



Community Foundation  
of Morgan County, Inc.  
*Investing in Our Quality of Life*

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

FINANCIAL STATEMENTS  
With Independent Auditors' Report

December 31, 2008 and 2007

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Community Foundation of Morgan County, Inc.  
Mooresville, 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, 2008, and 2007 and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2008, and 2007 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Greenwood, Indiana  
April 15, 2009

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Statements of Financial Position

	December 31,	
	2008	2007
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents:		
Cash held for current operations	\$ 578,268	\$ 376,313
Cash held for purpose restricted and nonpermanent funds	74,210	33,203
	652,478	409,516
Prepaid expenses and other assets	1,421	16,525
	653,899	426,041
Certificates of deposits held for purpose restricted and nonpermanent funds	67,826	119,969
Property and equipment—net (Note 4)	220,653	220,625
Long-term investments (Note 3)	3,605,087	4,181,386
	3,605,087	4,181,386
Total Assets	\$ 4,547,465	\$ 4,948,021
 <b>LIABILITIES AND NET ASSETS:</b>		
Current liabilities:		
Accounts and other payables	\$ 12,490	\$ 17,660
Deferred revenue (Note 2)	50,000	50,000
	62,490	67,660
Deferred interest in charitable trust (Notes 2 and 3)	265,625	380,754
	265,625	380,754
Total liabilities	328,115	448,414
Net assets (Note 6):		
Unrestricted (deficit)	(129,036)	1,152,259
Temporarily restricted	518,054	594,694
Permanently restricted	3,830,332	2,752,654
	3,830,332	2,752,654
Total net assets	4,219,350	4,499,607
Total Liabilities and Net Assets	\$ 4,547,465	\$ 4,948,021

See notes to financial statements

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Statements of Activities

	Year Ended December 31,							
	2008			2007				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>								
Support:								
Funds raised	\$ 670,721	\$ 71,018	\$ 1,077,678	\$ 1,819,417	\$ 53,733	\$ 255,010	\$ 5,330	\$ 314,073
Grant income	-	185,730	-	185,730	-	626	-	626
Donated facilities (Note 5)	16,965	-	-	16,965	16,617	-	-	16,617
	<u>687,686</u>	<u>256,748</u>	<u>1,077,678</u>	<u>2,022,112</u>	<u>70,350</u>	<u>255,636</u>	<u>5,330</u>	<u>331,316</u>
Revenue:								
Investment income	51,908	10,708	138,804	201,420	25,677	168,334	113,997	308,008
Net realized gains (losses)	(56,505)	(9,644)	(207,401)	(273,550)	8,418	232,866	166,879	408,163
Net unrealized gains (losses)	(265,419)	(44,057)	(847,705)	(1,157,181)	(7,371)	(218,500)	(150,148)	(376,019)
Unrestricted funds needed to restate endowed funds to historic principle	(916,302)	-	916,302	-	130,728	-	(130,728)	-
	<u>(1,186,318)</u>	<u>(42,993)</u>	<u>-</u>	<u>(1,229,311)</u>	<u>157,452</u>	<u>182,700</u>	<u>-</u>	<u>340,152</u>
Management fees (Note 2)	100,000	-	-	100,000	100,007	-	-	100,007
Special events income	120,631	-	-	120,631	11,890	-	-	11,890
	<u>(965,687)</u>	<u>(42,993)</u>	<u>-</u>	<u>(1,008,680)</u>	<u>269,349</u>	<u>182,700</u>	<u>-</u>	<u>452,049</u>
<b>Total Support and Revenue</b>	<u>(278,001)</u>	<u>213,755</u>	<u>1,077,678</u>	<u>1,013,432</u>	<u>339,699</u>	<u>438,336</u>	<u>5,330</u>	<u>783,365</u>
<b>RECLASSIFICATIONS:</b>								
Satisfaction of purpose restrictions	290,395	(290,395)	-	-	307,984	(294,895)	(13,089)	-

(continued)

See notes to financial statements

## COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

### Statements of Activities (continued)

	Year Ended December 31,							
	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services:								
Grants made	808,524	-	-	808,524	247,453	-	-	247,453
Other program expenses	43,821	-	-	43,821	9,383	-	-	9,383
	852,345	-	-	852,345	256,836	-	-	256,836
Supporting activities:								
Management and general	277,840	-	-	277,840	224,254	-	-	224,254
Fund-raising (Note 7)	163,504	-	-	163,504	120,994	-	-	120,994
	441,344	-	-	441,344	345,248	-	-	345,248
Total Expenses	1,293,689	-	-	1,293,689	602,084	-	-	602,084
Change in Net Assets	(1,281,295)	(76,640)	1,077,678	(280,257)	45,599	143,441	(7,759)	181,281
Net Assets, Beginning of Year	1,152,259	594,694	2,752,654	4,499,607	1,106,660	451,253	2,760,413	4,318,326
Net Assets, End of Year	\$ (129,036)	\$ 518,054	\$ 3,830,332	\$ 4,219,350	\$ 1,152,259	\$ 594,694	\$ 2,752,654	\$ 4,499,607

See notes to financial statements

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Statements of Cash Flows

	Year Ended December 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (280,257)	\$ 181,281
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	14,972	15,361
Noncash stock gift	(140)	(10,073)
Net unrealized loss on investments	1,157,181	376,019
Net realized loss (gain) on investments	273,550	(408,163)
Permanently restricted funds received	(1,107,516)	(5,330)
Changes in:		
Prepaid expenses and other assets	15,104	(15,075)
Accounts and other payables	(5,170)	2,773
Net Cash Provided by Operating Activities	67,724	136,793
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(15,000)	(1,430)
Net purchases of and proceeds from certificates of deposit held for nonpermanent funds	52,143	60,000
Purchases of long-term investments	(968,501)	(782,218)
Proceeds from sale of long-term investments	-	425,880
Payments to annuitants	(920)	(920)
Net Cash Used by Investing Activities	(932,278)	(298,688)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Permanently restricted funds received	1,107,516	5,330
Net Cash Provided by Financing Activities	1,107,516	5,330
Change in Cash and Cash Equivalents	242,962	(156,565)
Cash and Cash Equivalents, Beginning of Year	409,516	566,081
Cash and Cash Equivalents, End of Year	\$ 652,478	\$ 409,516
<b>SUPPLEMENTAL DATA:</b>		
Donated facilities	\$ 16,965	\$ 16,617

See notes to financial statements

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 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 accounting principles generally accepted in the United States of America 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, 2008 and 2007

### 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. As of December 31, 2008 and 2007, Board designated funds were (\$1,384,981) and (\$303,012), respectively as described also in Note 6.

##### *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, 2008 and 2007

### 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.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### INVESTMENTS

Investments are reported at fair value with gains and losses reported in the statements of activities. Donated investments are initially reported at fair value on the date of the gift then reported at fair value at the end of each year.

#### DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy, which requires the Foundation to maximize the use of observable inputs and minimize the use of unobservable inputs, when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

#### *Cash and Cash Equivalents*

The carrying amount approximates fair value.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued

##### *Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include investments in mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows (Level 2). In certain cases where Level 1 and Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Foundation does not have any investments classified within Level 2 or Level 3 of the hierarchy.

#### 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

#### 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 \$265,625 and \$380,754 as of December 31, 2008, and 2007, respectively. See Note 3. Upon termination of the trust the remaining assets are transferred to the Foundation, unless the donors modify the trust agreement.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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 management fees received before earned from the Kendrick Foundation. 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.

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

The Foundation incurred no joint costs (as defined in SOP 98-2) for the years ended December 31, 2008, and 2007.

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, 2008 and 2007

3. LONG- TERM INVESTMENTS:

Long-term investments consist of:

	December 31,	
	2008	2007
	(Level 1)	
Cash and cash equivalents	\$ 38,367	\$ 51,336
Common and convertible preferred stock	253,504	344,333
Mutual funds:		
Equity:		
Core Equity	556,245	575,437
Capital Income Builder Fund	-	21,489
Goldman Sachs Capital Growth	-	28,016
Growth Equity	317,920	488,857
Hilliard Lyons	5,724	8,552
Small Cap Growth Equity	107,934	139,583
Small Cap Value Equity	70,545	76,480
International Growth Equity	496,880	638,464
International Emerging Markets	57,691	67,857
Unconstrained:		
Leuthold Asset Allocation	99,297	-
Third Avenue Value Fund	95,553	-
Fixed Income:		
PIMCO Developing Local Markets	-	162,602
PIMCO Low Duration Fund	169,094	244,658
PIMCO Total Return	505,528	-
Western Asset Core Portfolio Fund	-	730,972
Loomis Sayles Bond	263,294	-
Real Estate:		
Virtus Real Estate Securities	74,339	-
Natural Resources:		
PIMCO Commodity Real Return Strategy Fund	54,346	-
Money Market:		
Trust Company of Oxford	173,201	221,996
Cash and mutual funds held in trust (Note 2)	265,625	380,754
	\$ 3,605,087	\$ 4,181,386

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. See Note 2 for disclosures regarding fair value measurements. All investments reported by the Foundation at December 31, 2008, are Level 1 fair values.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of:

	December 31,	
	2008	2007
Leasehold improvements	\$ 310,667	\$ 295,667
Office equipment and software	68,010	68,010
	378,677	363,677
Less accumulated depreciation	(158,024)	(143,052)
	\$ 220,653	\$ 220,625

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 \$16,965 and \$16,617, for the years ending December 31, 2008, and 2007, 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 \$4,543 and \$5,243, for the years ended December 31, 2008, and 2007, respectively. Future minimum lease payments are as follows:

Years Ending December 31,	Amount
2009	\$ 3,951
2010	655
	\$ 4,606

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 6. NET ASSETS:

Net assets consist of:

#### ENDOWMENT

The Foundation's endowment consists of approximately 46 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors 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 Directors has interpreted the Indiana State Prudent Management of Institutional Funds Act (ISPMIFA) so that the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added or deducted from the fund. In accordance with ISPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation



# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

6. NET ASSETS, continued:

	December 31,	
	2008	2007
Unrestricted:		
Undesignated (deficit)	\$ (56,222)	\$ (18,350)
Permanently restricted funds below historic value (Note 2)	(1,384,981)	(303,012)
Net investment in property and equipment	220,653	220,625
Nonpermanent	6,000	6,162
Endowment (see below)	1,085,514	1,246,834
Total unrestricted	(129,036)	1,152,259
Temporarily restricted:		
Lilly Sustaining Resource Development	-	148,760
Field of interest	40,129	55,237
Special purpose	402,009	280,768
Non-endowed advised	26,492	-
Scholarship	49,424	109,929
Total temporarily restricted	518,054	594,694
Permanently restricted:		
Endowment net asset composition by type of fund as of December 31, 2008.		
Donor-restricted endowment funds:		
Field of interest	104,859	104,809
Special Purpose	2,311,081	2,112,289
Scholarship	1,414,392	535,556
Total Donor-restricted endowment funds (see below)	3,830,332	2,752,654
	\$ 4,219,350	\$ 4,499,607

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

6. NET ASSETS, continued:

Changes in endowment net assets for the fiscal year ended December 31, 2008.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 1,246,834	\$ -	\$ 2,752,654	\$ 3,999,488
Investment return:				
Investment income	41,400	-	-	41,400
Net depreciation (realized and unrealized)	(230,622)	-	-	(230,622)
Total investment return	(189,222)	-	-	(189,222)
Contributions	2,150	-	1,077,678	1,079,828
Grant income	43,647	-	-	43,647
Other changes:				
Investment expense	(6,256)	-	-	(6,256)
Management fee	(11,639)	-	-	(11,639)
Total other charges	(17,895)	-	-	(17,895)
Endowment Net Assets, End of Year	\$ 1,085,514	\$ -	\$ 3,830,332	\$ 4,915,846
	* see above		* see above	

### FUNDS WITH DEFICIENCIES

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 ISPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## Notes to Financial Statements

December 31, 2008 and 2007

### 6. NET ASSETS, continued:

#### RETURN OBJECTIVES AND RISK PARAMETERS

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to protect the purchasing power of the original investment; to generate returns in excess of the spending policy; to maximize the total return of the Foundation within reasonable and prudent levels of risk; and to offer equity and fixed income investments that are diversified among securities and industries, reducing the risk of large losses. Actual returns in any given year will of course vary.

#### STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVE

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Foundation's distribution policy, net of administrative expenses, for the Foundation's spending shall be based on a rate of 4.5% and be applied on a three year (36 month) rolling average of the invested funds market value as of the last day of the Foundation's previous fiscal year. This policy allows net earnings greater than 4.5% to be reinvested and grow the corpus. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

### 7. FUND-RAISING EXPENSES

For the years ended December 31, 2008 and 2007, fund-raising expenses include substantial expenditures representing an investment in major gift solicitation and image development required by the matching of funds from a three-year grant from the Lilly Endowment, revenue from which was recorded in a prior fiscal year.