

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

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 2018 combining information on pages 24 through 26 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 2018 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 15, 2018

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

COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
Cash and cash equivalents	\$ 2,120,619	\$ 1,821,853
Investments	103,442,303	101,379,150
Investments in charitable remainder trusts	1,251,742	1,238,128
Pledges receivable	174,900	73,265
Other assets	4,771	7,327
Property and equipment, net	3,892,709	4,072,239
Cash surrender value of life insurance	310,488	288,136
Total assets	\$ 111,197,532	\$ 108,880,098

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 65,959	\$ 41,890
Grants payable	267,331	483,900
Unearned revenue	46,721	51,650
Custodial funds	73,517,714	72,356,713
Charitable remainder trusts liability	1,168,124	1,112,188
Annuities payable	56,042	58,918
Total liabilities	75,121,891	74,105,259
Net assets		
Unrestricted net assets:		
Operating	5,622,428	5,552,859
Board designated	195,248	182,822
	5,817,676	5,735,681
Temporarily restricted net assets	30,257,965	29,039,158
Total net assets	36,075,641	34,774,839
Total liabilities and net assets	\$ 111,197,532	\$ 108,880,098

See accompanying notes to combined financial statements.

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

COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Contributions and grants	\$ 250,756	\$ 1,035,320	\$ 1,286,076	\$ 1,329,907
Investment return, net	47,316	2,193,328	2,240,644	2,921,488
Administrative fee income	716,866	-	716,866	622,102
Rental income	167,267	-	167,267	148,174
Change in value of split-interest agreements	-	(125,564)	(125,564)	(62,266)
Change in value of life insurance	-	22,352	22,352	18,041
Income from events, net of expenses of \$98,006 and \$101,436, respectively	143,370	-	143,370	117,972
Other	-	-	-	1,500
Net assets released from restrictions	1,906,629	(1,906,629)	-	-
Total support and revenues	3,232,204	1,218,807	4,451,011	5,096,918
Expenses				
Grants and scholarships	1,316,343	-	1,316,343	1,186,002
Program expenses	113,006	-	113,006	338,930
Salaries and benefits	486,176	-	486,176	473,705
Leased employee expense	93,932	-	93,932	94,130
Administrative fee expense	569,448	-	569,448	525,288
Advertising and public relations	75,514	-	75,514	59,990
Insurance	65,621	-	65,621	73,371
Occupancy	130,751	-	130,751	108,064
Professional services	48,210	-	48,210	61,412
Interest	-	-	-	1,111
Depreciation	198,057	-	198,057	197,901
Software	19,090	-	19,090	18,274
Other	34,061	-	34,061	30,054
Total expenses	3,150,209	-	3,150,209	3,168,232
Change in net assets	81,995	1,218,807	1,300,802	1,928,686
Net assets, beginning of year	5,735,681	29,039,158	34,774,839	32,846,153
Net assets, end of year	\$ 5,817,676	\$ 30,257,965	\$ 36,075,641	\$ 34,774,839

See accompanying notes to combined financial statements.

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

COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions and grants	\$ 268,735	\$ 1,061,172	\$ 1,329,907
Investment return, net	31,910	2,889,578	2,921,488
Administrative fee income	622,102	-	622,102
Rental income	148,174	-	148,174
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 of expenses of \$101,436	117,972	-	117,972
Other	1,500	-	1,500
Net assets released from restrictions	<u>1,978,210</u>	<u>(1,978,210)</u>	<u>-</u>
Total support and revenues	3,168,603	1,928,315	5,096,918
Expenses			
Grants and scholarships	1,186,002	-	1,186,002
Program expenses	338,930	-	338,930
Salaries and benefits	473,705	-	473,705
Leased employee expense	94,130	-	94,130
Administrative fee expense	525,288	-	525,288
Advertising and public relations	59,990	-	59,990
Insurance	73,371	-	73,371
Occupancy	108,064	-	108,064
Professional services	61,412	-	61,412
Interest	1,111	-	1,111
Depreciation	197,901	-	197,901
Software	18,274	-	18,274
Other	<u>30,054</u>	<u>-</u>	<u>30,054</u>
Total expenses	<u>3,168,232</u>	<u>-</u>	<u>3,168,232</u>
Change in net assets	371	1,928,315	1,928,686
Net assets, beginning of year	<u>5,735,310</u>	<u>27,110,843</u>	<u>32,846,153</u>
Net assets, end of year	<u>\$ 5,735,681</u>	<u>\$ 29,039,158</u>	<u>\$ 34,774,839</u>

See accompanying notes to combined financial statements.

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

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating activities		
Change in net assets	\$ 1,300,802	\$ 1,928,686
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	198,057	197,901
Reinvested interest and dividends received on investments	(2,344,261)	(1,591,574)
Realized and unrealized gains on investments	(5,033,915)	(2,420,583)
Change in value of split interest agreements	125,564	62,266
Change in cash surrender value of life insurance	(22,352)	(18,041)
Change in operating assets and liabilities:		
Pledges receivable, net	(101,635)	(15,225)
Other assets	2,556	(5,027)
Accounts payable and accrued expenses	24,069	4,334
Grants payable	(216,569)	64,150
Unearned revenue	(4,929)	(8,637)
Custodial funds	1,161,001	70,808,123
Annuities payable	(8,552)	(8,552)
Net cash flows from operating activities	(4,920,164)	68,997,821
Investing activities		
Purchases of property and equipment	(18,527)	(5,275)
Purchases of investments	(96,059,517)	(70,768,349)
Proceeds on sales of investments	101,360,926	1,916,705
Net cash flows from investing activities	5,282,882	(68,856,919)
Financing activities		
Payments on charitable remainder trusts	(63,952)	(59,360)
Net change in line of credit	-	(50,000)
Net cash flows from financing activities	(63,952)	(109,360)
Net change in cash and cash equivalents	298,766	31,542
Cash and cash equivalents, beginning of year	1,821,853	1,790,311
Cash and cash equivalents, end of year	\$ 2,120,619	\$ 1,821,853
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ -	\$ 1,111

See accompanying notes to combined financial statements.

COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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, 2018 AND 2017

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, 2018 and 2017.

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 matured in September 2018 and was not renewed. 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, 2018 and 2017.

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

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Unearned Revenue

Unearned revenue represents funds received in advance of the period in which the related event will occur or 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, 2018 AND 2017

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, 2018 and 2017, 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, 2018, 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 15, 2018.

In September 2018, CFSI received a bequest gift of approximately \$9.2 million.

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

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

2. INVESTMENTS

Investments (including investments held in the charitable remainder trusts) at June 30, 2018 and 2017, consist of the following:

	2018	2017
Cash	\$ 1,930,273	\$ 2,997,462
Money market funds	895,833	4,683,384
Common stock		
Financial	4,282,278	582,879
Insurance	-	125,111
Utilities	482,035	-
Real estate	1,048,423	204,350
Technology	6,011,612	1,103,320
Chemicals	-	348,837
Services	-	1,135,922
Energy	1,242,549	-
Healthcare	3,068,198	539,821
Materials	1,442,852	466,021
Automotive	-	169,954
Consumer goods	1,604,029	450,043
Consumer retail	3,851,119	379,360
Industrial	5,286,601	508,594
Other	-	596,461
Mutual funds		
Intermediate-term bond	17,872,450	6,881,056
Large cap equities	15,598,529	12,348,702
International	16,497,564	-
Exchange traded funds		
Large cap equities	-	30,056,191
Corporate bonds	5,719,696	39,039,810
U.S. government securities	4,061,338	-
Alternative investments		
Hedge fund	8,261,318	-
Private equity	5,537,348	-
	\$ 104,694,045	\$ 102,617,278

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

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 577,353	\$ 627,913
Realized and unrealized gains	1,767,039	2,389,916
Investment management fees	<u>(103,748)</u>	<u>(96,341)</u>
	<u>\$ 2,240,644</u>	<u>\$ 2,921,488</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 2018 and 2017. 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,
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NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

- 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, 2018 and 2017.

- *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.
- *U.S. government securities*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *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.
- *Alternative investments*: Valued at the net asset value (NAV) of the units of the funds, as provided by the investment managers. The NAV is based on the fair value of the underlying investments held by the funds less their liabilities.
- *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, 2018 AND 2017

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, 2018 and 2017 are as follows:

	2018		
	Fair Value	Level 1	Level 2
Assets:			
Money market funds	\$ 895,833	\$ -	\$ 895,833
Common stock	28,319,696	28,319,696	-
Mutual funds	49,968,543	49,968,543	-
U.S. government securities	4,061,338	-	4,061,338
Corporate bonds	5,719,696	-	5,719,696
Total assets in fair value hierarchy	88,965,106	<u>\$ 78,288,239</u>	<u>\$ 10,676,867</u>
Alternative investments*	13,798,666		
Total assets at fair value	<u>\$ 102,763,772</u>		
Liabilities:			
Charitable remainder trusts liability	\$ 1,168,124	\$ -	\$ 1,168,124
Annuities payable	56,042	-	56,042
	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
Total assets in fair value hierarchy	<u>\$ 99,619,816</u>	<u>\$ 55,896,622</u>	<u>\$ 43,723,194</u>
Liabilities:			
Charitable remainder trusts liability	\$ 1,112,188	\$ -	\$ 1,112,188
Annuities payable	58,918	-	58,918

**COMMUNITY FOUNDATION OF SOUTHERN INDIANA,
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NOTES TO COMBINED FINANCIAL STATEMENTS
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* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the consolidated statement of financial position.

Private equities do not allow withdrawals from the partnership until the partnership is dissolved, unless special approval is granted by the general partner. The investment will not liquidate until specified by the agreement. Distributions are received through the liquidation of the underlying assets of the fund.

Private equity investments, unfunded commitments and their investment objectives consist of the following as of June 30, 2018 and 2017.

	2018	2017	Unfunded Commitment as of June 30, 2018
Frontier Small Cap Value Fund, L.P.	\$ 5,537,348	\$ -	\$ -

The investment objective of the Frontier Small Cap Value Fund, L.P. (the "partnership") is to seek to generate returns for its partners, through investing in a diversified portfolio of equity securities of small capitalization companies.

A summary of hedge funds as of June 30, 2018 and 2017, including balances, restrictions on redemptions and investments objectives, is as follows:

	2018	2017	Redemption Notice	Redemption Frequency
Wellington CTF Research Equity Portfolio Fund	\$ 8,261,318	\$ -	10 days notice	Monthly

The investment objective of the Wellington CTF Research Equity Portfolio Fund (the "fund") is long-term return in excess of the S & P 500 Index and is managed on a total return basis. The fund invests primarily in locally-listed common stock, depositary receipts and real estate securities, as well as other permissible investments, such as convertible bonds, preferred stock, rights, warrants, exchange traded funds and similar liquid equity equivalents.

Due to the nature of the investments held by the private equity and hedge funds, changes in market conditions and the economic environment may significantly impact the net asset value of the private equity and hedge funds and, consequently, the fair value of the Organization's interests in the funds. Although a secondary market exists for these investments, it is not active

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and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Organization were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 170,000	\$ 170,000
Land improvements	26,429	26,429
Buildings and building improvements	6,100,185	6,081,658
Furniture and equipment	<u>161,936</u>	<u>161,936</u>
	6,458,550	6,440,023
Less accumulated depreciation	<u>2,565,841</u>	<u>2,367,784</u>
	<u>\$ 3,892,709</u>	<u>\$ 4,072,239</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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Golf Scramble	\$ 36,250	\$ 51,650
Other	<u>10,471</u>	<u>-</u>
	<u>\$ 46,721</u>	<u>\$ 51,650</u>

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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.

Following is a progression of custodial funds during 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Custodial funds, beginning balance	\$ 72,356,713	\$ 1,548,590
Contributions	7,942	70,050,007
Interest and dividend income	1,766,908	963,661
Realized and unrealized gains on investments	3,266,876	30,667
Administrative fees	(121,056)	(70,414)
Grant and scholarship payments	(3,587,350)	(142,301)
Investment management fees	<u>(172,319)</u>	<u>(23,497)</u>
Custodial funds, ending balance	<u>\$ 73,517,714</u>	<u>\$ 72,356,713</u>

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 \$1,251,742 and \$1,238,128 at June 30, 2018 and 2017, 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 \$1,168,124 and \$1,112,188 at June 30, 2018 and 2017, respectively.

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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, 2018 and 2017, under these agreements. The liability was calculated based on the applicable mortality tables and discount rates ranging from 2.2% to 8.6%. The present value of amounts expected to be paid to the beneficiaries was \$56,042 and \$58,918 at June 30, 2018 and 2017, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Time restrictions related to:		
Charitable trusts	\$ 83,618	\$ 125,940
Cash surrender value of life insurance	310,488	288,136
Designated purpose restrictions related to:		
Great Classroom Projects	25,000	28,540
Entrepreneurial Education	30,000	30,000
Blessings in a Backpack	90,067	27,686
Talent Development Initiative	700	20,000
Other	25,375	9,445
Endowment funds not yet appropriated for expenditure	<u>29,692,717</u>	<u>28,509,411</u>
	<u>\$ 30,257,965</u>	<u>\$ 29,039,158</u>

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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, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Designated purpose restrictions related to:		
Imagination Library Program	\$ 93,431	\$ 93,182
Great Classroom Projects	85,150	71,483
School Field Trips	26,000	25,000
Blessings in a Backpack	75,896	72,297
Talent Development Initiative	34,300	-
Endowment funds appropriated for expenditure	<u>1,591,852</u>	<u>1,716,248</u>
	<u>\$ 1,906,629</u>	<u>\$ 1,978,210</u>

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

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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 endowment. Endowed funds by net asset type at June 30, 2018 and 2017 were as follows:

	2018		2017	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Board Designated Funds	\$ 195,248	\$ -	\$ 182,822	\$ -
Donor Restricted Funds	-	29,692,717	-	28,509,411
	<u>\$ 195,248</u>	<u>\$ 29,692,717</u>	<u>\$ 182,822</u>	<u>\$ 28,509,411</u>

Changes in endowed funds for the years ended June 30, 2018 and 2017 were as follows:

	2018		2017	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Endowment net assets,				
beginning of year	\$ 182,822	\$ 28,509,411	\$ 276,374	\$ 26,693,524
Contributions and other revenue	25,652	664,951	13,901	759,181
Investment income	5,881	2,110,207	8,090	2,772,954
Appropriation of endowment assets for expenditure	<u>(19,107)</u>	<u>(1,591,852)</u>	<u>(115,543)</u>	<u>(1,716,248)</u>
Endowment net assets, end of year	<u>\$ 195,248</u>	<u>\$ 29,692,717</u>	<u>\$ 182,822</u>	<u>\$ 28,509,411</u>

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13. 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, 2018 and 2017 are classified as follows:

	<u>2018</u>	<u>2017</u>
Program expenses	\$ 2,533,141	\$ 2,567,099
Fundraising expenses	332,366	338,558
General and administrative expenses	<u>284,702</u>	<u>262,575</u>
	<u>\$ 3,150,209</u>	<u>\$ 3,168,232</u>

14. 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.

Investments are managed by one investment firm. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

15. RECENTLY ISSUED ACCOUNTING STANDARDS

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.

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier

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that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow an NFP entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. CFSI will be required to adopt this new standard in the year ending June 30, 2020.

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, 2018

	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	\$ 1,496,234	\$ 101,325	\$ 60,196	\$ 37,312	\$ 425,552	\$ -	\$ 2,120,619
Investments	103,442,303	-	-	-	-	-	103,442,303
Investments in charitable remainder trusts	1,251,742	-	-	-	-	-	1,251,742
Pledges receivable	174,100	-	-	-	800	-	174,900
Notes receivable	318,979	-	-	-	-	(318,979)	-
Other assets	792	-	-	-	4,521	(542)	4,771
Property and equipment, net	111,821	-	1,328,340	2,452,548	-	-	3,892,709
Cash surrender value of life insurance	310,488	-	-	-	-	-	310,488
Total assets	\$ 107,106,459	\$ 101,325	\$ 1,388,536	\$ 2,489,860	\$ 430,873	\$ (319,521)	\$ 111,197,532
Liabilities							
Line of credit	\$ -	\$ -	\$ -	\$ 38,900	\$ -	\$ (38,900)	\$ -
Accounts payable and accrued expenses	44,766	-	19,744	751	1,319	(621)	65,959
Grants payable	267,331	-	-	-	-	-	267,331
Unearned revenue	10,471	-	-	-	36,250	-	46,721
Custodial funds	73,517,714	-	-	-	-	-	73,517,714
Charitable remainder trusts liability	1,168,124	-	-	-	-	-	1,168,124
Annuities payable	56,042	-	-	-	-	-	56,042
Construction loan	-	-	210,000	-	-	(210,000)	-
Mortgage payable	-	-	70,000	-	-	(70,000)	-
Total liabilities	75,064,448	-	299,744	39,651	37,569	(319,521)	75,121,891
Net assets							
Unrestricted net assets:							
Operating	1,759,740	70,625	1,088,792	2,450,209	253,062	-	5,622,428
Board designated	195,248	-	-	-	-	-	195,248
	1,954,988	70,625	1,088,792	2,450,209	253,062	-	5,817,676
Temporarily restricted net assets	30,087,023	30,700	-	-	140,242	-	30,257,965
Total net assets	32,042,011	101,325	1,088,792	2,450,209	393,304	-	36,075,641
Total net assets and liabilities	\$ 107,106,459	\$ 101,325	\$ 1,388,536	\$ 2,489,860	\$ 430,873	\$ (319,521)	\$ 111,197,532

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COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

COMBINING STATEMENT OF ACTIVITIES
(UNRESTRICTED)
YEAR ENDED JUNE 30, 2018

	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	\$ 33,503	\$ 71,800	\$ -	\$ 20,000	\$ 125,453	\$ -	\$ 250,756
Investment return, net	52,253	586	288	127	1,640	(7,578)	47,316
Administrative fee income	743,842	-	-	-	-	(26,976)	716,866
Rental income	-	-	182,267	17,500	-	(32,500)	167,267
Change in value of split-interest agreements	-	-	-	-	-	-	-
Change in value of life insurance	-	-	-	-	-	-	-
Income from events, net	1,000	-	-	-	142,370	-	143,370
Net assets released from restrictions	1,591,732	34,300	-	-	280,597	-	1,906,629
Total support and revenues	2,422,330	106,686	182,555	37,627	550,060	(67,054)	3,232,204
Expenses							
Grants and scholarships	985,851	114,000	-	-	216,492	-	1,316,343
Program expenses	19,575	-	-	-	93,431	-	113,006
Salaries and benefits	463,747	-	22,429	-	-	-	486,176
Leased employee expense	-	-	-	-	93,932	-	93,932
Administrative fee expense	569,448	-	10,000	3,000	9,000	(22,000)	569,448
Advertising and public relations	58,536	-	-	-	16,978	-	75,514
Insurance	50,482	8	8,261	6,836	34	-	65,621
Occupancy	30,524	-	83,345	10,618	6,264	-	130,751
Rental expenses	32,500	-	-	-	-	(32,500)	-
Professional services	44,210	1,750	1,750	1,750	1,750	(3,000)	48,210
Interest	-	-	6,601	977	-	(7,578)	-
Depreciation	13,920	-	92,625	91,512	-	-	198,057
Software	19,090	-	-	-	-	-	19,090
Other	28,203	1,976	-	-	5,858	(1,976)	34,061
Total expenses	2,316,086	117,734	225,011	114,693	443,739	(67,054)	3,150,209
Change in net assets	106,244	(11,048)	(42,456)	(77,066)	106,321	-	81,995
Net assets, beginning of year	1,848,744	81,673	1,131,248	2,527,275	146,741	-	5,735,681
Net assets, end of year	\$ 1,954,988	\$ 70,625	\$ 1,088,792	\$ 2,450,209	\$ 253,062	\$ -	\$ 5,817,676

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COMMUNITY FOUNDATION OF SOUTHERN INDIANA, INC. AND AFFILIATES

COMBINING STATEMENT OF ACTIVITIES
(TEMPORARILY RESTRICTED)
YEAR ENDED JUNE 30, 2018

	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	\$ 664,951	\$ 15,000	\$ -	\$ -	\$ 355,369	\$ 1,035,320
Investment return, net	2,193,328	-	-	-	-	2,193,328
Administrative fee income	-	-	-	-	-	-
Rental income	-	-	-	-	-	-
Change in value of split-interest agreements	(125,564)	-	-	-	-	(125,564)
Change in value of life insurance	22,352	-	-	-	-	22,352
Income from events, net	-	-	-	-	-	-
Net assets released from restrictions	(1,591,732)	(34,300)	-	-	(280,597)	(1,906,629)
Total support and revenues	1,163,335	(19,300)	-	-	74,772	1,218,807
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	1,163,335	(19,300)	-	-	74,772	1,218,807
Net assets, beginning of year	<u>28,923,688</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>65,470</u>	<u>29,039,158</u>
Net assets, end of year	<u>\$ 30,087,023</u>	<u>\$ 30,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,242</u>	<u>\$ 30,257,965</u>

See Report of Independent Auditors on pages 1 and 2.