

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

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

TABLE OF CONTENTS DECEMBER 31, 2012 AND 2011

	Page
Report of Independent Auditors	1
 Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Financial Statements.....	7



Blue & Co., LLC / 106 Community Drive / Seymour, IN 47274
main 812.522.8416 fax 812.523.8615 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Foundation of Morgan County, Inc. (the "Foundation") which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC
Seymour, Indiana

April 9, 2013

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Cash and cash equivalents	\$ 255,451	\$ 475,767
Investments	5,121,962	4,864,789
Charitable trust	312,121	301,454
Prepaid expenses	2,539	2,184
Property and equipment, net	146,855	152,736
	<u>\$ 5,838,928</u>	<u>\$ 5,796,930</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 42,793	\$ 4,317
Grants payable	22,900	5,350
Accrued payroll	3,846	4,979
Deferred revenue	20,000	36,450
Liability under charitable trust	312,121	301,454
Custodial funds	209,337	414,908
Total liabilities	610,997	767,458

Net assets (Note 10)

Unrestricted:		
Operating	(646,091)	(732,903)
Board designated	125,998	121,415
	(520,093)	(611,488)
Temporarily restricted	864,837	775,661
Permanently restricted	4,883,187	4,865,299
Total net assets	5,227,931	5,029,472
	<u>\$ 5,838,928</u>	<u>\$ 5,796,930</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenues					
Contributions	\$ 36,332	\$ 231,855	\$ 17,888	\$ 286,075	\$ 369,548
Grant revenue	36,450	-0-	-0-	36,450	75,500
Investment return, net	276,658	223,417	-0-	500,075	(161,521)
Administrative fee income	255,147	-0-	-0-	255,147	233,595
In-kind rent	3,456	-0-	-0-	3,456	3,456
Special events income	18,035	50,663	-0-	68,698	59,814
Net assets released from restrictions	<u>416,759</u>	<u>(416,759)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	1,042,837	89,176	17,888	1,149,901	580,392
Expenses					
Grants	201,412			201,412	133,424
Program	235,853			235,853	220,418
Salaries and wages	250,134			250,134	242,216
Administrative fees	99,193			99,193	86,633
Professional fees	31,657			31,657	30,100
Printing and postage	20,278			20,278	32,301
Payroll taxes	20,207			20,207	20,183
In-kind rent	3,456			3,456	3,456
Computer expense	9,269			9,269	24,233
Employee benefits	13,622			13,622	9,642
Repairs and maintenance	6,272			6,272	27,520
Events	8,011			8,011	6,063
Depreciation	7,247			7,247	6,602
Advertising	7,163			7,163	3,080
Telephone	11,321			11,321	5,419
Insurance	4,833			4,833	3,824
Training	590			590	1,019
Utilities	6,649			6,649	6,735
Equipment expense	3,033			3,033	2,752
Office supplies	3,512			3,512	2,874
Travel and entertainment	3,004			3,004	2,326
Board and committee expense	478			478	586
Dues and subscriptions	1,596			1,596	1,283
Donor relations	460			460	1,093
Contracted services	1,264			1,264	341
Miscellaneous	<u>928</u>			<u>928</u>	<u>1,681</u>
Total expenses	<u>951,442</u>	<u>-0-</u>	<u>-0-</u>	<u>951,442</u>	<u>875,804</u>
Change in net assets	91,395	89,176	17,888	198,459	(295,412)
Net assets, beginning of year	<u>(611,488)</u>	<u>775,661</u>	<u>4,865,299</u>	<u>5,029,472</u>	<u>5,324,884</u>
Net assets, end of year	<u>\$ (520,093)</u>	<u>\$ 864,837</u>	<u>\$ 4,883,187</u>	<u>\$ 5,227,931</u>	<u>\$ 5,029,472</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Contributions	\$ 37,038	\$ 307,892	\$ 24,618	\$ 369,548
Grant revenue	75,500	-0-	-0-	75,500
Investment return, net	(64,940)	(96,581)	-0-	(161,521)
Administrative fee income	233,595	-0-	-0-	233,595
In-kind rent	3,456	-0-	-0-	3,456
Special events income	11,045	48,769	-0-	59,814
Net assets released from restrictions	351,009	(351,009)	-0-	-0-
Total support and revenues	646,703	(90,929)	24,618	580,392
Expenses				
Grants	133,424			133,424
Program	220,418			220,418
Salaries and wages	242,216			242,216
Administrative fees	86,633			86,633
Printing and postage	32,301			32,301
Professional fees	30,100			30,100
Payroll taxes	20,183			20,183
In-kind rent	3,456			3,456
Events	6,063			6,063
Depreciation	6,602			6,602
Employee benefits	9,642			9,642
Computer expense	24,233			24,233
Advertising	3,080			3,080
Equipment expense	2,752			2,752
Telephone	5,419			5,419
Insurance	3,824			3,824
Repairs and maintenance	27,520			27,520
Utilities	6,735			6,735
Office supplies	2,874			2,874
Travel and entertainment	2,326			2,326
Dues and subscriptions	1,283			1,283
Board and committee expense	586			586
Training	1,019			1,019
Contracted services	341			341
Donor relations	1,093			1,093
Miscellaneous	1,681			1,681
Total expenses	875,804	-0-	-0-	875,804
Change in net assets	(229,101)	(90,929)	24,618	(295,412)
Net assets, beginning of year	(382,387)	866,590	4,840,681	5,324,884
Net assets, end of year	\$ (611,488)	\$ 775,661	\$ 4,865,299	\$ 5,029,472

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating activities		
Change in net assets	\$ 198,459	\$ (295,412)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	7,247	6,602
Realized and unrealized losses (gains) on investments	(168,929)	226,938
Interest and dividends received on investments	(369,395)	(92,405)
Contributions restricted to endowment funds	(17,888)	(24,618)
Changes in assets and liabilities:		
Prepaid expenses	(355)	(586)
Accounts payable	38,476	2,817
Grants payable	17,550	(2,762)
Accrued payroll	(1,133)	1,075
Deferred revenue	(16,450)	(107,300)
Custodial funds	(205,571)	53,073
Net cash flows from operating activities	<u>(517,989)</u>	<u>(232,578)</u>
Investing activities		
Purchase of property and equipment	(1,366)	(4,087)
Purchase of investments	(5,447,263)	(878,058)
Proceeds from sales of investments	5,728,414	1,013,423
Net cash flows from investing activities	<u>279,785</u>	<u>131,278</u>
Financing activities		
Contributions restricted to endowment funds	<u>17,888</u>	<u>24,618</u>
Net change in cash and cash equivalents	(220,316)	(76,682)
Cash and cash equivalents, beginning of year	<u>475,767</u>	<u>552,449</u>
Cash and cash equivalents, end of year	<u>\$ 255,451</u>	<u>\$ 475,767</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 AND 2011

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

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.

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.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, 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 April 9, 2013.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

2. INVESTMENTS

Investments at December 31, 2012 and 2011 consist of the following:

	2012	2011
Cash and money market funds	\$ 814,333	\$ 93,206
Common stocks		
Large-cap growth	1,801,211	-0-
All-cap growth	374,306	-0-
Mid-cap value	692,940	-0-
Preferred /fixed rate cap securities		
Services	23,298	-0-
Financial	142,978	-0-
Realty	25,131	-0-
Other	32,913	-0-
Corporate bonds		
Financial	272,485	-0-
Services	90,594	-0-
Other	132,455	-0-
Government securities		
Government bonds	132,479	-0-
U.S. Treasury notes	205,960	-0-
Asset backed bonds	80,853	-0-
Corporate mortgage/asset backed bonds	35,277	-0-
Equity mutual funds		
Small cap	-0-	239,028
Growth	-0-	946,653
Emerging markets	-0-	153,882
Natural resources	-0-	88,281
Fixed income mutual funds		
Aggressive allocation	-0-	120,779
Short-term	-0-	111,209
Intermediate-term	-0-	728,847
Nontraditional	-0-	353,080
Emerging markets	-0-	222,428
Commodities mutual funds	-0-	73,762
Exchange traded funds		
Growth	246,953	-0-
Large	-0-	950,171
Energy	-0-	216,985
Real estate investment trust fund	-0-	126,536
Hedge fund	17,796	439,942
	\$ 5,121,962	\$ 4,864,789

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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>2012</u>	<u>2011</u>
Interest and dividend income	\$ 367,415	\$ 89,205
Realized and unrealized gains (losses)	159,702	(220,910)
Investment fees	<u>(27,042)</u>	<u>(29,816)</u>
	<u>\$ 500,075</u>	<u>\$ (161,521)</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

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
 - Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
 - Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
-

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

- *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Preferred/fixed rate cap securities, mutual funds and exchange traded funds:* Valued at the daily closing price as reported by the security. Securities held by the Foundation are open-end securities that are registered with the Securities and Exchange Commission. These securities are required to publish their daily net asset value (NAV) and to transact at that price. The securities held by the Foundation are deemed to be actively traded.
- *Corporate bonds and corporate mortgage/asset backed bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *U.S. government securities:* Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Real estate investment trust fund:* Valued at the daily closing price as reported by the fund. The fund held by the Foundation is an open-end trust fund that is registered with the Securities and Exchange Commission. This fund is required to publish its daily net asset value (NAV) and to transact at that price. The fund held by the Foundation is deemed to be actively traded.
- *Hedge fund:* Valued at the net asset value (NAV) of the fund as determined by the reported valuations of underlying investment managers.
- *Charitable trust:* The trust is invested in various mutual funds that are valued based upon the closing price reported on the active market on which the individual securities are traded.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The following table sets forth by level, within the hierarchy, the Foundation's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011 are as follows:

Assets at Fair Value as of December 31, 2012			
	Fair Value	Level 1	Level 2
Assets:			
Common stocks	\$ 2,868,457	\$ 2,868,457	\$ -0-
Preferred/fixed rate cap securities	224,320	224,320	-0-
Corporate bonds	495,534	-0-	495,534
U.S. government securities	419,292	-0-	419,292
Corporate mortgage/asset backed bonds	35,277	-0-	35,277
Exchange traded funds	246,953	246,953	-0-
Hedge fund	17,796	-0-	17,796
Charitable trust	312,121	-0-	312,121
Liabilities:			
Liability under charitable trust	312,121	-0-	312,121

Assets at Fair Value as of December 31, 2011			
	Fair Value	Level 1	Level 2
Assets:			
Mutual funds	\$ 3,037,949	\$ 3,037,949	\$ -0-
Exchange traded funds	1,167,156	1,167,156	-0-
Real estate investment trust fund	126,536	126,536	-0-
Hedge fund	439,942	-0-	439,942
Charitable trust	301,454	-0-	301,454
Liabilities:			
Liability under charitable trust	301,454	-0-	301,454

The Foundation's policy is to recognize transfers, if any, between levels as of the actual date of the event of change in circumstances.

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 Foundation'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 discounts to the reported net asset value. It is therefore reasonably possible that if

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

the Foundation 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 \$312,121 and \$301,454 at December 31, 2012 and 2011, respectively.

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Building and building improvements	\$ 141,876	\$ 141,876
Furniture and equipment	65,863	64,498
Leasehold improvements	<u>310,667</u>	<u>310,667</u>
	518,406	517,041
Less accumulated depreciation	<u>(371,551)</u>	<u>(364,305)</u>
	<u>\$ 146,855</u>	<u>\$ 152,736</u>

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.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Following is a progression of custodial funds during 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 414,908	\$ 361,835
Contributions	592,287	238,446
Interest and dividend income	1,980	3,200
Realized and unrealized gains (losses)	9,227	(6,028)
Investment fees	(573)	(617)
Other revenue	146,667	149,202
Administrative fees	(20,953)	(11,963)
Grant and scholarship payments	<u>(934,206)</u>	<u>(319,167)</u>
Ending balance	<u>\$ 209,337</u>	<u>\$ 414,908</u>

8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for endowment funds not yet appropriated for expenditure of \$864,837 and \$775,661 at December 31, 2012 and 2011, respectively. Permanently restricted net assets of \$4,883,187 and \$4,865,299 at December 31, 2012 and 2011, 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 \$416,759 and \$351,009 based on endowment funds appropriated for expenditure for the years ended December 31, 2012 and 2011, respectively.

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

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

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.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Endowed funds by net asset type at December 31, 2012 and 2011 were as follows:

	2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 125,998	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(556,760)</u>	<u>864,837</u>	<u>4,883,187</u>
	<u>\$ (430,762)</u>	<u>\$ 864,837</u>	<u>\$ 4,883,187</u>
	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>

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 \$556,760 and \$698,663 as of December 31, 2012 and 2011, respectively. Non-endowed operating funds were (\$89,331) and (\$34,240) as of December 31, 2012 and 2011, respectively.

Changes in endowment net assets for the years ended December 31, 2012 and 2011, were as follows:

	2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ (577,248)	\$ 775,661	\$ 4,865,299
Contributions and grants	395	231,855	17,888
Investment return, net	276,244	223,417	-0-
Other income	-0-	50,663	-0-
Appropriation of endowment assets for expenditure	<u>(130,153)</u>	<u>(416,759)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ (430,762)</u>	<u>\$ 864,837</u>	<u>\$ 4,883,187</u>

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	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

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, 2012 and 2011 are classified as follows:

	2012	2011
Development of Morgan County	\$ 628,843	\$ 538,471
Fundraising	82,482	79,632
General and administrative expenses	240,117	257,701
	\$ 951,442	\$ 875,804

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 for the years ended December 31, 2012 and 2011 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.

COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.