2,238,610
Preferred stock	20,221	20,575
Mutual funds	8,861,237	8,026,405
Common stock	7,758,759	7,277,005
Limited partnership	688,175	680,420
Total investments, at fair value	<u>\$ 22,849,039</u>	<u>\$ 21,346,385</u>
Total investments, at historical cost	<u>\$ 20,435,947</u>	<u>\$ 19,293,237</u>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

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

	Year ended June 30	
	2018	2017
Investment income:		
Interest and dividends	\$ 680,617	\$ 507,965
Net realized gain on investments	501,551	856,702
Net unrealized gain on investments	359,944	709,511
	<u>1,542,112</u>	<u>2,074,178</u>
Less investment management and custodial fees	119,867	111,214
Net investment income	<u>\$ 1,422,245</u>	<u>\$ 1,962,964</u>

4. 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 a charitable remainder trust that is held by a third-party trustee.

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 \$422,970 and \$339,940 at June 30, 2018 and 2017, respectively.

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, 2018 and 2017 was \$255,195 and \$251,728, respectively.

5. 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

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

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.

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, 2018 and 2017.

Money market funds: Valued at quoted market prices in an exchange and active market, which represent the net asset values (NAV) 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

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

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.

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.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2018 and 2017:

	Assets at Fair Value at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 721,932	\$ -	\$ -	\$ 721,932
Certificates of deposit	-	229,040	-	229,040
U.S. Government securities	-	2,376,693	-	2,376,693
Corporate bonds and other debt securities	-	2,192,982	-	2,192,982
Preferred stock	-	20,221	-	20,221
Mutual funds:				
Income	2,618,901	-	-	2,618,901
Aggressive income	504,694	-	-	504,694
Growth and income	4,472,955	-	-	4,472,955
Growth	691,457	-	-	691,457
Aggressive growth	347,549	-	-	347,549
International funds	225,681	-	-	225,681
Total mutual funds	8,861,237	-	-	8,861,237
Common stock:				
Domestic stock:				
Healthcare	992,837	-	-	992,837
Financial services	1,294,223	-	-	1,294,223
Energy	399,585	-	-	399,585
Utilities	226,503	-	-	226,503
Consumer goods	592,553	-	-	592,553
Industrial and material	1,191,746	-	-	1,191,746
Technology	1,388,245	-	-	1,388,245
Communication services	139,357	-	-	139,357
Consumer discretionary	651,808	-	-	651,808
Real estate	263,776	-	-	263,776
Diversified and other	70,777	-	-	70,777
Total domestic stock	7,211,410	-	-	7,211,410

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

	Assets at Fair Value at June 30, 2018 (continued)			
	Level 1	Level 2	Level 3	Total
Foreign stock:				
Healthcare	\$ 49,339	\$ -	\$ -	\$ 49,339
Financial services	114,777	-	-	114,777
Energy	30,131	-	-	30,131
Utilities	10,463	-	-	10,463
Consumer goods	43,022	-	-	43,022
Industrial and material	123,080	-	-	123,080
Technology	81,489	-	-	81,489
Communication services	25,420	-	-	25,420
Consumer discretionary	57,979	-	-	57,979
Real estate	11,649	-	-	11,649
Total foreign stock	547,349	-	-	547,349
Total common stock	7,758,759	-	-	7,758,759
	17,341,928	4,818,936	-	22,160,864
Cash value of life insurance policies	-	422,186	-	422,186
Beneficial interest in trusts	-	-	678,165	678,165
Total other assets at fair value	-	422,186	678,165	1,100,351
Assets in the fair value hierarchy	\$ 17,341,928	\$ 5,241,122	\$ 678,165	23,261,215
Limited partnership valued at NAV				688,175
Total assets at fair value				\$ 23,949,390

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

	Assets at Fair Value at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 748,224	\$ -	\$ -	\$ 748,224
Certificates of deposit	-	200,042	-	200,042
U.S. Government securities	-	2,155,104	-	2,155,104
Corporate bonds and other debt securities	-	2,238,610	-	2,238,610
Preferred stock	-	20,575	-	20,575
Mutual funds:				
Income	2,081,224	-	-	2,081,224
Aggressive income	512,754	-	-	512,754
Growth and income	4,292,808	-	-	4,292,808
Growth	565,619	-	-	565,619
Aggressive growth	354,583	-	-	354,583
International funds	219,417	-	-	219,417
Total mutual funds	8,026,405	-	-	8,026,405
Common stock:				
Domestic stock:				
Healthcare	879,583	-	-	879,583
Financial services	1,259,405	-	-	1,259,405
Energy	399,244	-	-	399,244
Utilities	300,716	-	-	300,716
Consumer goods	666,890	-	-	666,890
Industrial and material	1,079,348	-	-	1,079,348
Technology	1,044,665	-	-	1,044,665
Communication services	132,851	-	-	132,851
Consumer discretionary	660,355	-	-	660,355
Real estate	246,012	-	-	246,012
Diversified and other	88,498	-	-	88,498
Total domestic stock	6,757,567	-	-	6,757,567

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

	Assets at Fair Value at June 30, 2017 (continued)			
	Level 1	Level 2	Level 3	Total
Foreign stock:				
Healthcare	\$ 35,426	\$ -	\$ -	\$ 35,426
Financial services	102,548	-	-	102,548
Energy	24,048	-	-	24,048
Utilities	10,434	-	-	10,434
Consumer goods	55,251	-	-	55,251
Industrial and material	107,097	-	-	107,097
Technology	76,566	-	-	76,566
Communication services	33,687	-	-	33,687
Consumer discretionary	60,716	-	-	60,716
Real estate	13,665	-	-	13,665
Total foreign stock	519,438	-	-	519,438
Total common stock	7,277,005	-	-	7,277,005
	16,051,634	4,614,331	-	20,665,965
Cash value of life insurance policies	-	402,850	-	402,850
Beneficial interest in trusts	-	-	591,668	591,668
Total other assets at fair value	-	402,850	591,668	994,518
Assets in the fair value hierarchy	\$ 16,051,634	\$ 5,017,181	\$ 591,668	21,660,483
Limited partnership valued at NAV				680,420
Total assets at fair value				\$ 22,340,903

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

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

	Remainder Value of Life Estate	Charitable Remainder Trust	Total
Year ended June 30, 2018			
Balance at beginning of year	\$ 339,940	\$ 251,728	\$ 591,668
Actual return on assets—net unrealized gain relating to assets still held at year-end	83,030	3,467	86,497
Balance at end of year	<u>\$ 422,970</u>	<u>\$ 255,195</u>	<u>\$ 678,165</u>

	Remainder Value of Life Estate	Charitable Remainder Trust	Total
Year ended June 30, 2017			
Balance at beginning of year	\$ 277,690	\$ 242,378	\$ 520,068
Actual return on assets—net unrealized gain relating to assets still held at year-end	62,250	9,350	71,600
Balance at end of year	<u>\$ 339,940</u>	<u>\$ 251,728</u>	<u>\$ 591,668</u>

6. Grants and Scholarships Payable

The following summarizes the changes in grants and scholarships payable:

	Year ended June 30	
	2018	2017
Grants and scholarships payable at beginning of year	\$ 195,350	\$ 298,955
Unconditional grants and scholarships expensed	1,876,645	682,772
Less payments made	1,852,446	786,377
Grants and scholarships payable at end of year	<u>\$ 219,549</u>	<u>\$ 195,350</u>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

6. Grants and Scholarships Payable (continued)

Grants and scholarships payable at June 30, 2018 are scheduled to be disbursed as follows:

2019	\$ 130,550
2020	38,499
2021	29,500
2022	21,000
	<u>\$ 219,549</u>

7. Charitable Gift Annuity Payable

The Foundation has entered into two charitable gift annuities in which the donors contribute 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, 2018 and 2017 was 3.4 percent and 2.4 percent, respectively. The charitable gift annuity payable was \$19,891 and \$6,766 at June 30, 2018 and 2017, respectively, and is included in accounts payable and other current liabilities in the consolidated statements of financial position.

8. Debt Arrangements

Pursuant to debt agreements, SCFN 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 May 28, 2021, 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.

Maturities on the notes payable as of June 30, 2018 are as follows:

Year ended June 30, 2019	\$ 174,396
Year ended June 30, 2020	106,677
Year ended June 30, 2021	33,278
	<u>\$ 314,351</u>

Interest paid was \$10,171 and \$14,366 for the years ended June 30, 2018 and 2017, respectively.

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

9. Temporarily Restricted Net Assets

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

	June 30	
	2018	2017
Specific organization fund	\$ 2,941,145	\$ 2,536,402
General funds	923,279	710,391
Operating funds	686,735	510,425
Scholarships	1,043,879	927,390
	\$ 5,595,038	\$ 4,684,608

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:

	Year ended June 30	
	2018	2017
Specific organization fund	\$ 1,672,699	\$ 612,678
General funds	196,692	204,167
Operating funds	21,045	77,537
Scholarships	290,376	154,820
Net assets released from restrictions for operations	\$ 2,180,812	\$ 1,049,202

10. Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes:

	June 30	
	2018	2017
Specific organization funds	\$ 7,762,091	\$ 7,523,311
General funds	5,189,294	5,189,294
Operating funds	1,639,782	1,605,975
Scholarships	4,078,414	3,671,707
	\$ 18,669,581	\$ 17,990,287

Income from the 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)

11. 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.

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)

11. 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 7 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 5 percent to 4 percent for external funds effective in the year ended June 30, 2017, a reduction in the appropriation percentage from 5 percent to 4 1/2 percent for internal funds effective in the year ended June 30, 2016, and a reduction in the appropriation percentage from 4 1/2 percent to 4 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)

11. Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-advised and agency endowment funds	\$ -	\$ 2,935,093	\$ 11,938,999	\$ 14,874,092
Board-advised endowment funds	-	1,426,535	6,730,582	8,157,117
Total funds	<u>\$ -</u>	<u>\$ 4,361,628</u>	<u>\$ 18,669,581</u>	<u>\$ 23,031,209</u>

Changes in endowment net assets for the year ended June 30, 2018, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ -	\$ 3,710,013	\$ 17,990,287	\$ 21,700,300
Investment income:				
Interest and dividends, net	-	534,273	-	534,273
Realized and unrealized gain on investments	-	879,272	-	879,272
Total investment income	-	1,413,545	-	1,413,545
Other changes:				
Contributions and grants	-	127,402	538,655	666,057
Change in cash value of life insurance	-	16,914	-	16,914
Change in value of beneficial interests in trusts	-	-	89,684	89,684
Donor directed intrafund transfers	-	(36,096)	50,955	14,859
Appropriation for expenditure	-	(870,150)	-	(870,150)
Endowment net assets at end of year	<u>\$ -</u>	<u>\$ 4,361,628</u>	<u>\$ 18,669,581</u>	<u>\$ 23,031,209</u>

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

11. Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-advised and agency endowment funds	\$ -	\$ 2,632,249	\$ 11,286,829	\$ 13,919,078
Board-advised endowment funds	-	1,077,764	6,703,458	7,781,222
Total funds	\$ -	\$ 3,710,013	\$ 17,990,287	\$ 21,700,300

Changes in endowment net assets for the year ended June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ -	\$ 2,430,897	\$ 17,509,886	\$ 19,940,783
Investment income:				
Interest and dividends, net	-	383,227	-	383,227
Realized and unrealized gain on investments	-	1,575,586	-	1,575,586
Total investment income	-	1,958,813	-	1,958,813
Other changes:				
Contributions and grants	-	31,840	304,705	336,545
Change in cash value of life insurance	-	18,192	-	18,192
Change in value of beneficial interests in trusts	-	-	70,440	70,440
Donor directed intrafund transfers	-	(109,256)	105,256	(4,000)
Appropriation for expenditure	-	(620,473)	-	(620,473)
Endowment net assets at end of year	\$ -	\$ 3,710,013	\$ 17,990,287	\$ 21,700,300

Steuben County Community Foundation, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

12. Management Fees

The Foundation assesses an administrative charge of 0.75 percent to 3 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, 2018 and 2017, these fees were \$304,167 and \$243,797, respectively.

13. Subsequent Events

Management has evaluated subsequent events through August 24, 2018, the date on which the financial statements were available to be issued.