

**HARRISON COUNTY COMMUNITY
FOUNDATION, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016 AND 2015

CPAs / ADVISORS



HARRISON COUNTY COMMUNITY FOUNDATION, INC.

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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, 2016 and 2015, 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, 2016 and 2015, and the consolidated changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Foundation early adopted Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and the consolidating statement of activities are 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 20, 2017

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash	\$ 1,086,924	\$ 1,773,084
Investments	167,243,151	155,236,071
Notes receivable	1,883,992	1,284,916
Property and equipment, net	<u>1,097,841</u>	<u>1,057,261</u>
Total assets	<u>\$ 171,311,908</u>	<u>\$ 159,351,332</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 23,957	\$ 16,857
Grants payable	3,708,730	6,511,885
Custodial funds	87,353,041	77,216,412
Charitable gift annuity payable	<u>838,680</u>	<u>852,182</u>
Total liabilities	91,924,408	84,597,336
Unrestricted net assets		
Harrison County Community Foundation funds	18,067,466	16,197,939
HCCF Supporting Organization funds	60,211,242	57,500,468
Real Estate Supporting Organization	<u>1,108,792</u>	<u>1,055,589</u>
Total unrestricted net assets	<u>79,387,500</u>	<u>74,753,996</u>
	<u>\$ 171,311,908</u>	<u>\$ 159,351,332</u>

See accompanying notes to consolidated financial statements.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Support and revenues		
Contributions and grants	\$ 2,506,613	\$ 3,020,354
Investment return, net	6,043,416	(623,598)
Interest and other income	20,356	23,594
Administrative fee income	162	-0-
Change in value of split interest agreement	(51,521)	(12,616)
Total support and revenues	8,519,026	2,407,734
Expenses		
Grants	3,077,463	2,829,116
Salaries and benefits	489,244	441,075
Contracted services	69,924	49,640
Professional fees	44,602	39,780
Travel and entertainment	7,721	4,837
Office supplies	4,970	6,473
Marketing and promotions	41,826	78,277
Dues and subscriptions	9,520	10,905
Depreciation	39,420	39,493
Utilities	6,213	6,434
Repairs and maintenance	10,044	6,938
Insurance	24,275	22,962
Board development and staff training	20,512	12,027
Janitorial services	5,360	4,315
Telephone	4,344	4,561
Rent	5,153	4,682
Printing and postage	3,043	3,761
Other	21,888	8,161
Total expenses	3,885,522	3,573,437
Change in net assets	4,633,504	(1,165,703)
Unrestricted net assets, beginning of year	74,753,996	75,919,699
Unrestricted net assets, end of year	\$ 79,387,500	\$ 74,753,996

See accompanying notes to consolidated financial statements.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating activities		
Change in net assets	\$ 4,633,504	\$ (1,165,703)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	39,420	39,493
Reinvested interest and dividend income received on investments	(5,201,255)	(7,899,020)
Realized and unrealized (gains) losses on investments	(8,445,531)	8,660,727
Change in value of split interest agreement	51,521	12,616
Change in operating assets and liabilities:		
Other assets	-0-	5,733
Accounts payable and accrued expenses	7,100	16,857
Grants payable	(2,803,155)	698,972
Deferred revenue	-0-	(313,863)
Custodial funds	<u>10,136,629</u>	<u>90,008</u>
Net cash flows from operating activities	(1,581,767)	145,820
Investing activities		
Purchases of investments	(17,455,395)	(8,405,146)
Proceeds from sale of investments	19,095,101	8,510,414
Issuance of note receivable	(750,000)	(500,000)
Payments received on notes receivable	<u>70,924</u>	<u>2,084</u>
Net cash flows from investing activities	<u>960,630</u>	<u>(392,648)</u>
Financing activities		
Payments on charitable gift annuity	<u>(65,023)</u>	<u>(65,023)</u>
Net change in cash	(686,160)	(311,851)
Cash, beginning of year	<u>1,773,084</u>	<u>2,084,935</u>
Cash, end of year	<u>\$ 1,086,924</u>	<u>\$ 1,773,084</u>
Supplemental disclosure of non-cash investing activity		
Acquisition of real estate as a payment on note receivable	\$ 80,000	\$ -0-

See accompanying notes to consolidated financial statements.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 Supporting Organization, Inc. ("HCCFSO") and actively manages the property held by the HCCF Real Estate Supporting Organization, Inc. ("RESO"). HCCF received approximately 28% and 34% of total contributions received by the consolidated organizations in 2016 and 2015, respectively.

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. HCCFSO received approximately 72% and 66% of total contributions received by the consolidated organizations in 2016 and 2015, respectively.

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.

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 the Foundation 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 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.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 designated as belonging to HCCF represent contributions provided by various individuals or organizations along with associated interest, dividends, and gains/losses from the investment of those funds. Designated net assets represent funds included in investments on behalf of various entities. Per board designation, HCCF is allowed to expend contributions (principal plus/minus unrealized gains) of the investment, and may expend earnings (interest, dividends, and realized gains) as approved by the Board. Additionally, the Board imposed a 5% spending policy on earnings of the investment(s) which is reviewed annually.

HCCF Supporting Organization Funds – Unrestricted net assets designated as belonging to HCCFSO represent contributions provided by Horseshoe along with associated interest,

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

dividends and gains/losses from the investment 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.

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.

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 the Foundation 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>
Building and building improvements	10 - 39 years
Equipment	5 - 10 years

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.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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.

Grants and Grants Payable

Unconditional grants are recorded when a commitment is made and approved by the Board of Directors. For grants which are conditional on the recipient fulfilling certain obligations, grants are recorded at the time those conditions are satisfied.

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.

Reclassification

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

Income Taxes

HCCF, HCCFSO, and RESO 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.

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, 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.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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.

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 20, 2017.

In January 2017, HCCFSO borrowed \$3,000,000 from a bank secured by an investment account for construction of a recreational building to be owned by the RESO and leased to the Boys & Girls Clubs of Harrison-Crawford Counties, Inc. upon completion.

2. CHANGE IN ACCOUNTING PRINCIPLE

During 2016, the Foundation early adopted Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. As such, certain investments that were measured at net asset value per share practical expedient have not been classified in the fair value hierarchy table. The 2015 fair value measurement disclosures have been restated for this change.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

3. INVESTMENTS

Investments at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Cash	\$ 8,080,008	\$ -0-
Mutual funds		
Equity funds		
Large cap	88,457,868	83,744,750
Small cap	6,948,689	6,338,718
Fixed income		
Limited duration	4,643,308	4,630,080
Multisector	3,564,161	4,594,307
Core	12,610,172	12,600,574
High yield	8,847,855	9,091,627
Multialternative	8,760,037	10,376,173
Emerging markets	8,806,961	8,469,360
Alternative investments	<u>16,524,092</u>	<u>15,390,482</u>
	<u>\$ 167,243,151</u>	<u>\$ 155,236,071</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 2,387,570	\$ 3,853,551
Realized and unrealized gains (losses)	4,020,894	(4,139,367)
Investment fees	<u>(365,048)</u>	<u>(337,782)</u>
	<u>\$ 6,043,416</u>	<u>\$ (623,598)</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

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 consolidated financial statements.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 2016 and 2015. 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, 2016 and 2015:

- *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

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

- *Alternative investments:* Valued at the net asset value (NAV) of the fund as determined by the reported valuations of underlying investment managers.
- *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, 2016 and 2015 as follows:

	2016		
	Level 1	Level 2	Total
Assets:			
Mutual funds	\$ 142,639,051	\$ -0-	\$ 142,639,051
Total assets in the fair value heirarchy	<u>\$ 142,639,051</u>	<u>\$ -0-</u>	\$ 142,639,051
Alternative investments*			<u>16,524,092</u>
Total assets at fair value			<u>\$ 159,163,143</u>
Liabilities:			
Charitable gift annuity	<u>\$ -0-</u>	<u>\$ 838,680</u>	<u>\$ 838,680</u>
	2015		
	Level 1	Level 2	Fair Value
Assets:			
Mutual funds	\$ 139,845,589	\$ -0-	\$ 139,845,589
Total assets in the fair value heirarchy	<u>\$ 139,845,589</u>	<u>\$ -0-</u>	\$ 139,845,589
Alternative investments*			<u>15,390,482</u>
Total assets at fair value			<u>\$ 155,236,071</u>
Liabilities:			
Charitable gift annuity	<u>\$ -0-</u>	<u>\$ 852,182</u>	<u>\$ 852,182</u>

* 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Alternative investments, including balances, restrictions on redemptions, and investment objectives consist of the following as of December 31, 2016 and 2015:

	2016	2015	Redemption Notice	Redemption Frequency
SEI Core Property Fund, LP	\$ 11,566,931	\$ 10,468,305	95 days notice	Quarterly
SEI Offshore Opportunity Fund II, LTD	4,957,161	4,922,177	65 days notice	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. The investments in the fund may be redeemed at the net asset value with a 95 day pre-notification of redemption during each quarter, and a 10% holdback on final payment until the completion of the fund's annual audit. However, it is possible that these redemption rights may be restricted or eliminated by the fund in the future in accordance with the underlying fund agreements.

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. The initial investment in the fund is not redeemable until one year of the initial investment date. The investments in the fund may be redeemed at the net asset value with a 65 day pre-notification of redemption during each quarter, and a 10% holdback on final payment until the completion of the fund's annual audit. However, it is possible that these redemption rights may be restricted or eliminated by the fund in the future in accordance with the underlying fund agreements.

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.

6. NOTES RECEIVABLE

In 2011, a Program Related Investment (PRI) note receivable was set up with the YMCA of Harrison County, an unrelated organization. The note receivable is a non-interest bearing loan to

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

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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. The receivable balance was \$659,000 and \$787,000 as of December 31, 2016 and 2015, respectively.

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 \$474,992 and \$497,916 as of December 31, 2016 and 2015, 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. The receivable balance was \$750,000 as of December 31, 2016.

7. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2016 and 2015 is as follows:

	2016	2015
Land	\$ 180,300	\$ 100,300
Building and building improvements	1,170,203	1,170,203
Equipment	124,256	124,256
	1,474,759	1,394,759
Less accumulated depreciation	376,918	337,498
	<u>\$ 1,097,841</u>	<u>\$ 1,057,261</u>

8. 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, 2016 and 2015, 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

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

expected to be paid to the third party beneficiary was \$838,680 and \$852,182 at December 31, 2016 and 2015, respectively.

9. GRANTS PAYABLE

Grants payable consist of grants to the local community and scholarships and are scheduled to be paid subsequent to December 31, 2016 as follows:

2017	\$	2,880,410
2018		178,850
2019		216,223
2020		205,697
2021		<u>227,550</u>
	\$	<u><u>3,708,730</u></u>

Grants payable have not been discounted.

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, 2016 AND 2015

Following is a progression of custodial funds during 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Custodial funds, beginning balance	\$ 77,216,412	\$ 77,126,404
Contributions	5,932,172	6,077,586
Interest and dividend income	2,813,685	4,045,469
Realized and unrealized gains (losses) on investments	4,424,637	(4,521,360)
Grant payments	(2,643,545)	(5,181,142)
Investment management fees	<u>(390,320)</u>	<u>(330,545)</u>
Custodial funds, ending balance	<u>\$ 87,353,041</u>	<u>\$ 77,216,412</u>

11. 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

The Foundation 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

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

of donor-restricted funds that the Foundation 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. The Foundation expects its endowment funds, over time, to provide an average annual rate of return equal to the Consumer Price Index plus 5 percent. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation 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).

The Foundation has a policy of appropriating for distribution each year 5 percent of its endowment funds' average fair value over the prior 4 quarters, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Changes in unrestricted board designated endowed funds for the years ending December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Endowment net assets,		
beginning of year	\$ 13,862,865	\$ 13,423,492
Contributions and other revenue	1,427,855	1,463,903
Investment return, net	1,256,464	(143,127)
Appropriation of endowment assets for expenditure	<u>(654,013)</u>	<u>(881,403)</u>
Endowment net assets, end of year	<u>\$ 15,893,171</u>	<u>\$ 13,862,865</u>

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

12. 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, 2016 and 2015 are classified as follows:

	<u>2016</u>	<u>2015</u>
Development of Harrison County	\$ 3,456,353	\$ 3,164,676
Fundraising	343,462	103,878
General and administrative expenses	<u>85,707</u>	<u>304,883</u>
	<u>\$ 3,885,522</u>	<u>\$ 3,573,437</u>

13. 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.

Mutual funds and money market funds are held in one brokerage account. 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.

14. CONCENTRATION OF REVENUE

The Foundation received contributions that comprised 72% and 65% of its total contributions and grants revenue in 2016 and 2015, respectively, from Horseshoe (see Note 1).

SUPPLEMENTARY INFORMATION

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

	Harrison County Community Foundation, Inc.	Harrison County Community Foundation Supporting Organization, Inc.	HCCF Real Estate Supporting Organization, Inc.	Consolidated
Cash	\$ 520,205	\$ 543,236	\$ 23,483	\$ 1,086,924
Investments	20,598,792	146,644,359	-0-	167,243,151
Notes receivable	-0-	1,883,992	-0-	1,883,992
Property and equipment, net	<u>12,532</u>	<u>-0-</u>	<u>1,085,309</u>	<u>1,097,841</u>
Total assets	<u>\$ 21,131,529</u>	<u>\$ 149,071,587</u>	<u>\$ 1,108,792</u>	<u>\$ 171,311,908</u>
Liabilities				
Accounts payable	\$ 23,957	\$ -0-	\$ -0-	\$ 23,957
Grants payable	351,758	3,356,972	-0-	3,708,730
Custodial funds	1,849,668	85,503,373	-0-	87,353,041
Charitable gift annuity payable	<u>838,680</u>	<u>-0-</u>	<u>-0-</u>	<u>838,680</u>
Total liabilities	<u>3,064,063</u>	<u>88,860,345</u>	<u>-0-</u>	<u>91,924,408</u>
Unrestricted net assets				
Harrison County Community Foundation funds	18,067,466	-0-	-0-	18,067,466
HCCF Supporting Organization funds	-0-	60,211,242	-0-	60,211,242
HCCF Real Estate Supporting Organization	<u>-0-</u>	<u>-0-</u>	<u>1,108,792</u>	<u>1,108,792</u>
Total unrestricted net assets	<u>18,067,466</u>	<u>60,211,242</u>	<u>1,108,792</u>	<u>79,387,500</u>
	<u>\$ 21,131,529</u>	<u>\$ 149,071,587</u>	<u>\$ 1,108,792</u>	<u>\$ 171,311,908</u>

See Report of Independent Auditors on pages 1 and 2.

HARRISON COUNTY COMMUNITY FOUNDATION, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

	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	\$ 623,106	\$ 1,883,507	\$ -0-	\$ -0-	\$ 2,506,613
Related party contribution	540,000	-0-	80,000	(620,000)	-0-
Investment return, net	1,472,825	4,570,591	-0-	-0-	6,043,416
Interest and other income	3,768	16,584	4	-0-	20,356
Change in value of split interest agreement	(51,521)	-0-	-0-	-0-	(51,521)
Administrative fee income	759,074	-0-	6,000	(764,912)	162
Total support and revenues	3,347,252	6,470,682	86,004	(1,384,912)	8,519,026
Expenses					
Grants	703,455	2,374,008	-0-	-0-	3,077,463
Related party grants	-0-	620,000	-0-	(620,000)	-0-
Administrative fee expense	7,200	757,712	-0-	(764,912)	-0-
Salaries and benefits	489,244	-0-	-0-	-0-	489,244
Contracted services	69,924	-0-	-0-	-0-	69,924
Professional fees	41,802	-0-	2,800	-0-	44,602
Travel and entertainment	7,721	-0-	-0-	-0-	7,721
Office supplies	4,609	361	-0-	-0-	4,970
Marketing and promotions	41,826	-0-	-0-	-0-	41,826
Dues and subscriptions	9,520	-0-	-0-	-0-	9,520
Depreciation	9,419	-0-	30,001	-0-	39,420
Utilities	6,213	-0-	-0-	-0-	6,213
Repairs and maintenance	10,044	-0-	-0-	-0-	10,044
Insurance	24,275	-0-	-0-	-0-	24,275
Board development and staff training	20,512	-0-	-0-	-0-	20,512
Janitorial services	5,360	-0-	-0-	-0-	5,360
Telephone	4,344	-0-	-0-	-0-	4,344
Rent	5,153	-0-	-0-	-0-	5,153
Printing and postage	3,043	-0-	-0-	-0-	3,043
Other	14,061	7,827	-0-	-0-	21,888
Total expenses	1,477,725	3,759,908	32,801	(1,384,912)	3,885,522
Change in net assets	1,869,527	2,710,774	53,203	-0-	4,633,504
Unrestricted net assets, beginning of year	16,197,939	57,500,468	1,055,589	-0-	74,753,996
Unrestricted net assets, end of year	\$ 18,067,466	\$ 60,211,242	\$ 1,108,792	\$ -0-	\$ 79,387,500

See Report of Independent Auditors on pages 1 and 2.