

COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2017 AND 2016

CPAs / ADVISORS



**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Community Foundation of Southern Indiana, Inc. and Affiliates
New Albany, Indiana

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Community Foundation of Southern Indiana, Inc. and Affiliates ("CFSI"), which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of CFSI as of June 30, 2017 and 2016, and the combined changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Combining Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The 2017 combining information on pages 23 through 25 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Blue & Co., LLC

Seymour, Indiana

November 16, 2017

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS		
	2017	2016
Cash and cash equivalents	\$ 1,821,853	\$ 1,790,311
Investments	101,379,150	28,565,145
Investments in charitable remainder trusts	1,238,128	1,188,332
Pledges receivable	73,265	58,040
Other assets	7,327	2,300
Property and equipment, net	4,072,239	4,264,865
Cash surrender value of life insurance	288,136	270,095
Total assets	<u>\$ 108,880,098</u>	<u>\$ 36,139,088</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	\$ -	\$ 50,000
Accounts payable and accrued expenses	41,890	37,556
Grants payable	483,900	419,750
Unearned revenue	51,650	60,287
Custodial funds	72,356,713	1,548,590
Charitable remainder trusts liability	1,112,188	1,116,550
Annuities payable	58,918	60,202
Total liabilities	74,105,259	3,292,935
Net assets		
Unrestricted net assets:		
Operating	5,552,859	5,458,936
Board designated	182,822	276,374
	5,735,681	5,735,310
Temporarily restricted net assets	29,039,158	27,110,843
Total net assets	<u>34,774,839</u>	<u>32,846,153</u>
Total liabilities and net assets	<u>\$ 108,880,098</u>	<u>\$ 36,139,088</u>

See accompanying notes to combined financial statements.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Contributions and grants	\$ 268,735	\$ 1,061,172	\$ 1,329,907	\$ 5,513,517
Investment return, net	31,910	2,889,578	2,921,488	76,238
Administrative fee income	622,102	-	622,102	497,444
Rental income	148,174	-	148,174	120,065
Change in value of split-interest agreements	-	(62,266)	(62,266)	(40,676)
Change in value of life insurance	-	18,041	18,041	(16,608)
Income from events, net of expenses of \$101,436 and \$95,430, respectively	117,972	-	117,972	133,357
Other	1,500	-	1,500	1,500
Net assets released from restrictions	1,978,210	(1,978,210)	-	-
Total support and revenues	3,168,603	1,928,315	5,096,918	6,284,837
Expenses				
Grants and scholarships	1,186,002	-	1,186,002	1,484,533
Program expenses	338,930	-	338,930	153,776
Salaries and benefits	473,705	-	473,705	467,056
Leased employee expense	94,130	-	94,130	88,940
Administrative fee expense	525,288	-	525,288	441,038
Advertising and public relations	59,990	-	59,990	73,824
Insurance	73,371	-	73,371	70,362
Occupancy	108,064	-	108,064	121,850
Professional services	61,412	-	61,412	30,375
Interest	1,111	-	1,111	2,089
Depreciation	197,901	-	197,901	188,457
Loss on disposal of asset	-	-	-	6,084
Software	18,274	-	18,274	17,456
Other	30,054	-	30,054	43,996
Total expenses	3,168,232	-	3,168,232	3,189,836
Change in net assets	371	1,928,315	1,928,686	3,095,001
Net assets, beginning of year	5,735,310	27,110,843	32,846,153	29,751,152
Net assets, end of year	\$ 5,735,681	\$ 29,039,158	\$ 34,774,839	\$ 32,846,153

See accompanying notes to combined financial statements.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions and grants	\$ 307,395	\$ 5,206,122	\$ 5,513,517
Investment return, net	26,009	50,229	76,238
Administrative fee income	497,444	-	497,444
Rental income	120,065	-	120,065
Change in value of split-interest agreements	-	(40,676)	(40,676)
Change in value of life insurance	-	(16,608)	(16,608)
Income from events, net of expenses of \$95,430	133,357	-	133,357
Other	1,500	-	1,500
Net assets released from restrictions	1,854,391	(1,854,391)	-
Total support and revenues	2,940,161	3,344,676	6,284,837
Expenses			
Grants and scholarships	1,484,533	-	1,484,533
Program expenses	153,776	-	153,776
Salaries and benefits	467,056	-	467,056
Leased employee expense	88,940	-	88,940
Administrative fee expense	441,038	-	441,038
Advertising and public relations	73,824	-	73,824
Insurance	70,362	-	70,362
Occupancy	121,850	-	121,850
Professional services	30,375	-	30,375
Interest	2,089	-	2,089
Depreciation	188,457	-	188,457
Loss on disposal of asset	6,084	-	6,084
Software	17,456	-	17,456
Other	43,996	-	43,996
Total expenses	3,189,836	-	3,189,836
Change in net assets	(249,675)	3,344,676	3,095,001
Net assets, beginning of year	5,984,985	23,766,167	29,751,152
Net assets, end of year	\$ 5,735,310	\$ 27,110,843	\$ 32,846,153

See accompanying notes to combined financial statements.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating activities		
Change in net assets	\$ 1,928,686	\$ 3,095,001
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	197,901	188,457
Loss on disposal of property and equipment	-	6,084
Reinvested interest and dividends received on investments	(1,591,574)	(695,772)
Realized and unrealized (gains) losses on investments	(2,420,583)	524,745
Change in value of split interest agreements	62,266	40,676
Change in cash surrender value of life insurance	(18,041)	16,608
Change in operating assets and liabilities:		
Pledges receivable, net	(15,225)	98,655
Other assets	(5,027)	11,093
Accounts payable and accrued expenses	4,334	(8,699)
Grants payable	64,150	(18,690)
Unearned revenue	(8,637)	14,012
Deferred grant revenue	-	(1,657,497)
Custodial funds	70,808,123	(113,119)
Annuities payable	(8,552)	29,840
Net cash flows from operating activities	68,997,821	1,531,394
Investing activities		
Purchases of property and equipment	(5,275)	(376,753)
Purchases of investments	(70,768,349)	(4,694,557)
Proceeds on sales of investments	1,916,705	3,313,891
Net cash flows from investing activities	(68,856,919)	(1,757,419)
Financing activities		
Payments on charitable remainder trusts	(59,360)	(62,181)
Net change in line of credit	(50,000)	20,000
Net cash flows from financing activities	(109,360)	(42,181)
Net change in cash and cash equivalents	31,542	(268,206)
Cash and cash equivalents, beginning of year	1,790,311	2,058,517
Cash and cash equivalents, end of year	\$ 1,821,853	\$ 1,790,311
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 1,111	\$ 2,089

See accompanying notes to combined financial statements.

COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Community Foundation of Southern Indiana, Inc. (the "Foundation") was established as a not-for-profit organization in 1991. The Foundation is an independent nonprofit organization with a volunteer board of directors, which primarily serves Clark and Floyd counties in Southern Indiana. The Foundation's purpose is to build enduring charitable resources used to positively impact our community by serving as a partner and resource for donors, their advisors, and not-for-profit organizations. The Foundation's purpose is to also make it simple for donors to fulfill their individual goals in giving back, providing stewardship of donor gifts and charitable intent for generations to come, and to fulfill a leadership role on important community issues.

In November 2016, the Foundation entered into an agreement with Floyd County to irrevocably accept the \$70 million proceeds received by Floyd County from the sale of the county hospital and manage the related fund. Distributions from this fund shall only be made directly to Floyd County government or as directed by Floyd County government. Given the reciprocal nature, this fund is recognized as a custodial fund.

Affiliates/Supporting Organizations:

OSI Foundation, Inc. (formerly Southern Indiana 2020, Inc.) was established as a not-for-profit organization in 2003 to support the charitable economic development initiatives of One Southern Indiana. One Southern Indiana seeks to implement change in order to establish stronger economic growth, a better educated and better paid workforce and a structure of advocacy within the state of Indiana.

4100 Charlestown, Inc. was established as a not-for-profit organization in 2004 in order to own and maintain the property in which the Foundation operates. This supporting organization rents office space to the Foundation and other organizations.

Jeffersonville Carnegie Library Foundation, Inc. was established as a not-for-profit organization in 2003 to manage and renovate the Jeffersonville Carnegie Library.

New Albany-Floyd County Education Foundation, Inc. was established as a not-for-profit organization in 2005 to solicit and receive gifts, grants, and bequests to enrich the programs and activities of the New Albany-Floyd County Combined School Corporation.

COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The Foundation appoints the majority of the board of directors for the above affiliates/supporting organizations. Additionally, the Foundation provides administrative services for the affiliates but does not influence or manage the ongoing operations of the affiliates. Based on these factors, these organizations (collectively referred to as "CFSI") present combined financial statements with any inter-entity transactions and balances eliminated as part of the combined financial statements.

Management's Estimates

Management uses estimates and assumptions in preparing combined financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

Basis of Presentation

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. While most gift instruments give CFSI's Board of Directors the right to vary the terms of the gift, this only allows for a limited right of modification and does not relieve the restrictions imposed by the donor. Accordingly, the net assets of CFSI are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and primarily made up of CFSI's operating fund. CFSI maintains unrestricted funds as follows:

Operating – used to fund current operations of CFSI

Board Designated Funds – used to fund specific programs of CFSI as designated by the Board

Temporarily restricted net assets – Net assets not yet appropriated for expenditure by CFSI's Board of Directors in accordance with their spending policy or that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statements of Activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market investments and exclude amounts held by CFSI's fund managers and included in investments.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Investments and Investment Return

CFSI carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Combined Statements of Activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as unrestricted or temporarily restricted based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with CFSI's spending policy.

Pledges Receivable

All pledges receivable are due within one year; therefore no discount is necessary. Management estimates an allowance for doubtful pledges receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to CFSI's donors. No allowance for doubtful pledges receivable was determined necessary at June 30, 2017 and 2016.

Property and Equipment

Property and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at fair value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred.

The property and equipment of CFSI are being depreciated over their estimated useful lives using the straight-line method. The estimated useful lives for the principal depreciable asset classifications are as follows:

<u>Description</u>	<u>Ranges of Useful Lives</u>
Land improvements	10 years
Buildings and building improvements	7 - 40 years
Furniture and equipment	3 - 10 years

Line of Credit

4100 Charlestown, Inc. has an unsecured commercial line of credit in the amount of \$50,000 that matures in September 2018. The interest rate on the line of credit is a variable rate that is not to be less than 4%. There was no outstanding balance as of June 30, 2017. 4100 Charlestown, Inc. had an outstanding balance of \$50,000 as of June 30, 2016 under a similar credit facility.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Unearned Revenue

Unearned revenue represents grant funds received in advance of the period in which the related services will be provided.

Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (pledges receivable), are recognized as revenues in the period the contribution is received or the promise is made.

Support and revenues are reported as increases in either unrestricted or temporarily restricted net assets in accordance with the classification of the fund as it relates to CFSI's spending policy. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either unrestricted or temporarily restricted net assets in accordance with the classification of the fund as it relates to CFSI's spending policy.

CFSI recognizes grant revenue in the period the related expenses are incurred.

All other revenue is recorded when earned.

Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Foundation. Administrative fees from all funds are reflected as revenue on the Combined Statements of Activities. The administrative fees from custodial funds (agency endowments) are not included as expenses on the Combined Statements of Activities because they are included in the change in custodial funds.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the notes to combined financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

Income Taxes

The Community Foundation of Southern Indiana, Inc., OSI Foundation, Inc., 4100 Charlestown, Inc., Jeffersonville Carnegie Library Foundation and New Albany-Floyd County Education Foundation, Inc. are all not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by CFSI and recognize a tax liability if CFSI has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by CFSI, and has concluded that as of June 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying combined financial statements. CFSI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, CFSI is generally exempt from income taxes. However, CFSI is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Reclassifications

Certain prior year amounts have been reclassified herein to conform to the current method of presentation.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about CFSI's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued. At June 30, 2017, those conditions or events do not exist.

Subsequent Events

CFSI has evaluated events or transactions occurring subsequent to the Combined Statement of Financial Position date for recognition and disclosure in the accompanying combined financial statements through the date the combined financial statements are available to be issued, which is November 16, 2017.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

2. INVESTMENTS

Investments (including investments held in the charitable remainder trusts) at June 30, 2017 and 2016, consist of the following:

	2017	2016
Cash	\$ 2,997,462	\$ 3,692,527
Money market funds	4,683,384	-
Common stock		
Financial	582,879	460,198
Insurance	125,111	109,987
Retail	379,360	573,215
Real estate	204,350	331,107
Technology	1,103,320	942,227
Chemicals	348,837	242,531
Services	1,135,922	1,217,380
Energy	-	35,523
Healthcare	539,821	432,009
Materials	466,021	379,135
Automotive	169,954	127,867
Consumer goods	450,043	239,541
Industrial	508,594	484,721
Other	596,461	408,904
Corporate bonds		
Financial	17,053,847	-
Energy	11,941,298	-
Consumer goods	6,040,045	-
Insurance	2,003,380	-
Retail	2,001,240	-
Mutual funds		
Intermediate-term bond	6,881,056	7,266,695
Large cap equities	12,348,702	9,966,371
Exchange traded funds		
Large cap equities	30,056,191	2,843,539
	<u>\$ 102,617,278</u>	<u>\$ 29,753,477</u>

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

The following schedule summarizes the investment return, excluding the investment return on investment related to custodial funds, and its classification in the Combined Statements of Activities:

	2017	2016
Interest and dividend income	\$ 627,913	\$ 654,126
Realized and unrealized gains (losses)	2,389,916	(487,134)
Investment management fees	(96,341)	(90,754)
	<u>\$ 2,921,488</u>	<u>\$ 76,238</u>

3. RISKS AND UNCERTAINTIES

CFSI holds investments in debt and equity securities (Note 2). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying combined financial statements.

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). CFSI's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. There were no transfers between levels in 2017 and 2016. The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CFSI 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; inputs that are derived principally from or corroborated by observable market data by correlation or other means. 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.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

- *Money market funds*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV), however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.
- *Common stock*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds and exchange traded funds*: Valued at the daily closing price as reported by the fund. Mutual funds and exchange traded funds ("funds") held by CFSI are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The funds held by CFSI are deemed to be actively traded.
- *Corporate bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings.
- *Investments in charitable remainder trusts*: Consists of actively traded securities (common stocks, mutual funds and exchange traded funds) that are valued at the daily closing price as reported by the funds.
- *Charitable remainder trusts liability*: Fair value is determined by calculating the present value of the annuity using published life expectancy tables, a 5% payout, rates of return ranging between 6% and 8% and discount rates ranging between 2.8% and 8.6%.
- *Annuities payable*: Fair value is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with discount rates ranging between 8.6% and 2.2%.

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

The following tables set forth financial assets and liabilities measured at fair value in the Combined Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy on a recurring basis at June 30, 2017 and 2016 are as follows:

	2017		
	Fair Value	Level 1	Level 2
Assets:			
Money market funds	\$ 4,683,384	\$ -	\$ 4,683,384
Common stock	6,610,673	6,610,673	-
Mutual funds	19,229,758	19,229,758	-
Exchange traded funds	30,056,191	30,056,191	-
Corporate bonds	39,039,810	-	39,039,810
Liabilities:			
Charitable remainder trusts liability	1,112,188	-	1,112,188
Annuities payable	58,918	-	58,918

	2016		
	Fair Value	Level 1	Level 2
Assets:			
Common stock	\$ 5,984,345	\$ 5,984,345	\$ -
Mutual funds	17,233,066	17,233,066	-
Exchange traded funds	2,843,539	2,843,539	-
Liabilities:			
Charitable remainder trusts liability	1,116,550	-	1,116,550
Annuities payable	60,202	-	60,202

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
INC. AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	2017	2016
Land	\$ 170,000	\$ 170,000
Land improvements	26,429	26,429
Buildings and building improvements	6,081,658	6,076,383
Furniture and equipment	161,936	161,936
	6,440,023	6,434,748
Less accumulated depreciation	2,367,784	2,169,883
	<u>\$ 4,072,239</u>	<u>\$ 4,264,865</u>

6. UNEARNED REVENUE

Unearned revenue consists of unspent balances of grants for specific programs and fees and sponsorships received for the golf scramble in advance of the event. The annual golf scramble is held subsequent to year-end for fundraising of general support for the New Albany-Floyd County Education Foundation, Inc. A summary of unearned revenues at June 30, 2017 and 2016 is as follows:

	2017	2016
Golf Scramble	\$ 51,650	\$ 56,350
Other	-	3,937
	<u>\$ 51,650</u>	<u>\$ 60,287</u>

7. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with CFSI by other organizations based on their individual board resolutions, including the Floyd County Fund that holds the proceeds from the sale of the county hospital as discussed in Note 1. CFSI accounts for these transfers as a liability in accordance with applicable accounting standards. Income is added to these funds periodically in accordance with CFSI's investment allocation policies. Contributions by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Combined Statements of Activities.

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Following is a progression of custodial funds during 2017 and 2016:

	2017	2016
Custodial funds, beginning balance	\$ 1,548,590	\$ 1,661,709
Contributions	70,050,007	11,200
Interest and dividend income	963,661	41,646
Realized and unrealized gains (losses) on investments	30,667	(37,611)
Administrative fees	(70,414)	(30,006)
Grant and scholarship payments	(142,301)	(92,601)
Investment management fees	(23,497)	(5,747)
Custodial funds, ending balance	\$ 72,356,713	\$ 1,548,590

8. CHARITABLE TRUSTS

CFSI is the beneficiary of two charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). Upon termination of the trusts, CFSI will receive either a specified percentage or the entire amount remaining in the trusts.

For these trusts for which CFSI is trustee, CFSI records the fair value of the trusts' assets as investments in the Combined Statements of Financial Position. These assets totaled \$1,238,128 and \$1,188,332 at June 30, 2017 and 2016, respectively. In addition, CFSI records a charitable remainder trusts liability, which represents the present value of the estimated future payments to the income beneficiaries. This liability is determined using the life expectancies of the income beneficiaries at the time of the gift, as well as a discount rate of 2.8% or 8.6%, a 5% payout and either a 6% or 8% estimated annual return on investment. These rates are used to estimate payment amounts and to discount the payments to present value. The liability totaled \$1,112,188 and \$1,116,550 at June 30, 2017 and 2016, respectively.

9. ANNUITIES PAYABLE

CFSI has three charitable gift annuities, from which CFSI received \$129,800. CFSI is required to make annual payments to the donors in amounts ranging from \$1,080 to \$6,372 for the remainder of the donors' or designated survivors' lifetimes. Upon the death of the specified persons, the remaining amounts of the gifts are to be used by CFSI for unrestricted purposes or into a designated fund as specified by the agreements. CFSI has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiaries at June 30, 2017 and 2016, under these agreements. The liability was calculated based on the applicable mortality

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NOTES TO COMBINED FINANCIAL STATEMENTS
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tables and discount rates ranging from 2.2% to 8.6%. The present value of amounts expected to be paid to the beneficiaries was \$58,918 and \$60,202 at June 30, 2017 and 2016, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at June 30, 2017 and 2016:

	2017	2016
Time restrictions related to:		
Charitable trusts	\$ 125,940	\$ 71,782
Cash surrender value of life insurance	288,136	270,095
Designated purpose restrictions related to:		
Great Classroom Projects	28,540	27,025
Entrepreneurial Education	30,000	30,000
Blessings in a Backpack	27,686	18,297
Talent Development Initiative	20,000	-
Other	9,445	120
Endowment funds not yet appropriated for expenditure	<u>28,509,411</u>	<u>26,693,524</u>
	<u>\$ 29,039,158</u>	<u>\$ 27,110,843</u>

11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions or based on CFSI's spending policy during the years ended June 30, 2017 and 2016 as follows:

	2017	2016
Designated purpose restrictions related to:		
Imagination Library Program	\$ 93,182	\$ 86,912
Great Classroom Projects	71,483	21,180
School Field Trips	25,000	25,000
Blessings in a Backpack	72,297	70,123
Endowment funds appropriated for expenditure	<u>1,716,248</u>	<u>1,651,176</u>
	<u>\$ 1,978,210</u>	<u>\$ 1,854,391</u>

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12. ENDOWMENT

The majority of CFSI's funds consist of endowed 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 principles generally accepted in the United States of America, 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.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring endowment funds to be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CFSI in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, CFSI 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 CFSI 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 CFSI
- (7) The investment policies of CFSI

CFSI has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that CFSI must use for a donor-specified purpose 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 long-term growth of capital without undue exposure to risk. CFSI expects its endowment funds, over time, to provide an average rate of return of greater than 5.75% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, CFSI relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

CFSI has a policy of appropriating for distribution each year 4% of its endowment funds' average fair value over the prior 12 quarters, or a percentage as voted upon annually by the Board of Directors. In establishing this policy, CFSI considered the long-term expected return on its

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endowment. Endowed funds by net asset type at June 30, 2017 and 2016 were as follows:

	2017		2016	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Board Designated Funds	\$ 182,822	\$ -	\$ 276,374	\$ -
Donor Restricted Funds	-	28,509,411	-	26,693,524
	<u>\$ 182,822</u>	<u>\$ 28,509,411</u>	<u>\$ 276,374</u>	<u>\$ 26,693,524</u>

Changes in endowed funds for the years ended June 30, 2017 and 2016 were as follows:

	2017		2016	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Endowment net assets,				
beginning of year	\$ 276,374	\$ 26,693,524	\$ 255,749	\$ 23,289,679
Contributions and other revenue	13,901	759,181	41,147	4,983,799
Investment income	8,090	2,772,954	383	71,222
Appropriation of endowment assets for expenditure	<u>(115,543)</u>	<u>(1,716,248)</u>	<u>(20,905)</u>	<u>(1,651,176)</u>
Endowment net assets, end of year	<u>\$ 182,822</u>	<u>\$ 28,509,411</u>	<u>\$ 276,374</u>	<u>\$ 26,693,524</u>

13. RENT INCOME

Rent income relates to 4100 Charlestown Inc. renting property to unrelated organizations for the use of a building and property. Rent income received from these organizations was \$148,174 and \$120,065 for the years ended June 30, 2017 and 2016, respectively. Future rental income to be received is as follows:

Year	Amount
2018	\$ 65,391
2019	67,016
2020	68,676
2021	<u>70,405</u>
	<u>\$ 271,488</u>

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14. FUNCTIONAL EXPENSES

CFSI serves as a vehicle for residents of Clark and Floyd Counties to donate to various organizations and projects in the counties they serve. Expenses related to providing this service for the years ended June 30, 2017 and 2016 are classified as follows:

	2017	2016
Program expenses	\$ 2,567,099	\$ 2,601,715
Fundraising expenses	338,558	311,636
General and administrative expenses	262,575	276,485
	<u>\$ 3,168,232</u>	<u>\$ 3,189,836</u>

15. CONCENTRATIONS OF CREDIT RISK

CFSI maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. CFSI has not experienced any losses in such accounts. CFSI believes it is not exposed to any significant credit risk on cash.

Mutual funds and money market funds are held in one brokerage account. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

16. RECENTLY ISSUED ACCOUNTING STANDARDS

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which CFSI is not required to adopt until its year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in combined financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which CFSI is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU

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completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

CFSI is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

SUPPLEMENTARY INFORMATION

COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

COMBINING STATEMENT OF FINANCIAL POSITION JUNE 30, 2017

	Community Foundation of Southern Indiana, Inc.	OSI Foundation, Inc.	4100 Charlestown, Inc.	Jeffersonville Carnegie Library Foundation, Inc.	New Albany-Floyd County Education Foundation, Inc.	Eliminations	Combined
Cash and cash equivalents	\$ 1,360,670	\$ 131,673	\$ 45,680	\$ 23,254	\$ 260,576	\$ -	\$ 1,821,853
Investments	101,379,150	-	-	-	-	-	101,379,150
Investments in charitable remainder trusts	1,238,128	-	-	-	-	-	1,238,128
Pledges receivable	72,875	-	-	-	390	-	73,265
Notes receivable	318,979	-	-	-	-	(318,979)	-
Other assets	25,327	-	-	-	3,126	(21,126)	7,327
Property and equipment, net	125,741	-	1,402,438	2,544,060	-	-	4,072,239
Cash surrender value of life insurance	288,136	-	-	-	-	-	288,136
Total assets	\$ 104,809,006	\$ 131,673	\$ 1,448,118	\$ 2,567,314	\$ 264,092	\$ (340,105)	\$ 108,880,098
Liabilities							
Line of credit	\$ -	\$ -	\$ -	\$ 38,900	\$ -	\$ (38,900)	\$ -
Accounts payable and accrued expenses	24,855	-	36,870	1,139	231	(21,205)	41,890
Grants payable	483,900	-	-	-	-	-	483,900
Unearned revenue	-	-	-	-	51,650	-	51,650
Custodial funds	72,356,713	-	-	-	-	-	72,356,713
Charitable remainder trusts liability	1,112,188	-	-	-	-	-	1,112,188
Annuities payable	58,918	-	-	-	-	-	58,918
Construction loan	-	-	210,000	-	-	(210,000)	-
Mortgage payable	-	-	70,000	-	-	(70,000)	-
Total liabilities	74,036,574	-	316,870	40,039	51,881	(340,105)	74,105,259
Net assets							
Unrestricted net assets:							
Operating	1,665,922	81,673	1,131,248	2,527,275	146,741	-	5,552,859
Board designated	182,822	-	-	-	-	-	182,822
	1,848,744	81,673	1,131,248	2,527,275	146,741	-	5,735,681
Temporarily restricted net assets	28,923,688	50,000	-	-	65,470	-	29,039,158
Total net assets	30,772,432	131,673	1,131,248	2,527,275	212,211	-	34,774,839
Total net assets and liabilities	\$ 104,809,006	\$ 131,673	\$ 1,448,118	\$ 2,567,314	\$ 264,092	\$ (340,105)	\$ 108,880,098

See Report of Independent Auditors on pages 1 and 2.

COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

COMBINING STATEMENT OF ACTIVITIES (UNRESTRICTED) YEAR ENDED JUNE 30, 2017

	Community Foundation of Southern Indiana, Inc.	OSI Foundation, Inc.	4100 Charlestown, Inc.	Jeffersonville Carnegie Library Foundation, Inc.	New Albany- Floyd County Education Foundation, Inc.	Eliminations	Combined
Support and revenues							
Contributions and grants	\$ 22,785	\$ 112,100	\$ -	\$ 30,500	\$ 103,350	\$ -	\$ 268,735
Investment return, net	37,897	422	220	105	852	(7,586)	31,910
Administrative fee income	649,448	-	-	-	-	(27,346)	622,102
Rental income	-	-	180,674	-	-	(32,500)	148,174
Change in value of split-interest agreements	-	-	-	-	-	-	-
Change in value of life insurance	-	-	-	-	-	-	-
Income from events, net	565	-	-	-	117,407	-	117,972
Other	1,500	-	-	-	-	-	1,500
Net assets released from restrictions	1,716,247	-	-	-	261,963	-	1,978,210
Total support and revenues	2,428,442	112,522	180,894	30,605	483,572	(67,432)	3,168,603
Expenses							
Grants and scholarships	915,047	67,000	-	-	203,955	-	1,186,002
Program expenses	245,748	-	-	-	93,182	-	338,930
Salaries and benefits	453,630	-	20,075	-	-	-	473,705
Leased employee expense	-	-	-	-	94,130	-	94,130
Administrative fee expense	525,288	2,346	10,000	3,000	9,000	(24,346)	525,288
Advertising and public relations	43,582	-	-	75	16,333	-	59,990
Insurance	54,127	7	11,698	7,514	25	-	73,371
Occupancy	29,725	-	55,899	14,516	7,924	-	108,064
Rental expenses	32,500	-	-	-	-	(32,500)	-
Professional services	57,412	1,750	1,750	1,750	1,750	(3,000)	61,412
Interest	-	-	7,720	977	-	(7,586)	1,111
Depreciation	13,920	-	92,469	91,512	-	-	197,901
Software	18,274	-	-	-	-	-	18,274
Other	24,678	22	200	290	4,864	-	30,054
Total expenses	2,413,931	71,125	199,811	119,634	431,163	(67,432)	3,168,232
Change in net assets	14,511	41,397	(18,917)	(89,029)	52,409	-	371
Net assets, beginning of year	1,834,233	40,276	1,150,165	2,616,304	94,332	-	5,735,310
Net assets, end of year	\$ 1,848,744	\$ 81,673	\$ 1,131,248	\$ 2,527,275	\$ 146,741	\$ -	\$ 5,735,681

See Report of Independent Auditors on pages 1 and 2.

COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

COMBINING STATEMENT OF ACTIVITIES (TEMPORARILY RESTRICTED) YEAR ENDED JUNE 30, 2017

	Community Foundation of Southern Indiana, Inc.	OSI Foundation, Inc.	4100 Charlestown, Inc.	Jeffersonville Carnegie Library Foundation, Inc.	New Albany- Floyd County Education Foundation, Inc.	Combined
Support and revenues						
Contributions and grants	\$ 759,181	\$ 20,000	\$ -	\$ -	\$ 281,991	\$ 1,061,172
Investment return, net	2,889,578	-	-	-	-	2,889,578
Administrative fee income	-	-	-	-	-	-
Rental income	-	-	-	-	-	-
Change in value of split-interest agreements	(62,266)	-	-	-	-	(62,266)
Change in value of life insurance	18,041	-	-	-	-	18,041
Income from events, net	-	-	-	-	-	-
Other	-	-	-	-	-	-
Net assets released from restrictions	(1,716,247)	-	-	-	(261,963)	(1,978,210)
Total support and revenues	1,888,287	20,000	-	-	20,028	1,928,315
Expenses						
Grants and scholarships	-	-	-	-	-	-
Program expenses	-	-	-	-	-	-
Salaries and benefits	-	-	-	-	-	-
Leased employee expense	-	-	-	-	-	-
Administrative fee expense	-	-	-	-	-	-
Advertising and public relations	-	-	-	-	-	-
Insurance	-	-	-	-	-	-
Occupancy	-	-	-	-	-	-
Rental expenses	-	-	-	-	-	-
Professional services	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Software	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-
Change in net assets	1,888,287	20,000	-	-	20,028	1,928,315
Net assets, beginning of year	27,035,401	30,000	-	-	45,442	27,110,843
Net assets, end of year	\$ 28,923,688	\$ 50,000	\$ -	\$ -	\$ 65,470	\$ 29,039,158

See Report of Independent Auditors on pages 1 and 2.