

**HERITAGE FUND - THE COMMUNITY  
FOUNDATION OF BARTHOLOMEW COUNTY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2016 AND 2015**

*CPAs / ADVISORS*



**HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY**

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DECEMBER 31, 2016 AND 2015

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Heritage Fund - The Community Foundation of Bartholomew County  
Columbus, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Heritage Fund - The Community Foundation of Bartholomew County, and its affiliate (the "Organization"), 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 Organization as of December 31, 2016 and 2015, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplementary Information

Our 2016 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 22 to 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the 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 2016 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

May 4, 2017

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

### ASSETS

	2016	2015
<b>Investments</b>		
Cash	\$ 4,426,083	\$ 7,969,223
Certificates of deposit	4,872,000	408,000
Marketable securities	56,176,833	52,793,147
Charitable trusts	359,685	373,653
Life insurance	51,210	49,112
Interest in perpetual trust	92,028	91,158
<b>Receivables</b>		
Contributions, net	120,570	138,937
Accounts	325	55
Notes	-0-	125,000
<b>Other</b>		
Property and equipment, net	703,150	717,189
Prepaid expenses	10,059	7,059
	<u>\$ 66,811,943</u>	<u>\$ 62,672,533</u>

### LIABILITIES AND NET ASSETS

<b>Custodial funds</b>		
Pass-through	\$ 419,195	\$ 414,855
Reciprocal agency	1,994,936	1,766,301
Designated bequests	8,241,005	7,917,267
<b>Payables</b>		
Accounts	32,308	6,720
Charitable trusts	359,685	373,653
<b>Other</b>		
Deferred revenue	-0-	135,401
Total liabilities	11,047,129	10,614,197
<b>Net assets</b>		
Unrestricted		
Operating	1,259,513	1,239,644
Board designated	1,472,799	1,157,796
	<u>2,732,312</u>	<u>2,397,440</u>
Temporarily restricted	51,548,057	48,177,321
Permanently restricted	1,484,445	1,483,575
Total net assets	<u>55,764,814</u>	<u>52,058,336</u>
	<u>\$ 66,811,943</u>	<u>\$ 62,672,533</u>

See accompanying notes to consolidated financial statements.

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Support and revenues</b>					
Contributions	\$ 97,025	\$ 3,128,156	\$ -0-	\$ 3,225,181	\$ 5,532,540
Investment return, net	115,686	3,888,593	-0-	4,004,279	(932,403)
Change in value of split-interest agreement	-0-	-0-	870	870	(8,400)
Change in discount of contributions receivable	-0-	5,633	-0-	5,633	4,483
Administrative fees	784,353	-0-	-0-	784,353	804,707
Other revenue	45,333	-0-	-0-	45,333	44,814
Net assets released from restrictions	<u>3,651,646</u>	<u>(3,651,646)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	4,694,043	3,370,736	870	8,065,649	5,445,741
<b>Expenses</b>					
Grants	1,902,820	-0-	-0-	1,902,820	1,711,861
Special projects	1,040,543	-0-	-0-	1,040,543	897,308
Salaries and wages	394,681	-0-	-0-	394,681	398,122
Payroll taxes and employee benefits	75,719	-0-	-0-	75,719	77,103
Annual meeting and report	8,745	-0-	-0-	8,745	6,013
Professional fees	39,164	-0-	-0-	39,164	27,981
Dues and subscriptions	4,718	-0-	-0-	4,718	889
Endowment development	17,732	-0-	-0-	17,732	21,447
Equipment rental, repairs, and maintenance	57,416	-0-	-0-	57,416	21,439
Computer support	18,910	-0-	-0-	18,910	16,869
Insurance	4,872	-0-	-0-	4,872	8,069
Utilities	9,807	-0-	-0-	9,807	11,005
Newsletter	3,891	-0-	-0-	3,891	7,212
Postage	4,651	-0-	-0-	4,651	5,046
Property taxes	6,583	-0-	-0-	6,583	-0-
Travel	6,102	-0-	-0-	6,102	2,632
Education	13,194	-0-	-0-	13,194	11,897
Office supplies	4,327	-0-	-0-	4,327	4,261
Depreciation	39,331	-0-	-0-	39,331	20,434
Purchased services	3,936	-0-	-0-	3,936	4,555
Administrative fees	695,886	-0-	-0-	695,886	698,518
Miscellaneous	<u>6,143</u>	<u>-0-</u>	<u>-0-</u>	<u>6,143</u>	<u>3,542</u>
Total expenses	4,359,171	-0-	-0-	4,359,171	3,956,203
Change in net assets	334,872	3,370,736	870	3,706,478	1,489,538
<b>Net assets, beginning of year</b>	<u>2,397,440</u>	<u>48,177,321</u>	<u>1,483,575</u>	<u>52,058,336</u>	<u>50,568,798</u>
<b>Net assets, end of year</b>	<u>\$ 2,732,312</u>	<u>\$ 51,548,057</u>	<u>\$ 1,484,445</u>	<u>\$ 55,764,814</u>	<u>\$ 52,058,336</u>

*See accompanying notes to consolidated financial statements.*

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenues</b>				
Contributions	\$ 92,410	\$ 5,440,130	\$ -0-	\$ 5,532,540
Investment return, net	(27,522)	(904,881)	-0-	(932,403)
Change in value of split-interest agreement	-0-	-0-	(8,400)	(8,400)
Change in discount of contributions receivable	-0-	4,483	-0-	4,483
Administrative fees	804,707	-0-	-0-	804,707
Other revenue	44,734	80	-0-	44,814
Net assets released from restrictions	<u>3,488,226</u>	<u>(3,488,226)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	4,402,555	1,051,586	(8,400)	5,445,741
<b>Expenses</b>				
Grants	1,711,861	-0-	-0-	1,711,861
Special projects	897,308	-0-	-0-	897,308
Salaries and wages	398,122	-0-	-0-	398,122
Payroll taxes and employee benefits	77,103	-0-	-0-	77,103
Annual meeting and report	6,013	-0-	-0-	6,013
Professional fees	27,981	-0-	-0-	27,981
Dues and subscriptions	889	-0-	-0-	889
Endowment development	21,447	-0-	-0-	21,447
Equipment rental, repairs, and maintenance	21,439	-0-	-0-	21,439
Computer support	16,869	-0-	-0-	16,869
Insurance	8,069	-0-	-0-	8,069
Utilities	11,005	-0-	-0-	11,005
Newsletter	7,212	-0-	-0-	7,212
Postage	5,046	-0-	-0-	5,046
Travel	2,632	-0-	-0-	2,632
Education	11,897	-0-	-0-	11,897
Office supplies	4,261	-0-	-0-	4,261
Depreciation	20,434	-0-	-0-	20,434
Purchased services	4,555	-0-	-0-	4,555
Administrative fees	698,518	-0-	-0-	698,518
Miscellaneous	3,542	-0-	-0-	3,542
Total expenses	<u>3,956,203</u>	<u>-0-</u>	<u>-0-</u>	<u>3,956,203</u>
Change in net assets	446,352	1,051,586	(8,400)	1,489,538
<b>Net assets, beginning of year</b>	<u>1,951,088</u>	<u>47,125,735</u>	<u>1,491,975</u>	<u>50,568,798</u>
<b>Net assets, end of year</b>	<u>\$ 2,397,440</u>	<u>\$ 48,177,321</u>	<u>\$ 1,483,575</u>	<u>\$ 52,058,336</u>

*See accompanying notes to consolidated financial statements.*

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

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

	2016	2015
<b>Operating activities</b>		
Change in net assets	\$ 3,706,478	\$ 1,489,538
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	39,331	20,434
Reinvested interest and dividends received on investments	(1,621,982)	(1,725,948)
Realized and unrealized (gains) losses on investments	(3,307,087)	2,777,391
Change in discount of contributions receivable	(5,633)	(4,483)
Change in value of split-interest agreement	(870)	8,400
Change in operating assets and liabilities:		
Life insurance	(2,098)	(2,098)
Contributions receivable	24,000	31,500
Accounts receivable	(270)	-0-
Prepaid expenses	(3,000)	1,069
Custodial funds	556,713	(1,579,590)
Accounts payable	2,245	3,407
Deferred revenue	(135,401)	(598,705)
Net cash flows from operating activities	<u>(747,574)</u>	<u>420,915</u>
<b>Investing activities</b>		
Payments received under notes receivable	125,000	-0-
Purchase of certificates of deposit	(4,872,000)	(408,000)
Maturities of certificates of deposit	408,000	1,104,000
Purchase of investments	(1,454,617)	(1,914,200)
Proceeds on sale of investments	3,000,000	3,599,808
Purchases of property and equipment	(1,949)	(324,734)
Net cash flows from investing activities	<u>(2,795,566)</u>	<u>2,056,874</u>
Net change in cash	(3,543,140)	2,477,789
<b>Cash, beginning of year</b>	<u>7,969,223</u>	<u>5,491,434</u>
<b>Cash, end of year</b>	<u>\$ 4,426,083</u>	<u>\$ 7,969,223</u>
<b>Supplemental disclosure of non-cash operating and investing activity</b>		
Purchases of property and equipment in accounts payable	\$ 23,343	\$ -0-

See accompanying notes to consolidated financial statements.



# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The Heritage Fund - The Community Foundation of Bartholomew County (the "Heritage Fund") is a not-for-profit entity. The Heritage Fund conducts business under the assumed name "Heritage Fund - The Community Foundation of Bartholomew County," however, the entity's legal name is "Heritage Fund of Bartholomew County, Inc." The Heritage Fund is located in Columbus, Indiana, and is organized to provide stewardship of gifts donated for charitable purposes, address community issues, promote positive change in partnership with others, and promote philanthropy within the Bartholomew County area.

The Heritage Fund Supporting Foundation, Inc. (the "Foundation") is a not-for-profit entity organized to manage gifts of property. The Foundation leases office space to the Heritage Fund and other tenants.

#### Consolidation Policy

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

#### Management's Estimates

Management uses estimates and assumptions in preparing the 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

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

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

*Operating* – used to fund current operations of the Organization

*Board Designated* – used to fund future operations of Heritage Fund as designated by the Board

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# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Heritage Fund. Included in this classification are endowment funds that are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity and invested for the purpose of producing present and future income.

### Cash

Cash consists primarily of money market investments and excludes amounts held by the Organization’s fund manager and included in marketable securities.

### Marketable Securities

The Organization 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 or the related fund classification in accordance with Heritage Fund’s spending policy.

### Deferred Revenue

During 2014, the Foundation received a \$1,000,000 grant from Lilly Endowment through its GIFT Phase VI initiative. The grant was required to be matched with new contributions to help build the Foundation’s unrestricted endowments and provide support for specified charitable projects and needs. Therefore, deferred revenue related to the portion of the grant that had not yet been matched and earned. The matching period was from August 1, 2014 through March 31, 2016. As qualifying contributions were received, the related match amount was recognized as revenue. In 2016, Lilly Endowment stated that unmatched grant funds may be used for any charitable purpose as determined by the Community Foundation. Therefore, there is no liability at year-end for deferred grant funds and the remaining contribution was recognized in the current year.

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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 Organization are being depreciated over its estimated useful lives ranging from five to forty years using the straight-line method.

### Support, Revenue and Expense Recognition

Contributions, which include unconditional promises to give (contributions receivable), are recognized as support in the period the contribution is received or the promise is made. Contributions received with donor imposed restrictions are reported as restricted support and increase temporarily or permanently restricted net assets.

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 its use is restricted by explicit donor stipulation or by law.

All other support and revenue is recorded when earned.

### Administrative Fees

Administrative fees (approximately 1-2% of each fund balance) are expensed from the funds to support the operations of the Organization.

### Income Taxes

The Organization is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization 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 Organization, and has concluded that as of December 31, 2016 and 2015, 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 Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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As such, the Organization is generally exempt from income taxes. However, the Organization is 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 the financial statements are available to be issued.

### 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 No. 2015-14, *Revenue from Contracts 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 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. This ASU completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

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

### Subsequent Events

The Organization 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 May 4, 2017.

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 2. CERTIFICATES OF DEPOSIT

The Organization held certificates of deposit totaling \$4,872,000 and \$408,000 at December 31, 2016 and 2015, respectively, with interest rates ranging from 0.55 to 1.35 percent. Maturity dates of these certificates of deposit vary through June 2019. Certificates of deposits are recorded at cost plus accrued interest.

### 3. MARKETABLE SECURITIES

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,601,356	\$ 1,591,759
Mutual funds		
Equity funds		
Large cap	24,620,424	22,913,188
Small/mid cap	10,058,451	8,805,168
Balanced	3,353,073	3,199,966
Emerging markets	191,512	179,647
Fixed income funds		
Intermediate	13,214,412	13,239,129
Exchange traded funds		
Large cap	<u>3,137,605</u>	<u>2,864,290</u>
	<u>\$ 56,176,833</u>	<u>\$ 52,793,147</u>

The following schedule summarizes the investment return, excluding investment return on marketable securities related to custodial funds, and its classification in the Consolidated Statements of Activities for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 1,426,250	\$ 1,551,993
Realized and unrealized gains (losses) on investments	2,644,104	(2,415,358)
Investment fees	<u>(66,075)</u>	<u>(69,038)</u>
	<u>\$ 4,004,279</u>	<u>\$ (932,403)</u>

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# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 4. RISKS AND UNCERTAINTIES

The Organization holds investments in debt and equity mutual and exchange traded funds (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 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 or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The Organization'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 or 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 or liabilities in active markets that the Organization has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

- *Mutual funds and exchange traded funds*: Valued at the daily closing price as reported by the funds. Mutual funds and exchange traded funds held by the Plan are open-ended funds that are registered with the Securities and Exchange Commission. These funds are

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.

- *Charitable trusts:* Consists of actively traded mutual funds that are valued at the daily closing price as reported by the funds.
- *Interest in perpetual trust:* Fair value is determined by calculating Heritage Fund's beneficial share of the underlying investments in the trust.
- *Charitable trusts payable:* Fair value is equal to the charitable trust assets held.

The following tables set 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 as of December 31, 2016 and 2015:

	2016			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Mutual funds	\$ 51,437,872	\$ 51,437,872	\$ -0-	\$ -0-
Exchange traded funds	3,137,605	3,137,605	-0-	-0-
Charitable trusts	359,685	359,685	-0-	-0-
Interest in perpetual trust	92,028	-0-	-0-	92,028
Liabilities:				
Charitable trusts payable	359,685	-0-	359,685	-0-

	2015			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Mutual funds	\$ 48,337,098	\$ 48,337,098	\$ -0-	\$ -0-
Exchange traded funds	2,864,290	2,864,290	-0-	-0-
Charitable trusts	373,653	373,653	-0-	-0-
Interest in perpetual trust	91,158	-0-	-0-	91,158
Liabilities:				
Charitable trusts payable	373,653	-0-	373,653	-0-

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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The progression of the interest in perpetual trust during the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 91,158	\$ 99,558
Change in split-interest agreement	<u>870</u>	<u>(8,400)</u>
	<u>\$ 92,028</u>	<u>\$ 91,158</u>

### 6. CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unconditional contributions receivable	\$ 173,124	\$ 197,124
Less unamortized discount	<u>(52,554)</u>	<u>(58,187)</u>
Net unconditional contributions receivable	<u>\$ 120,570</u>	<u>\$ 138,937</u>
Amounts due in:		
Less than one year	\$ 10,500	\$ 24,500
One to five years	-0-	10,000
More than five years	<u>162,624</u>	<u>162,624</u>
	<u>\$ 173,124</u>	<u>\$ 197,124</u>

Qualifying contributions receivable were discounted at 5%.

Management estimates an allowance for doubtful contributions receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Organization's donors. No allowance for doubtful contributions receivable was determined to be necessary at December 31, 2016 and 2015.

### 7. NOTES RECEIVABLE

The Organization lent money to an organization in 2011 in the amount of \$500,000, without interest, which was to be paid back in four annual installments of \$125,000 beginning in 2013. The outstanding balance of this note of \$125,000 at December 31, 2015 was paid back during 2016.



# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 8. PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land	\$ 110,000	\$ 110,000
Buildings and improvements	958,286	958,286
Office and computer equipment	<u>120,262</u>	<u>100,629</u>
	1,188,548	1,168,915
Less accumulated depreciation	<u>485,398</u>	<u>451,726</u>
	<u><u>\$ 703,150</u></u>	<u><u>\$ 717,189</u></u>

### 9. CHARITABLE TRUSTS

The Organization is the trustee and has been named the beneficiary of several Charitable Remainder Unitrusts. Upon termination of the trusts on the beneficiaries' deaths, the trust assets will be held by the Organization for the benefit of other named organizations. The Organization has recorded a liability equal to the fair value of the trust assets as variance power was not granted to the Organization in the trust agreements. The charitable trust liability was \$359,685 and \$373,653 at December 31, 2016 and 2015, respectively.

The assets held under charitable trusts consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 17,201	\$ 19,898
Mutual funds		
Equity funds		
Large cap	153,020	185,579
Small/mid cap	36,200	34,280
Emerging markets	23,513	19,205
Other	9,650	4,164
Fixed income funds		
Intermediate	39,900	42,653
Other	21,663	20,081
Exchange traded funds		
Other	<u>58,538</u>	<u>47,793</u>
	<u><u>\$ 359,685</u></u>	<u><u>\$ 373,653</u></u>

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# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 10. INTEREST IN PERPETUAL TRUST

The Organization is a one-fifth beneficiary of an irrevocable perpetual trust under which distributions of income only are made to the Organization. The Organization is not the trustee of the trust, but has recorded one-fifth of the fair value of the trust assets in the Consolidated Statements of Financial Position which represents the present value of annual amounts to be received in the future. The Organization has recognized its interest in this perpetual trust as part of permanently restricted net assets. The Organization's interest under this trust was \$92,028 and \$91,158 at December 31, 2016 and 2015, respectively.

### 11. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Organization by other organizations based on their individual board resolutions or funds due to the lack of variance power granted to the Organization. In addition, the Organization has received designated bequests which provided no variance power over the use of the funds or entered into agreements to serve as fiscal agent of funds for certain individuals and organizations. The Organization accounts for these transfers as a liability in accordance with applicable accounting standards. Income is added to these funds periodically in accordance with the Organization's investment allocation policies. Contributions by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Consolidated Statements of Activities. Following is a progression of custodial funds during 2016 and 2015:

	2016	2015
	<u>                    </u>	<u>                    </u>
Custodial funds, beginning balance	\$ 10,098,423	\$ 11,678,013
Contributions and grants	933,274	151,358
Interest and dividend income	195,732	173,955
Realized and unrealized gains (losses)		
on investments	662,983	(362,033)
Administrative fees	(105,649)	(106,189)
Grant payments	(1,115,594)	(1,421,707)
Other expenses	<u>(14,033)</u>	<u>(14,974)</u>
Custodial funds, ending balance	<u>\$ 10,655,136</u>	<u>\$ 10,098,423</u>

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes or periods at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Time restrictions related to:		
Contributions receivable	\$ 110,070	\$ 114,437
Life insurance	51,210	49,112
Designated purpose restrictions related to:		
Business scholarships to Bartholomew County residents	682,356	620,714
Endowment funds not yet appropriated for expenditure	<u>50,704,421</u>	<u>47,393,058</u>
	<u>\$ 51,548,057</u>	<u>\$ 48,177,321</u>

Permanently restricted net assets are restricted for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest in perpetual trust	\$ 92,028	\$ 91,158
Endowed estate gifts	100,000	100,000
Business scholarships to Bartholomew County residents	<u>1,292,417</u>	<u>1,292,417</u>
	<u>\$ 1,484,445</u>	<u>\$ 1,483,575</u>

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 13. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Designated purpose restrictions related to:		
Business scholarships to Bartholomew County residents	\$ 118,719	\$ 63,903
Time restrictions related to:		
Pledges receivable	10,000	14,000
Endowment funds appropriated for expenditure	<u>3,522,927</u>	<u>3,410,323</u>
	<u>\$ 3,651,646</u>	<u>\$ 3,488,226</u>

### 14. ENDOWMENT

The majority of Heritage Fund's funds consist of endowed funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Heritage Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Heritage Fund 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. Heritage Fund expects its endowment funds, over time, to provide a sufficient rate of return to support the spending policy. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, Heritage Fund 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 maximum allowable spending from an endowment fund each year is based on a percentage of the previous three-year rolling quarterly average of the fund's fair value. The percentage is determined annually by the Board of Directors. In the absence of a spending percentage determination, Heritage Fund has a policy of appropriating for distribution each year 4.5 percent of its endowment funds' average fair value, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, Heritage Fund considered the long-term expected return on its endowment.

Endowed funds by net asset type at December 31, 2016 and 2015 were as follows:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 1,472,799	\$ -0-	\$ -0-
Donor Restricted Funds	-0-	50,704,421	1,392,417
	<u>\$ 1,472,799</u>	<u>\$ 50,704,421</u>	<u>\$ 1,392,417</u>
	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 1,157,796	\$ -0-	\$ -0-
Donor Restricted Funds	-0-	47,393,058	1,392,417
	<u>\$ 1,157,796</u>	<u>\$ 47,393,058</u>	<u>\$ 1,392,417</u>

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 1,157,796	\$ 47,393,058	\$ 1,392,417
Contributions and other revenue	204,671	3,128,156	-0-
Investment return, net	114,586	3,706,134	-0-
Appropriation of endowment assets for expenditure	(4,254)	(3,522,927)	-0-
Endowment net assets, end of year	<u>\$ 1,472,799</u>	<u>\$ 50,704,421</u>	<u>\$ 1,392,417</u>

  

	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 1,044,210	\$ 46,230,310	\$ 1,392,417
Contributions and other revenue	164,975	5,440,210	-0-
Investment return, net	(27,522)	(867,139)	-0-
Appropriation of endowment assets for expenditure	(23,867)	(3,410,323)	-0-
Endowment net assets, end of year	<u>\$ 1,157,796</u>	<u>\$ 47,393,058</u>	<u>\$ 1,392,417</u>

### 15. FUNCTIONAL EXPENSES

The Organization serves as a vehicle for residents of Bartholomew 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:

	2016	2015
Development of Bartholomew County	\$ 3,315,913	\$ 2,965,931
Fundraising expenses	606,941	599,725
General and administrative expenses	436,317	390,547
	<u>\$ 4,359,171</u>	<u>\$ 3,956,203</u>

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### **16. CONCENTRATIONS OF CREDIT RISK**

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

Marketable securities and money market funds are maintained with one investment firm. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

### **17. CONDITIONAL GRANTS PAYABLE**

At December 31, 2016 and 2015, the Organization had conditional grants payable of \$390,750 and \$193,579, 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 in the accompanying consolidated financial statements at December 31, 2016 and 2015.

SUPPLEMENTARY INFORMATION



# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2016

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### ASSETS

	Heritage Fund - The Community Foundation of Bartholomew County	Heritage Fund Supporting Foundation, Inc.	Eliminations	Total
<b>Investments</b>				
Cash	\$ 4,245,086	\$ 180,997	\$ -0-	\$ 4,426,083
Certificates of deposit	4,872,000	-0-	-0-	4,872,000
Marketable securities	56,176,833	-0-	-0-	56,176,833
Charitable trusts	359,685	-0-	-0-	359,685
Life insurance	51,210	-0-	-0-	51,210
Interest in perpetual trust	92,028	-0-	-0-	92,028
<b>Receivables</b>				
Contributions, net	120,570	-0-	-0-	120,570
Accounts	325	-0-	-0-	325
<b>Other</b>				
Property and equipment, net	32,667	670,483	-0-	703,150
Prepaid expenses	6,785	3,274	-0-	10,059
	<u>\$ 65,957,189</u>	<u>\$ 854,754</u>	<u>\$ -0-</u>	<u>\$ 66,811,943</u>

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See Report of Independent Auditors on pages 1 and 2.

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2016

### LIABILITIES AND NET ASSETS

	Heritage Fund - The Community Foundation of Bartholomew County	Heritage Fund Supporting Foundation, Inc.	Eliminations	Total
<b>Custodial funds</b>				
Pass-through	\$ 419,195	\$ -0-	\$ -0-	\$ 419,195
Reciprocal agency	1,994,936	-0-	-0-	1,994,936
Designated bequests	8,241,005	-0-	-0-	8,241,005
<b>Payables</b>				
Accounts	27,169	5,139	-0-	32,308
Charitable trusts	359,685	-0-	-0-	359,685
Total liabilities	11,041,990	5,139	-0-	11,047,129
<b>Net assets</b>				
Unrestricted				
Operating	409,898	849,615	-0-	1,259,513
Board designated	1,472,799	-0-	-0-	1,472,799
	1,882,697	849,615	-0-	2,732,312
Temporarily restricted	51,548,057	-0-	-0-	51,548,057
Permanently restricted	1,484,445	-0-	-0-	1,484,445
Total net assets	54,915,199	849,615	-0-	55,764,814
	<u>\$ 65,957,189</u>	<u>\$ 854,754</u>	<u>\$ -0-</u>	<u>\$ 66,811,943</u>

*See Report of Independent Auditors on pages 1 and 2.*

# HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

## CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

	Unrestricted				Temporarily Restricted	Permanently Restricted
	Heritage Fund - The Community Foundation of Bartholomew County	Heritage Fund Supporting Foundation, Inc.	Eliminations	Total	Heritage Fund - The Community Foundation of Bartholomew County	Heritage Fund - The Community Foundation of Bartholomew County
<b>Support and revenues</b>						
Contributions	\$ 97,025	\$ -0-	\$ -0-	\$ 97,025	\$ 3,128,156	\$ -0-
Investment return, net	115,686	-0-	-0-	115,686	3,888,593	-0-
Change in value of split-interest agreement	-0-	-0-	-0-	-0-	-0-	870
Change in discount of contributions receivable	-0-	-0-	-0-	-0-	5,633	-0-
Administrative fees	796,285	-0-	(11,932)	784,353	-0-	-0-
Other revenue	-0-	81,333	(36,000)	45,333	-0-	-0-
Net assets released from restrictions	<u>3,651,646</u>	<u>-0-</u>	<u>-0-</u>	<u>3,651,646</u>	<u>(3,651,646)</u>	<u>-0-</u>
Total support and revenues	4,660,642	81,333	(47,932)	4,694,043	3,370,736	870
<b>Expenses</b>						
Grants	1,902,820	-0-	-0-	1,902,820	-0-	-0-
Special projects	1,052,543	-0-	(12,000)	1,040,543	-0-	-0-
Salaries and wages	394,681	-0-	-0-	394,681	-0-	-0-
Payroll taxes and employee benefits	75,719	-0-	-0-	75,719	-0-	-0-
Annual meeting and report	8,745	-0-	-0-	8,745	-0-	-0-
Professional fees	38,739	425	-0-	39,164	-0-	-0-
Dues and subscriptions	4,718	-0-	-0-	4,718	-0-	-0-
Endowment development	17,732	-0-	-0-	17,732	-0-	-0-
Equipment rental, repairs, and maintenance	7,551	49,865	-0-	57,416	-0-	-0-
Computer support	18,910	-0-	-0-	18,910	-0-	-0-
Insurance	926	3,946	-0-	4,872	-0-	-0-
Utilities	8,855	952	-0-	9,807	-0-	-0-
Newsletter	3,891	-0-	-0-	3,891	-0-	-0-
Postage	4,651	-0-	-0-	4,651	-0-	-0-
Building rent	24,000	-0-	(24,000)	-0-	-0-	-0-
Property taxes	-0-	6,583	-0-	6,583	-0-	-0-
Travel	6,102	-0-	-0-	6,102	-0-	-0-
Education	13,194	-0-	-0-	13,194	-0-	-0-
Office supplies	4,327	-0-	-0-	4,327	-0-	-0-
Depreciation	5,309	34,022	-0-	39,331	-0-	-0-
Purchased services	3,936	-0-	-0-	3,936	-0-	-0-
Administrative fees	695,886	-0-	-0-	695,886	-0-	-0-
Miscellaneous	6,043	12,032	(11,932)	6,143	-0-	-0-
Total expenses	<u>4,299,278</u>	<u>107,825</u>	<u>(47,932)</u>	<u>4,359,171</u>	<u>-0-</u>	<u>-0-</u>
Change in net assets	361,364	(26,492)	-0-	334,872	3,370,736	870
<b>Net assets, beginning of year</b>	<u>1,521,333</u>	<u>876,107</u>	<u>-0-</u>	<u>2,397,440</u>	<u>48,177,321</u>	<u>1,483,575</u>
<b>Net assets, end of year</b>	<u>\$ 1,882,697</u>	<u>\$ 849,615</u>	<u>\$ -0-</u>	<u>\$ 2,732,312</u>	<u>\$ 51,548,057</u>	<u>\$ 1,484,445</u>

See Report of Independent Auditors on pages 1 and 2.