

Horizon Community Funds of Northern Kentucky and Affiliate

**Consolidated Financial Statements
Years ended December 31, 2022 and 2021
With Independent Auditors' Report**

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE
Years ended December 31, 2022 and 2021

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Independent Auditors' Report

To the Council 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, 2022 and 2021, 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, 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 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.

August 30, 2023
Crestview Hills, Kentucky

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Consolidated Statements of Financial Position December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 1,525,128	\$ 1,713,292
Pledges receivable	501,168	500,997
Other receivables	60,632	35,615
Prepaid expenses	23,857	24,566
Investments	37,689,688	40,443,137
Property and equipment, net	2,075	3,236
	<u>\$ 39,802,548</u>	<u>\$ 42,720,843</u>
Total assets		
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 23,047	\$ 10,028
Accrued liabilities	31,865	40,859
Grants payable	821,830	1,103,895
Held for other organizations	6,323,025	6,191,165
	<u>7,199,767</u>	<u>7,345,947</u>
Total liabilities		
 Net Assets		
Without donor restrictions		
Undesignated	353,332	340,131
Donor advised funds	24,852,644	28,505,989
Board designated	1,641,398	2,013,470
Board-designated endowment	365,784	296,037
	<u>27,213,158</u>	<u>31,155,627</u>
Total without donor restrictions		
With donor restrictions	<u>5,389,623</u>	<u>4,219,269</u>
Total net assets	<u>32,602,781</u>	<u>35,374,896</u>
Total liabilities and net assets	<u>\$ 39,802,548</u>	<u>\$ 42,720,843</u>

See accompanying notes to consolidated financial statements

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Consolidated Statement of Activities Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions and grants	\$ 5,289,929	\$ 1,742,760	\$ 7,032,689
Net investment losses	(4,700,380)	(318,320)	(5,018,700)
Investment administration fees	51,253	-	51,253
Other income	83,757	-	83,757
Released from restriction	254,086	(254,086)	-
	978,645	1,170,354	2,148,999
Expenses			
Program expense	4,483,538	-	4,483,538
Management and general expense	193,958	-	193,958
Fundraising expense	243,618	-	243,618
	4,921,114	-	4,921,114
Change in net assets	(3,942,469)	1,170,354	(2,772,115)
Net assets, beginning of year	31,155,627	4,219,269	35,374,896
Net assets, end of year	\$ 27,213,158	\$ 5,389,623	\$ 32,602,781

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	\$ 13,758,248	\$ 1,869,798	\$ 15,628,046
Net investment gains	2,829,148	110,069	2,939,217
Investment administration fees	42,923	-	42,923
Other income	35,743	-	35,743
Released from restriction	451,594	(451,594)	-
	<u>17,117,656</u>	<u>1,528,273</u>	<u>18,645,929</u>
Expenses			
Program expense	4,817,248	-	4,817,248
Management and general expense	139,537	-	139,537
Fundraising expense	207,299	-	207,299
	<u>5,164,084</u>	<u>-</u>	<u>5,164,084</u>
Change in net assets	11,953,572	1,528,273	13,481,845
Net assets, beginning of year	<u>19,202,055</u>	<u>2,690,996</u>	<u>21,893,051</u>
Net assets, end of year	<u><u>\$ 31,155,627</u></u>	<u><u>\$ 4,219,269</u></u>	<u><u>\$ 35,374,896</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, 2022 and 2021**

	2022				2021			
	<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	\$ 4,107,554	\$ -	\$ -	\$ 4,107,554	\$ 4,480,337	\$ -	\$ -	\$ 4,480,337
Marketing	41,460	999	68,744	111,203	42,132	99	52,250	94,481
Personnel	276,427	75,892	115,663	467,982	244,692	66,263	99,577	410,532
Facility	-	98,556	-	98,556	-	63,947	320	64,267
Website	25,946	3,361	7,037	36,344	20,674	3,721	7,460	31,855
Membership	5,021	15,150	-	20,171	3,533	5,507	145	9,185
Committee	130	-	130	260	213	-	213	426
Consulting	27,000	-	-	27,000	25,000	-	-	25,000
Events	-	-	52,044	52,044	667	-	47,334	48,001
	<u>\$ 4,483,538</u>	<u>\$ 193,958</u>	<u>\$ 243,618</u>	<u>\$ 4,921,114</u>	<u>\$ 4,817,248</u>	<u>\$ 139,537</u>	<u>\$ 207,299</u>	<u>\$ 5,164,084</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, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (2,772,115)	\$ 13,481,845
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,161	834
Net realized and unrealized (gains) losses on investments	5,558,918	(2,441,561)
Contributions received restricted for investment in endowment	(496,187)	(515,931)
Non-cash donation of privately held securities	216,000	(1,380,428)
Change in:		
Pledges receivable	(171)	319,288
Other receivables	(25,017)	41,047
Prepaid expenses	709	1,665
Accounts payable	13,019	(9,470)
Accrued liabilities	(8,994)	(33,820)
Grants payable	(282,065)	(344,129)
Held for other organizations	131,860	1,648,741
	2,337,118	10,768,081
Cash flows from investing activities		
Purchases of investments	(36,122,410)	(32,505,738)
Sales of investments	33,100,941	21,335,356
Purchases of property and equipment	-	(2,648)
	(3,021,469)	(11,173,030)
Cash flows provided by financing activities		
Proceeds from contributions restricted for investment in endowment	496,187	515,931
Change in cash and cash equivalents	(188,164)	110,982
Cash and cash equivalents, beginning of year	1,713,292	1,602,310
Cash and cash equivalents, end of year	\$ 1,525,128	\$ 1,713,292

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, 2022 and 2021, 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 Council 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.

Effect of Adopting New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*. The standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Foundation adopted ASC 842 on January 1, 2022. Adoption of ASC 842 did not have a material effect on the statement of financial position and no amounts for ROU assets and lease liabilities have been recorded as of December 31, 2022.

The Organization chose to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, would have allowed the Foundation to carryforward the historical lease classification. The Foundation made an accounting policy election that payments under agreements with an initial term of 12 months or less will not be included on the statement of financial position but will be recognized in the statement of activities on a straight-line basis over the term of the agreement.

Reclassifications

Certain 2021 amounts have been reclassified to conform to the 2022 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 August 30, 2023, which is the date the consolidated financial statements were available to be issued.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	<u>\$ 221,003</u>	<u>\$ 319,754</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 \$1,641,398 and \$2,013,470 at December 31, 2022 and 2021, 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.

NOTE 3 PLEDGES RECEIVABLE

Unconditional pledges receivable consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Due within one year	\$ 234,409	\$ 261,955
Due in one to five years	<u>292,314</u>	<u>259,000</u>
	526,723	520,955
Less: unamortized discount	<u>(25,555)</u>	<u>(19,958)</u>
	<u>\$ 501,168</u>	<u>\$ 500,997</u>

The discount rate used on long-term pledges receivable ranged between 1.4% and 4.5% for 2022 and 2021.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 4 INVESTMENTS AT FAIR VALUE

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

	2022	2021
Level 1:		
Equity securities	\$ 9,651,717	\$ 12,219,777
Equity mutual and exchange traded funds	8,649,362	11,352,866
Fixed income mutual and exchange traded funds	6,056,954	6,967,183
Alternative investment mutual funds	344,151	535,953
Level 2:		
Money market funds	10,830,150	6,344,249
U.S. government securities	577,732	574,208
Corporate bonds	589,715	841,288
Municipal bonds	293,739	346,840
Level 3:		
Interest in privately held securities	144,891	786,426
Not subject to fair value hierarchy:		
Interest in Connetic Venture Fund	551,277	474,347
	\$ 37,689,688	\$ 40,443,137

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.

Interest in privately held securities: Fair value upon initial investment was based on internal company valuation that considered variables such as financial book value, capitalization rate, 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.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 4 INVESTMENTS AT FAIR VALUE (CONTINUED)

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, 2022 and 2021:

		Interest in privately held securities
Balance, December 31, 2021	\$	786,426
Contributions		144,891
Sales		(793,664)
Total gains and losses included in the change in net assets		7,238
Balance, December 31, 2022	\$	144,891

Included in investments is an interest in the CFSPV5, LLC DBA Connetic Venture Fund of \$551,277 and \$474,347 at December 31, 2022 and 2021, 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, 2022.

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, 2022 and 2021. 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.

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

	Fair Value	Unfunded Commitments	Redemption Frequency
December 31, 2022			
Interest in Connetic Venture Fund	\$ 551,277	\$ 50,000	unallowed
December 31, 2021			
Interest in Connetic Venture Fund	\$ 474,347	\$ 100,000	unallowed

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

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

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2022	2021
Computer equipment and software	\$ 6,600	\$ 6,600
Less accumulated depreciation	(4,525)	(3,364)
	\$ 2,075	\$ 3,236

Depreciation expense for 2022 and 2021 was \$1,161 and \$834, respectively.

NOTE 6 GRANTS PAYABLE

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

2023	\$ 377,500
2024	125,000
2025	125,000
2026	125,000
2027	125,000
	877,500
Less: unamortized discount	(55,670)
	\$ 821,830

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.

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.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

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

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following periods or purposes as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Restricted as to purpose:		
Boone County Animal Shelter Building Fund	\$ 2,103,820	\$ 1,574,997
NKY Student Success Fund	340,733	-
Beechwood School Third Party Fund	367,283	24,980
RiverFront Commons	299,866	412,692
NKY Community Journalism	164,139	224,915
Northern Kentucky Entrepreneur Fund	200,696	-
Father Mario Tizziani Memorial Fund	193,427	231,207
Beechwood School Fund Edge Agri Science Lab	56,600	4,992
St. Elizabeth	34,408	39,684
NKIP	31,267	35,491
Coronavirus Relief Fund	-	358,794
Ignite Institute Fund	-	65,759
Other	129,816	68,350
Donor-restricted endowment subject to spending policy and appropriation	<u>1,467,568</u>	<u>1,177,408</u>
	<u>\$ 5,389,623</u>	<u>\$ 4,219,269</u>

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 Council 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 Council of Trustees of the Foundation 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 Council of Trustees.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 10 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law (Continued)

The Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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

	2022	2021
Without donor restrictions:		
Board-designated endowments	\$ 365,784	\$ 296,037
With donor restrictions		
Donor-restricted endowments, at historical value, required to be maintained in perpetuity	1,555,300	1,059,113
Accumulated net appreciation (deficit) of endowments required to be maintained in perpetuity	(87,732)	118,295
Total with donor restrictions	1,467,568	1,177,408
	\$ 1,833,352	\$ 1,473,445

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

	Without Donor Restrictions	With Donor Restrictions
Endowment net assets - 12/31/20	\$ 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
Contributions	123,336	496,187
Investment return, net	(53,589)	(197,791)
Appropriated earnings	-	(8,236)
Endowment net assets - 12/31/22	\$ 365,784	\$ 1,467,568

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 10 ENDOWMENTS (CONTINUED)

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in 39 donor-restricted endowment funds, which together have an original gift value of \$1,189,132, a current fair value of \$1,288,297, and a deficiency of (\$99,165) as of December 31, 2022. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Council of Trustees. There were no deficiencies of this nature as of December 31, 2021.

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).

Spending Policy

The spending policy is set annually by the Council of Trustees for an amount no less than 3.0% and no more than 6.0%. The Foundation's spending policy for 2022 and 2021 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 Council of Trustees. The calculation to determine the available annual distribution is made as of December 31st each year for the following year. The Foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

NOTE 11 RELATED PARTY TRANSACTIONS

The Foundation has a lease for office space with a company affiliated with one of its Council of Trustees. The term of the lease is one year with the lease expiring in September 2023. The lessor has the right to terminate the lease with sixty days' advance notice. Lease expense in 2022 and 2021 was \$25,635 and \$25,320, respectively.

The Foundation and the Connetic Venture Fund have common management. As of December 31, 2022 and 2021, the Connetic Venture Fund is operated by the immediate family members of one and two, respectively, of the Foundation's Council of Trustees. Also as of December 31, 2022 and 2021, there are two and three, respectively Foundation Council of Trustees, immediate family members of Foundation Council of Trustees, 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 \$551,277 and \$474,347 and December 31, 2022 and 2021, respectively.

HORIZON COMMUNITY FUNDS OF NORTHERN KENTUCKY AND AFFILIATE

Notes to Consolidated Financial Statements (Continued)

NOTE 12 SIGNIFICANT CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. During 2022, two donors represented approximately 44% of contributions and grants and one donor represented substantially all of the pledges receivable as of December 31, 2022. During 2021, two donors represented approximately 43% of contributions and one donor represented substantially all of the pledges receivable as of December 31, 2021.

NOTE 13 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 \$10,911 and \$10,037 related to this plan during 2022 and 2021, respectively.

NOTE 14 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, 2022. 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 Council of Trustees with advice and assistance from investment professionals.