

Horizon Community Funds of Northern Kentucky and Affiliate

**Consolidated Financial Statements
Years ended December 31, 2021 and 2020
With Independent Auditors' Report**

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE
Years ended December 31, 2021 and 2020

Contents

| | <u>Page(s)</u> |
|------------------------------------------------|----------------|
| Independent Auditors' Report | 1 - 2 |
| Financial Statements: | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Activities | 4 - 5 |
| Consolidated Statements of Functional Expenses | 6 |
| Consolidated Statements of Cash Flows | 7 |
| Notes to Consolidated Financial Statements | 8 - 18 |

Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of Horizon Community Funds of Northern Kentucky and Affiliate (a nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Community Funds of Northern Kentucky and Affiliate as of December 31, 2021 and 2020, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Horizon Community Funds of Northern Kentucky and Affiliate 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Horizon Community Funds of Northern Kentucky and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

Independent Auditors' Report (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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 consolidated 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 consolidated 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 Horizon Community Funds of Northern Kentucky and Affiliate'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Horizon Community Funds of Northern Kentucky and Affiliate'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.

Barnes, Dennig & Co., Ltd.

July 27, 2022
Crestview Hills, Kentucky

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Consolidated Statements of Financial Position December 31, 2021 and 2020

| | 2021 | 2020 |
|---------------------------------------|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,713,292 | \$ 1,602,310 |
| Pledges receivable | 500,997 | 820,285 |
| Other receivables | 35,615 | 76,662 |
| Prepaid expenses | 24,566 | 26,231 |
| Investments | 40,443,137 | 25,450,766 |
| Property and equipment, net | 3,236 | 1,422 |
| Total assets | \$ 42,720,843 | \$ 27,977,676 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 10,028 | \$ 19,498 |
| Accrued liabilities | 40,859 | 74,679 |
| Grants payable | 1,103,895 | 1,448,024 |
| Held for other organizations | 6,191,165 | 4,542,424 |
| Total liabilities | 7,345,947 | 6,084,625 |
| Net Assets | | |
| Without donor restrictions | | |
| Undesignated | 340,131 | 218,780 |
| Donor advised funds | 28,505,989 | 16,892,453 |
| Board designated | 2,013,470 | 1,949,230 |
| Board-designated endowment | 296,037 | 141,592 |
| Total without donor restrictions | 31,155,627 | 19,202,055 |
| With donor restrictions | | |
| | 4,219,269 | 2,690,996 |
| Total net assets | 35,374,896 | 21,893,051 |
| Total liabilities and net assets | \$ 42,720,843 | \$ 27,977,676 |

See accompanying notes to consolidated financial statements

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Consolidated Statement of Activities Year Ended December 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--------------------------------------|-------------------------------|----------------------------|---------------|
| Revenues | | | |
| Contributions and grants | \$ 13,758,249 | \$ 1,869,798 | \$ 15,628,047 |
| Net investment gains | 2,829,147 | 110,069 | 2,939,216 |
| Investment administration fees | 42,923 | - | 42,923 |
| Other income | 35,743 | - | 35,743 |
| Released from restriction | 451,594 | (451,594) | - |
| | 17,117,656 | 1,528,273 | 18,645,929 |
| Expenses | | | |
| Program expense | 4,817,248 | - | 4,817,248 |
| Management and general expense | 139,537 | - | 139,537 |
| Fundraising expense | 207,299 | - | 207,299 |
| | 5,164,084 | - | 5,164,084 |
| Change in net assets | 11,953,572 | 1,528,273 | 13,481,845 |
| Net assets, beginning of year | 19,202,055 | 2,690,996 | 21,893,051 |
| Net assets, end of year | \$ 31,155,627 | \$ 4,219,269 | \$ 35,374,896 |

See accompanying notes to consolidated financial statements

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

**Consolidated Statement of Activities
Year Ended December 31, 2020**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-----------------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| Revenues | | | |
| Contributions and grants | \$ 4,543,593 | \$ 1,992,939 | \$ 6,536,532 |
| Net investment gains | 1,690,731 | 70,091 | 1,760,822 |
| Investment administration fees | 32,074 | - | 32,074 |
| Paycheck Protection Program (PPP) Grant | 41,400 | - | 41,400 |
| Other income | 45 | - | 45 |
| Released from restriction | <u>1,131,522</u> | <u>(1,131,522)</u> | <u>-</u> |
| Total revenues | <u>7,439,365</u> | <u>931,508</u> | <u>8,370,873</u> |
| Expenses | | | |
| Program expense | 4,354,561 | - | 4,354,561 |
| Management and general expense | 136,054 | - | 136,054 |
| Fundraising expense | <u>146,692</u> | <u>-</u> | <u>146,692</u> |
| Total expenses | <u>4,637,307</u> | <u>-</u> | <u>4,637,307</u> |
| Change in net assets | 2,802,058 | 931,508 | 3,733,566 |
| Net assets, beginning of year | <u>16,399,997</u> | <u>1,759,488</u> | <u>18,159,485</u> |
| Net assets, end of year | <u><u>\$ 19,202,055</u></u> | <u><u>\$ 2,690,996</u></u> | <u><u>\$ 21,893,051</u></u> |

See accompanying notes to consolidated financial statements

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

**Consolidated Statements of Functional Expenses
Years Ended December 31, 2021 and 2020**

| | 2021 | | | | 2020 | | | |
|------------|-------------------------|-------------------------------|--------------------|---------------------|-------------------------|-------------------------------|--------------------|---------------------|
| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
| Grants | \$ 4,480,337 | \$ - | \$ - | \$ 4,480,337 | \$ 4,076,555 | \$ - | \$ - | \$ 4,076,555 |
| Marketing | 42,132 | 99 | 52,250 | 94,481 | 38,255 | - | 40,184 | 78,439 |
| Personnel | 244,692 | 66,263 | 99,577 | 410,532 | 217,938 | 67,772 | 94,950 | 380,660 |
| Facility | - | 63,947 | 320 | 64,267 | - | 60,298 | 1,083 | 61,381 |
| Website | 20,674 | 3,721 | 7,460 | 31,855 | 16,989 | 3,568 | 8,931 | 29,488 |
| Membership | 3,533 | 5,507 | 145 | 9,185 | 4,503 | 4,416 | 1,223 | 10,142 |
| Committee | 213 | - | 213 | 426 | 321 | - | 321 | 642 |
| Consulting | 25,000 | - | - | 25,000 | - | - | - | - |
| Events | 667 | - | 47,334 | 48,001 | - | - | - | - |
| | <u>\$ 4,817,248</u> | <u>\$ 139,537</u> | <u>\$ 207,299</u> | <u>\$ 5,164,084</u> | <u>\$ 4,354,561</u> | <u>\$ 136,054</u> | <u>\$ 146,692</u> | <u>\$ 4,637,307</u> |

See accompanying notes to consolidated financial statements

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Consolidated Statements of Cash Flows Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|--------------------------------------------------------------------------------------|---------------|--------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 13,481,845 | \$ 3,733,566 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 834 | 790 |
| Net realized and unrealized gains on investments | (2,441,561) | (1,365,158) |
| Contributions received restricted for investment in endowment | (515,931) | (345,127) |
| Non-cash donation of privately held securities | (1,380,428) | - |
| Change in: | | |
| Pledges receivable | 319,288 | (33,961) |
| Other receivables | 41,047 | (47,273) |
| Prepaid expenses | 1,665 | (12,204) |
| Accounts payable | (9,470) | 6,349 |
| Accrued liabilities | (33,820) | 20,241 |
| Grants payable | (344,129) | (262,176) |
| Held for other organizations | 1,648,741 | 1,156,549 |
| Net cash provided by operating activities | 10,768,081 | 2,851,596 |
| Cash flows from investing activities | | |
| Purchases of investments | (32,505,738) | (14,380,665) |
| Sales of investments | 21,335,356 | 12,273,153 |
| Purchases of property and equipment | (2,648) | - |
| Net cash used in investing activities | (11,173,030) | (2,107,512) |
| Cash flows provided by financing activities | | |
| Proceeds from contributions restricted for investment in endowment | 515,931 | 345,127 |
| Change in cash and cash equivalents | 110,982 | 1,089,211 |
| Cash and cash equivalents, beginning of year | 1,602,310 | 513,099 |
| Cash and cash equivalents, end of year | \$ 1,713,292 | \$ 1,602,310 |

See accompanying notes to consolidated financial statements

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include Horizon Community Funds of Northern Kentucky (the Organization) and its wholly owned and controlled affiliate Northern Kentucky Foundation, LLC (the LLC), which are collectively referred to as “the Foundation.” All significant inter-organizational transactions have been eliminated.

Nature of Activities

Horizon Community Funds of Northern Kentucky was founded as a not-for-profit organization in 2017 under the laws of the State of Kentucky. Its mission is to unite resources to raise the quality of life for all people in Northern Kentucky. The Organization 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 children’s education, and improve the health and wellness of the community. The Organization is a community foundation designed to manage funds exclusively for the benefit of Northern Kentucky. The Organization 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.

Northern Kentucky Foundation, LLC was founded on September 25, 2018 as a single-member limited liability company under the laws of the State of Kentucky. The LLC’s purpose is to receive certain donated assets, subject to the Organization’s gift acceptance policy, that are exclusively for the benefit of the Organization. Pursuant to the LLC’s operating agreement, the Organization is the sole member of the LLC and has provided capital contributions of \$100 for 100 membership units, which have been eliminated in consolidation.

Financial Statement Presentation

The consolidated 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 two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net asset with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, debt and equity 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, net of fees.

Interest in CFSPV5, LLC DBA Connetic Venture Fund consists of an investment in an unregistered investment pool, which is not valued upon quoted market prices. The unregistered investment pool invests in various equity and debt securities and other vehicles to generate investment return. The fund records investment as the ownership interest in partner capital to which a proportionate share of net assets is attributed, as reported by the fund manager. This represents the Foundation's proportionate membership interest in the capital of the invested funds.

GAAP allows for the use of a practical expedient to measure equity securities without readily determinable fair values at cost, less impairment, and plus or minus changes resulting from observable price changes. The Foundation has elected this practical expedient to measure its investment in privately held securities.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as with donor restrictions and then released from restriction. Other investment return is reflected in the statements of activities as with donor restrictions or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

As of December 31, 2021 and 2020, the Foundation has established six investment pools with different risk profiles that align with their investment policy. This policy establishes the target allocations for each of the investment pool risk profiles. Donors have the ability to specify their desired allocations into each of the investment pools when creating a donor-advised fund.

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 Foundation 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.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board Designated Assets

The Board of Trustees of the Foundation have designated assets to be used for initiatives to support the Northern Kentucky community's needs and most critical endeavors.

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 revenue without donor restrictions 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 revenue with donor restrictions and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue with donor restrictions 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 revenue with donor restrictions. 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.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Kentucky law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The LLC is treated as a disregarded entity of the Organization for tax purposes and profits and losses pass-through directly to the Organization.

The Organization's IRS Form 990 is subject to review and examination by federal and state authorities. The Organization 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 consolidated financial statements.

Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses have been classified based upon the actual direct expenditures and cost allocations. The most significant allocation is personnel costs, which is allocated based upon estimates of time spent by personnel.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Payable

Grants payable is recognized in the period the grant is approved, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable are recorded at their present value.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain 2020 amounts have been reclassified to conform to the 2021 presentation.

Subsequent Event Evaluation

In preparing its consolidated financial statements, the Foundation has evaluated events subsequent to the consolidated statement of financial position date through July 27, 2022, which is the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---------------------------|-------------------|-------------------|
| Cash and cash equivalents | <u>\$ 319,754</u> | <u>\$ 224,514</u> |

The Foundation's donor advised funds consist of cash and restricted investments in investment portfolios offered. Administration income is derived from donor-advised investments with a specific purpose to generate revenue without donor restrictions for operations.

The Foundation's board-designated fund balance is \$2,013,470 and \$1,949,230 at December 31, 2021 and 2020, respectively. Although the Foundation does not intend to spend from this board-designated fund (other than amounts appropriated for grant campaigns), these amounts could be made available, if necessary.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 3 PLEDGES RECEIVABLE

Unconditional pledges receivable consisted of the following at December 31:

| | 2021 | 2020 |
|----------------------------|------------|------------|
| Due within one year | \$ 261,955 | \$ 431,465 |
| Due in one to five years | 259,000 | 413,860 |
| | 520,955 | 845,325 |
| Less: unamortized discount | (19,958) | (25,040) |
| | \$ 500,997 | \$ 820,285 |

The discount rate used on long-term pledges receivable ranged between 1.4% and 1.7% for 2021 and 2020.

NOTE 4 INVESTMENTS AT FAIR VALUE

Investments at fair value consisted of the following at December 31:

| | 2021 | 2020 |
|-----------------------------------------------|---------------|---------------|
| Level 1: | | |
| Equity securities | \$ 12,219,777 | \$ 8,863,082 |
| Equity mutual and exchange traded funds | 11,352,866 | 7,633,869 |
| Fixed income mutual and exchange traded funds | 6,967,183 | 5,503,194 |
| Alternative investment mutual funds | 535,953 | - |
| Level 2: | | |
| Money market funds | 6,344,249 | 1,729,025 |
| U.S. government securities | 574,208 | 562,680 |
| Corporate bonds | 841,288 | 649,224 |
| Municipal bonds | 346,840 | 279,418 |
| Level 3: | | |
| Interest in privately held securities | 786,426 | - |
| Not subject to fair value hierarchy: | | |
| Interest in Connetic Venture Fund | 474,347 | 230,274 |
| | \$ 40,443,137 | \$ 25,450,766 |

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

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

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 4 INVESTMENTS AT FAIR VALUE (CONTINUED)

Interest in privately held securities: Fair value upon initial investment was based on internal company valuation that considered variables such as financial book value, receivables assessment, and other pertinent information. Based on assessments performed by the Foundation to identify observable price changes of the investment, there have been no upward or downward adjustments to the carrying amount on an annual or cumulative basis. Because the investment is not readily marketable, its estimated value is subject to uncertainty and therefore may be different from the value that would have been used had a ready market for such investment existed.

The following table is a reconciliation of investments measured at fair value on a recurring basis using the Foundation's best estimate of what market participants would use as fair value (Level 3) at December 31, 2021 and 2020:

| | Interest in privately held securities |
|----------------------------------------------------------------|---------------------------------------------|
| Balance, December 31, 2020 | \$ - |
| Contributions | 1,380,428 |
| Sales | (579,652) |
| Total gains and losses included in the change in net assets | <u>(14,350)</u> |
| Balance, December 31, 2021 | <u><u>\$ 786,426</u></u> |

Included in investments is an interest in the CFSPV5, LLC DBA Connetic Venture Fund of \$474,347 and \$230,274 at December 31, 2021 and 2020, respectively, consisting of an unregistered investment pool. The fair value of this investment pool is reported by the Foundation based on information provided by the investment manager. Values may be based on readily available public market data as well as estimates that require varying degrees of judgment. Generally, fair value reflects net capital contributions to the investee and an ownership share of realized and unrealized investment income and expense. The financial statements of the investee are prepared consistent with the measurement principles of an investment company or have the attributes of an investment company. The financial statements are audited annually by independent auditors as of December 31 with the most recent being as of December 31, 2021.

Valuations for this investment pool provided by the investment manager are evaluated by the Foundation, and management believes such values are reasonable for the years ended December 31, 2021 and 2020. The Foundation uses the ownership interest in partner capital to which a proportionate share of net assets is attributed as a practical expedient to determine the fair value of this investment, which is not required to be categorized using the fair value hierarchy.

The investment agreement does not permit the investment to be redeemed with the investee unless a liquidity event occurs, but the Foundation can receive member distributions to the extent distributable cash is available, as determined by the investment manager. The timing and amount of any liquidation of underlying assets by the investee is unknown.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

**Notes to Consolidated Financial Statements
(Continued)**

NOTE 4 INVESTMENTS AT FAIR VALUE (CONTINUED)

The following table lists the investment in other investment companies by major category:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> |
|-----------------------------------|-------------------|---------------------------------|---------------------------------|
| December 31, 2021 | | | |
| Interest in Connetic Venture Fund | <u>\$ 474,347</u> | <u>\$ 100,000</u> | unallowed |
| December 31, 2020 | | | |
| Interest in Connetic Venture Fund | <u>\$ 230,274</u> | <u>\$ -</u> | unallowed |

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|-----------------|-----------------|
| Computer equipment and software | \$ 6,600 | \$ 3,951 |
| Less accumulated depreciation | <u>(3,364)</u> | <u>(2,529)</u> |
| | <u>\$ 3,236</u> | <u>\$ 1,422</u> |

Depreciation expense for 2021 and 2020 was \$834 and \$790, respectively.

NOTE 6 GRANTS PAYABLE

Unconditional grants are payable in the following periods as of December 31:

| | |
|----------------------------|---------------------|
| 2022 | \$ 335,000 |
| 2023 | 335,000 |
| 2024 | 125,000 |
| 2025 | 125,000 |
| 2026 | 125,000 |
| Thereafter | <u>125,000</u> |
| | 1,170,000 |
| Less: unamortized discount | <u>(66,105)</u> |
| | <u>\$ 1,103,895</u> |

NOTE 7 HELD FOR OTHER ORGANIZATIONS

The Foundation has an agreement with various organizations regarding a component fund included in its investment pools in which those organizations retain beneficial interest.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 8 DONOR ADVISED FUNDS

Advisors of donor advised funds have the ability to recommend the use of the funds within the guidelines of the Foundation's mission. These funds are reported as without donor restrictions on the consolidated statements of financial position.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following periods or purposes as of December 31, 2021 and 2020:

| | 2021 | 2020 |
|-------------------------------------------------------------------------|--------------|--------------|
| Restricted as to purpose: | | |
| Boone County Animal Shelter Building Fund | \$ 1,574,997 | \$ 1,062,022 |
| Coronavirus Relief Fund | 358,794 | 403,960 |
| RiverFront Commons | 412,692 | 382,456 |
| Father Mario Tizziana Memorial Fund | 231,207 | - |
| NKY Community Journalism | 224,915 | - |
| Ignite Institute Fund | 65,759 | 115,515 |
| St. Elizabeth | 39,684 | 36,237 |
| NKIP | 35,491 | 34,528 |
| Other | 98,322 | 54,734 |
| Donor-restricted endowment subject to spending policy and appropriation | 1,177,408 | 601,544 |
| | \$ 4,219,269 | \$ 2,690,996 |

NOTE 10 ENDOWMENTS

The Foundation's endowment consists of several donor-restricted and board-designated endowment funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Federation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides guidance on matters concerning the governance and management of donor-restricted endowment funds. Under UPMIFA, the original value of donated gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument are classified as net assets with donor restrictions. The remaining portion of the donor-restricted endowment fund that is not included in donor-restricted endowment, at historical value, is classified as accumulated net appreciation on endowments until those amounts are appropriated for expenditure by the Board of Trustees.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 10 ENDOWMENTS (CONTINUED)

The endowment net asset composition by type of fund is as follows as of December 31:

| | 2021 | 2020 |
|----------------------------------------------------------------------------------------------|--------------|------------|
| Without donor restrictions: | | |
| Board-designated endowments | \$ 296,037 | \$ 141,592 |
| With donor restrictions | | |
| Donor-restricted endowments, at historical value, required to be maintained in perpetuity | 1,059,113 | 543,182 |
| Accumulated net appreciation of endowments required to be maintained in perpetuity | 118,295 | 58,362 |
| Total with donor restrictions | 1,177,408 | 601,544 |
| | \$ 1,473,445 | \$ 743,136 |

The changes in endowment net assets for the years ended December 31 were as follows:

| | Without Donor Restrictions | With Donor Restrictions |
|---------------------------------|-------------------------------|----------------------------|
| Endowment net assets - 12/31/19 | \$ 5,305 | \$ 208,419 |
| Contributions | 125,251 | 345,127 |
| Investment return, net | 11,036 | 50,109 |
| Appropriated earnings | - | (2,111) |
| Endowment net assets - 12/31/20 | 141,592 | 601,544 |
| Contributions | 140,053 | 515,931 |
| Investment return, net | 14,392 | 60,753 |
| Appropriated earnings | - | (820) |
| Endowment net assets - 12/31/21 | \$ 296,037 | \$ 1,177,408 |

Investment Policy

The Foundation's long-term return objective is to preserve the real value of the fund assets while supporting the spending policy and fund expenses. The Foundation believes that the most significant decision to affect the ability of the fund to meet its objectives is asset allocation. As such, the funds are diversified in order to minimize the risk of large losses and to manage volatility of asset classes and investment styles. Further, the investment policy details certain investments as prohibited investments. The Foundation expects investments to outperform relevant indices and targeted benchmarks over a full market cycle (typically three-to-five-year period).

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 10 ENDOWMENTS (CONTINUED)

Spending Policy

The spending policy is set annually by the Board of Trustees for an amount no less than 3.0% and no more than 6.0%. The Foundation's spending policy for 2021 and 2020 allows annual spending of 4.0% of the average market value of the fund over the last 12 quarters, or a shorter time period as determined by the Board of Trustees. The calculation to determine the available annual distribution is made as of December 31st each year for the following year.

NOTE 11 PAYCHECK PROTECTION PROGRAM (PPP) GRANT

On May 6, 2020, the Organization entered into a term note pursuant to the Coronavirus Aid, Relief, and Economic Security Act's (CARES Act) Paycheck Protection Program (the Program) for \$41,400. All or a portion of the note may be forgiven in accordance with the Program requirements. Interest on the outstanding principal balance will accrue at a fixed rate of 1.00%, but neither principal or interest are due and payable during the covered period. After the covered period expires, loan payments will be deferred for borrowers who apply for loan forgiveness until the Small Business Administration (the SBA) remits the borrower's loan forgiveness amount to the lender.

The Organization elected to apply the conditional contribution guidance pursuant to ASC 958-605 to determine the derecognition of the liability. In accordance with this guidance, the derecognition threshold for the liability is when the conditions of the Program are "substantially met" and occur on or before the statement of financial position date. As of December 31, 2020, the Organization determined that all significant conditions under the Program had been substantially met and recognized the entire \$41,400 as grant revenue during 2020.

On January 19, 2021, the Organization received notification from the SBA that the note was fully forgiven, and the SBA remitted payment to the lender for the full outstanding principal and accrued interest amount.

NOTE 12 RELATED PARTY TRANSACTIONS

The Foundation has a lease for office space with a company affiliated with one of its Board of Directors. The term of the lease is one year with the lease expiring in September 2022. The lessor has the right to terminate the lease with sixty days' advance notice. Rent expense in 2021 and 2020 was \$25,320 and \$24,760, respectively. Minimum future lease payments as of December 31, 2021 are \$15,440 for 2022.

The Foundation and the Connetic Venture Fund have common management. The Connetic Venture Fund is operated by the immediate family members of two of the Foundation's Board of Directors. Also, there are three Foundation Board of Directors, immediate family members of Foundation Board of Directors, and immediate family members of Foundation management who also serve on the Board of Directors of Connetic Venture Fund. The Foundation's investment in the Connetic Venture Fund is \$474,347 and \$230,274 and December 31, 2021 and 2020, respectively.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 13 SIGNIFICANT CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. During 2021, two donors represented approximately 43% of contributions and grants and one donor represented substantially all of the pledges receivable as of December 31, 2021. During 2020, one donor represented approximately 23% of contributions and substantially all of the pledges receivable as of December 31, 2020.

NOTE 14 RETIREMENT PLAN

The Foundation maintains a SIMPLE IRA plan for the benefit of employees, with a 3% match of employee salaries. The Foundation recognized expense of \$10,037 and \$9,219 related to this plan during 2021 and 2020, respectively.

NOTE 15 RISKS AND UNCERTAINTIES

The Foundation's investments consist of those summarized in Note 4. Investment securities are exposed to various risks, such as credit, market and interest rate. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2021. However, the diversification of the Foundation's investments among various asset classes should mitigate the impact of any adverse changes on any one asset class. Investments are managed by the Board of Trustees with advice and assistance from investment professionals.

NOTE 16 COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Foundation's business and financial results will depend on future developments, including the duration and spread of the outbreak and the related impact, all of which are highly uncertain.