

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

FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2007 and 2006

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Foundation of Morgan County, Inc.
Moossville, Indiana

We have audited the accompanying statements of financial position of **Community Foundation of Morgan County, Inc.** (an Indiana nonprofit corporation) as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. All information included in these financial statements is the representation of the management of Community Foundation of Morgan County, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Foundations' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Community Foundation of Morgan County, Inc.** as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The December 31, 2006, financial statements were reviewed by us and our report thereon, dated February 28, 2007, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with U.S. generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

As described in Note 7 to the financial statements, **Community Foundation of Morgan County, Inc.** reported a change in reporting entity under the provisions of the Financial Accounting Standards Board (FASB) Statement No. 154.



Greenwood, Indiana
April 14, 2008

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Financial Position

	December 31,	
	2007 (Audit)	2006 (Review)
ASSETS:		
Current assets:		
Cash and cash equivalents:		
Cash held for current operations	\$ 376,313	\$ 158,097
Cash held for purpose restricted and nonpermanent funds	33,203	407,984
	409,516	566,081
Prepaid expenses and other assets	16,525	1,450
	426,041	567,531
Certificates of deposits held for purpose restricted and nonpermanent funds	119,969	179,969
Property and equipment—net (Note 4)	220,625	234,556
Long-term investments (Note 3)	4,181,386	3,787,308
	4,181,386	3,787,308
Total Assets	\$ 4,948,021	\$ 4,769,364
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts and other payables	\$ 17,660	\$ 14,887
Deferred revenue	50,000	50,000
	67,660	64,887
Deferred interest in charitable trust (Notes 2 and 3)	380,754	386,151
	380,754	386,151
Total liabilities	448,414	451,038
Net assets (Note 6):		
Unrestricted	1,152,259	1,106,660
Temporarily restricted	594,694	451,253
Permanently restricted	2,752,654	2,760,413
	2,752,654	2,760,413
Total net assets	4,499,607	4,318,326
Total Liabilities and Net Assets	\$ 4,948,021	\$ 4,769,364

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Activities
(See Independent Auditors' Report)

For the Years Ended December 31,

	2007				2006			
	(Audit)				(Review)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Support:								
Funds raised	\$ 53,733	\$ 255,010	\$ 5,330	\$ 314,073	\$ 33,426	\$ 35,313	\$ 93,865	\$ 162,604
Grant income	-	626	-	626	-	-	-	-
Donated facilities (Note 5)	16,617	-	-	16,617	16,560	-	-	16,560
	<u>70,350</u>	<u>255,636</u>	<u>5,330</u>	<u>331,316</u>	<u>49,986</u>	<u>35,313</u>	<u>93,865</u>	<u>179,164</u>
Revenue:								
Net unrealized gains (losses)	(157,519)	(218,500)	-	(376,019)	74,787	47,366	-	122,153
Net realized gains	175,297	232,866	-	408,163	30,441	49,204	-	79,645
Investment income	139,674	168,334	-	308,008	70,160	50,330	-	120,490
	<u>157,452</u>	<u>182,700</u>	<u>-</u>	<u>340,152</u>	<u>175,388</u>	<u>146,900</u>	<u>-</u>	<u>322,288</u>
Management fees	100,007	-	-	100,007	50,000	-	-	50,000
Special events income	11,890	-	-	11,890	56	-	-	56
	<u>269,349</u>	<u>182,700</u>	<u>-</u>	<u>452,049</u>	<u>225,444</u>	<u>146,900</u>	<u>-</u>	<u>372,344</u>
Total Support and Revenue	<u>339,699</u>	<u>438,336</u>	<u>5,330</u>	<u>783,365</u>	<u>275,430</u>	<u>182,213</u>	<u>93,865</u>	<u>551,508</u>
RECLASSIFICATIONS:								
Satisfaction of purpose restrictions	307,984	(294,895)	(13,089)	-	334,807	(334,807)	-	-

(continued)

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Activities

(continued)

For the Years Ended December 31,

	2007				2006			
	(Audit)				(Review)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services:								
Grants made	247,453	-	-	247,453	150,706	-	-	150,706
Other program expenses	9,383	-	-	9,383	44,815	-	-	44,815
	<u>256,836</u>	<u>-</u>	<u>-</u>	<u>256,836</u>	<u>195,521</u>	<u>-</u>	<u>-</u>	<u>195,521</u>
Supporting activities:								
Management and general	224,254	-	-	224,254	253,617	-	-	253,617
Fund-raising	120,994	-	-	120,994	101,460	-	-	101,460
	<u>345,248</u>	<u>-</u>	<u>-</u>	<u>345,248</u>	<u>355,077</u>	<u>-</u>	<u>-</u>	<u>355,077</u>
Total Expenses	<u>602,084</u>	<u>-</u>	<u>-</u>	<u>602,084</u>	<u>550,598</u>	<u>-</u>	<u>-</u>	<u>550,598</u>
Change in Net Assets	45,599	143,441	(7,759)	181,281	59,639	(152,594)	93,865	910
Net Assets, Beginning of Year								
As originally reported	1,106,660	451,253	2,760,413	4,318,326	1,047,021	603,847	32,495,209	34,146,077
Change in reporting entity (Notes 2 and 7)	-	-	-	-	-	-	(29,828,661)	(29,828,661)
As restated	<u>1,106,660</u>	<u>451,253</u>	<u>2,760,413</u>	<u>4,318,326</u>	<u>1,047,021</u>	<u>603,847</u>	<u>2,666,548</u>	<u>4,317,416</u>
Net Assets, End of Year	<u>\$ 1,152,259</u>	<u>\$ 594,694</u>	<u>\$ 2,752,654</u>	<u>\$ 4,499,607</u>	<u>\$ 1,106,660</u>	<u>\$ 451,253</u>	<u>\$ 2,760,413</u>	<u>\$ 4,318,326</u>

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Statements of Cash Flows

	For the Years Ended December 31,	
	2007	2006
	(Audit)	(Review)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 181,281	\$ 910
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	15,361	16,936
Noncash Stock Gift	(10,073)	-
Net unrealized gain (loss) on investments	376,019	(122,153)
Net realized gain on investments	(408,163)	(79,645)
Changes in:		
Accounts receivable	-	18,604
Prepaid expenses and other assets	(15,075)	1,579
Accounts and other payables	2,773	(12,698)
Deferred revenue	-	50,000
	<u>142,123</u>	<u>(126,467)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,430)	(3,274)
Net purchases of and proceeds from certificates of deposit held for nonpermanent funds	60,000	115,664
Purchases of long-term investments	(782,218)	(306,349)
Proceeds from sale of long-term investments	425,880	58,524
Payments to annuitants	(920)	(920)
	<u>(298,688)</u>	<u>(136,355)</u>
Net Cash Used by Investing Activities		
	<u>(298,688)</u>	<u>(136,355)</u>
Change in Cash and Cash Equivalents	(156,565)	(262,822)
Cash and Cash Equivalents, Beginning of Year	566,081	828,903
	<u>566,081</u>	<u>828,903</u>
Cash and Cash Equivalents, End of Year	\$ 409,516	\$ 566,081
	<u>\$ 409,516</u>	<u>\$ 566,081</u>
SUPPLEMENTAL DATA:		
Donated facilities	\$ 16,617	\$ 16,560
	<u>\$ 16,617</u>	<u>\$ 16,560</u>

See notes to financial statements

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2007 and 2006

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 county. Sources of support 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 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, the 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.

Unrestricted

Undesignated

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

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2007 and 2006

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. 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.

Net investment in property and equipment

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

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, 2007 and 2006

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

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 AND CREDIT RISK

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 reported at fair value at the end of each year.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

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 5)	25 years
Office equipment and software	5 years

BENEFICIAL INTERESTS IN SUPPORTING FOUNDATION

Beneficial interests represented the future interest in trust assets held by others that would benefit the Foundation in perpetuity per the initial design of the sponsoring Foundation, Kendrick Foundation.

See Note 7 for change in reporting entity disclosure.

DEFERRED 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 \$380,754 and \$386,151 as of December 31, 2007, and 2006, respectively. See Note 3. Upon termination of the trust the remaining assets are transferred to the Foundation, unless the donors modify the trust agreement.

REVENUES, RECLASSIFICATIONS, AND EXPENSES

Revenue is reported 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.

Gifts of property and equipment are reported 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.

Deferred revenue consists of revenue received before earned from the Kendrick Foundation.

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

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUES, RECLASSIFICATIONS, AND EXPENSES, continued

The Foundation incurred no joint costs (as defined in SOP 98-2) for the years ended December 31, 2007, and 2006.

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.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2007 and 2006

3. LONG- TERM INVESTMENTS:

Long-term investments consist of:

	December 31,	
	2007 (Audit)	2006 (Review)
Cash and cash equivalents	\$ 51,336	\$ 122,004
Common and convertible preferred stock	344,333	2,274,708
Equity mutual funds:		
Edward Jones Mutual Fund	-	45,132
Core Equity	575,437	-
Capital Income Builder Fund	21,489	-
Goldman Sachs Capital Growth	28,016	-
Growth Equity	488,857	-
Hilliard Lyons	8,552	-
Small Cap Growth Equity	139,583	-
Small Cap Value Equity	76,480	-
International Growth Equity	638,464	-
International Emerging Markets	67,857	-
Fixed Income:		
PIMCO Developing Local Markets	162,602	-
PIMCO Low Duration Fund	244,658	-
Western Asset Core Portfolio Fund	730,972	-
Money Market:		
Trust Company of Oxford	221,996	-
Bond mutual funds	-	390,620
Government bonds	-	565,675
Corporate bonds	-	3,018
Cash and mutual funds held in trust (Note 2)	380,754	386,151
	\$ 4,181,386	\$ 3,787,308

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, 2007 and 2006

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of:

	December 31,	
	2007 (Audit)	2006 (Review)
Leasehold improvements	\$ 295,667	\$ 295,667
Office equipment and software	68,010	66,580
	363,677	362,247
Less accumulated depreciation	(143,052)	(127,691)
	\$ 220,625	\$ 234,556

5. 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 \$16,617 and \$16,560, for the years ending December 31, 2007, and 2006, 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 reported in the statements of activities is \$5,243 and \$4,475, for the years ended December 31, 2007, and 2006, respectively. Future minimum lease payments are as follows:

Years Ending December 31,	Amount
2008	\$ 3,951
2009	3,951
2010	655
	\$ 8,557

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2007 and 2006

6. NET ASSETS:

Net assets consist of:

	December 31,	
	2007 (Audit)	2006 (Review)
Unrestricted:		
Undesignated (deficit)	\$ (18,350)	\$ 49,936
Board designated deficit (Note 2)	(303,012)	(428,515)
Net investment in property and equipment	220,625	234,556
Nonpermanent	6,162	8,722
Endowment	1,246,834	1,241,961
Total unrestricted	1,152,259	1,106,660
Temporarily restricted:		
Lilly Sustaining Resource Development	148,760	148,760
Field of interest	55,237	23,720
Special purpose	280,768	181,653
Scholarship	109,929	97,120
Total temporarily restricted	594,694	451,253
Permanently restricted:		
Field of interest	104,809	104,809
Special purpose	2,112,289	2,113,860
Scholarship	535,556	541,744
Total permanently restricted	2,752,654	2,760,413
Total net assets	\$ 4,499,607	\$ 4,318,326

7. CHANGE IN REPORTING ENTITY - BENEFICIAL INTEREST IN SUPPORTING FOUNDATION:

On July 1, 2007, the Kendrick Foundation changed its tax exempt status to that of a 501(c)3 private foundation as defined by Section 509(a)(1) and 170(b)(1)(A)(iii) of the code. While the Kendrick Foundation is no longer defined as a supporting organization of the Foundation, it maintains a close relationship with the Foundation and both Foundations continue to desire to care for its neighbors and provide leadership to improve the community. Under FASB 154, this change in reporting entity is retrospectively applied to the financial statements of all prior periods presented.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

Notes to Financial Statements

December 31, 2007 and 2006

8. NEW ACCOUNTING PRONOUNCEMENTS:

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, 2007. 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, establishes 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.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 will be effective for fiscal years beginning after November 15, 2007. The effects of SFAS No. 159 have not been determined.