

**HARRISON COUNTY COMMUNITY
FOUNDATION, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

CPAs / ADVISORS



HARRISON COUNTY COMMUNITY FOUNDATION, INC.

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Blue & Co., LLC / 813 West Second Street / Seymour, IN 47274
main 812.522.8416 fax 812.523.8615 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Directors of the
Harrison County Community Foundation, Inc.,
Harrison County Community Foundation Supporting Organization, Inc. and
HCCF Real Estate Supporting Organization, Inc.
Corydon, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Harrison County Community Foundation, Inc., Harrison County Community Foundation Supporting Organization, Inc. and the HCCF Real Estate Supporting Organization, Inc. (collectively referred to as the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Correction of Classification

As discussed in Note 2 to the financial statements, certain classifications resulting in overstatement of amounts previously reported for grants payable and understatement of custodial fund liability as of December 31, 2016, were discovered by management of the Organization during the current year. Accordingly, amounts reported for grants payable and custodial fund liability have been restated in the 2016 financial statements now presented, and an adjustment has been made to net assets as of January 1, 2016, to correct the classification. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the consolidating statement of financial position and the consolidating statement of activities is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual organizations, and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Seymour, Indiana

March 16, 2018

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016 As Restated
Cash	\$ 958,710	\$ 1,086,924
Investments	191,532,278	167,243,151
Notes receivable	1,856,900	1,883,992
Property and equipment, net	1,061,815	1,097,841
Property held for lease	5,657,056	-0-
Other assets	300,000	-0-
Total assets	<u>\$ 201,366,759</u>	<u>\$ 171,311,908</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 26,323	\$ 23,957
Promise to give	2,260,000	-0-
Custodial funds	106,315,962	89,953,041
Charitable gift annuity payable	798,579	838,680
Notes payable	3,699,484	-0-
Total liabilities	113,100,348	90,815,678
Unrestricted net assets		
Harrison County Community Foundation funds	21,340,713	18,067,466
HCCF Supporting Organization funds	64,490,167	57,611,242
Real Estate Supporting Organization	(934,659)	1,108,792
Board designated - funds awarded	3,370,190	3,708,730
Total unrestricted net assets	<u>88,266,411</u>	<u>80,496,230</u>
Total liabilities and net assets	<u>\$ 201,366,759</u>	<u>\$ 171,311,908</u>

See accompanying notes to consolidated financial statements.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016 As Restated
Support and revenues		
Contributions and grants	\$ 2,891,089	\$ 2,506,613
Investment return, net	10,951,632	6,043,416
Interest and other income	16,146	20,356
Administrative fee income	316	162
Change in value of split interest agreement	(24,922)	(51,521)
Total support and revenues	13,834,261	8,519,026
Expenses		
Grants	5,071,385	5,880,618
Salaries and benefits	643,585	489,244
Contracted services	81,138	69,924
Professional fees	48,050	44,602
Interest expense	23,957	-0-
Travel and entertainment	4,584	7,721
Office supplies	4,976	4,970
Marketing and promotions	40,519	41,826
Dues and subscriptions	4,930	9,520
Depreciation	36,024	39,420
Utilities	6,627	6,213
Repairs and maintenance	7,131	10,044
Insurance	33,306	24,275
Board development and staff training	25,719	20,512
Janitorial services	3,302	5,360
Telephone	4,396	4,344
Rent	5,168	5,153
Printing and postage	2,533	3,043
Other	16,750	21,888
Total expenses	6,064,080	6,688,677
Change in net assets	\$ 7,770,181	\$ 1,830,349
Unrestricted net assets, beginning of year		
As previously reported		\$ 74,753,996
Prior period adjustments		
Correct recognition of grants payable		6,511,885
Correct recognition of custodial funds		(2,600,000)
As restated	80,496,230	78,665,881
Change in net assets	7,770,181	1,830,349
Unrestricted net assets, end of year	\$ 88,266,411	\$ 80,496,230

See accompanying notes to consolidated financial statements.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016 As Restated
Operating activities		
Change in net assets	\$ 7,770,181	\$ 1,830,349
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	36,024	39,420
Reinvested interest and dividend income received on investments	(8,327,362)	(5,201,255)
Realized and unrealized gains on investments	(16,361,017)	(8,445,531)
Change in value of split interest agreement	24,922	51,521
Change in operating assets and liabilities:		
Other assets	(300,000)	-0-
Accounts payable and accrued expenses	2,366	7,100
Promise to give	2,260,000	-0-
Custodial funds	16,362,921	10,136,629
Net cash flows from operating activities	1,468,035	(1,581,767)
Investing activities		
Purchases of property held for lease	(1,957,570)	-0-
Purchases of investments	(43,603,270)	(17,455,395)
Proceeds from sale of investments	44,002,522	19,095,101
Issuance of note receivable	-0-	(750,000)
Payments received on notes receivable	27,092	70,924
Net cash flows from investing activities	(1,531,226)	960,630
Financing activities		
Payments on charitable gift annuity	(65,023)	(65,023)
Net change in cash	(128,214)	(686,160)
Cash, beginning of year	1,086,924	1,773,084
Cash, end of year	\$ 958,710	\$ 1,086,924
Supplemental disclosure of non-cash investing and financing activities		
Acquisition of real estate as a payment on note receivable	\$ -0-	\$ 80,000
Acquisition of property held for lease with notes payable	\$ 3,699,484	\$ -0-

See accompanying notes to consolidated financial statements.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Harrison County Community Foundation, Inc. ("HCCF") was established as a not-for-profit organization in 1996. HCCF is an independent not-for-profit organization with a volunteer board of directors, whose purpose is to promote the interests of Harrison County, Indiana. This purpose is accomplished through grant making and the administration of grants to local governments, not-for-profit agencies and scholarships to individuals pursuing post-secondary education. Additionally, HCCF administers and manages the grants and scholarships awarded by Harrison County Community Foundation Supporting Organization, Inc. ("HCCFSO") and actively manages the property held by the HCCF Real Estate Supporting Organization, Inc. ("RESO").

HCCFSO is a not-for-profit organization incorporated in 2000, under the laws of the State of Indiana. HCCFSO was established to accept, invest, and transfer contributions received from Horseshoe Southern Indiana to HCCF and to distribute grants to the local community and government of Harrison County. HCCFSO is a separate and distinct Indiana not-for-profit corporation related to HCCF through a common board of directors and advisory council.

RESO is a not-for-profit organization incorporated in 2012, under the laws of the State of Indiana. RESO was established to hold and manage the property that HCCF and HCCFSO occupy and rent from RESO, as well as other donated or purchased real estate. In 2017, RESO entered into a construction and lease agreement with Mainstream Fiber Networks ("MFN") to provide \$5 million for the installation and servicing of a fiber network within the limits of Harrison County that facilitates the ability to provide such service to a customer base for fiber optics communications in Harrison County. RESO retains ownership of the \$5 million fiber backbone. MFN leases this fiber backbone from RESO for \$1 annually plus an "infrastructure recovery fee" of \$5 per month per customer. The infrastructure recovery fee is billed and collected by MFN and remitted to RESO monthly. The term of the lease is 25 years starting in January 2018 when the first customer began receiving services and also contains three 5-year extensions.

HCCF is funded principally through contributions from HCCFSO as well as donations from the public, investment returns, and management fees charged to HCCFSO. HCCFSO is funded principally by investment income and contributions from Horseshoe Southern Indiana ("Horseshoe"). In a prior year, HCCF received an initial allocation of \$5,000,000 pursuant to a revenue sharing agreement between Horseshoe (formerly known as Caesars Riverboat Casino, L.L.C.) and Harrison County, Indiana, in conjunction with the establishment of Horseshoe gaming operations in Harrison County. That agreement also called for Horseshoe to contribute a defined percentage of its annual adjusted gross receipts for the benefit of Harrison County and HCCF. The total aggregate amount to be contributed to HCCF and HCCFSO over the life of the agreement was \$55,000,000. \$50,000,000 of this amount was deposited with HCCFSO. Funding is now governed by an amended agreement which provides that all future payments will be made by choice of the county commissioners either directly to Harrison County or directly to HCCFSO, with 75% to be used for the benefit of Harrison County and the remaining 25% used for

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

discretionary purposes by the Foundation. The county commissioners have currently selected the payments to be made directly to HCCFSO. That agreement does not guarantee any future payments to HCCF and HCCFSO.

Consolidation Policy

The accounts of HCCF are consolidated with the accounts of the HCCFSO and RESO as a result of common control. All inter-entity transactions have been eliminated in the consolidation. The consolidated operations of the organizations are hereinafter collectively referred to as the "Foundation."

Management's Estimates

Management uses estimates and assumptions in preparing consolidated 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

All contributions, except for the contributions from Horseshoe to the Harrison County Community Fund of the HCCFSO, are subject to the variance power established by the Foundation's governing documents, including those with donor-imposed restrictions. The variance provision gives the Board of Directors (the "Board") the power to modify any restriction placed on gifts to the Foundation that are incapable of fulfillment or are no longer consistent with the charitable needs of the community. Accordingly, unless time restrictions have been imposed on contributions, net assets are generally classified as unrestricted net assets. The Foundation's governing documents further provide that absent contrary directions given in the transferring instrument regarding the use of the principal, all or part of the principal of any fund may be used subject to certain conditions, including approval of the Board. Contributions with donor-imposed restrictions that are met during the same fiscal year as the contribution is made are included as unrestricted support that increases unrestricted net assets.

Accordingly, the net assets of the Foundation are classified and reported as unrestricted as follows:

Harrison County Community Foundation Funds – Unrestricted net assets represent contributions provided by various individuals or organizations, along with associated investment earnings of those funds, that are to be expended in accordance with HCCF's spending policy for general or specifically designated community organizations, purposes, or programs.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

HCCF Supporting Organization Funds – Unrestricted net assets designated as belonging to HCCFSO represent contributions provided by Horseshoe along with associated investment earnings of those funds. These assets are available to further the mission of HCCFSO.

HCCF Real Estate Supporting Organization – Unrestricted net assets relate to the property held and maintained by the HCCF Real Estate Supporting Organization and the operations to maintain the property.

Board Designated – Funds Awarded – Represents amounts the Board has designated for awarded grants and scholarships that are unpaid and conditions have not yet been met.

Cash

Cash consists primarily of money market and checking accounts and excludes amounts held by the Foundation's fund managers and included in investments.

Investments and Investment Return

The Foundation carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Consolidated 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.

Notes Receivable

Notes receivable are stated at unpaid principal balances, less an allowance for losses. The allowance is based on management's assessment of the current status of the individual receivable. There was no allowance for losses at December 31, 2017 and 2016. Notes receivable are considered delinquent based on specific circumstances of the borrower and are written off when the balance is considered uncollectible. All notes receivable are non-interest bearing.

Property and Equipment and Property Held for Lease

Property and equipment and property held for lease, 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, as well as property held for lease, of the Foundation are being depreciated over their estimated useful lives using the straight-line method ranging from 5 to 39 years.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. 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 unrestricted net assets unless their use is prohibited by explicit donor stipulation or by law.

All other revenue is recorded when earned.

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 the consolidated 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

HCCF, HCCFSO, and RESO are all not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code ("Code") and are exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation 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 the Foundation, and has concluded that as of December 31, 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 consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, HCCF, HCCFSO, and RESO are generally exempt from income taxes. However, the organizations are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Foundation's ability to continue as a going concern for a period of one year from the date

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

the consolidated financial statements are available to be issued.

Reclassification

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

Subsequent Events

The Foundation has evaluated events or transactions occurring subsequent to the Consolidated Statement of Financial Position date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued, which is March 16, 2018

2. RESTATEMENT

The Foundation has restated its consolidated financial statements to remove grants payable deemed to be conditional and to correct the classification of custodial funds as of January 1, 2016, which resulted in an increase in unrestricted net assets of \$3,911,885. The changes reflected in the consolidated financial statements as of and for the year ended December 31, 2016 are as follows:

	As previously reported	Restatement	As restated
Statement of Financial Position:			
Grants payable	\$ 3,708,730	\$ (3,708,730)	\$ -0-
Custodial funds	87,353,041	2,600,000	89,953,041
Total liabilities	91,924,408	(1,108,730)	90,815,678
Unrestricted net assets			
HCCF Supporting Organization funds	60,211,242	(2,600,000)	57,611,242
Board designated - funds awarded	-0-	3,708,730	3,708,730
Total unrestricted net assets	79,387,500	1,108,730	80,496,230
Statement of Activities:			
Grants	3,077,463	2,803,155	5,880,618
Total expenses	3,885,522	2,803,155	6,688,677
Changes in net assets	4,633,504	(2,803,155)	1,830,349
Unrestricted net assets, beginning of year	74,753,996	3,911,885	78,665,881
Unrestricted net assets, end of year	79,387,500	1,108,730	80,496,230
Statement of Cash Flows:			
Changes in net assets	4,633,504	(2,803,155)	1,830,349
Grants payable	(2,803,155)	2,803,155	-0-

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

3. INVESTMENTS

Investments at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash	\$ 5	\$ 8,080,008
Mutual funds		
Equity funds		
Large cap	98,966,155	88,457,868
Small cap	7,968,537	6,948,689
Fixed income		
Limited duration	6,303,811	4,643,308
Multisector	3,189,078	3,564,161
Core	15,835,227	12,610,172
High yield	9,574,098	8,847,855
Multi-alternative	9,591,220	8,760,037
Emerging markets	9,312,531	8,806,961
Alternative investments	<u>30,791,616</u>	<u>16,524,092</u>
	<u>\$ 191,532,278</u>	<u>\$ 167,243,151</u>

The cash in the investment portfolio at December 31, 2016 relates to pending purchases of additional alternative investments which traded and settled in January 2017.

The following schedule summarizes the investment return, excluding the investment return on investments related to custodial funds, and its classification in the Consolidated Statements of Activities at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 3,757,790	\$ 2,387,570
Realized and unrealized gains	7,579,020	4,020,894
Investment fees	<u>(385,178)</u>	<u>(365,048)</u>
	<u>\$ 10,951,632</u>	<u>\$ 6,043,416</u>

4. RISKS AND UNCERTAINTIES

The Foundation holds investments in debt and equity mutual funds and alternative investments (Note 3). 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

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

5. 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 and liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The Foundation'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 and liabilities in active markets that the Foundation has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and 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.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets' and liabilities' 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 December 31, 2017 and 2016:

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds ("funds") held by the Foundation are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Foundation are deemed to be actively traded
 - *Alternative investments*: Valued at the net asset value (NAV) of the fund as determined by the reported valuations of underlying investment managers.
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HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

- *Charitable gift annuity payable:* Fair value is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with a discount rate of 1.4%.

The following table sets forth financial assets and liabilities measured at fair value in the Consolidated 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 December 31, 2017 and 2016 as follows:

	2017		
	Level 1	Level 2	Fair Value
Assets:			
Mutual funds	\$ 160,740,657	\$ -0-	\$ 160,740,657
Total assets in the fair value heirarchy	\$ 160,740,657	\$ -0-	\$ 160,740,657
Alternative investments*			30,791,616
Total assets at fair value			\$ 191,532,273
Liabilities:			
Charitable gift annuity	\$ -0-	\$ 798,579	\$ 798,579
	2016		
	Level 1	Level 2	Fair Value
Assets:			
Mutual funds	\$ 142,639,051	\$ -0-	\$ 142,639,051
Total assets in the fair value heirarchy	\$ 142,639,051	\$ -0-	\$ 142,639,051
Alternative investments*			16,524,092
Total assets at fair value			\$ 159,163,143
Liabilities:			
Charitable gift annuity	\$ -0-	\$ 838,680	\$ 838,680

* 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 Statements of Financial Position.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Alternative investments, including balances, restrictions on redemptions, and investment objectives consist of the following as of December 31, 2017 and 2016:

	2017	2016	Redemption Notice	Redemption Frequency
SEI Core Property Fund, LP	\$ 12,567,444	\$ 11,566,931	95 days notice	Quarterly
SEI Offshore Opportunity Fund II, LTD	5,178,696	4,957,161	95 days notice	Quarterly
SEI Energy Debt Fund, LP	6,497,132	-0-	95 days notice (After 3-year lockup period)	Semi-annually
SEI Structured Credit Fund, LP	6,548,344	-0-	65 days notice (After 2-year lockup period)	Quarterly

SEI Core Property Fund, LP

The investment objective is to seek both current income and long term capital appreciation by investing directly and indirectly in a diversified pool of private investment vehicles that invest in commercial real estate properties.

SEI Offshore Opportunity Fund II, LTD

The investment objective is to seek to achieve an attractive risk-adjusted return with moderate volatility and moderate directional market exposure over a full market cycle.

SEI Energy Debt Fund, LP

The investment objective is to seek to generate high total returns by investing primarily in debt securities of the United States and international energy companies.

SEI Structured Credit Fund, LP

The investment objective is to generate high total returns by investing in a portfolio comprised of collateralized debt obligations, which includes collateralized loan obligations and other structured credit investments.

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

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

6. NOTES RECEIVABLE

In 2011, a Program Related Investment (PRI) note receivable was set up with the YMCA of Harrison County ("YMCA"), an unrelated organization. The note receivable is a non-interest bearing loan to be paid over a period of 20 years in monthly installments of \$4,500. The monthly payments consist of a principal amount of \$4,000 and service fee income of \$500 related to this receivable; however, HCCFSO suspended the required principal payments for 2015 and 2016. In December 2016, HCCFSO received land of \$80,000 from the YMCA to cover 20 payments. Regular payments will resume in September 2018. The receivable balance was \$659,000 as of December 31, 2017 and 2016.

In 2015, a PRI note receivable was set up with Harrison County Community Services, Inc., an unrelated organization. The note receivable is a non-interest bearing loan to be paid over a period of 20 years in monthly installments of \$2,584. The monthly payments consist of a principal amount of \$2,084 and service fee income of \$500 related to this receivable. The receivable balance was \$447,900 and \$474,992 as of December 31, 2017 and 2016, respectively.

In 2016, a PRI note receivable was also set up with Mainstreet Corydon, Ind Inc., an unrelated organization. The note receivable is a non-interest bearing loan to be paid over a period of 20 years in monthly installments of \$3,625 commencing in July 2017. The monthly payments consist of a principal amount of \$3,125 and service fee income of \$500 related to this receivable; however, HCCFSO suspended the required principal payments until April 2018. The receivable balance was \$750,000 as of December 31, 2017 and 2016.

7. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2017 and 2016 is as follows:

	2017	2016
Land	\$ 180,300	\$ 180,300
Building and building improvements	1,170,203	1,170,203
Equipment	<u>124,256</u>	<u>124,256</u>
	1,474,759	1,474,759
Less accumulated depreciation	<u>412,944</u>	<u>376,918</u>
	<u>\$ 1,061,815</u>	<u>\$ 1,097,841</u>

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

8. PROPERTY HELD FOR LEASE

Following is a summary of property held for lease at December 31, 2017:

Building held for lease	\$	2,712,959
Construction in process on fiber network		<u>2,944,097</u>
	\$	<u>5,657,056</u>

9. CHARITABLE GIFT ANNUITY

The Foundation has an active charitable gift annuity, under which the Foundation has received \$1,444,960. The Foundation is required to make quarterly payments to the third party beneficiary in the amount of \$16,256 for the remainder of the beneficiary's lifetime. Upon the death of the specified person, the remaining amount of the gift is to be used by the Foundation for specified purposes outlined in the charitable gift annuity agreement. The Foundation has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiary at December 31, 2017 and 2016, under this agreement. The liability was calculated based on the life expectancy of the beneficiary and a discount rate of 1.4%. The present value of amounts expected to be paid to the third party beneficiary was \$798,579 and \$838,680 at December 31, 2017 and 2016, respectively.

10. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Foundation by other organizations based on their individual board resolutions, including the county fund that holds the 75% of revenue-sharing contributions from Horseshoe as described in Note 1. The Foundation accounts for these transfers as a liability in accordance with standards set forth by the Financial Accounting Standards Board. Income is added to these funds periodically in accordance with the Foundation's investment allocation policies. Contributions by, investment return credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Consolidated Statements of Activities.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

	2017	2016 As Restated
	<u>2017</u>	<u>As Restated</u>
Custodial funds, beginning balance	\$ 89,953,041	\$ 79,816,412
Contributions	6,134,880	5,932,172
Interest and dividend income	4,569,572	2,813,685
Realized and unrealized gains on investments	8,781,997	4,424,637
Grant payments	(2,689,062)	(2,643,545)
Investment management fees	<u>(434,466)</u>	<u>(390,320)</u>
Custodial funds, ending balance	<u>\$ 106,315,962</u>	<u>\$ 89,953,041</u>

11. NOTES PAYABLE

The Foundation has a note payable to a financial institution that has an availability of \$3,000,000 to be drawn upon through July 2018. The Foundation has drawn \$2,712,959 on the note as of December 31, 2017 for the construction of a building to be used by the Boys & Girls Club of Harrison-Crawford Counties, Inc. The note has a fixed interest rate of 2.75% through January 2022 with monthly interest payments beginning February 2017 until February 2020 in which principal payments will begin at an amount determined as of July 2018 currently estimated to be \$16,664. Beginning January 2022, the interest rate becomes variable and will adjust annually to the weekly average yield on one-year U.S. Treasury securities plus 2.25%.

The Foundation has a note payable to a financial institution that has an availability of \$3,000,000 to be drawn upon through November 2018. The Foundation has drawn \$986,525 on the note as of December 31, 2017 for the fiber network project. The note has a fixed interest rate of 3.625% through May 2022 with monthly interest payments until June 2020 in which principal payments will begin at an amount determined as of November 2018 currently estimated to be \$19,721. Beginning May 2022, the interest rate becomes variable and will adjust annually to the weekly average yield on one-year U.S. Treasury securities plus 2.25%.

Both notes are secured by an investment account of HCCFSO containing marketable securities, which had a balance of \$65,142,394 at December 31, 2017. Both notes are also subject to certain affirmative and negative covenants.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Following are estimated principal payments on the notes payable subsequent to December 31, 2017:

2018	\$	-0-
2019		-0-
2020		191,527
2021		263,012
2022		271,534
Thereafter		<u>2,973,411</u>
	\$	<u>3,699,484</u>

12. GRANT COMMITMENTS

The Foundation had conditional grants of \$3,370,190 and \$3,708,730 at December 31, 2017 and 2016, respectively. These amounts will not be paid until the related conditions have been met; therefore, a liability related to these grants has not been recognized.

13. ENDOWMENT

The majority of the Foundation'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 unrestricted due to the variance power granted to the Foundation. These funds are designated by the Board of Directors to function as endowments. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The future minimum lease payments for the five years subsequent to December 31, 2017 are as follows:

2018	\$	-0-
2019		6,000
2020		6,000
2021		6,000
2022		6,000
	\$	<u>24,000</u>

Because of the below-market lease payments required to be paid, a promise to give and grant expense of \$2,260,000 has been recognized for the difference between the present value of the actual payments to be received and the fair value of the building being utilized. Starting in 2018, this promise to give will be amortized over 39 years at an annual rate of \$57,950, which will be recognized as rental income on the Consolidated Statement of Activities.

15. FUNCTIONAL EXPENSES

The Foundation serves as a vehicle for residents of Harrison County to donate to various organizations and projects in the county. Expenses related to providing this service for the years ended December 31, 2017 and 2016 are classified as follows:

	2017	2016 As Restated
Development of Harrison County	\$ 5,545,773	\$ 6,259,508
Fundraising	427,678	343,462
General and administrative expenses	<u>90,629</u>	<u>85,707</u>
	<u>\$ 6,064,080</u>	<u>\$ 6,688,677</u>

16. CONCENTRATIONS OF CREDIT RISK

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

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Mutual funds and money market funds are maintained by one investment firm. Such balances exceed the current insured limits of the Securities Investor Protection Corporation. Alternative investments held by the Foundation are not federally insured and are susceptible to the risk of loss.

17. CONCENTRATION OF REVENUE

The Foundation received contributions that comprised 69% and 72% of its total contributions and grants revenue in 2017 and 2016, respectively, from Horseshoe (see Note 1).

18. COMMITMENTS

In April 2017, RESO entered into a construction agreement with MFN as described in Note 1 to provide \$5 million for the installation of a fiber network loop to serve as the initial backbone for fiber optics communications in Harrison County. As of December 31, 2017, \$2,944,097 had been spent on the project by RESO; therefore, the remaining obligation is \$2,055,903. RESO anticipates this project will be complete by the end of 2018.

In June 2017, RESO entered into a five-year agreement with Harrison County Rural Electric Membership Corporation ("REMC") in which RESO will pay annually \$19 per pole being used with the fiber network project described in Note 1. However, as part of the agreement with MFN, MFN will assume this annual expense for the use of the poles provided by REMC.

19. RELATED PARTY TRANSACTIONS

In October 2016, RESO and the Boys & Girls Club of Harrison-Crawford Counties, Inc. ("BGC") entered a letter of agreement whereby RESO would construct a building for BGC to use under the terms of a lease. The building was completed in December 2017 and the lease begins January 2018 for a 20-year period. Through a bid process, RESO contracted with a company owned by an HCCF board member and paid \$2,712,959 to that company during the year ended December 31, 2017 for the construction of the building.

20. RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts*

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

with Customers (Topic 606), which deferred the effective date for all entities by one year. These new standards, which the Foundation is not required to adopt until its year ending December 31, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Foundation is not required to adopt until its year ending December 31, 2020, 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 financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Foundation is not required to adopt until its year ending December 31, 2018, 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.

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

SUPPLEMENTARY INFORMATION

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2017

	Harrison County Community Foundation, Inc.	Harrison County Community Foundation Supporting Organization, Inc.	HCCF Real Estate Supporting Organization, Inc.	Eliminations	Consolidated
Cash	\$ 463,710	\$ 482,538	\$ 12,462	\$ -0-	\$ 958,710
Investments	24,121,942	167,410,336	-0-	-0-	191,532,278
Accounts receivable - related party	-0-	5,699,484	-0-	(5,699,484)	-0-
Notes receivable	-0-	1,856,900	-0-	-0-	1,856,900
Property and equipment, net	6,508	-0-	1,055,307	-0-	1,061,815
Property held for lease	-0-	-0-	5,657,056	-0-	5,657,056
Other assets	-0-	-0-	300,000	-0-	300,000
Total assets	<u>\$ 24,592,160</u>	<u>\$ 175,449,258</u>	<u>\$ 7,024,825</u>	<u>\$ (5,699,484)</u>	<u>\$ 201,366,759</u>
Liabilities					
Accounts payable and accrued expenses	\$ 26,323	\$ -0-	\$ -0-	\$ -0-	\$ 26,323
Accounts payable - related party	-0-	-0-	5,699,484	(5,699,484)	-0-
Promise to give	-0-	-0-	2,260,000	-0-	2,260,000
Custodial funds	2,048,021	104,267,941	-0-	-0-	106,315,962
Charitable gift annuity payable	798,579	-0-	-0-	-0-	798,579
Note payable	-0-	3,699,484	-0-	-0-	3,699,484
Total liabilities	2,872,923	107,967,425	7,959,484	(5,699,484)	113,100,348
Unrestricted net assets					
Harrison County Community Foundation funds	21,340,713	-0-	-0-	-0-	21,340,713
HCCF Supporting Organization funds	-0-	64,490,167	-0-	-0-	64,490,167
HCCF Real Estate Supporting Organization	-0-	-0-	(934,659)	-0-	(934,659)
Board designated - funds granted	378,524	2,991,666	-0-	-0-	3,370,190
Total unrestricted net assets	<u>21,719,237</u>	<u>67,481,833</u>	<u>(934,659)</u>	<u>-0-</u>	<u>88,266,411</u>
Total liabilities and net assets	<u>\$ 24,592,160</u>	<u>\$ 175,449,258</u>	<u>\$ 7,024,825</u>	<u>\$ (5,699,484)</u>	<u>\$ 201,366,759</u>

See Report of Independent Auditors on pages 1 and 2.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

	Harrison County Community Foundation, Inc.	Harrison County Community Foundation Supporting Organization, Inc.	HCCF Real Estate Supporting Organization, Inc.	Eliminations	Consolidated
Support and revenues					
Contributions and grants	\$ 592,163	\$ 1,998,926	\$ 300,000	\$ -0-	\$ 2,891,089
Related party contribution	550,000	-0-	-0-	(550,000)	-0-
Investment return, net	2,808,033	8,143,599	-0-	-0-	10,951,632
Interest and other income	2,337	13,777	32	-0-	16,146
Administrative fee income	968,290	-0-	6,000	(973,974)	316
Change in value of split interest agreement	(24,922)	-0-	-0-	-0-	(24,922)
Total support and revenues	4,895,901	10,156,302	306,032	(1,523,974)	13,834,261
Expenses					
Grants	714,947	2,096,438	2,260,000	-0-	5,071,385
Related party grants	-0-	550,000	-0-	(550,000)	-0-
Administrative fee expense	7,200	966,774	-0-	(973,974)	-0-
Salaries and benefits	643,585	-0-	-0-	-0-	643,585
Contracted services	49,138	-0-	32,000	-0-	81,138
Professional fees	32,225	-0-	15,825	-0-	48,050
Interest expense	-0-	23,957	-0-	-0-	23,957
Travel and entertainment	4,584	-0-	-0-	-0-	4,584
Office supplies	4,976	-0-	-0-	-0-	4,976
Marketing and promotions	39,788	-0-	731	-0-	40,519
Dues and subscriptions	4,930	-0-	-0-	-0-	4,930
Depreciation	6,023	-0-	30,001	-0-	36,024
Utilities	6,627	-0-	-0-	-0-	6,627
Repairs and maintenance	7,131	-0-	-0-	-0-	7,131
Insurance	26,629	-0-	6,677	-0-	33,306
Board development and staff training	25,719	-0-	-0-	-0-	25,719
Janitorial services	3,302	-0-	-0-	-0-	3,302
Telephone	4,396	-0-	-0-	-0-	4,396
Rent	5,168	-0-	-0-	-0-	5,168
Printing and postage	2,533	-0-	-0-	-0-	2,533
Other	6,987	5,514	4,249	-0-	16,750
Total expenses	1,595,888	3,642,683	2,349,483	(1,523,974)	6,064,080
Change in net assets	3,300,013	6,513,619	(2,043,451)	-0-	7,770,181
Unrestricted net assets, beginning of year	18,419,224	60,968,214	1,108,792	-0-	80,496,230
Unrestricted net assets, end of year	<u>\$ 21,719,237</u>	<u>\$ 67,481,833</u>	<u>\$ (934,659)</u>	<u>\$ -0-</u>	<u>\$ 88,266,411</u>

See Report of Independent Auditors on pages 1 and 2.