

**HARRISON COUNTY COMMUNITY  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005**

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**

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**MONROE SHINE**

KNOWLEDGE FOR TODAY . . . VISION FOR TOMORROW

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### **Independent Auditor's Report**

Board of Directors  
**Harrison County Community  
Foundation, Inc.**  
Corydon, Indiana

We have audited the accompanying statements of financial position – modified cash basis of **Harrison County Community Foundation, Inc.** as of December 31, 2006 and 2005, and the related statements of activities-modified cash basis, functional expenses – modified cash basis and cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Harrison County Community Foundation, Inc.** as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended on the basis of accounting described in Note 2.

*Monroe Shine*

June 5, 2007

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION-MODIFIED CASH BASIS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

**ASSETS**

	<u><b>2006</b></u>	<u><b>2005</b></u>
Cash and cash equivalents	\$ 303,364	\$ 198,267
Investments	8,101,741	6,465,132
Construction in progress - building	622,572	-
Land and land improvements	105,300	105,300
Equipment, less accumulated depreciation of \$30,428 and \$24,352	32,350	15,374
<b>TOTAL ASSETS</b>	<b>\$ 9,165,327</b>	<b>\$ 6,784,073</b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Payroll liabilities	\$ 2,563	\$ 2,701
Long-term debt	892,341	-
	894,904	2,701

**NET ASSETS**

Unrestricted	7,773,999	6,574,452
Temporarily restricted	496,424	206,920
	8,270,423	6,781,372

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,165,327</b>	<b>\$ 6,784,073</b>
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**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES - MODIFIED CASH BASIS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2006</u>
<b>REVENUES AND SUPPORT:</b>			
Contributions	\$ 291,038	\$ -	\$ 291,038
Contributions from related party	3,916,667	-	3,916,667
Interest and dividends (net)	79,072	353,318	432,390
Realized gains on investments	48,761	-	48,761
Unrealized gains (losses) on investments	277,815	-	277,815
Other income	4,000	-	4,000
Net assets released from restrictions	63,814	(63,814)	-
	<hr/>		
Total Revenues and Support	4,681,167	289,504	4,970,671
	<hr/>		
<b>EXPENSES:</b>			
Grants, scholarships and contributions	3,234,622	-	3,234,622
Other program services	246,998	-	246,998
	<hr/>		
Total Expenses	3,481,620	-	3,481,620
	<hr/>		
Net increase in net assets	1,199,547	289,504	1,489,051
	<hr/>		
Net Assets at Beginning of Year	6,574,452	206,920	6,781,372
	<hr/>		
Net Assets at End of Year	\$ 7,773,999	\$ 496,424	\$ 8,270,423
	<hr/> <hr/>		

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2005</u>
\$ 208,404	\$ -	\$ 208,404
3,000,000	-	3,000,000
47,611	82,063	129,674
114,988	-	114,988
(289,338)	-	(289,338)
-	-	-
61,435	(61,435)	-
<hr/>		
3,143,100	20,628	3,163,728
<hr/>		
2,905,691	-	2,905,691
208,092	-	208,092
<hr/>		
3,113,783	-	3,113,783
<hr/>		
29,317	20,628	49,945
<hr/>		
6,545,135	186,292	6,731,427
<hr/>		
\$ 6,574,452	\$ 206,920	\$ 6,781,372
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**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>PROGRAM EXPENSES</b>		
Salaries and wages	\$ 108,010	\$ 95,408
Payroll taxes and employee benefits	24,290	25,804
Promotion expenses	43,885	30,482
Professional fees	20,563	22,700
Office, printing and postage	5,599	4,278
Rent	10,753	10,593
Telephone and communication	4,014	3,794
Travel and meals	1,809	1,487
Insurance	2,862	2,847
Depreciation	6,076	3,744
Seminars and workshops	870	510
Dues and subscriptions	3,157	5,499
Anniversary celebration	14,229	-
Other	881	946
	\$ 246,998	\$ 208,092
	\$ 246,998	\$ 208,092

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,489,051	\$ 49,945
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Realized gain on investments	48,761	114,988
Depreciation	6,077	3,744
Payroll tax liabilities	(138)	177
<b>Net Cash Provided by Operating Activities</b>	<u>1,543,751</u>	<u>168,854</u>
<b>INVESTING ACTIVITIES</b>		
Net increase in investments	(1,685,370)	(117,812)
Purchase of land, buildings and equipment	(645,625)	(12,211)
<b>Net Cash Used by Investing Activities</b>	<u>(2,330,995)</u>	<u>(130,023)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	900,000	-
Repayment of long-term debt	(7,659)	-
<b>Net Cash Provided by Investing Activities</b>	<u>892,341</u>	<u>-</u>
<b>Net Increase in Cash and Cash Equivalents</b>	105,097	38,831
Cash and cash equivalents at beginning of year	198,267	159,436
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 303,364</u>	<u>\$ 198,267</u>

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

(1) **ORGANIZATION**

Harrison County Community Foundation, Inc. ("HCCF") is a non-stock, nonprofit organization incorporated in 1996, under the laws of the state of Indiana. Its purpose is to promote the interests of Harrison County by establishing endowment funds which will be used to serve philanthropic purposes. This is accomplished through the making of grants to local governments and non-profit agencies and for scholarships to individuals pursuing post-secondary education.

HCCF is funded principally by donations from the public and investment income. In prior years, the organization received an initial allocation of \$ 5,000,000 pursuant to a revenue sharing agreement between Caesars Riverboat Casino, L.L.C. (Caesars) and the state of Indiana in conjunction with the establishment of Caesars gaming operations in Harrison County.

That agreement calls for Caesars to contribute a defined percentage of its annual adjusted, gross receipts for the benefit of Harrison County and HCCF. The total aggregate amount that may be contributed to HCCF over the life of the agreement is \$55,000,000. Ongoing allocations under the agreement are to be made to Harrison County Community Foundation Supporting Organization, Inc.

This funding commitment was reached in September 2005. Funding is now governed by an amended agreement which provides that all payments will be made to Harrison County. That agreement does not guarantee any payments to HCCF and its related supporting organization. It stipulates only that if Harrison County makes an allocation to HCCF, 75% will be used to establish an endowment for the benefit of Harrison County and the remaining 25% may be used for discretionary purposes.

HCCF requested that the commissioners of Harrison County pledge to continue providing funding up to \$5,000,000. By letter of May 16, 2005, the commissioners have in fact made this pledge.

The organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954. Accordingly, no provision for income taxes has been made in these financial statements.

(2) **SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

HCCF prepares its financial statements using the modified cash basis of accounting. Accordingly, revenues and support are recognized when received, and expenses are recognized when an expenditure is made, except for the following modifications:

- Capitalizing and depreciating purchased property and equipment
- Recognizing withholding taxes not yet deposited with taxing authorities
- Recognizing the changes in market values of investments

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2006 AND 2005**

(2 - continued)

**Basis of Presentation**

HCCF has adopted Statement of Financial Accounting Standards (SFAS) No-117 "Financial Statements of Not-for-profit Organizations". SFAS No. 117 establishes standards for external financial reporting and requires that resources be classified into three net asset categories: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. These asset categories are based on the absence or existence and nature of donor imposed restrictions.

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For financial reporting purposes, HCCF considers all investments with original maturities of three months or less as cash equivalents. Certain money market accounts held temporarily pending identification of suitable long-term investment opportunities are identified are included in investments.

**Investments**

Investments in equity and debt securities are measured at fair value in the statements of financial position. Investment income (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statement of activities.

**Concentration of Credit and Market Risk**

Cash and cash equivalents consist of cash on deposit with a local bank. At year-end and at times throughout the year, HCCF's bank balances exceeded federally insured limits.

Other financial instruments that potentially expose HCCF to concentrations of credit and market risk consist of common stocks, mutual funds, and bond investments. HCCF management does not believe these investments represent significant concentrations of market risk inasmuch as the equity portfolio is adequately diversified among various companies and industry segments and the debt portfolio is diversified among corporate and U.S. government bonds with maturities ranging from one year to ten years.

**Property and Equipment**

HCCF records the acquisition of property and equipment at cost. Depreciation is recorded on such assets using the straight-line method over the respective lives of the acquired assets.

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2006 AND 2005**

(3) **INVESTMENTS**

HCCF invests only in debt and equity securities with readily determinable market values. Substantially all investments are acquired through and held by one financial institution. Investments, stated at fair value, consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Common stocks	\$ -	\$ 4,076,092
Mutual funds	5,860,127	263,459
Government and corporate bonds	639,525	1,716,803
Money market funds and other	<u>1,602,089</u>	<u>408,778</u>
	<u>\$ 8,101,741</u>	<u>\$ 6,465,132</u>

The following table summarizes investment return and its classification in the statement of activities for the years ended December 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$ 451,329	\$ 154,596
Realized gains	48,761	114,988
Unrealized gains (losses)	277,815	(289,338)
Investment fees	<u>(18,939)</u>	<u>(24,922)</u>
Total Investment Return (Loss)	\$ <u>758,966</u>	\$ <u>(44,676)</u>

(4) **CONSTRUCTION IN PROGRESS**

In 2005, the board of directors approved the construction of a building for the HCCF's offices. The cost to date as of December 31, 2006 was \$ 622,572, which includes capitalized interest of \$ 15,836. The facilities were completed subsequent to December 31, 2006 at a total cost of \$ 922,063.

One of the building contractor's owners is also on HCCF's board of directors. Payments in the amount of \$ 592,454 as of December 31, 2006 were paid to this related party. An additional 240,586 in payments were made to this related party subsequent to December 31, 2006.

(5) **RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets consist of income earned on individual endowments not yet distributed to specified endowment recipients.

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**DECEMBER 31, 2006 AND 2005**

(6) **PENSION PLAN**

HCCF has adopted a noncontributory, defined contribution plan which covers certain full-time employees. HCCF contributes a set amount to the plan each month and allocates these costs to program activities. Cost of the plan totaled \$5,366 and \$4,855 for the years ended December 31, 2006 and 2005.

(7) **COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

HCCF rents office space under a non-cancellable lease which expired in 2005. HCCF is currently on a month-to-month arrangement. HCCF also leases office equipment under a non-cancellable lease. Monthly lease payments of \$130 are due through February 2010.

Rental expense under operating leases was \$10,753 and \$10,593 for the years ended December 31, 2006 and 2005.

**Grant Commitments**

HCCF has entered into grant agreements with various local nonprofit organizations. These agreements obligate HCCF to reimburse these organizations for certain future expenditures or provide specified funding upon the completion of certain activities. At December 31, 2006, remaining commitments under such grant agreements was approximately \$1,525,000.

(8) **LONG TERM DEBT**

Long-term debt consists of a 4.84% unsecured note payable to First Harrison Bank in monthly installments of \$5,874, including interest, maturing August 5, 2026.

Future scheduled maturities of the long-term debt are as follows:

Years ending December 31:

2007	\$ 27,887
2008	29,268
2009	30,716
2010	32,236
2011	33,831
Later years	<u>738,403</u>
Total	\$ <u>892,341</u>

**HARRISON COUNTY COMMUNITY FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2006 AND 2005**

(9) **RELATED PARTY**

During the year ended December 31, 2000, the Harrison County Community Foundation Supporting Organization, Inc. (the Supporting Organization) was formed. The Supporting Organization is a separate and distinct Indiana nonprofit corporation related to HCCF only through a common board of directors. It is operated exclusively to carry out the public, charitable, scientific, educational and other purposes of HCCF.

As discussed in Note 1 above, the Supporting Organization receives all ongoing allocations under the Caesar's revenue sharing agreement. This provision enables HCCF to operate as a non-private foundation and therefore to have maximum flexibility in the making of grants and allocations. In addition, the two organizations collectively will be better able to build a permanent resource base to meet future community needs.

HCCF received contributions totaling \$3,916,667 and \$3,000,000 from the Supporting Organization for the year ending December 31, 2006 and 2005, respectively.

Following is summary financial information for the Supporting Organization as of December 31, 2006 and 2005 and for the years then ended.

	<u>2006</u>	<u>2005</u>
Cash	\$ 2,068,126	\$ 2,239,649
Investments	62,812,384	46,912,041
Net Assets	64,880,510	49,151,690
Net Revenues and Support	19,906,591	11,965,983
Expenses	4,177,771	3,167,950