Horizon Community Funds of Northern Kentucky

Financial Statement
Period from Inception (April 19, 2017) to December 31, 2017
With Independent Auditors' Report
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Independent Auditors’ Report

To the Board of Trustees
Horizon Community Funds of Northern Kentucky
Covington, KY

We have audited the accompanying financial statements of Horizon Community Funds of Northern Kentucky (a nonprofit organization), which comprise of the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the period from inception (April 19, 2017) to December 31, 2017, 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 of 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Horizon Community Funds as of December 31, 2017, and the changes in its net assets and its cash flows for the period from inception (April 19, 2017) to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

March 22, 2018
Crestview Hills, Kentucky

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HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY

Statement of Financial Position
December 31, 2017

Assets
Cash and cash equivalents $ 520,140
Pledges receivable 34,619
Administrative fees due from donor advised funds 5,623
Prepaid expenses 8,408
Investments 7,081,248
Property and equipment, net 3,792

Total assets $ 7,653,830

Liabilities and Net Assets

Liabilities
Accounts payable $ 2,838
Accrued liabilities 12,483

Total liabilities 15,321

Net Assets
Unrestricted 532,292
Donor advised funds 7,071,008
Board designated 590

Total unrestricted 7,603,890

Temporarily restricted 34,619

Total net assets 7,638,509

Total liabilities and net assets $ 7,653,830

See accompanying notes to financial statements.
HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY

Statement of Activities
Period from Inception (April 19, 2017) to December 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and grants</td>
<td>7,949,115</td>
<td>34,619</td>
<td>7,983,734</td>
</tr>
<tr>
<td>Net investment loss</td>
<td>(157,321)</td>
<td>-</td>
<td>(157,321)</td>
</tr>
<tr>
<td>Investment administration fees</td>
<td>5,327</td>
<td>-</td>
<td>5,327</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>7,797,121</td>
<td>34,619</td>
<td>7,831,740</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program expense</td>
<td>141,423</td>
<td>-</td>
<td>141,423</td>
</tr>
<tr>
<td>Management and general</td>
<td>28,082</td>
<td>-</td>
<td>28,082</td>
</tr>
<tr>
<td>Fundraising expense</td>
<td>23,726</td>
<td>-</td>
<td>23,726</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>193,231</td>
<td>-</td>
<td>193,231</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>7,603,890</td>
<td>34,619</td>
<td>7,638,509</td>
</tr>
<tr>
<td><strong>Net assets, beginning of year</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td>$ 7,603,890</td>
<td>$ 34,619</td>
<td>$ 7,638,509</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY

Statement of Cash Flows
Period from Inception (April 19, 2017) to December 31, 2017

Cash flows from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$7,638,509</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash from operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>159</td>
</tr>
<tr>
<td>Net investment loss</td>
<td>157,617</td>
</tr>
<tr>
<td>Donated stock</td>
<td>(5,030,248)</td>
</tr>
<tr>
<td>Change in:</td>
<td></td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>(34,619)</td>
</tr>
<tr>
<td>Other receivables</td>
<td>(5,623)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(8,408)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2,838</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>12,483</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities $2,732,708

Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of property and equipment</td>
<td>(3,951)</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(2,208,867)</td>
</tr>
<tr>
<td>Sales of investments</td>
<td>250</td>
</tr>
</tbody>
</table>

Net cash provided used by investing activities (2,212,568)

Change in cash and cash equivalents 520,140

Cash and cash equivalents, beginning of year -

Cash and cash equivalents, end of year $520,140

Supplemental Disclosure of Noncash Transaction

During the period ended December 31, 2017, the Foundation received $5,030,248 of donated stock.

See accompanying notes to financial statements.
HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY

Notes to Financial Statements

NOTE 1  NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Horizon Community Funds of Northern Kentucky (the Foundation) was founded as a not-for-profit organization in 2017 under the laws of the State of Kentucky. The Foundation's mission is to unite resources to raise the quality of life for all people in Northern Kentucky. The Foundation brings people together to donate and contribute in ways that have never been available before, to combine their resources to help break the cycle of poverty, support the arts, spark development and innovation, enrich our children’s education, and improve the health and wellness of our community. This is a community foundation designed to manage funds exclusively for the benefit of Northern Kentucky. Horizon Community Funds has options for the full spectrum of donors, from those who want to give to a general community fund to those who want to choose what charities benefit from their gifts.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restriction; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets which have donor-imposed restriction which do not expire.

Fair Value Measurements

Under applicable GAAP for fair value measurements and disclosures, a three-level hierarchy is established for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 – Inputs are unadjusted quoted prices for identical assets in active markets; Level 2 – Inputs are observable quoted prices for similar assets in active markets; Level 3 – Inputs are unobservable and reflect management’s best estimates of what market participants would use as fair value.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Investments and Investment Return

Investments in money market funds and debt securities are carried at fair value. Investments in certificates of deposit are carried at amortized cost. Investment return includes dividends, interest and realized and unrealized gains and losses on investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.
NOTE 1  NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Return (Continued)

The Organization has established three investment pools with different risk profiles that align with their investment policy. This policy establishes the target allocations for each of the three risk profiles. Donors have the ability to specify their desired allocations into each of the three investment pools when creating a donor-advised fund. At December 31, 2017, approximately 69% of the Foundation’s investments was made up of two stocks. In January 2018, sales of these stocks were executed to properly diversify the investment pools.

The spending percentage from an endowed fund will be set annually by the Council of Trustees and will be between 3% and 6%. Currently, the annual spending percentage is set at 4% of the average market value of the fund over the last 12 quarters. In the case of donor advised funds, a donor may recommend a grant in excess of the spending percentage, provided that the total distribution does not exceed the 6% maximum. Distributions will only be made from endowed funds that have reached the Organization’s established minimum funding levels.

Property and Equipment

Property and equipment are carried at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred. The Foundation capitalizes purchases of property and equipment in excess of $1,000.

The Organization assesses the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions.

Contributions

The Foundation records gifts of cash and other assets at their fair value as of the date of contribution. Such donations are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue. Conditional promises to give are recognized as revenues when the conditions on which they depend are substantially met.
NOTE 1  NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Kentucky law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation’s IRS Form 990 is subject to review and examination by federal and state authorities. The Foundation believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses have been classified based upon the actual direct expenditures and cost allocations based upon estimates of time spent by Foundation personnel.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Event Evaluation

In preparing its financial statements, the Foundation has evaluated events subsequent to the statement of financial position date through March 22, 2018, which is the date the financial statements were available to be issued.

NOTE 2  PLEDGES RECEIVABLE / TEMPORARILY RESTRICTED NET ASSETS

Pledges receivable consists of unconditional donor promises to give. These amounts are reported as temporarily restricted on the Statement of Financial Position. As of December 31, 2017, all amounts are expected to be collected within one year.
NOTE 3 INVESTMENTS AT FAIR VALUE

Investments at December 31, 2017 consisted of the following:

Level 1:
- Equity securities $4,869,696
- Equity mutual funds 1,455,977
- Fixed income mutual funds 485,863

Level 2:
- Money market funds 269,712

Total $7,081,248

There were no valuations using Level 3 inputs.

Mutual funds and equity securities: Fair values are determined by reference to quoted market prices and other relevant information generated by market transactions. Mutual funds and equity securities are categorized using Level 1 inputs.

Money market funds and municipal bonds: Fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Money market funds and municipal bonds categorized using Level 2 inputs.

Investment return for the period ended December 31, 2017 is comprised of the following:

- Interest and dividend income $296
- Net realized and unrealized gains (losses) (157,617)

Total $157,321

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consisted of the following:

- Computer equipment and software $3,951
- Less accumulated depreciation (159)

Total $3,792

Depreciation expense during the period ended December 31, 2017 was $159.

NOTE 5 DONOR ADVISED FUNDS

Advisors of donor advised funds have the ability to direct the use of the funds within the guidelines of the Foundation’s mission. These funds are reported as unrestricted on the Statement of Financial Position.
NOTE 6  RELATED PARTY LEASE

The Foundation has two leases for office space from a related party. The term of the leases is one year each, with the leases expiring in June 2018 and September 2018. The lessor has the right to terminate the lease with sixty days’ advance notice. Rent expense in 2017 was $5,970. Minimum payments in 2018 is $7,410.

NOTE 7  SIGNIFICANT CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. During the period ended December 31, 2017, two donors represented approximately 78% of contributions.

NOTE 8  RETIREMENT PLAN

The Company maintains a SIMPLE IRA plan for the benefit of employees, with a 3% match of employee salaries. The Foundation recognized cost of $230 related to this plan during the period ended December 31, 2017.

NOTE 9  RECENTLY ADOPTED ACCOUNTING STANDARDS UPDATE

On August 18, 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The standard aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. Expenses will be reported by both their natural and functional classification to aid in the usefulness of financial statements. This standard will be effective for calendar year ending December 31, 2018.

On May 28 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. This standard will be effective for the calendar year ending December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020.

The Foundation is currently in the process of evaluating the impact of adoption of these ASUs on the financial statements.