

**OWEN COUNTY COMMUNITY
FOUNDATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

CPAs / ADVISORS



OWEN COUNTY COMMUNITY FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Owen County Community Foundation, Inc.
Spencer, Indiana

Opinion

We have audited the accompanying financial statements of Owen County Community Foundation, Inc. (the "Organization"), a nonprofit organization, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standard's Update (ASU) No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the

Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blue & Co., LLC

Seymour, Indiana

September 25, 2023

OWEN COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Cash and cash equivalents	\$ 28,957	\$ 388,084
Certificate of deposit	74,638	74,340
Investments	9,955,608	11,604,000
Contributions receivable	35,326	61,781
Property and equipment, net	24,391	33,147
Right-of-use asset under operating lease	188,805	-0-
Other assets	306	12
	\$ 10,308,031	\$ 12,161,364

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 2,735	\$ 3,494
Grants payable	22,898	12,573
Charitable gift annuities payable	44,916	55,615
Custodial funds	43,473	108,118
Operating lease liability	191,338	-0-
Total liabilities	305,360	179,800

Net assets

Without donor restrictions		
Operating	366,089	353,931
Board designated endowment	374,618	443,038
Total net assets without donor restrictions	740,707	796,969
With donor restrictions		
Restricted for specified purpose	159,432	273,014
Restricted due to time restrictions	35,326	61,781
Endowment funds	9,067,206	10,849,800
Total net assets with donor restrictions	9,261,964	11,184,595
Total net assets	10,002,671	11,981,564
	\$ 10,308,031	\$ 12,161,364

See accompanying notes to financial statements.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES YEAR ENDED DECEMBER 31, 2022 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	2022			2021
	Without donor	With donor	Total	Total
	Restrictions	Restrictions		
Support and revenues				
Contributions and grants	\$ 103,809	\$ 536,386	\$ 640,195	\$ 1,699,168
Investment return, net	(52,703)	(1,503,627)	(1,556,330)	1,452,922
Change in value of split-interest agreement	-0-	6,269	6,269	(47)
Administrative fees	202,435	-0-	202,435	200,321
Other income	6,230	5,034	11,264	19,673
Net assets released from restrictions	966,693	(966,693)	-0-	-0-
Total support and revenues	<u>1,226,464</u>	<u>(1,922,631)</u>	<u>(696,167)</u>	<u>3,372,037</u>
Expenses				
Program services	989,301	-0-	989,301	905,312
General and administrative	123,003	-0-	123,003	142,808
Fundraising and development	170,422	-0-	170,422	136,089
Total expenses	<u>1,282,726</u>	<u>-0-</u>	<u>1,282,726</u>	<u>1,184,209</u>
Change in net assets	(56,262)	(1,922,631)	(1,978,893)	2,187,828
Net assets, beginning of year	<u>796,969</u>	<u>11,184,595</u>	<u>11,981,564</u>	<u>9,793,736</u>
Net assets, end of year	<u>\$ 740,707</u>	<u>\$ 9,261,964</u>	<u>\$ 10,002,671</u>	<u>\$ 11,981,564</u>

See accompanying notes to financial statements.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	Without donor Restrictions	With donor Restrictions	Total
Support and revenues			
Contributions and grants	\$ 89,999	\$ 1,609,169	\$ 1,699,168
Investment return, net	45,807	1,407,115	1,452,922
Change in value of split-interest agreement	-0-	(47)	(47)
Administrative fees	200,321	-0-	200,321
Other income	19,258	415	19,673
Net assets released from restrictions	919,884	(919,884)	-0-
Total support and revenues	1,275,269	2,096,768	3,372,037
Expenses			
Program services	905,312	-0-	905,312
General and administrative	142,808	-0-	142,808
Fundraising and development	136,089	-0-	136,089
Total expenses	1,184,209	-0-	1,184,209
Change in net assets	91,060	2,096,768	2,187,828
Net assets, beginning of year	705,909	9,087,827	9,793,736
Net assets, end of year	\$ 796,969	\$ 11,184,595	\$ 11,981,564

See accompanying notes to financial statements.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022				2021			
	Program Services	General and Administrative	Fundraising and Development	Total	Program Services	General and Administrative	Fundraising and Development	Total
Grants	\$ 640,306	\$ -0-	\$ -0-	\$ 640,306	\$ 550,344	\$ -0-	\$ -0-	\$ 550,344
Salaries and wages	103,139	66,115	95,205	264,459	116,302	63,208	73,320	252,830
Payroll taxes and employee benefits	15,410	9,879	14,225	39,514	18,309	9,951	11,542	39,802
Administrative fees	200,529	-0-	-0-	200,529	195,164	-0-	-0-	195,164
Advertising and events	9,321	-0-	27,963	37,284	5,038	-0-	15,113	20,151
Office supplies	2,621	1,310	2,621	6,552	4,744	2,372	4,743	11,859
Postage and printing	625	208	3,332	4,165	332	111	1,769	2,212
Telephone	1,341	894	2,235	4,470	1,163	775	1,939	3,877
Rent	5,054	5,054	5,206	15,314	4,138	4,138	4,264	12,540
Repairs and maintenance	768	768	791	2,327	1,138	1,138	1,173	3,449
Depreciation	2,889	2,889	2,978	8,756	2,751	2,751	2,834	8,336
Professional fees	-0-	31,380	7,845	39,225	-0-	51,804	12,951	64,755
Dues and subscriptions	1,678	-0-	1,678	3,356	1,568	-0-	1,568	3,136
Travel and entertainment	1,095	243	1,095	2,433	537	119	537	1,193
Meetings and conferences	1,085	723	1,808	3,616	829	553	1,381	2,763
Insurance	2,127	2,191	2,127	6,445	1,730	1,783	1,730	5,243
Utilities	953	982	953	2,888	-0-	2,843	-0-	2,843
Miscellaneous	360	367	360	1,087	1,225	1,262	1,225	3,712
Total expense	<u>\$ 989,301</u>	<u>\$ 123,003</u>	<u>\$ 170,422</u>	<u>\$ 1,282,726</u>	<u>\$ 905,312</u>	<u>\$ 142,808</u>	<u>\$ 136,089</u>	<u>\$ 1,184,209</u>

See accompanying notes to financial statements.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Operating activities		
Change in net assets	\$ (1,978,893)	\$ 2,187,828
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	8,756	8,336
Reinvested interest and dividends	(493,272)	(247,298)
Realized and unrealized loss (gain) on investments	2,000,343	(1,271,690)
Restricted contributions for endowment	(244,365)	(1,295,494)
Change in value of split-interest agreement	(6,269)	47
Changes in assets and liabilities:		
Right-of-use asset under operating lease	9,955	-0-
Contributions receivable	26,455	35,059
Other assets	(294)	(12)
Accounts payable	(759)	3,494
Grants payable	10,325	12,573
Accrued wages	-0-	(4,344)
Custodial funds	(64,645)	(27,869)
Operating lease liability	(7,422)	-0-
Net cash flows from operating activities	(740,085)	(599,370)
Investing activities		
Purchase of office equipment	-0-	(5,068)
Maturities of certificate of deposit	-0-	138,161
Purchases of investments	(10,995,218)	(10,369,444)
Proceeds on sales of investments	11,136,241	8,999,160
Net cash flows from investing activities	141,023	(1,237,191)
Financing activities		
Payments on charitable gift annuities	(4,430)	(4,797)
Restricted contributions for endowment	244,365	1,295,494
Net cash flows from financing activities	239,935	1,290,697
Net change in cash and cash equivalents	(359,127)	(545,864)
Cash and cash equivalents, beginning of year	388,084	933,948
Cash and cash equivalents, end of year	\$ 28,957	\$ 388,084

See accompanying notes to financial statements.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Owen County Community Foundation, Inc. (the "Organization") is a not-for-profit entity that began operations in February 1994. The Organization is located in Spencer, Indiana, and was organized to help make the Owen County communities become better places to grow, work, and live by gathering and growing charitable assets and giving back to the community through grants and scholarships.

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 amounts of 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

Board designated 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

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Restricted due to time restrictions – all contributions of 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 and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers cash equivalents to include all unrestricted investments with an original maturity of ninety days or less, but excludes cash equivalents held by various managers 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.

Contributions Receivable

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. 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 necessary as of December 31, 2022 and 2021.

Property and Equipment

Property and equipment, including expenditures that are over \$1,000 and 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 Organization provides for depreciation of property and equipment utilizing the straight-line method at rates designed to depreciate the cost of such assets over their estimated useful lives, which range from five to twenty years.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Support, Revenue 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. 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.

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 the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Those expenses include salaries and wages, payroll taxes and employee benefits, various occupancy expenses and office supplies. All expenses are allocated on the basis of estimates of time, effort and usage. While the methods of allocation are considered appropriate, other methods could produce different results.

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

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, 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.

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. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 were available to be issued, which is September 25, 2023.

2. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2022, the Organization adopted the new lease accounting standard issued by the Financial Accounting Standards Board (FASB) and codified in the Accounting Standards Codification (ASC) as Topic 842 (ASC 842). The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in ASC 842) of twelve months or less are not required to be reflected on an entity's statement of financial position.

The Organization applied the modified retrospective approach to all lease agreements when adopting ASC 842. ASC 842 was applied retrospectively to the beginning of the period of adoption through a cumulative-effect adjustment recognized as of January 1, 2022. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance in ASC 840. The adoption of ASC 842 had a material impact on the statement of financial position but did not have a significant impact on the statements of activities and cash flows. As of January 1, 2022, the Organization's total assets and total liabilities increased by \$198,760 as a result of ASC 842. The most significant impact was the recognition of a right-of-use (ROU) asset under operating lease and operating lease liability for an operating lease.

The Organization elected the available practical expedients to account for its existing operating leases under the new guidance, without reassessing (a) whether any expired or existing contracts contain a lease, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs, if any,

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. In addition, the Organization elected the hindsight practical expedient to determine the lease term for existing leases.

3. CERTIFICATE OF DEPOSIT

The Organization held a certificate of deposit of \$74,638 and \$74,340 at December 31, 2022 and 2021, respectively, with an interest rate of 0.40 percent. The maturity date of this certificate of deposit is November 2023. Certificates of deposits are recorded at cost plus accrued interest.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

4. INVESTMENTS

Investments consist of the following at December 31, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 152,856	\$ 584,987
Common stock		
Technology	-0-	713,117
Services	-0-	606,584
Healthcare	-0-	1,075,735
Consumer and industrial goods	-0-	247,362
Basic materials	-0-	291,008
Financial	-0-	371,910
Other	-0-	132,150
Equity mutual funds		
Mid/small	704,035	515,157
Large	4,391,183	1,768,588
Infrastructure	591,581	-0-
Fixed income mutual funds		
Short	-0-	313,487
Intermediate	777,321	398,041
Inflation-protected	-0-	371,261
Nontraditional	793,777	-0-
High yield bond	1,084,185	-0-
Equity exchange traded funds		
Mid/small	-0-	832,523
Large	756,387	1,473,187
High yield	-0-	172,330
Fixed income exchange traded funds		
Short	-0-	1,047,405
Corporate bonds		
Technology	-0-	90,922
Consumer goods	-0-	31,757
Other	-0-	30,010
Alternative investment	613,867	-0-
Real estate investment trusts	90,416	536,479
	\$ 9,955,608	\$ 11,604,000

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

5. RISKS AND UNCERTAINTIES

The Organization holds investments (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 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 lowest priority to unobservable inputs (level 3). 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, 2022 and 2021.

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded. For shares held of non-publicly traded stock, the fair value is based upon the last known sale.

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

- *Mutual funds and exchange traded funds:* Valued at the daily closing price as reported by the fund. Mutual funds and exchange traded funds held by the Organization are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.
- *Corporate bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *Alternative investment and real estate investment trusts:* Valued at the NAV of units of the funds. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.
- *Charitable gift annuities payable:* Fair value is determined by calculating the present value of the annuities using published life expectancy tables with discount rates ranging from 1.8 and 6.2 percent.

The following table sets forth by level, within the hierarchy, the Organization's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021:

	2022		
	Level 1	Level 2	Total
Assets:			
Mutual funds	\$ 8,342,082	\$ -0-	\$ 8,342,082
Exchange traded funds	756,387	-0-	756,387
Total assets in the fair value hierarchy	\$ 9,098,469	\$ -0-	9,098,469
Alternative investment*			613,867
Real estate investment trusts*			90,416
Total assets at fair value			\$ 9,802,752
Liabilities:			
Charitable gift annuities payable	\$ -0-	\$ 44,916	\$ 44,916

OWEN COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

	2021		
	Level 1	Level 2	Total
Assets:			
Common stock	\$ 3,437,866	\$ -0-	\$ 3,437,866
Mutual funds	3,366,534	-0-	3,366,534
Exchange traded funds	3,525,445	-0-	3,525,445
Corporate bonds	-0-	152,689	152,689
Total assets in the fair value hierarchy	<u>\$ 10,329,845</u>	<u>\$ 152,689</u>	10,482,534
Real estate investment trusts*			<u>536,479</u>
Total assets at fair value			<u>\$ 11,019,013</u>
Liabilities:			
Charitable gift annuities payable	<u>\$ -0-</u>	<u>\$ 55,615</u>	<u>\$ 55,615</u>

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the statement of financial position.

The objective of the real estate investment trusts is to invest in a diversified portfolio that will achieve attractive total returns, preserve invested capital, and provide increasing distributions. To achieve these objectives, investment managers seek to invest in a portfolio of income-producing commercial properties. The investments may be redeemed at the net asset value after the one-year anniversary date of the investment and with proper notice. The redemptions may be done monthly, quarterly, or semi-annually with various notices ranging from one day to five days. Due to the nature of the investments, changes in market conditions and the economic environment may significantly impact the net asset value and, consequently, the fair value of the Organization's interest in the investments. There were no unfunded commitments of these real estate investment trusts as of December 31, 2022 and 2021.

A summary of the alternative investment's balance and restrictions on redemptions is as follows:

	2022	2021	Redemption Notice	Redemption Frequency
North Rock Fund, Limited	\$ 613,867	\$ -0-	90 days	Monthly

At December 31, 2022 and 2021, there were no unfunded commitments of this alternative investment.

Due to the nature of the investments held by the alternative investments, changes in market conditions and the economic environment may significantly impact the net asset value of the

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alternative investments, consequently, the fair value of the Organization's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Organization were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

7. CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 11,300	\$ 22,320
One to five years	<u>24,026</u>	<u>39,461</u>
Ending balance	<u>\$ 35,326</u>	<u>\$ 61,781</u>

Contributions receivable have not been discounted due to the immaterial effect.

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Office equipment	\$ 19,290	\$ 46,385
Furniture and fixtures	19,912	19,912
Leasehold improvements	<u>13,370</u>	<u>13,370</u>
	52,572	79,667
Less accumulated depreciation	<u>(28,181)</u>	<u>(46,520)</u>
	<u>\$ 24,391</u>	<u>\$ 33,147</u>

9. CHARITABLE GIFT ANNUITIES

The Organization has several charitable gift annuities. The Organization is required to make payments to the donors in quarterly and semiannual amounts ranging from annual amounts of \$620 to \$2,465. Upon the death of the specified persons, the remaining amount of the gifts is to

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be used by the Organization for unrestricted purposes. The Organization has recognized a liability for the present value of the amounts expected to be paid to the third-party beneficiaries at December 31, 2022 and 2021, under these agreements. The liability was calculated based on the life expectancy of the beneficiaries, derived from the applicable annuity expected return multiples for the annuities. The present value was calculated using IRS discount rates ranging from 1.8% to 6.2%. The present value of amounts to be paid to the third party beneficiaries was \$44,916 and \$55,615 at December 31, 2022 and 2021, respectively.

10. 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 standards set forth by the Financial Accounting Standards Board. 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 on the Statements of Activities.

Following is a progression of custodial funds during 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 108,118	\$ 135,987
Contributions	-0-	5,147
Investment return, net	(5,047)	7,290
Grant payments	(58,192)	(38,624)
Administrative fees	<u>(1,406)</u>	<u>(1,682)</u>
Ending balance	<u>\$ 43,473</u>	<u>\$ 108,118</u>

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11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Restricted for specified purposes		
Various based on fund agreements	\$ 137,057	\$ 150,010
My Path	22,375	123,004
Restricted due to time restrictions		
Pledges receivable	35,326	61,781
Endowment funds		
Restricted in perpetuity	8,469,410	8,205,181
Restricted subject to the Organization's spending policy	871,228	2,644,619
Underwater endowments	<u>(273,432)</u>	<u>-0-</u>
Total net assets with donor restrictions	<u>\$ 9,261,964</u>	<u>\$ 11,184,595</u>

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Purpose restrictions related to:		
MyPath	\$ 135,065	\$ 59,718
Funds appropriated for expenditure for various purposes based on fund agreements	<u>831,628</u>	<u>860,166</u>
	<u>\$ 966,693</u>	<u>\$ 919,884</u>

13. 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

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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, the Organization retains 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 amounts not retained in perpetuity 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 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

From time to time, due to unfavorable market fluctuations, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. The Organization has a policy that does allow spending from underwater endowment funds, unless otherwise precluded by donor intent or relevant laws and regulations.

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 5.6, which will preserve the purchasing power of the Organization's assets while meeting spending needs for grantmaking and cover operating expenses through investment fees and administrative fees. Actual returns in any given year may vary.

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

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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 up to 4 percent of the endowment funds' average market value over the prior twelve 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, 2022 and 2021 were as follows:

	2022		2021	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Board Designated Funds	\$ 374,618	\$ -0-	\$ 443,038	\$ -0-
Donor Restricted Funds	-0-	9,067,206	-0-	10,849,800
	<u>\$ 374,618</u>	<u>\$ 9,067,206</u>	<u>\$ 443,038</u>	<u>\$ 10,849,800</u>

Changes in endowed funds for the years ending December 31, 2022 and 2021 were as follows:

	2022		2021	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	\$ 443,038	\$ 10,849,800	\$ 252,170	\$ 8,519,541
Contributions and other revenues	-0-	368,798	-0-	1,371,651
Investment return, net	(53,380)	(1,428,164)	43,801	1,374,854
Interfund activity, net	100	23,714	156,712	50,705
Appropriation of endowment assets for expenditure	(15,140)	(746,942)	(9,645)	(466,951)
Endowment net assets, end of year	<u>\$ 374,618</u>	<u>\$ 9,067,206</u>	<u>\$ 443,038</u>	<u>\$ 10,849,800</u>

14. UNDERWATER ENDOWMENTS

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2022, funds with original gift values of \$4,403,215, fair values of \$4,129,783, and deficiencies of \$273,432 were reported in net assets with donor restrictions. At December 31, 2021, there were no material underwater funds.

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15. LEASES

The Organization recognizes right-of-use (ROU) assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Organization has an operating lease for office facilities. Leasing arrangements required fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. The Organization's lease agreement does not contain any material restrictive covenants. The lease has a remaining term of 15.75 years.

The Organization's ROU asset and lease liability is recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. The Organization utilizes a risk-free interest rate commensurate with the lease term as the discount rate for its leases unless the Organization can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. The Organization has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its right-of-use assets and lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are expensed on a straight-line basis over the lease term. The Organization did not have any short-term leases during the year ended December 31, 2022.

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the Organization can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, the Organization assesses whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors. These evaluations may require significant judgment.

The Organization's total operating lease expense for the year ended December 31, 2022 was \$15,314. Lease expense for the year ended December 31, 2021 was \$12,540.

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This lease agreement includes potential changes on rental payments based on changes in the consumer price index (CPI) in excess of 4%. Lease liabilities are not remeasured as a result of changes in the CPI; instead, changes in the CPI are treated as variable lease payments and are excluded from the measurement of the ROU asset and lease liability. These payments are recognized in the period in which the related obligation is incurred.

The Organization's right-of-use assets and lease liabilities and other disclosures as of and for the year ended December 31, 2022 are as follows:

Right-of-use asset		
Operating lease asset	\$	188,805
Lease liability		
Operating lease liability	\$	191,338
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating lease	\$	12,780
Weighted average remaining lease term		15.75 years
Weighted average discount rate		3.00%

Future payments are as follows:

<u>Year Ended December 31,</u>		
2023	\$	13,020
2024		13,275
2025		13,575
2026		13,875
2027		14,175
Thereafter		<u>175,800</u>
Total lease payments		243,720
Less: interest		<u>(52,382)</u>
Present value of lease liability	\$	<u><u>191,338</u></u>

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Future minimum lease payments under the terms of non-cancelable operating leases in effect at December 31, 2021, under previous accounting guidance under ASC 840 are summarized below:

Year		
2022	\$	12,780
2023		12,780
2024		13,275
2025		13,575
2026		13,875
Thereafter		24,975
	\$	91,260

16. RELATED PARTY TRANSACTIONS

The Organization received \$48,024 and \$82,266 in contributions from members of the Organization’s board of directors and staff during 2022 and 2021, respectively. Contributions receivable at December 31, 2022 and 2021 included outstanding pledges from members of the Organization’s board of directors of \$34,026 and \$47,161, respectively.

17. LIQUIDITY AND AVAILABILITY

As part of the Organization’s liquidity management, it structures 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 Statements of Financial Position date are comprised of the following as of December 31, 2022 and 2021:

	2022	2021
Operating cash and cash equivalents	\$ 28,957	\$ 183,342
Maturing certificates of deposit	74,638	-0-
Operating investments	236,407	64,735
	\$ 340,002	\$ 248,077

The Organization’s endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is

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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 and cash equivalents or liquid investments and are made available upon appropriation.

The administrative endowment is subject to an annual spending rate of 5 percent of the average fund balance. 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, which it charges most funds annually 2 percent of the fund balance or 2 percent of gifts received, to fund operational expenditures.

18. 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 managed by various investment firms. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.