

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

FINANCIAL STATEMENTS
With Accountants' Review Report

December 31, 2006 and 2005

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Table of Contents

	<u>Page</u>
Accountants' Review Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Cash Flows	5
Notes to Financial Statements	6-13

ACCOUNTANTS' REVIEW REPORT

Board of Directors


Community Foundation of Morgan County, Inc.

Mooresville, Indiana

We have reviewed the accompanying statements of financial position of **Community Foundation of Morgan County, Inc.** (an Indiana nonprofit corporation) as of December 31, 2006, and 2005 and the related statements of activities and cash flows for the years then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Community Foundation of Morgan County, Inc..

A review consists principally of inquiries of the foundation's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with U.S. generally accepted accounting principles.



Greenwood, Indiana

February 28, 2007

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Financial Position (See Accountants' Review Report)

	December 31,	
	2006	2005
ASSETS:		
Current assets:		
Cash and cash equivalents:		
Cash held for current operations	\$ 158,097	\$ 322,293
Cash held for purpose restricted and nonpermanent funds	407,984	506,610
	566,081	828,903
Accounts receivable	-	18,604
Prepaid expenses and other assets	1,450	3,029
	567,531	850,536
Certificates of deposits held for purpose restricted and nonpermanent funds	179,969	295,633
Property and equipment—net (Note 4)	234,556	248,218
Long-term investments (Note 3)	3,787,308	3,298,413
Beneficial interest in supporting foundation (Note 2)	33,602,808	29,828,661
	33,602,808	29,828,661
Total Assets	\$ 38,372,172	\$ 34,521,461
 LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts and other payables	\$ 14,887	\$ 27,585
Deferred revenue	50,000	-
	64,887	27,585
Deferred interest in charitable trust (Note 5)	386,151	347,799
	386,151	347,799
Total liabilities	451,038	375,384
Net assets (Note 7):		
Unrestricted	1,106,660	1,047,021
Temporarily restricted	451,253	603,847
Permanently restricted	36,363,221	32,495,209
	36,363,221	32,495,209
Total net assets	37,921,134	34,146,077
Total Liabilities and Net Assets	\$ 38,372,172	\$ 34,521,461

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Activities (See Accountants' Review Report)

For the Years Ended December 31,

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Support:								
Funds raised	\$ 33,426	\$ 35,313	\$ 93,865	\$ 162,604	\$ 34,192	\$ 67,525	\$ 19,207	\$ 120,924
Grant income	-	-	-	-	-	250,800	-	250,800
Donated facilities (Note 6)	16,560	-	-	16,560	15,600	-	-	15,600
	<u>49,986</u>	<u>35,313</u>	<u>93,865</u>	<u>179,164</u>	<u>49,792</u>	<u>318,325</u>	<u>19,207</u>	<u>387,324</u>
Revenue:								
Net unrealized gains	74,787	47,366	-	122,153	34,014	11,968	-	45,982
Net realized gains	30,441	49,204	-	79,645	47,623	7,533	-	55,156
Investment income	70,160	50,330	-	120,490	81,644	7,449	-	89,093
	<u>175,388</u>	<u>146,900</u>	<u>-</u>	<u>322,288</u>	<u>163,281</u>	<u>26,950</u>	<u>-</u>	<u>190,231</u>
Management fees	50,000	-	-	50,000	35,653	-	-	35,653
Special events income	56	-	-	56	17,619	-	-	17,619
	<u>225,444</u>	<u>146,900</u>	<u>-</u>	<u>372,344</u>	<u>216,553</u>	<u>26,950</u>	<u>-</u>	<u>243,503</u>
Total Support and Revenue	<u>275,430</u>	<u>182,213</u>	<u>93,865</u>	<u>551,508</u>	<u>266,345</u>	<u>345,275</u>	<u>19,207</u>	<u>630,827</u>
RECLASSIFICATIONS:								
Satisfaction of purpose restrictions	334,807	(334,807)	-	-	64,922	(64,922)	-	-

(continued)

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Activities (See Accountants' Review Report)

(continued)

	For the Years Ended December 31,							
	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services:								
Grants made	150,706	-	-	150,706	151,788	-	-	151,788
Other program expenses	44,815	-	-	44,815	16,704	-	-	16,704
	195,521	-	-	195,521	168,492	-	-	168,492
Supporting activities:								
Management and general	253,617	-	-	253,617	264,508	-	-	264,508
Fund-raising	101,460	-	-	101,460	680	-	-	680
	355,077	-	-	355,077	265,188	-	-	265,188
Total Expenses	550,598	-	-	550,598	433,680	-	-	433,680
Change in Net Assets Before Change in Beneficial Interest (Note 8)	59,639	(152,594)	93,865	910	(102,413)	280,353	19,207	197,147
Change in Beneficial Interest (Note 2)	-	-	3,774,147	3,774,147	-	-	1,485,712	1,485,712
Change in Net Assets	59,639	(152,594)	3,868,012	3,775,057	(102,413)	280,353	1,504,919	1,682,859
Net Assets, Beginning of Year	1,047,021	603,847	32,495,209	34,146,077	1,149,434	323,494	30,990,290	32,463,218
Net Assets, End of Year	\$ 1,106,660	\$ 451,253	\$ 36,363,221	\$ 37,921,134	\$ 1,047,021	\$ 603,847	\$ 32,495,209	\$ 34,146,077

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Cash Flows (See Accountants' Review Report)

	For the Years Ended December 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,775,057	\$ 1,682,859
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	16,936	24,715
Net unrealized gain on investments	(122,153)	(45,982)
Net realized gain on investments	(79,645)	(55,156)
Change in beneficial interest in supporting foundation	(3,774,147)	(1,485,712)
Changes in:		
Accounts receivable	18,604	(18,604)
Prepaid expenses and other assets	1,579	(1,116)
Accounts and other payables	(12,698)	26,913
Deferred revenue	50,000	-
	(126,467)	127,917
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,274)	(3,745)
Net purchases of and proceeds from certificates of deposit held for nonpermanent funds	115,664	20,000
Purchases of long-term investments	(306,349)	(993,710)
Proceeds from sale of long-term investments	58,524	967,382
Payments to annuitants	(920)	(920)
	(136,355)	(10,993)
Net Cash Used by Investing Activities	(136,355)	(10,993)
Change in Cash and Cash Equivalents	(262,822)	116,924
Cash and Cash Equivalents, Beginning of Year	828,903	711,979
Cash and Cash Equivalents, End of Year	\$ 566,081	\$ 828,903
SUPPLEMENTAL DATA:		
Donated facilities	\$ 16,560	\$ 15,600

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

1. NATURE OF ORGANIZATION:

Community Foundation of Morgan County, Inc. (Foundation) is a community foundation serving Morgan County, Indiana. Its purpose is to serve the county by managing and distributing charitable contributions, supporting qualified not-for-profit organizations, and providing philanthropic leadership to improve the quality of life in the community. Sources of revenue include charitable contributions of cash, stock, and other noncash gifts. The Foundation is a recipient of the Lilly Endowment matching program. Programs benefiting from the Foundation include education; health and human services; arts and culture; and civic and community development.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and contributions to it are tax deductible within the limitations prescribed by the code. The Foundation is not considered a private foundation within the meaning of Section 509(a)(1) of the code.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Foundation are presented on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

CLASSES OF NET ASSETS

Accounting standards provide that if the governing body of an organization has the ability to remove a donor restriction, the contributions should be classified as unrestricted net assets. However, under the Foundation's governing instruments, some assets are held as endowment funds for specific purposes until such time (if ever) the governing body deems it prudent and appropriate to expend some part of the principal or appreciation. Accordingly, the financial statements classify these net assets as unrestricted but segregate the portion that is held as nonpermanent and endowment from the funds that are currently undesignated and available for grants and administration.

Likewise, "nonpermanent" funds of the Foundation include amounts set aside internally by the Foundation for future use. Those funds are also treated in these financial statements as unrestricted.

Temporarily restricted net assets consist of unspent funds with external purpose restrictions as specified by donors.

Unrestricted

Undesignated

Unrestricted, undesignated net assets represent the accumulated surplus of operating income over operating expenses and are available for use in the general operations of the Foundation.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS, continued

Unrestricted, continued

Board designated

Board designated funds are those held by the board for facilities and other board designated purposes. Because true endowments cannot be adjusted below their historical dollar value, the difference between the actual value of the endowment assets and the initial gift, if the asset value is lower, is classified as an unrestricted, board designated deficit.

A negative (deficit) amount would indicate that current actual asset values are lower than the original gift. See Note 8.

Net investment in property and equipment

Net investment in property and equipment represents property and equipment cost less accumulated depreciation and related debt.

Nonpermanent funds

Nonpermanent funds in unrestricted are assets held with board designation with principal and income that may be expended at any time. Nonpermanent funds currently may consist of the following types:

- *Field of interest*—A fund established to benefit a specific field (such as health care, education, youth programs, the arts, etc.). Grants are made from the fund to the most appropriate programs or organizations in the field chosen and based on current needs. The donor may express preference in determining the field of interest.
- *Specified purpose/designated*—A fund established to support other charitable programs or organizations, including churches or synagogues, educational institutions, or charitable activities of other organizations. The donor may express preference as to the charitable program or organization receiving the grant.
- *Scholarships*—A fund established to provide scholarships for the benefit of deserving student's educational opportunities. The donor may express preference regarding which school's students to support, the college or program, and the criteria applied.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS, continued

Unrestricted, continued

Endowment funds

Endowment fund assets are held with board intention to only expend income. Endowment funds currently consist of the following types:

- *Unrestricted*—The board is given complete discretion in the disbursement of grants from fund earnings, allowing the foundation to be responsive to current needs or opportunities.
- *Field of interest*—Described above in the nonpermanent section.
- *Specified purpose/designated*—Described above in the nonpermanent section.
- *Scholarships*—Described above in the nonpermanent section.

Temporarily Restricted

Temporarily restricted net assets consist of contributions restricted by donors and purpose restricted funds, as well as gifts provided by trusts and as applicable other split-interest agreements that will be available upon termination of the agreement.

Permanently Restricted

Permanently restricted net assets are those stipulated by donors to be held in perpetuity with the income to be used for specific operating purposes or for general use.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of highly liquid investments with original maturity dates of less than three months that are not reported as investments. While the Foundation may maintain cash and cash equivalents in bank deposit accounts which, at times, exceed federally insured limits, they have not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

INVESTMENTS

Investments in equity securities with readily determinable fair value and all debt securities are reported at fair value with gains and losses included in the statements of activities. Donated investments are initially recorded at fair value on the date of the gift then adjusted to fair value at the end of each year.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ACCOUNTS RECEIVABLE

Accounts receivable, as of December 31, 2005, consists of amounts owed to the Foundation for the duplicate payment of scholarships. All amounts were received in January 2006. Accordingly, no allowance for doubtful accounts has been reported. There were no accounts receivable as of December 31, 2006.

PROPERTY, EQUIPMENT, AND DEPRECIATION

Property and equipment are stated at cost or estimated historical cost through appraisal or, in the case of gifts from nonaffiliated entities, at the market values on the dates the gifts were donated. Betterments, renewals, and extraordinary repairs over \$1,000 that extend the life of the assets are capitalized; other repairs and maintenance are expensed. The cost and accumulated depreciation applicable to assets retired are removed from the accounts, and the gain or loss on disposition is recognized as other expense. Depreciation is computed on the straight line method as follows:

Leasehold improvements (Note 6)	25 years
Office equipment and software	5 years

BENEFICIAL INTERESTS IN SUPPORTING FOUNDATION

Beneficial interests represent the future interest in trust assets held by others that will benefit the Foundation in perpetuity per the present design of the sponsoring foundation, Kendrick Foundation.

REVENUES, RECLASSIFICATIONS, AND EXPENSES

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Foundation.

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as satisfaction of time or purpose restrictions.

The Foundation reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those 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.

Expenses are recorded when incurred in accordance with accrual basis accounting.

JOINT COSTS

The Foundation incurred no joint costs (as defined in SOP 98-2) for the years ended December 31, 2006, and 2005.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated, based on management's estimate, among the program services and supporting activities benefited.

Program services are expenses incurred primarily on behalf of endowment and other grants. Other program services consist of allocated personnel costs and other costs affiliated with grants.

RECLASSIFICATIONS

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

3. LONG- TERM INVESTMENTS:

Long-term investments consist of:

	December 31,	
	2006	2005
Cash and cash equivalents	\$ 122,004	\$ 98,297
Common and convertible preferred stock	2,274,708	1,927,642
Equity mutual funds	45,132	45,495
Bond mutual funds	390,620	2,905
Government bonds	565,675	614,355
Corporate bonds	3,018	261,920
Cash and mutual funds held in trust (Note 5)	386,151	347,799
	<u>\$ 3,787,308</u>	<u>\$ 3,298,413</u>

The investments are held in a custodial arrangement by two financial institutions. A consultant provides advice on allocation of investments. However, the Foundation retains the right to decide how funds are to be allocated.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of:

	December 31,	
	2006	2005
Leasehold improvements	\$ 295,667	\$ 295,667
Office equipment and software	66,580	63,305
	362,247	358,972
Less accumulated depreciation	(127,691)	(110,754)
	\$ 234,556	\$ 248,218

Depreciation in the amount of \$16,936 and \$24,715 has been allocated to program services and supporting activities in the statements of activities for the years ended December 31, 2006, and 2005, respectively.

5. INTEREST IN CHARITABLE TRUST:

The trust agreement in a charitable remainder unitrust provides for distribution of either a fixed percentage of the fair market value of the assets or a portion of annual earnings. The assets held in trust by the Foundation are reported at fair market value of \$386,151 and \$347,799 as of December 31, 2006 and 2005, respectively. See Note 3. Upon termination of the trust the remaining assets are transferred to the Foundation, unless the donors modify the trust agreement.

6. OPERATING LEASE:

On November 9, 1999, the Foundation signed a lease for the "Academy Building" located at 250 North Monroe Street, Mooresville, Indiana, to use as its business locale. The premises are leased for an annual fee of one dollar. The lease expires in April 15, 2010. The fair market value for the annual rental of the facility is \$16,560 and \$15,600, for the years ending December 31, 2006 and 2005, respectively, which is reported as a donated facilities support

During the year ended December 31, 2006, the Foundation entered into an operating lease agreement for use of a photocopier. The lease requires monthly payments of \$327 and it expires in February 2010. Total lease expense recorded in the statement of activities is \$4,475 and \$0-, for the years ended December 31, 2006, and 2005, respectively. Future minimum lease payments are as follows:

Years Ending December 31,	Amount
2007	\$ 3,951
2008	3,951
2009	3,951
2010	655
	\$ 12,509

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

7. NET ASSETS:

Net assets consist of:

	December 31,	
	2006	2005
Unrestricted:		
Undesignated	\$ 49,936	\$ 79,997
Board designated deficit (Notes 2 and 8)	(428,515)	(438,535)
Net investment in property and equipment	234,556	248,218
Nonpermanent	8,722	19,432
Endowment	1,241,961	1,137,909
Total unrestricted	1,106,660	1,047,021
Temporarily restricted:		
Lilly Sustaining Resource Development	148,760	250,000
Field of interest	23,720	10,044
Special purpose	181,653	202,947
Scholarship–Lilly Scholars	-	66,592
Scholarship–other	97,120	74,264
Total temporarily restricted	451,253	603,847
Permanently restricted:		
Field of interest	104,809	104,809
Special purpose	2,113,860	2,055,892
Scholarship	541,744	505,847
Beneficial interest in supporting foundation	33,602,808	29,828,661
Total permanently restricted	36,363,221	32,495,209
Total net assets	\$ 37,921,134	\$ 34,146,077

8. CHANGES IN UNRESTRICTED NET ASSETS:

The unrestricted, undesignated fund includes the changes in the net assets related to the undesignated property and equipment less accumulated depreciation, related debt, and the board designated unrestricted net assets. The board designated funds contain a large deficit resulting from unrealized losses on permanently restricted fund investments when the investment value is below the historical dollar value of the permanently restricted contribution and from past spending of fund corpus. When investment values increase, this deficit will be reduced, and unrestricted net assets will be increased to the extent of the accumulated losses until the deficit is reduced to zero. At that time, unrealized gains will be accrued to temporarily restricted net assets as there is a requirement to spend those funds on a specific purpose.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2006 and 2005

9. NEW ACCOUNTING PRONOUNCEMENT:

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprises financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective for fiscal years beginning after December 15, 2006. The effects of FIN 48 have not been determined.

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements. SFAS No. 157 defines fair value, established a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007. The effects of SFAS No. 157 have not been determined.