

**COMMUNITY FOUNDATION OF
SWITZERLAND COUNTY, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

CPAs / ADVISORS



COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Community Foundation of Switzerland County, Inc.
303 Ferry St.
Vevay, Indiana 47043

Report on the Financial Statements

We have audited the accompanying financial statements of Community Foundation of Switzerland County, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the results of its operations 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 Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blue & Co., LLC

Seymour, Indiana

March 4, 2019

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017 As Restated
Cash	\$ 549,597	\$ 460,093
Certificate of deposit	300,000	200,000
Investments	11,188,834	12,550,694
Property and equipment, net	3,258	7,094
Prepaid expense	1,998	5,466
	<u>\$ 12,043,687</u>	<u>\$ 13,223,347</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ -0-	\$ 658
Deferred revenue	157,354	-0-
Custodial funds	<u>395,011</u>	<u>450,769</u>
Total liabilities	552,365	451,427

Net assets

Without donor restrictions		
Operating	380,957	331,731
Administrative endowment	<u>882,536</u>	<u>1,003,959</u>
	1,263,493	1,335,690
With donor restrictions		
Restricted for specified purposes	351,103	347,627
Restricted in perpetuity - endowment	9,228,283	9,119,989
Restricted subject to the Organization's spending policy	<u>648,443</u>	<u>1,968,614</u>
	<u>10,227,829</u>	<u>11,436,230</u>
Total net assets	<u>11,491,322</u>	<u>12,771,920</u>
	<u>\$ 12,043,687</u>	<u>\$ 13,223,347</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

STATEMENT 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	\$ 6,500	\$ 178,049	\$ 184,549	\$ 142,475
Investment return, net	(63,893)	(841,927)	(905,820)	1,607,092
Administrative fees	178,974	-0-	178,974	174,811
In-kind revenue	9,600	-0-	9,600	9,600
Net assets released from restrictions	<u>544,523</u>	<u>(544,523)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	675,704	(1,208,401)	(532,697)	1,933,978
Expenses				
Program services	623,772	-0-	623,772	504,448
Management & general	65,341	-0-	65,341	59,912
Fundraising & development	<u>58,788</u>	<u>-0-</u>	<u>58,788</u>	<u>42,833</u>
Total expenses	<u>747,901</u>	<u>-0-</u>	<u>747,901</u>	<u>607,193</u>
Change in net assets	(72,197)	(1,208,401)	(1,280,598)	1,326,785
Net assets, beginning of year	<u>1,335,690</u>	<u>11,436,230</u>	<u>12,771,920</u>	<u>11,445,135</u>
Net assets, end of year	<u>\$ 1,263,493</u>	<u>\$ 10,227,829</u>	<u>\$ 11,491,322</u>	<u>\$ 12,771,920</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions	\$ 6,500	\$ 135,975	\$ 142,475
Investment return, net	136,268	1,470,824	1,607,092
Administrative fees	174,811	-0-	174,811
In-kind revenue	9,600	-0-	9,600
Net assets released from restrictions	<u>415,456</u>	<u>(415,456)</u>	<u>-0-</u>
Total support and revenues	742,635	1,191,343	1,933,978
Expenses			
Program services	504,448	-0-	504,448
Management & general	59,912	-0-	59,912
Fundraising & development	<u>42,833</u>	<u>-0-</u>	<u>42,833</u>
Total expenses	<u>607,193</u>	<u>-0-</u>	<u>607,193</u>
Change in net assets	135,442	1,191,343	1,326,785
Net assets, beginning of year	<u>1,200,248</u>	<u>10,244,887</u>	<u>11,445,135</u>
Net assets, end of year	<u>\$ 1,335,690</u>	<u>\$ 11,436,230</u>	<u>\$ 12,771,920</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising & Development</u>	<u>Total</u>
Grants	\$ 307,681	\$ -0-	\$ -0-	\$ 307,681
Program expenses	6,997	-0-	-0-	6,997
Salaries and wages	89,704	44,852	31,562	166,118
Payroll taxes and employee benefits	16,861	8,430	5,932	31,223
Administrative fees	172,469	-0-	-0-	172,469
Advertising	2,493	623	3,116	6,232
Office supplies	1,175	470	705	2,350
Postage and printing	811	324	486	1,621
Telephone	1,292	517	776	2,585
Rent	4,800	1,920	2,880	9,600
Depreciation	1,918	767	1,151	3,836
Professional fees	6,467	2,587	3,881	12,935
Contracted services	2,000	800	1,200	4,000
Meetings and conferences	1,533	1,022	2,555	5,110
Insurance	952	381	572	1,905
Miscellaneous	<u>6,619</u>	<u>2,648</u>	<u>3,972</u>	<u>13,239</u>
Total expenses	<u>\$ 623,772</u>	<u>\$ 65,341</u>	<u>\$ 58,788</u>	<u>\$ 747,901</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

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

	2018	2017
Operating activities		
Change in net assets	\$ (1,280,598)	\$ 1,326,785
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	3,836	3,789
Reinvested interest and dividends received on investments	(213,682)	(222,268)
Realized and unrealized (gains) losses on investments	1,099,983	(1,499,042)
Changes in assets and liabilities:		
Prepaid expenses	3,468	3,468
Accounts payable	(658)	658
Deferred revenue	157,354	-0-
Custodial funds	(55,758)	53,567
Net cash flows from operating activities	(286,055)	(333,043)
Investing activities		
Purchases of property and equipment	-0-	(699)
Purchases of certificate of deposit	(700,000)	(200,000)
Proceeds from sale of certificate of deposit	600,000	-0-
Purchase of investments	(4,844,533)	(2,398,561)
Proceeds from sales of investments	5,320,092	2,455,918
Net cash flows from investing activities	375,559	(143,342)
Net change in cash	89,504	(476,385)
Cash, beginning of year	460,093	936,478
Cash, end of year	\$ 549,597	\$ 460,093

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Community Foundation of Switzerland County, Inc. (the "Organization") is a not-for-profit entity that began operations on January 1, 2000. The Organization is located in Vevay, Indiana, and was organized to assist donors in building an enduring source of charitable assets to benefit the Switzerland County area.

Management's Estimates

Management uses estimates and assumptions in preparing 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 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 of directors (Board) or designated by the Board for specific use. The Organization maintains net assets without donor restrictions as follows:

Operating – used to fund current operations of the Organization

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

Net assets with donor restrictions: Net assets subject to donor stipulations for specific 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 purpose – 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

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Restricted in perpetuity – endowment – all contributions to the Organization with the intention of the donor that the assets be held in perpetuity and managed in accordance with the Organization’s spending policy

Restricted subject to the Organization’s spending policy – investment earnings on assets restricted in perpetuity – endowment and managed in accordance with the Organization’s spending policy

Cash

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

Investments and Investment Return

The Organization carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Statements of Activities in the periods 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 their estimated useful lives ranging from five to twenty years using the straight-line method.

Deferred Revenue

During 2018, the Organization received a \$168,600 grant from Lilly Endowment through its GIFT Phase VII initiative. The grant is required to be matched with new contributions to help build the Organization’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 \$157,354 at December 31, 2018.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (contributions receivable), are recognized as revenues in the period the contribution is received or the promise is made.

Support and revenues are reported as increases in either net assets with or without donor restrictions in accordance with the classification of the fund as it relates to the Organization's spending policy. 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 as it relates to Organization's spending policy.

The Organization recognizes grant revenue in the period the related expenses are incurred.

All other revenue is recorded when earned.

Reclassifications

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

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the 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, 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 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.

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

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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.

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 Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is March 4, 2019.

2. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT

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 financial statements and notes about its liquidity, financial performance and cash flows. The Organization has adjusted the presentation of its 2018 financial statements herein and retrospectively restated the prior year financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 11), and disclosures related to the functional allocation of expenses were expanded (Note 1).

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

During the adoption of this standard, the Foundation identified a correction needed for proper net asset classifications as of January 1, 2017. The correction resulted in an increase in net assets without donor restrictions and a corresponding decrease in net assets with donor restrictions by \$99,275. This restatement had no effect on the overall change in net assets.

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

Statement of Financial Position

	As previously stated, December 31, 2017	Adjustment	As restated December 31, 2017
Unrestricted net assets	\$ 1,236,415	\$ (1,236,415)	\$ -0-
Temporarily restricted net assets	11,535,505	(11,535,505)	-0-
Without donor restrictions	-0-	1,335,690	1,335,690
With donor restrictions	-0-	11,436,230	11,436,230
Total net assets	<u>\$ 12,771,920</u>	<u>\$ -0-</u>	<u>\$ 12,771,920</u>

Statement of Activities

	As previously stated, December 31, 2017	Adjustment	As restated December 31, 2017
Changes in unrestricted net assets	\$ 135,442	\$ (135,442)	\$ -0-
Changes in temporarily restricted net assets	1,191,343	(1,191,343)	-0-
Changes in net assets without donor restrictions	-0-	135,442	135,442
Changes in net assets with donor restrictions	-0-	1,191,343	1,191,343
Total changes in net assets	<u>\$ 1,326,785</u>	<u>\$ -0-</u>	<u>\$ 1,326,785</u>

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

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

3. CERTIFICATE OF DEPOSIT

The Organization held a certificate of deposit of \$300,000 at December 31, 2018 which bears interest at 2.35 percent and has a maturity date of March 2020. At December 31, 2017, the certificate of deposit of \$200,000 had an interest rate of 1.24% and matured in April 2018. The certificates of deposit are recorded at cost plus accrued interest.

4. INVESTMENTS

Investments consist of the following:

	2018	2017
Cash	\$ 507,711	\$ 466,778
Equity mutual funds		
Mid/small	2,751,369	3,361,092
Large cap	4,714,192	5,672,235
World/emerging market	768,337	852,966
Fixed income mutual funds		
Short-term	283,425	-0-
High yield	468,335	479,438
World/emerging market	504,992	548,910
Inflation-protected bond	627,580	584,725
U.S. government securities	333,081	376,679
Corporate bonds	229,812	207,871
	<u>\$ 11,188,834</u>	<u>\$ 12,550,694</u>

5. RISKS AND UNCERTAINTIES

The Organization holds investments (Note 4), which 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 financial statements.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

The asset'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 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 fund. Mutual funds are held by the Organization and are open-end funds that are registered with the Securities and Exchange Commission. These mutual funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.
- *U.S. government securities*: Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Corporate bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing values on yields currently available on comparable securities of issuers with similar credit ratings.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

The following table sets forth by level, within the hierarchy, the Organization's assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	2018		
	Fair Value	Level 1	Level 2
Assets:			
Investments			
Mutual funds	\$ 10,118,230	\$ 10,118,230	\$ -0-
U.S. government securities	333,081	-0-	333,081
Corporate bonds	229,812	-0-	229,812
	2017		
	Fair Value	Level 1	Level 2
Assets:			
Investments			
Mutual funds	\$ 11,499,366	\$ 11,499,366	\$ -0-
U.S. government securities	376,679	-0-	376,679
Corporate bonds	207,871	-0-	207,871

7. PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	2018	2017
Furniture and fixtures	\$ 10,027	\$ 10,027
Office equipment	9,978	9,978
Software	18,100	18,100
	38,105	38,105
Less accumulated depreciation	(34,847)	(31,011)
	<u>\$ 3,258</u>	<u>\$ 7,094</u>

8. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Organization by other organizations based on their individual board resolutions. 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

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Statements of Activities.

Following is a progression of custodial funds during 2018 and 2017:

	2018	2017
Beginning balance	\$ 450,769	\$ 397,202
Contributions	764	11,118
Investment return, net	(34,044)	58,388
Administrative fees	(6,505)	(6,141)
Grant payments	<u>(15,973)</u>	<u>(9,798)</u>
Ending balance	<u>\$ 395,011</u>	<u>\$ 450,769</u>

9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amount of \$544,523 and \$415,456 based on funds appropriated for expenditure for the years ended December 31, 2018 and 2017, respectively.

10. ENDOWMENT

The majority of the Organization'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 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:

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

The Organization 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 the Organization must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization 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 Organization has a policy of appropriating for distribution each year 4 percent of its endowment funds' average fair value over the prior 20 quarters, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Organization considered the long-term expected return on its endowment.

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	\$ 882,536	\$ -0-
Donor Restricted Funds	-0-	9,876,726
	\$ 882,536	\$ 9,876,726

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

	2017 (As Restated)	
	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	\$ 1,003,959	\$ -0-
Donor Restricted Funds	-0-	11,088,603
	\$ 1,003,959	\$ 11,088,603

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	\$ 1,003,959	\$ 11,088,603
Contributions and other revenue	-0-	126,364
Investment return, net	(68,971)	(841,701)
Funds transfer	(39,000)	-0-
Appropriation of endowment assets for expenditure	(13,452)	(496,540)
Endowment net assets, end of year	\$ 882,536	\$ 9,876,726

	2017 (As Restated)	
	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 911,648	\$ 9,900,149
Contributions and other revenue	-0-	129,782
Investment return, net	134,741	1,470,396
Funds transfer	(28,000)	-0-
Appropriation of endowment assets for expenditure	(14,430)	(411,724)
Endowment net assets, end of year	\$ 1,003,959	\$ 11,088,603

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

11. 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	\$	293,161
Certificate of deposit		35,201
Operating investments		<u>47,338</u>
	\$	<u>375,700</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.

The administrative endowment is subject to an annual spending rate of 4 percent as described in Note 10. 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 1.5% to 2% of fund balance to fund operational expenditures.

COMMUNITY FOUNDATION OF SWITZERLAND COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

12. 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 and believes it is not exposed to any significant credit risk related to these accounts at December 31, 2018 and 2017.

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.