

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

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

CPAs / ADVISORS



HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

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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, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, the related consolidated statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2018, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our 2018 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 26 to 28 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets 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 2018 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

April 15, 2019

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017 As Restated
	<u>2018</u>	<u>As Restated</u>
Investments		
Cash	\$ 2,912,297	\$ 4,987,749
Certificates of deposit	6,200,000	4,712,000
Investments	57,650,266	63,645,001
Charitable trusts	248,306	308,978
Life insurance	94,695	94,695
Interest in perpetual trust	89,380	101,023
Receivables		
Contributions, net	119,804	112,312
Accounts	7,665	430
Other		
Property and equipment, net	907,004	740,011
Prepaid expenses	3,274	10,059
	<u>\$ 68,232,691</u>	<u>\$ 74,712,258</u>

See accompanying notes to consolidated financial statements.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

LIABILITIES AND NET ASSETS

	2018	2017 As Restated
	<u>2018</u>	<u>As Restated</u>
Custodial funds		
Pass-through	\$ 46,177	\$ 35,692
Reciprocal agency	1,997,750	2,216,097
Designated bequests	7,983,732	9,118,338
Payables		
Accounts	9,957	10,207
Charitable trusts	248,306	308,978
Other		
Deferred revenue	594,929	-0-
Total liabilities	<u>10,880,851</u>	<u>11,689,312</u>
Net assets		
Without donor restrictions		
Operating	1,513,827	1,198,353
Board designated administrative endowment	1,049,965	1,189,552
Board designated reserves	386,077	739,329
	<u>2,949,869</u>	<u>3,127,234</u>
With donor restrictions		
Restricted for specified purposes	14,229,435	15,321,934
Restricted due to time restrictions	303,879	308,030
Endowment funds	39,868,657	44,265,748
	<u>54,401,971</u>	<u>59,895,712</u>
Total net assets	<u>57,351,840</u>	<u>63,022,946</u>
	<u>\$ 68,232,691</u>	<u>\$ 74,712,258</u>

See accompanying notes to consolidated financial statements.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

CONSOLIDATED STATEMENTS OF ACTIVITIES YEAR ENDED DECEMBER 31, 2018

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	2018			2017
				As Restated
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenues				
Contributions	\$ 57,420	\$ 2,513,074	\$ 2,570,494	\$ 2,691,482
Investment return, net	(135,098)	(3,387,972)	(3,523,070)	7,410,411
Change in value of split-interest agreement	-0-	(11,643)	(11,643)	8,995
Change in discount of contributions receivable	-0-	7,492	7,492	2,242
Change in value of life insurance	-0-	-0-	-0-	41,387
Administrative fees	894,173	-0-	894,173	838,985
Other revenue	54,933	-0-	54,933	47,578
Net assets released from restrictions	<u>4,614,692</u>	<u>(4,614,692)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	5,486,120	(5,493,741)	(7,621)	11,041,080
Expenses				
Program expense	5,171,822	-0-	5,171,822	3,310,534
Management and general	269,854	-0-	269,854	256,080
Fundraising and development	<u>221,809</u>	<u>-0-</u>	<u>221,809</u>	<u>216,334</u>
Total expenses	<u>5,663,485</u>	<u>-0-</u>	<u>5,663,485</u>	<u>3,782,948</u>
Change in net assets	(177,365)	(5,493,741)	(5,671,106)	7,258,132
Net assets, beginning of year	<u>3,127,234</u>	<u>59,895,712</u>	<u>63,022,946</u>	<u>55,764,814</u>
Net assets, end of year	<u>\$ 2,949,869</u>	<u>\$ 54,401,971</u>	<u>\$ 57,351,840</u>	<u>\$ 63,022,946</u>

See accompanying notes to consolidated financial statements.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017 (AS RESTATED)

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions	\$ 51,850	\$ 2,639,632	\$ 2,691,482
Investment return, net	255,406	7,155,005	7,410,411
Change in value of split-interest agreement	-0-	8,995	8,995
Change in discount of contributions receivable	-0-	2,242	2,242
Change in value of life insurance	-0-	41,387	41,387
Administrative fees	838,985	-0-	838,985
Other revenue	47,578	-0-	47,578
Net assets released from restrictions	<u>2,984,051</u>	<u>(2,984,051)</u>	<u>-0-</u>
Total support and revenues	4,177,870	6,863,210	11,041,080
Expenses			
Program expense	3,310,534	-0-	3,310,534
Management and general	256,080	-0-	256,080
Fundraising and development	<u>216,334</u>	<u>-0-</u>	<u>216,334</u>
Total expenses	<u>3,782,948</u>	<u>-0-</u>	<u>3,782,948</u>
Change in net assets	394,922	6,863,210	7,258,132
Net assets, beginning of year	<u>2,732,312</u>	<u>53,032,502</u>	<u>55,764,814</u>
Net assets, end of year	<u><u>\$ 3,127,234</u></u>	<u><u>\$ 59,895,712</u></u>	<u><u>\$ 63,022,946</u></u>

See accompanying notes to consolidated financial statements.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	Program Services	Management & General	Fundraising & Development	Total
Grants	\$ 2,689,989	\$ -0-	\$ -0-	\$ 2,689,989
Special projects	1,456,563	-0-	-0-	1,456,563
Salaries and wages	177,136	119,464	115,345	411,945
Payroll taxes and employee benefits	32,609	21,992	21,235	75,836
Annual meeting and report	1,095	1,095	8,763	10,953
Professional fees	3,639	29,110	3,639	36,388
Dues and subscriptions	-0-	-0-	4,139	4,139
Endowment Development	-0-	-0-	20,606	20,606
Equipment rental, repairs and maintenance	7,509	15,018	7,509	30,036
Computer support	-0-	17,663	-0-	17,663
Insurance	-0-	6,555	-0-	6,555
Utilities	3,017	6,035	3,017	12,069
Newsletter	1,473	-0-	1,472	2,945
Postage	268	535	4,551	5,354
Property taxes	-0-	8,482	-0-	8,482
Travel	854	427	2,988	4,269
Education	948	474	3,318	4,740
Office supplies	2,224	494	2,225	4,943
Depreciation	17,478	34,957	17,478	69,913
Purchased services	-0-	6,863	-0-	6,863
Administrative fees	776,330	-0-	-0-	776,330
Miscellaneous	690	690	5,524	6,904
Total expenses	\$ 5,171,822	\$ 269,854	\$ 221,809	\$ 5,663,485

See accompanying notes to consolidated financial statements.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating activities		
Change in net assets	\$ (5,671,106)	\$ 7,258,132
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	69,913	48,126
Interest earned on certificates of deposit	(102,248)	(69,930)
Reinvested interest and dividends received on investments	(2,763,566)	(1,916,387)
Realized and unrealized losses (gains) on investments	7,016,933	(7,072,337)
Change in discount of contributions receivable	(7,492)	(2,242)
Change in value of split-interest agreement	11,643	(8,995)
Change in value of life insurance	-0-	(41,387)
Change in operating assets and liabilities:		
Life insurance	-0-	(2,098)
Contributions receivable	-0-	10,500
Accounts receivable	(7,235)	(105)
Prepaid expenses	6,785	-0-
Custodial funds	(1,342,468)	714,991
Accounts payable	(250)	(22,101)
Deferred revenue	594,929	-0-
Net cash flows from operating activities	<u>(2,194,162)</u>	<u>(1,103,833)</u>
Investing activities		
Purchase of certificates of deposit	(4,712,000)	(1,736,000)
Maturities of certificates of deposit	3,326,248	1,965,930
Purchase of investments	(116,152)	(9,462,025)
Proceeds on sale of investments	1,857,520	10,982,581
Purchases of property and equipment	<u>(236,906)</u>	<u>(84,987)</u>
Net cash flows from investing activities	<u>118,710</u>	<u>1,665,499</u>
Net change in cash	(2,075,452)	561,666
Cash, beginning of year	<u>4,987,749</u>	<u>4,426,083</u>
Cash, end of year	<u>\$ 2,912,297</u>	<u>\$ 4,987,749</u>

See accompanying notes to consolidated financial statements.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

The accompanying consolidated financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.

Operating – used to fund current operations of the Organization

Board designated administrative endowment – established with the expectation that the principal be maintained in perpetuity to generate grants, subject to the spending policy, used to support the general operations of the Organization as designated by the Board

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Board designated reserves – used to fund future operations and capital improvements of the Organization as designated by the Board

Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term to support operations or specific purposes. The Organization maintains net assets with donor restrictions as follows:

Restricted for specified purposes – all contributions to the Organization with the intention of the donor to be held for a specific program or in a donor-restricted non-endowed fund

Restricted due to time restrictions – all contributions to the Organization with donor restrictions that will be met by the passage of time

Endowment funds – all contributions to the Organization with the intention of the donor that the assets be held in perpetuity and related investment earnings managed in accordance with the Organization's spending policy

Cash

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

Investments

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 net assets with or without donor restrictions based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Organization's spending policy.

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.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Deferred Revenue

During 2018, Heritage Fund received \$1,000,000 grant from Lilly Endowment through its GIFT Phase VII initiative. The grant is required to be matched with new contributions to help build the Heritage Fund's unrestricted endowments and provide support for specified charitable projects and needs. Therefore, deferred revenue relates to the portion of the grant that has not yet been matched and earned. The matching period is from October 1, 2018 through December 31, 2020. As qualifying contributions are received, the related match amount is recognized as revenue. Deferred revenue related to this grant was \$594,929 at December 31, 2018.

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 increases net assets with donor restrictions.

Support and revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either net assets with or without donor restrictions in accordance with the classification of the fund.

All other support and revenue is recorded when earned.

Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Organization and are considered program expenses. Administrative fees from all funds are reflected as revenue on the Statements of Activities. The administrative fees from custodial funds are not included as expenses on the Statements of Activities because they are included in the change in custodial funds.

Reclassifications

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

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

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying 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.

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.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statements of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated on the basis of estimates of time and effort. While the methods of allocation are considered appropriate, other methods could produce different results.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Organization'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.

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 April 15, 2019.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

2. CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the consolidated financial statements and notes about its liquidity, financial performance and cash flows. The Organization has adjusted the presentation of its 2018 consolidated financial statements herein and retrospectively restated the prior year consolidated financial statements. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 15), and disclosures related to the functional allocation of expenses were expanded (Note 1).

The impact of the adoption of ASU No. 2016-14 on the Organization's net assets are as follows:

Consolidated Statement of Financial Position

	As previously stated, December 31, 2017	Adjustment	As restated December 31, 2017
Unrestricted net assets	\$ 3,127,234	\$ (3,127,234)	\$ -0-
Temporarily restricted net assets	58,402,272	(58,402,272)	-0-
Permanently restricted net assets	1,493,440	(1,493,440)	-0-
Without donor restrictions	-0-	3,127,234	3,127,234
With donor restrictions	-0-	59,895,712	59,895,712
Total net assets	<u>\$ 63,022,946</u>	<u>\$ -0-</u>	<u>\$ 63,022,946</u>

Consolidated Statement of Activities

	As previously stated, December 31, 2017	Adjustment	As restated December 31, 2017
Changes in unrestricted net assets	\$ 394,922	\$ (394,922)	\$ -0-
Changes in temporarily restricted net assets	6,854,215	(6,854,215)	-0-
Changes in permanently restricted net assets	8,995	(8,995)	-0-
Changes in net assets without donor restrictions	-0-	394,922	394,922
Changes in net assets with donor restrictions	-0-	6,863,210	6,863,210
Total changes in net assets	<u>\$ 7,258,132</u>	<u>\$ -0-</u>	<u>\$ 7,258,132</u>

There was no significant impact to the consolidated statement of cash flows as a result of adopting this ASU.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

3. CERTIFICATES OF DEPOSIT

The Organization held certificates of deposit totaling \$6,200,000 and \$4,712,000 at December 31, 2018 and 2017, respectively, with interest rates ranging from 1.00 to 2.60 percent. Maturity dates of these certificates of deposit vary through February 2020. Certificates of deposits are recorded at cost plus accrued interest.

4. INVESTMENTS

Investments consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash	\$ 3,150,157	\$ 1,794,111
Mutual funds		
Equity funds		
Large cap	21,055,682	22,425,889
Small/mid cap	8,485,757	11,043,949
International	7,193,550	9,230,198
Defensive	4,983,505	5,605,924
Fixed income funds		
Short	2,953,561	2,985,491
Intermediate	<u>9,828,054</u>	<u>10,559,439</u>
	<u>\$ 57,650,266</u>	<u>\$ 63,645,001</u>

5. RISKS AND UNCERTAINTIES

The Organization holds investments in debt and equity mutual funds (Note 4). 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.

6. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 2018 or 2017. The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that 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, 2018 and 2017.

- *Mutual funds*: Valued at the daily closing price as reported by the funds. Mutual funds held by the Organization are open-ended 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 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.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017:

	2018			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Mutual funds	\$ 54,500,109	\$ 54,500,109	\$ -0-	\$ -0-
Charitable trusts	248,306	248,306	-0-	-0-
Interest in perpetual trust	89,380	-0-	-0-	89,380
Liabilities:				
Charitable trusts payable	248,306	-0-	248,306	-0-

	2017			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Mutual funds	\$ 61,850,890	\$ 61,850,890	\$ -0-	\$ -0-
Charitable trusts	308,978	308,978	-0-	-0-
Interest in perpetual trust	101,023	-0-	-0-	101,023
Liabilities:				
Charitable trusts payable	308,978	-0-	308,978	-0-

The progression of the interest in perpetual trust during the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Beginning balance	\$ 101,023	\$ 92,028
Change in split-interest agreement	(11,643)	8,995
	<u>\$ 89,380</u>	<u>\$ 101,023</u>

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

7. CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unconditional contributions receivable	\$ 162,624	\$ 162,624
Less unamortized discount	<u>(42,820)</u>	<u>(50,312)</u>
Net unconditional contributions receivable	<u>\$ 119,804</u>	<u>\$ 112,312</u>
Amounts due in:		
Less than one year	\$ -0-	\$ -0-
One to five years	-0-	-0-
More than five years	<u>162,624</u>	<u>162,624</u>
	<u>\$ 162,624</u>	<u>\$ 162,624</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, 2018 and 2017.

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 110,000	\$ 110,000
Buildings and improvements	1,216,267	991,416
Office and computer equipment	<u>175,232</u>	<u>167,177</u>
	1,501,499	1,268,593
Less accumulated depreciation	<u>594,495</u>	<u>528,582</u>
	<u>\$ 907,004</u>	<u>\$ 740,011</u>

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 \$248,306 and \$308,978 at December 31, 2018 and 2017, respectively.

The assets held under charitable trusts consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash	\$ 18,491	\$ 21,737
Mutual funds		
Equity funds		
Large cap	104,746	126,962
Small/mid cap	20,315	41,739
International	30,824	35,640
Emerging markets	21,980	25,887
Other	10,854	6,849
Fixed income funds		
Intermediate	34,021	33,885
Other	<u>7,075</u>	<u>16,279</u>
	<u>\$ 248,306</u>	<u>\$ 308,978</u>

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 net assets with donor restrictions. The Organization's interest under this trust was \$89,380 and \$101,023 at December 31, 2018 and 2017, respectively.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Custodial funds, beginning balance	\$ 11,370,127	\$ 10,655,136
Contributions and grants	566,605	1,090,215
Interest and dividend income	467,010	179,799
Realized and unrealized gains (losses) on investments	(1,173,440)	1,396,486
Administrative fees	(117,643)	(117,559)
Grant payments	(1,068,823)	(1,818,668)
Other expenses	<u>(16,177)</u>	<u>(15,282)</u>
Custodial funds, ending balance	<u>\$ 10,027,659</u>	<u>\$ 11,370,127</u>

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2018 and 2017:

	2018	2017 As Restated
Restricted for specified purposes		
Various based on fund agreements	\$ 14,229,435	\$ 15,321,934
Restricted due to time restrictions		
Contributions receivable	119,804	112,312
Life insurance	94,695	94,695
Interest in perpetual trust	<u>89,380</u>	<u>101,023</u>
	303,879	308,030
Endowment funds		
Restricted in perpetuity	32,458,693	31,121,002
Restricted subject to the Heritage Fund's spending policy	<u>7,409,964</u>	<u>13,144,746</u>
	<u>39,868,657</u>	<u>44,265,748</u>
Total net assets with donor restrictions	<u>\$ 54,401,971</u>	<u>\$ 59,895,712</u>

13. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amount of \$4,614,692 and \$2,984,051 based on funds appropriated for expenditure for the years ended December 31, 2018 and 2017, respectively. There were no net assets released from donor restrictions due to time expirations in either year.

14. ENDOWMENT

The majority of the 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 the preservation of the fair value of the original gift as of the gift

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, we retain in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted endowment funds are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate 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 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 5 percent of its endowment funds' average fair value. In establishing this policy, Heritage Fund considered the long-term expected return on its endowment.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Endowed funds by net asset type at December 31, 2018 and 2017 were as follows:

	2018	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	\$ 1,049,965	\$ -0-
Donor Restricted Funds	<u>-0-</u>	<u>39,868,657</u>
	<u>\$ 1,049,965</u>	<u>\$ 39,868,657</u>
	2017 (As Restated)	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	\$ 1,189,552	\$ -0-
Donor Restricted Funds	<u>-0-</u>	<u>44,265,748</u>
	<u>\$ 1,189,552</u>	<u>\$ 44,265,748</u>

Changes in endowed funds for the years ending December 31, 2018 and 2017 were as follows:

	2018	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 1,189,552	\$ 44,265,748
Contributions and other revenue	-0-	1,226,683
Investment return, net	(102,330)	(3,006,995)
Appropriation of endowment assets for expenditure	<u>(37,257)</u>	<u>(2,616,779)</u>
Endowment net assets, end of year	<u>\$ 1,049,965</u>	<u>\$ 39,868,657</u>

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

	2017 (As Restated)	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 934,079	\$ 39,114,517
Contributions and other revenue	100,000	1,526,140
Investment return, net	207,238	6,163,786
Appropriation of endowment assets for expenditure	<u>(51,765)</u>	<u>(2,538,695)</u>
Endowment net assets, end of year	<u>\$ 1,189,552</u>	<u>\$ 44,265,748</u>

15. LIQUIDITY AND AVAILABILITY

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its awarded grants, general expenditures and other obligations become due. The Organization invests cash in excess of daily requirements in money market accounts, certificates of deposit, and other short-term investments.

Financial assets available for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash	\$ 622,517
Certificates of deposit	42,007
Operating investments	128,811
Accounts receivable	<u>524</u>
	<u>\$ 793,859</u>

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The Organization has an annual grant approval process. This process includes evaluating a number of factors relative to the spending rate to be applied to the Organization's fund balances in accordance with its spending policy. Once the Organization's Board approves the spending rate, the related dollar amount of the funds becomes available for general expenditures.

While not subject to the Organization's spending policy, expenditures from donor-restricted non-endowed funds must be approved by the Board and, therefore, are not available for general expenditure until that time. Non-endowed funds are held in cash, certificates of deposits or liquid investments and are made available upon appropriation.

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

The administrative endowment is subject to an annual spending rate of 5 percent as described in Note 14. Although the Organization does not intend to spend from this administrative endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available, if necessary.

The Organization also relies on the administrative fees it charges its funds annually ranging from 1% to 2% of fund balance to fund operational expenditures.

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.

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

17. 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 Organization 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 June 21, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

policy” to allow an NFP entity to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The Organization will be required to adopt this new standard in the year ending December 31, 2019.

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

SUPPLEMENTARY INFORMATION

HERITAGE FUND - THE COMMUNITY FOUNDATION OF BARTHOLOMEW COUNTY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2018

ASSETS

	Heritage Fund - The Community Foundation of Bartholomew County	Heritage Fund Supporting Foundation, Inc.	Eliminations	Total
Investments				
Cash	\$ 2,712,330	\$ 199,967	\$ -0-	\$ 2,912,297
Certificates of deposit	6,200,000	-0-	-0-	6,200,000
Investments	57,650,266	-0-	-0-	57,650,266
Charitable trusts	248,306	-0-	-0-	248,306
Life insurance	94,695	-0-	-0-	94,695
Interest in perpetual trust	89,380	-0-	-0-	89,380
Receivables				
Contributions, net	119,804	-0-	-0-	119,804
Accounts	7,665	-0-	-0-	7,665
Other				
Property and equipment, net	62,591	844,413	-0-	907,004
Prepaid expenses	-0-	3,274	-0-	3,274
	<u>\$ 67,185,037</u>	<u>\$ 1,047,654</u>	<u>\$ -0-</u>	<u>\$ 68,232,691</u>

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, 2018

LIABILITIES AND NET ASSETS

	Heritage Fund - The Community Foundation of Bartholomew County	Heritage Fund Supporting Foundation, Inc.	Eliminations	Total
Custodial funds				
Pass-through	\$ 46,177	\$ -0-	\$ -0-	\$ 46,177
Reciprocal agency	1,997,750	-0-	-0-	1,997,750
Designated bequests	7,983,732	-0-	-0-	7,983,732
Payables				
Accounts	5,500	4,457	-0-	9,957
Charitable trusts	248,306	-0-	-0-	248,306
Other				
Deferred revenue	<u>594,929</u>	<u>-0-</u>	<u>-0-</u>	<u>594,929</u>
Total liabilities	10,876,394	4,457	-0-	10,880,851
Net assets				
Without donor restrictions				
Operating	470,630	1,043,197	-0-	1,513,827
Board designated administrative endowment	1,049,965	-0-	-0-	1,049,965
Board designated reserves	<u>386,077</u>	<u>-0-</u>	<u>-0-</u>	<u>386,077</u>
	1,906,672	1,043,197	-0-	2,949,869
With donor restrictions				
Restricted for specified purposes	14,229,435	-0-	-0-	14,229,435
Restricted due to time restrictions	303,879	-0-	-0-	303,879
Endowment funds	<u>39,868,657</u>	<u>-0-</u>	<u>-0-</u>	<u>39,868,657</u>
	54,401,971	-0-	-0-	54,401,971
Total net assets	<u>56,308,643</u>	<u>1,043,197</u>	<u>-0-</u>	<u>57,351,840</u>
	<u>\$ 67,185,037</u>	<u>\$ 1,047,654</u>	<u>\$ -0-</u>	<u>\$ 68,232,691</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, 2018

	Without Donor Restrictions				With Donor Restrictions
	Heritage Fund - The Community Foundation of Bartholomew County	Heritage Fund Supporting Foundation, Inc.	Eliminations	Total	Heritage Fund - The Community Foundation of Bartholomew County
Support and revenues					
Contributions	\$ 57,150	\$ 224,851	\$ (224,581)	\$ 57,420	\$ 2,513,074
Investment return, net	(135,098)	-0-	-0-	(135,098)	(3,387,972)
Change in value of split-interest agreement	-0-	-0-	-0-	-0-	(11,643)
Change in discount of contributions receivable	-0-	-0-	-0-	-0-	7,492
Administrative fees	906,701	-0-	(12,528)	894,173	-0-
Other revenue	-0-	80,933	(26,000)	54,933	-0-
Net assets released from restrictions	<u>4,614,692</u>	<u>-0-</u>	<u>-0-</u>	<u>4,614,692</u>	<u>(4,614,692)</u>
Total support and revenues	5,443,445	305,784	(263,109)	5,486,120	(5,493,741)
Expenses					
Program expense	5,386,198	19,459	(233,835)	5,171,822	-0-
Management and general	229,412	53,697	(13,255)	269,854	-0-
Fundraising and development	<u>209,025</u>	<u>28,803</u>	<u>(16,019)</u>	<u>221,809</u>	<u>-0-</u>
Total expenses	5,824,635	101,959	(263,109)	5,663,485	-0-
Change in net assets	(381,190)	203,825	-0-	(177,365)	(5,493,741)
Net assets, beginning of year	<u>2,287,862</u>	<u>839,372</u>	<u>-0-</u>	<u>3,127,234</u>	<u>59,895,712</u>
Net assets, end of year	<u>\$ 1,906,672</u>	<u>\$ 1,043,197</u>	<u>\$ -0-</u>	<u>\$ 2,949,869</u>	<u>\$ 54,401,971</u>

See Report of Independent Auditors on pages 1 and 2.