

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011 AND 2010**

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the  
Community Foundation of Morgan County, Inc.  
Martinsville, Indiana

We have audited the accompanying statements of financial position of the Community Foundation of Morgan County, Inc. (the "Foundation") as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the Foundation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Blue & Co., LLC*

March 28, 2012

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2011 AND 2010

### ASSETS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 159,865	\$ 294,022
Investments	4,765,783	5,031,279
Charitable trust	301,454	306,925
Prepaid expenses	2,184	1,598
Property and equipment, net	152,736	155,251
Restricted cash	315,902	258,427
Restricted investments	<u>99,006</u>	<u>103,408</u>
	<u>\$ 5,796,930</u>	<u>\$ 6,150,910</u>

### LIABILITIES AND NET ASSETS

#### Liabilities

Accounts payable	\$ 4,317	\$ 1,500
Grants payable	5,350	8,112
Accrued payroll	4,979	3,904
Deferred revenue	36,450	143,750
Liability under charitable trust	301,454	306,925
Custodial funds	<u>414,908</u>	<u>361,835</u>
Total liabilities	767,458	826,026

#### Net assets (Note 10)

Unrestricted:		
Operating	(732,903)	(517,107)
Board designated	<u>121,415</u>	<u>134,720</u>
	(611,488)	(382,387)
Temporarily restricted	775,661	866,590
Permanently restricted	<u>4,865,299</u>	<u>4,840,681</u>
Total net assets	<u>5,029,472</u>	<u>5,324,884</u>
	<u>\$ 5,796,930</u>	<u>\$ 6,150,910</u>

*See accompanying notes to financial statements.*

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	2011			2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Support and revenues</b>					
Contributions	\$ 37,038	\$ 307,892	\$ 24,618	\$ 369,548	\$ 444,662
Grant revenue	75,500	-0-	-0-	75,500	8,500
Investment return, net	(64,940)	(96,581)	-0-	(161,521)	451,319
Administrative fee income	233,595	-0-	-0-	233,595	200,196
In-kind rent	3,456	-0-	-0-	3,456	16,560
Special events income	11,045	48,769	-0-	59,814	52,341
Net assets released from restrictions	351,009	(351,009)	-0-	-0-	-0-
Total support and revenues	646,703	(90,929)	24,618	580,392	1,173,578
<b>Expenses</b>					
Grants	133,424			133,424	134,688
Program	220,418			220,418	357,650
Salaries and wages	242,216			242,216	202,836
Administrative fees	86,633			86,633	75,310
Professional fees	30,100			30,100	27,325
Printing and postage	32,301			32,301	16,935
Payroll taxes	20,183			20,183	16,674
In-kind rent	3,456			3,456	16,560
Computer expense	24,233			24,233	10,932
Employee benefits	9,642			9,642	9,533
Repairs and maintenance	27,520			27,520	8,144
Events	6,063			6,063	6,936
Depreciation	6,602			6,602	6,568
Advertising	3,080			3,080	5,235
Telephone	5,419			5,419	3,969
Insurance	3,824			3,824	3,847
Training	1,019			1,019	885
Utilities	6,735			6,735	2,909
Equipment expense	2,752			2,752	2,836
Office supplies	2,874			2,874	2,100
Travel and entertainment	2,326			2,326	2,040
Board and committee expense	586			586	1,427
Dues and subscriptions	1,283			1,283	1,121
Donor relations	1,093			1,093	798
Contracted services	341			341	560
Miscellaneous	1,681			1,681	2,072
Total expenses	875,804	-0-	-0-	875,804	919,890
Change in net assets	(229,101)	(90,929)	24,618	(295,412)	253,688
<b>Net assets, beginning of year</b>	(382,387)	866,590	4,840,681	5,324,884	5,071,196
<b>Net assets, end of year</b>	\$ (611,488)	\$ 775,661	\$ 4,865,299	\$ 5,029,472	\$ 5,324,884

*See accompanying notes to financial statements.*

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenues</b>				
Contributions	\$ 175,895	\$ 256,717	\$ 12,050	\$ 444,662
Grant revenue	8,500	-0-	-0-	8,500
Investment return, net	244,645	206,674	-0-	451,319
Administrative fee income	200,196	-0-	-0-	200,196
In-kind rent	16,560	-0-	-0-	16,560
Special events income	16,842	35,499	-0-	52,341
Net assets released from restrictions	<u>462,976</u>	<u>(462,976)</u>	<u>-0-</u>	<u>-0-</u>
<b>Total support and revenues</b>	<b>1,125,614</b>	<b>35,914</b>	<b>12,050</b>	<b>1,173,578</b>
<b>Expenses</b>				
Grants	134,688			134,688
Program	357,650			357,650
Salaries and wages	202,836			202,836
Administrative fees	75,310			75,310
Printing and postage	16,935			16,935
Professional fees	27,325			27,325
Payroll taxes	16,674			16,674
In-kind rent	16,560			16,560
Events	6,936			6,936
Depreciation	6,568			6,568
Employee benefits	9,533			9,533
Computer expense	10,932			10,932
Advertising	5,235			5,235
Equipment expense	2,836			2,836
Telephone	3,969			3,969
Insurance	3,847			3,847
Repairs and maintenance	8,144			8,144
Utilities	2,909			2,909
Office supplies	2,100			2,100
Travel and entertainment	2,040			2,040
Dues and subscriptions	1,121			1,121
Board and committee expense	1,427			1,427
Training	885			885
Contracted services	560			560
Donor relations	798			798
Miscellaneous	<u>2,072</u>			<u>2,072</u>
<b>Total expenses</b>	<b><u>919,890</u></b>	<b><u>-0-</u></b>	<b><u>-0-</u></b>	<b><u>919,890</u></b>
Change in net assets	205,724	35,914	12,050	253,688
<b>Net assets, beginning of year</b>	<u>(588,111)</u>	<u>830,676</u>	<u>4,828,631</u>	<u>5,071,196</u>
<b>Net assets, end of year</b>	<u><u>\$ (382,387)</u></u>	<u><u>\$ 866,590</u></u>	<u><u>\$ 4,840,681</u></u>	<u><u>\$ 5,324,884</u></u>

*See accompanying notes to financial statements.*

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Operating activities</b>		
Change in net assets	\$ (295,412)	\$ 253,688
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	6,602	6,568
Realized and unrealized losses (gains) on investments	220,910	(145,698)
Interest and dividends received on investments	(89,205)	(335,944)
Contribution of stock utilized for purchase of property and equipment	-0-	(138,577)
Contributions restricted to endowment funds	(24,618)	(12,050)
Changes in assets and liabilities:		
Prepaid expenses	(586)	(245)
Net change in restricted cash and investments	(53,073)	(174,899)
Accounts payable	2,817	1,500
Grants payable	(2,762)	4,872
Accrued payroll	1,075	834
Deferred revenue	(107,300)	93,750
Custodial funds	53,073	174,899
Net cash flows from operating activities	(288,479)	(271,302)
<b>Investing activities</b>		
Purchase of property and equipment	(4,087)	(16,675)
Purchase of investments	(879,632)	(2,627,778)
Proceeds from sales of investments	1,013,423	2,825,395
Net cash flows from investing activities	129,704	180,942
<b>Financing activities</b>		
Contributions restricted to endowment funds	24,618	12,050
Net change in cash and cash equivalents	(134,157)	(78,310)
<b>Cash and cash equivalents, beginning of year</b>	<u>294,022</u>	<u>372,332</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 159,865</u>	<u>\$ 294,022</u>

*See accompanying notes to financial statements.*

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

The Community Foundation of Morgan County, Inc. (the "Foundation") is a not-for-profit organization. The Foundation was established primarily to serve Morgan 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.

#### Management's Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

#### Basis of Presentation

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. While most gift instruments give the Foundation's Board of Directors the right to vary the terms of the gift, this only allows for a limited right of modification and does not relieve the restrictions imposed by the donor. Accordingly, the net assets of the Foundation are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and primarily made up of the Foundation's operating fund. The Foundation maintains unrestricted funds as follows:

*Operating* – used to fund current operations of the Foundation. This fund also includes deficiencies in endowment funds classified as permanently restricted (see Note 10).

*Board Designated* – used to fund future operations of the Foundation as designated by the Board

Temporarily restricted net assets – Net assets not yet appropriated for expenditure by the Foundation's Board of Directors in accordance with their spending policy or that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, temporarily

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# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Included in this classification are endowment funds that are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity and invested for the purpose of producing present and future income. In accordance with the Foundation's spending policy, the historic gift value of those funds that specifically request that the principal shall not be invaded are classified as permanently restricted net assets.

### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market investments and exclude amounts held by the Foundation's fund managers and included in investments.

### Investments and Investment Return

The Foundation carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Statements of Activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as unrestricted or temporarily restricted based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Foundation's spending policy.

### Property and Equipment

Property and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at fair value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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The Foundation provides for depreciation of property and equipment utilizing the straight-line method at rates designed to depreciate the cost of such assets over their estimated useful lives. The range of useful lives is as follows:

<u>Description</u>	<u>Useful Lives</u>
Building and building improvements	10 - 39 years
Furniture and equipment	3 - 10 years
Leasehold improvements	1 ½ - 5 years

### Restricted Cash and Investments

Restricted cash and investments consist of monies received from organizations that have named themselves as the beneficiary of the income from funds they established for their own benefit and pass-through grant programs. The Foundation also serves as fiscal agent for certain organizations. These amounts are also reported as custodial funds at December 31, 2011 and 2010.

### Deferred Revenue

Deferred revenue represents grant funds and administrative fees received in advance of the period in which the related services are provided and fees are earned.

### Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (contributions receivable), are recognized as support in the period the contribution is received or the promise is made. Contributions received with donor imposed restrictions are reported as restricted support and increase temporarily or permanently restricted net assets.

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted or temporarily restricted net assets in accordance with the classification of the fund as it relates to the Foundation's spending policy.

The Foundation recognizes grant revenue in the period the related expenses are incurred.

All other revenue is recorded when earned.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Foundation. Administrative fees from all funds are reflected as revenue on the Statements of Activities. The administrative fees from custodial funds are not included as expenses on the Statements of Activities because they are included in the change in custodial funds.

### Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

### Income Taxes

The Organization is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, the Organization is generally exempt from income taxes. However, the Organization is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

### Subsequent Events

The Foundation has evaluated events or transactions occurring subsequent to the Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is March 28, 2012.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 2. INVESTMENTS

Investments (including restricted investments) at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Cash and money market funds	\$ 93,206	\$ 116,974
Domestic equity mutual funds		
Small cap	136,141	140,860
Large value	-0-	312,888
Growth	314,138	307,138
Domestic fixed income mutual funds		
Aggressive allocation	120,779	127,819
Short-term	111,209	161,252
Intermediate-term	728,847	829,347
Foreign equity mutual funds		
Small cap	102,887	116,197
Large blend	-0-	479,872
Growth	632,515	214,723
Emerging markets	153,882	188,131
Natural resources	88,281	-0-
Foreign fixed income mutual funds		
Nontraditional	353,080	269,898
Emerging markets	222,428	235,707
Commodities mutual funds	73,762	154,887
Index funds		
Large blend	705,265	705,486
Large cap growth	244,906	-0-
Energy	216,985	202,397
Real estate investment trust fund	126,536	116,490
Hedge fund	439,942	454,621
	<u>\$ 4,864,789</u>	<u>\$ 5,134,687</u>

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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The following schedule summarizes the investment return, excluding the investment return on investments related to custodial funds, and its classification in the Statement of Activities:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 89,205	\$ 335,944
Realized gains (losses)	(9,197)	(101,063)
Unrealized gains (losses)	(211,713)	246,761
Investment fees	<u>(29,816)</u>	<u>(30,323)</u>
	<u>\$ (161,521)</u>	<u>\$ 451,319</u>

### 3. RISKS AND UNCERTAINTIES

The Foundation holds a variety of investments (Note 2). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement. The hierarchy of inputs is as follows:

- Level 1 – Unadjusted quoted prices for identical assets and liabilities in active markets
- Level 2 – Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The following table sets forth financial assets and liabilities measured at fair value in the Statement of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of December 31, 2011 and 2010:

	2011		
	Fair Value	Level 1	Level 2
<b>Assets:</b>			
Investments	\$ 4,765,783	\$ 4,325,841	\$ 439,942
Charitable trust	301,454	301,454	-0-
Restricted investments	99,006	99,006	-0-
<b>Liabilities:</b>			
Liability under charitable trust	301,454	301,454	-0-
<b>2010</b>			
	Fair Value	Level 1	Level 2
<b>Assets:</b>			
Investments	\$ 5,031,279	\$ 4,576,658	\$ 454,621
Charitable trust	306,925	306,925	-0-
Restricted investments	103,408	103,408	-0-
<b>Liabilities:</b>			
Liability under charitable remainder trust	306,925	306,925	-0-

Fair values for investments, charitable trust, restricted investments, and the liability under charitable trust are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the hedge fund is based on the net asset value of the fund as determined by the reported valuations of underlying investment managers.

The investment objective of the hedge fund is to provide capital appreciation consistent with the return characteristic of the alternative investment portfolios of larger endowments and to provide capital appreciation with less volatility than that of the equity markets. The investment in the hedge fund may be redeemed at the net asset value on a quarterly basis. Advance written notice of 65 days is required to redeem these investments. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment, the net asset value of the fund may be significantly impacted and, consequently, the fair value of the Organization's interests in the fund. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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discounts to the reported net asset value. It is therefore reasonably possible that if the Organization were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

### 5. CHARITABLE TRUST

The Foundation is the trustee and has been named the beneficiary of a charitable trust. The charitable trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). Upon termination of the trust, the Foundation will receive the entire amount remaining in the trust. However, the trust agreement specifies that the donors can change the beneficiary of the trust up until the death of both donors. Therefore, the Foundation records the fair value of the trust assets as investments in the Statements of Financial Position, but also recognizes a liability for the entire trust amount. Trust assets totaled \$301,454 and \$306,925 at December 31, 2011 and 2010, respectively.

### 6. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Building and building improvements	\$ 141,876	\$ 141,876
Furniture and equipment	64,498	81,385
Leasehold improvements	<u>310,667</u>	<u>310,667</u>
	517,041	533,928
Less accumulated depreciation	<u>(364,305)</u>	<u>(378,677)</u>
	<u>\$ 152,736</u>	<u>\$ 155,251</u>

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 7. CUSTODIAL FUNDS

Custodial funds represents funds placed on deposit with the Foundation by other organizations based on their individual board resolutions or the Foundation has entered into agreements to serve as fiscal agent of funds for certain organizations. The Foundation accounts for these transfers as a liability in accordance with applicable accounting standards. Income is added to these funds periodically in accordance with the Foundation's investment allocation policies. Contributions by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Statements of Activities.

Following is a progression of custodial funds during 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 361,835	\$ 186,936
Contributions	238,446	210,518
Investment return, net	(3,445)	9,452
Other revenue	149,202	45,230
Administrative fees	(11,963)	(7,720)
Grant and scholarship payments	<u>(319,167)</u>	<u>(82,581)</u>
Ending balance	<u>\$ 414,908</u>	<u>\$ 361,835</u>

### 8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for endowment funds not yet appropriated for expenditure of \$775,661 and \$866,590 at December 31, 2011 and 2010, respectively. Permanently restricted net assets of \$4,865,299 and \$4,840,681 at December 31, 2011 and 2010, respectively, are the historic gift value of funds that are restricted for use in perpetuity.

### 9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions in the amount of \$351,009 and \$462,976 based on endowment funds appropriated for expenditure for the years ended December 31, 2011 and 2010, respectively.



# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 10. ENDOWMENT

The majority of the Foundation's funds consists of endowed 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 accounting principles generally accepted in the United States of America, 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.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the historic gift value as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, 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

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

The Foundation has a policy of appropriating for distribution each year 4.5 percent of its endowment funds' average fair value over the prior 36 months, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Endowed funds by net asset type at December 31, 2011 and 2010 were as follows:

	2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 121,415	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(698,663)</u>	<u>775,661</u>	<u>4,865,299</u>
	<u>\$ (577,248)</u>	<u>\$ 775,661</u>	<u>\$ 4,865,299</u>

  

	2010		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 134,720	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(523,222)</u>	<u>866,590</u>	<u>4,840,681</u>
	<u>\$ (388,502)</u>	<u>\$ 866,590</u>	<u>\$ 4,840,681</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$698,663 and \$523,222 as of December 31, 2011 and 2010, respectively. Non-endowed operating funds were (\$34,240) and \$6,115 as of December 31, 2011 and 2010, respectively.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Changes in endowment net assets for the years ended December 31, 2011 and 2010, were as follows:

	2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ (388,502)	\$ 866,590	\$ 4,840,681
Contributions and grants	65	307,892	24,618
Investment return, net	(65,551)	(96,581)	-0-
Other income	-0-	48,769	-0-
Appropriation of endowment assets for expenditure	(123,260)	(351,009)	-0-
Endowment net assets, end of year	\$ (577,248)	\$ 775,661	\$ 4,865,299
	2010		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ (403,125)	\$ 830,676	\$ 4,828,631
Contributions and grants	250	256,717	12,050
Investment return, net	244,374	206,674	-0-
Other income	-0-	35,499	-0-
Appropriation of endowment assets for expenditure	(230,001)	(462,976)	-0-
Endowment net assets, end of year	\$ (388,502)	\$ 866,590	\$ 4,840,681

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 11. FUNCTIONAL EXPENSES

The Foundation serves as a vehicle for residents of Morgan County to donate to various organizations and projects in the county. Expenses related to providing this service for the years ended December 31, 2011 and 2010 are classified as follows:

	<u>2011</u>	<u>2010</u>
Development of Morgan County	\$ 538,471	\$ 645,449
Fundraising	79,632	50,389
General and administrative expenses	<u>257,701</u>	<u>224,052</u>
	<u>\$ 875,804</u>	<u>\$ 919,890</u>

### 12. OPERATING LEASE

The Foundation leases a satellite office in Mooresville, Indiana for an annual fee of one dollar. The fair value for the annual rental of this facility is \$3,456 and \$16,560 for the years ended December 31, 2011 and 2010, respectively, which was reported as in-kind rent.

### 13. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Marketable securities and money market funds are maintained with two investment firms. Such balances, at times, may exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.