

# Community Foundation of Morgan County, Inc.

Financial Statements

December 31, 2021



# Community Foundation of Morgan County, Inc.

Contents

<b>Independent auditors' report</b>	<b>1-2</b>
<b>Financial statements:</b>	
Statement of financial position	<b>3</b>
Statement of activities and changes in net assets	<b>4</b>
Statement of functional expenses	<b>5</b>
Statement of cash flows	<b>6</b>
<b>Summary of significant accounting policies</b>	<b>7-10</b>
<b>Notes to the financial statements</b>	<b>11-20</b>



## Independent Auditors' Report

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Community Foundation of Morgan County, Inc., which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Community Foundation of Morgan County, Inc. as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Community Foundation of Morgan County, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibility of Management 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about Community Foundation of Morgan County, Inc.'s ability to continue as a going concern, for one year after the date that the financial statements are issued.

### ***Auditors' Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Community Foundation of Morgan County, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Foundation of Morgan County, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Agresta, Storms & O'Leary, P.C.*

Indianapolis, Indiana  
December 19, 2022

# Community Foundation of Morgan County, Inc.

## Statement of Financial Position

December 31,	2021
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,819,628
Prepaid expenses	<u>3,661</u>
Total current assets	<u>1,823,289</u>
<b>Investments, at fair value</b>	10,222,015
<b>Property and equipment:</b>	
Building and building improvements	191,009
Furniture and equipment	<u>44,826</u>
	235,835
Less: accumulated depreciation	<u>(76,827)</u>
Net property and equipment	<u>159,008</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,204,312</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current liabilities:</b>	
Accounts payable, trade	\$ 9,083
Accrued payroll, taxes and benefits	<u>6,631</u>
Total current liabilities	<u>15,714</u>
<b>Other liabilities:</b>	
Funds held for others	<u>1,518,730</u>
Total liabilities	<u>1,534,444</u>
<b>Net assets:</b>	
Net assets without donor restrictions	2,309,988
Net assets with donor restrictions	<u>8,359,880</u>
Total net assets	<u>10,669,868</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 12,204,312</u>

See summary of significant accounting policies  
and notes to financial statements

# Community Foundation of Morgan County, Inc.

## Statement of Activities and Changes in Net Assets

Year ended December 31,	2021
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	
<b>Revenues and other support:</b>	
Contributions and grants	\$ 309,034
Investment return, net	301,200
Administrative fees	488,127
Gain on forgiveness of PPP loan	55,200
Total revenues and other support without donor restrictions	1,153,561
Net assets released from restrictions	740,266
Total revenues and other support without donor restrictions and reclassifications	1,893,827
<b>Expenses:</b>	
Program services	969,798
Supporting services:	
General and administrative	224,331
Fundraising	89,975
Total expenses	1,284,104
<b>Increase in net assets without donor restrictions</b>	<b>609,723</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	
<b>Revenues and other support:</b>	
Contributions and grants	621,606
Investment return, net	1,017,577
Total revenues and other support with donor restrictions	1,639,183
Net assets released from restrictions	(740,266)
<b>Increase in net assets with donor restrictions</b>	<b>898,917</b>
<b>Increase in net assets</b>	<b>1,508,640</b>
<b>Net assets, beginning of year</b>	<b>9,161,228</b>
<b>Net assets, end of year</b>	<b>\$ 10,669,868</b>

See summary of significant accounting policies  
and notes to financial statements

**Community Foundation of Morgan County, Inc.**  
Statement of Functional Expenses

Year ended December 31,

2021

Description	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Grants	\$ 417,928	\$ -	\$ -	\$ 417,928
Salaries and wages	123,060	96,690	73,250	293,000
Administrative fees	245,685	-	-	245,685
Pass-through programming	163,006	-	-	163,006
Computer, software, and internet	-	29,693	-	29,693
Payroll taxes	10,106	7,940	6,015	24,061
Employee benefits	10,013	7,868	5,960	23,841
Depreciation	-	18,262	-	18,262
Professional fees	-	17,748	-	17,748
Insurance	-	9,567	-	9,567
Professional development	-	8,598	-	8,598
Advertising	-	8,403	-	8,403
Office supplies	-	7,506	-	7,506
Occupancy	-	3,392	-	3,392
Printing and postage	-	3,066	-	3,066
Travel and entertainment	-	2,762	-	2,762
Donor development	-	-	2,425	2,425
Events and other	-	-	2,325	2,325
Dues and subscriptions	-	1,738	-	1,738
Service charges	-	1,098	-	1,098
	<u>\$ 969,798</u>	<u>\$ 224,331</u>	<u>\$ 89,975</u>	<u>\$ 1,284,104</u>

See summary of significant accounting policies  
and notes to financial statements

# Community Foundation of Morgan County, Inc.

## Statement of Cash Flows

Year ended December 31,	2021
<b>Cash Flows from operating activities:</b>	
Increase in net assets	\$ 1,508,640
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Realized and unrealized gains on investments	(1,201,164)
Gain on forgiveness of PPP loan	(55,200)
Depreciation	18,262
Contributions restricted to endowment funds	(43,360)
(Increase) decrease in operating assets:	
Prepaid expenses	(1,729)
Increase (decrease) in operating liabilities:	
Accounts payable, trade	9,083
Accrued payroll, taxes and benefits	1,469
Funds held for others, net	<u>154,501</u>
Net cash provided by operating activities	<u>390,502</u>
<b>Cash flows from investing activities:</b>	
Proceeds from sale of investments	360,524
Purchase of investments	(974,787)
Purchase of property and equipment	<u>(15,992)</u>
Net cash used in investing activities	<u>(630,255)</u>
<b>Cash flows from financing activities:</b>	
Contributions restricted to endowment funds	<u>43,360</u>
Net cash provided by financing activities	<u>43,360</u>
<b>Net decrease in cash and cash equivalents</b>	(196,393)
<b>Cash and cash equivalents, beginning of year</b>	<u>2,016,021</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,819,628</u>
<b>Supplemental information:</b>	
Interest paid	<u>\$ -</u>

See summary of significant accounting policies  
and notes to financial statements



# Community Foundation of Morgan County, Inc.

## Summary of Significant Accounting Policies

### **Nature of activities**

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.

### **Basis of accounting**

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

### **Basis of presentation**

The Foundation's activities are reported in the following functional expense categories: program services are expenses principally related to the Foundation's programs described above and supporting services including fundraising and general and administrative expenses which consist of all other non-program expenses. Expenses that are common to these categories are periodically allocated based upon management's estimate. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification.

The net assets and revenues, expenses, and gains and losses of the Foundation 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, net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. The Foundation's Board of Directors makes voluntary restrictions on net assets without donor restrictions as considered necessary. The designated net assets set aside by the Board of Directors are included in net assets without donor restrictions. See Note 5.

Net Assets with Donor Restrictions - Net assets not yet appropriated for expenditure by the Foundation's Board of Directors in accordance with their spending policy or are subject to donor-imposed restrictions. 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 net assets with donor restrictions.

### **Cash and cash equivalents**

For the purposes of the statements of financial position and cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

# Community Foundation of Morgan County, Inc.

## Summary of Significant Accounting Policies

### Investments, at fair value

Investments in marketable securities with readily determinable fair values, including debt and equity securities, are reported at their fair values in the statement of financial position. Fair value is 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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Unrealized gains and losses are included in the change in net assets in the period in which such changes occur. Investment income and gains restricted by a donor are reported as increases in net assets with donor restrictions until the restrictions are met (either by passage of time or by use) or are based on the related fund appropriations for expenditures in accordance with the Foundation's spending policy.

### Property and equipment

Property and equipment with a purchase price of \$1,000 or greater is capitalized at cost or, if donated, at the approximate fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has explicit time or use restrictions. Major expenses incurred which substantially increase the useful lives of the existing assets are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. The Foundation depreciates property and equipment using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Life</u>
Building and building improvements	5-39
Furniture and equipment	3-5

Depreciation expense totaled \$18,262 for the year ended December 31, 2021.

### Use of estimates

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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates are used by the Foundation when accounting for depreciation, fair value of investments, accrued expenses, and allocation of functional expenses.

### Income taxes

The Foundation is a not-for-profit organization under the laws of the State of Indiana and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

# Community Foundation of Morgan County, Inc.

## Summary of Significant Accounting Policies

### **Revenue recognition**

The Foundation receives grants and contributions from various not-for-profit organizations, corporate, and individual sources that are recognized as revenue when they are received or unconditionally pledged. The Foundation reports grants and contributions as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, or amounts have been allocated for expenditure by the Board of Directors, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue for administrative fees are recognized as income as the related services are provided according to the terms of the administrative fee arrangement with the Kendrick Foundation (See Notes 7 and 13) and the various management fee arrangements with individual funds held by the Foundation. At December 31, 2021, there are no amounts receivable related to administrative fee income. The Foundation does not have any significant financing components as payment is received at or shortly after the delivery of products and services.

The Foundation recognizes administrative fees for financial reporting purposes at points in time throughout the respective administrative fee agreements as performance obligations are achieved; typically quarterly or as funds are deposited, as governed by the specific agreements. Administrative fees are recorded in amounts that reflect the consideration the Foundation expects to be entitled to in exchange for those services.

The Foundation pays incremental costs upon the signing of contracts. Because the amount of incremental costs expected to occur is not considered significant, the Foundation charges incremental costs to expense as incurred.

### **Administrative fees**

Administrative fees from endowed funds are expensed from the funds to support the operations of the Foundation. Administrative fees from all funds are reflected as revenue on the statement of activities and changes in net assets. The administrative fees from funds held for others are not included as expenses on the statement of activities and changes in net assets since they are included in the change in funds held for others.

### **Advertising costs**

The Foundation incurs advertising costs in the normal course of business which are expensed as incurred. Advertising costs incurred totaled \$8,403 during the year ended December 31, 2021.

### **Funds held for others**

The Foundation receives contributions from other not-for-profit organizations in which the donor organization specifies itself as the beneficiary of the fund. In such instances, the Foundation records the contributed assets and any accumulated investments earnings as a liability in the statement of financial position.

## **Community Foundation of Morgan County, Inc.**

### Summary of Significant Accounting Policies

#### **Going concern**

Management evaluates whether there are conditions or events that raise substantial doubt about the Foundation's ability to continue as a going concern for the period of one year from the date the financial statements are available to be issued.

#### **Accounting for uncertainty in income taxes**

The Foundation is subject to audit by federal, state or local authorities in the area of income taxes. Along with a federal tax filing, the Foundation files in the State of Indiana. The Foundation's federal and state income tax returns for 2018 through 2021 are subject to examination by the applicable tax authorities, generally for three years after the later of the original or extended due date. These audits could include questioning the Foundation's tax-exempt status and compliance with federal, state, and local tax laws. Management is not aware of any tax positions that are more likely than not to change in the next twelve months or that would not sustain an examination by applicable taxing authorities. Therefore, there is no effect recorded in these financial statements for assets or liabilities resulting from unrecognized tax benefits. The Foundation's policy is to recognize penalties and interest as incurred in the statement of activities and net assets, which totaled \$0 for the year ended December 31, 2021.

## Community Foundation of Morgan County, Inc.

### Notes to the Financial Statements

#### Note 1 – Charitable trust

The Foundation was the trustee and had been named the beneficiary of a charitable trust. The charitable trust provided for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (the designated beneficiaries' lifetimes). Upon termination of the trust, the Foundation was to receive the entire amount remaining in the trust. However, the trust agreement specified that the donors could change the beneficiary of the trust up until the death of both donors. Therefore, the Foundation had recorded the fair value of the trust investments as an asset in the statement of financial position, but also recognized a liability for the entire trust amount. Trust assets and corresponding liability totaled \$298,334 at December 31, 2020. During the year ended December 31, 2021, the remaining designated beneficiary passed away and the Foundation received the value of the trust totaling \$285,282. Accordingly, the related trust asset and corresponding liability totaled \$0 at December 31, 2021.

#### Note 2 - Investments, at fair value

Investments are stated at fair value and consist of fixed income debt securities, common stocks, mutual funds and exchange-traded funds. Fair values and unrealized appreciation (depreciation) are summarized as follows:

<u>December 31, 2021:</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Fixed income debt securities:			
U.S. Government	\$ 102,521	\$ 105,407	\$ 2,886
State and municipal	109,517	112,256	2,739
Corporate mortgage/asset backed	2,558,071	2,780,472	222,401
Foreign obligations	101,336	103,327	1,991
Common stock:			
Industrials	298,533	571,984	273,451
Communication services	482,141	863,437	381,296
Consumer discretionary	407,163	926,009	518,846
Financial	776,885	1,249,979	473,094
Health care	317,142	418,283	101,141
Information technology	434,809	1,179,396	744,587
Mutual funds:			
International	21,222	21,030	(192)
Exchange-traded funds:			
Developed markets	826,896	965,034	138,138
Emerging markets	386,626	431,291	44,665
S&P 500	2,051	2,862	811
Small-cap	264,393	491,248	226,855
Totals	<u>\$ 7,089,306</u>	<u>\$ 10,222,015</u>	<u>\$ 3,132,709</u>

**Community Foundation of Morgan County, Inc.**  
Notes to the Financial Statements

**Note 2 - Investments, at fair value (continued)**

The following schedule summarizes the investment return and its classification in the statement of activities and changes in net assets for the year ended December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 47,746	\$ 152,344	\$ 200,090
Realized and unrealized gains on investments	267,726	933,438	1,201,164
Investment fees	<u>(14,272)</u>	<u>(68,205)</u>	<u>(82,477)</u>
Investment return, net	<u>\$ 301,200</u>	<u>\$ 1,017,577</u>	<u>\$ 1,318,777</u>

Contractual maturities for fixed income debt securities are as follows:

	<u>Fair Value</u>
Due in one year or less	\$ 323,795
Due in one to two years	425,251
Due in two to five years	1,113,735
Due after five years	<u>1,238,681</u>
Total	<u>\$ 3,101,462</u>

**Note 3 – Concentration of credit risk**

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments and investments in various securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the account balances.

The Foundation places its cash investments with high quality financial institutions and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The bank accounts, at times, may exceed federally insured limits. At December 31, 2021, there were cash and cash equivalents in the bank in excess of insured amounts and cash held in uninsured investment accounts of \$1,428,262. The Foundation has not experienced any losses on such accounts.

During the year ended December 31, 2019, the Foundation was awarded a grant from Lilly Endowment, Inc. totaling \$1,000,000 to encourage and assist in the raising of qualifying matching funds to the Foundation. The grant is restricted to match qualifying fund donations to the Foundation through September 30, 2021. There are no provisions for reversion to the granting agency if all funds are not matched. See Notes 8 and 9.

# Community Foundation of Morgan County, Inc.

## Notes to the Financial Statements

### Note 3 – Concentration of credit risk (continued)

The Foundation's operations have been affected by the ongoing outbreak of the Coronavirus Disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. As a result of the spread of the COVID-19 pandemic and related governmental responses, economic uncertainties have arisen which have impacted the Foundation. The ultimate disruption which may be caused by the outbreak, which is on-going, is uncertain; however, it may result in a material adverse impact on the Foundation's financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to the Foundation's contributions and grants, and investment return.

### Note 4 – Fair value measurements

The Foundation's financial assets and liabilities are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial assets or liabilities could result in a different fair value measurement at the reporting date.

The Foundation uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This 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 inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. The fair values of common stocks, mutual funds and exchange-traded funds are based on quoted market prices which represent the last reported sales price for these instruments on the last business day at year end.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data. The fair value of fixed income debt securities, including U.S. Government securities, state and municipal securities, corporate mortgage/asset backed bonds, and foreign obligations, are valued using pricing models maximizing the use of observable inputs for similar securities. The fair value of the charitable trust was based on the closing price reported on the active market on which the individual securities are traded. The fair value of the liability under charitable trust was based on the reported value of the charitable trust, as the named beneficiary may have been changed.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

## Community Foundation of Morgan County, Inc.

### Notes to the Financial Statements

#### Note 4 – Fair value measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of 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.

The carrying amounts reflected in the statement of financial position for cash and cash equivalents approximates its respective fair value.

The following table presents information on these assets as well as the fair value hierarchy used to determine their fair value:

<u>December 31, 2021:</u>	<b>Level 1: Quoted Prices in Active Markets for Identical Assets</b>	<b>Level 2: Significant Other Observable Inputs</b>	<b>Total Fair Value</b>
Fixed income debt securities:			
U.S. Government	\$ -	\$ 105,407	\$ 105,407
State and municipal	-	112,256	112,256
Corporate mortgage/asset backed	-	2,780,472	2,780,472
Foreign obligations	-	103,327	103,327
Common stock:			
Industrials	571,984	-	571,984
Communication services	863,437	-	863,437
Consumer discretionary	926,009	-	926,009
Financial	1,249,979	-	1,249,979
Health care	418,283	-	418,283
Information technology	1,179,396	-	1,179,396
Mutual funds:			
International	21,030	-	21,030
Exchange-traded funds:			
Developed markets	965,034	-	965,034
Emerging markets	431,291	-	431,291
S&P 500	2,862	-	2,862
Small-cap	491,248	-	491,248
Totals	<u>\$ 7,120,553</u>	<u>\$ 3,101,462</u>	<u>\$ 10,222,015</u>



## Community Foundation of Morgan County, Inc.

Notes to the Financial Statements

### Note 5 – Board of Directors designations

At December 31, 2021, the Foundation's Board of Directors has designated \$1,690,222 from net assets without donor restrictions as an endowment for the Foundation and the Foundation's building. See Notes 8 and 10. These designated net assets are included in net assets without donor restrictions.

### Note 6 – Funds held for others

Funds held for others represent funds placed on deposit with the Foundation by other organizations based on their individual board resolutions or the Foundation has entered into an agreement to serve as a fiscal agent for the organizations. The Foundation accounts for these transfers as a liability. Income is added to these funds periodically in accordance with the Foundation's investment allocation policies. Contributions, net investment return, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the accompanying statement of activities and changes in net assets.

The following is a progression of funds held for others during the year ended December 31, 2021:

Beginning balance	\$1,364,229
Contributions	275,339
Investment return, net	161,620
Administrative fees	(42,387)
Grants paid	(238,000)
Other program expenses	<u>(2,071)</u>
Ending balance	<u>\$1,518,730</u>

### Note 7 – Administrative fees revenue

During the year ended December 31, 2019, the Foundation renewed the existing agreement with the Kendrick Foundation, Inc. to provide general administrative services in exchange for an annual administrative fee. The term of the contract is for a five-year period ending June 30, 2024. The agreement was subject to amendment for a one-year period after signing, and the base service fee was adjusted during the year ended December 31, 2020. During the year ended December 31, 2021, the Foundation received \$200,055 of administrative fees related to this agreement which represented 7% of the total revenues of the Foundation during the year ended December 31, 2021. See Note 13.

**Community Foundation of Morgan County, Inc.**  
Notes to the Financial Statements

**Note 7 – Administrative fees revenue (continued)**

The remaining fees to be earned on this agreement at December 31, 2021 are as follows:

Year ending December 31,:	
2022	\$ 201,598
2023	207,108
2024	<u>104,952</u>
Total	<u>\$ 513,658</u>

**Note 8 – Financial assets available and liquidity**

The following reflects the Foundation’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of restrictions within one year of the date of the statement of financial position. Amounts not available include amounts set aside for long-term investing in the Foundation’s board-restricted endowment that could be drawn upon if the board of directors approves that action. However, amounts already appropriated from either the donor-restricted endowment funds or board-restricted endowment funds for general expenditure within one year of the statement of financial position date have not been reduced from available financial assets at year end. Financial assets available include the balance of cash and cash equivalents and investments at fair value in the accompanying statement of financial position.

Financial assets, at year-end	\$ 12,041,643
Less: Financial assets unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:	
Donor restricted for endowment funds	(5,060,136)
Donor restricted with purpose restrictions	(2,847,900)
Donor restricted with matching or time restrictions	(451,844)
Funds held for others	(1,518,730)
Board designated:	
Board restricted net assets	<u>(1,690,222)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 472,811</u>

## Community Foundation of Morgan County, Inc.

### Notes to the Financial Statements

#### Note 8 – Financial assets available and liquidity (continued)

The Foundation is supported by donor restricted contributions and grants and administrative fees on donor restricted endowment funds. Because a donor’s restriction requires resources to be used in a particular manner or future period, the Foundation must maintain sufficient resources to meet responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As part of the Foundation’s liquidity management, it has a policy to have financial assets available for general expenditures, liabilities, and other obligations that are due.

#### Note 9 – Net assets with donor restrictions

At December 31, 2021, net assets with donor restrictions are restricted for the following purposes or periods:

Historic gift value of funds that are restricted perpetually in nature	\$ 5,060,136
Funds restricted with matching or time restrictions	451,844
Purpose restricted and endowed funds not yet appropriated for expenditure	<u>2,847,900</u>
Total net assets with donor restrictions	<u>\$ 8,359,880</u>

#### Note 10 – Endowment

The majority of the Foundation’s funds consist 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. The Foundation maintains variance power over all endowment funds (including those established by donors) as provided within all fund agreements. 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 the following as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard procedure prescribed by UPMIFA.

**Community Foundation of Morgan County, Inc.**  
Notes to the Financial Statements

**Note 10 – Endowment (continued)**

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate the endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Foundation and the endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Foundation
- g. 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 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.

Changes in endowment net assets for the year ended December 31, 2021 were as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
<u>Year Ended December 31, 2021:</u>			
Endowment net assets, beginning of year	\$ 1,331,593	\$ 6,325,479	\$ 7,657,072
Investment return, net	231,594	1,076,044	1,307,638
Contributions and grants	222,220	120,490	342,710
Appropriation of endowment assets for expenditures	<u>(95,185)</u>	<u>(469,648)</u>	<u>(564,833)</u>
Endowment net assets, end of year	<u>\$ 1,690,222</u>	<u>\$ 7,052,365</u>	<u>\$ 8,742,587</u>

## **Community Foundation of Morgan County, Inc.**

### Notes to the Financial Statements

#### **Note 11 – Underwater endowments**

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 the UPMIFA requires the Foundation to retain as a fund of perpetual duration. At December 31, 2021 deficiencies of this nature existed in 6 donor-restricted endowment funds, which together have an original gift value of \$250,383, a current fair value of \$161,486, and a deficiency of \$88,897. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

The Foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless precluded by donor intent or relevant laws and regulations.

#### **Note 12 – Paycheck Protection Program Loan**

On May 5, 2020, the Foundation received loan proceeds in the amount of \$55,200 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying not-for-profit organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualified organization. The loan and accrued interest, if any, are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% per annum, with a deferral of payments for the first six months. The Foundation intended to use the proceeds for purposes consistent with the PPP. While the Foundation believed that its use of the loan proceeds met the conditions for the forgiveness of the loan, there was no guarantee that actions taken may not cause the Foundation to be ineligible for forgiveness of the loan, either in whole or in part. In April 2021, the bank determined that the use of the PPP loan proceeds of \$55,200 met the conditions for forgiveness of the loan and the entire balance of the PPP loan was forgiven. Accordingly, the Foundation has recorded \$55,200 of gain on forgiveness of the PPP loan for the year ended December 31, 2021 in the statement of activities and changes in net assets.

#### **Note 13 – Subsequent events**

The Foundation has evaluated subsequent events through December 19, 2022, which is the date these financial statements were available to be issued and has determined that the following subsequent event requires disclosure in the financial statements:

Subsequent to the year ended December 31, 2021, the Foundation notified the Kendrick Foundation, Inc. that it was terminating the administrative services agreement effective June 30, 2022. Accordingly, the Foundation will no longer perform or receive fees for those services after this date.

**Community Foundation of Morgan County, Inc.**  
Notes to the Financial Statements

**Note 14 – Recently issued accounting standards**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require leases to be recorded as an asset on the statement of financial position for the right to use the leased asset and a liability for the corresponding lease obligation for leases with terms of more than twelve months. ASU 2016-02 is effective for non-profit organizations for the fiscal years beginning after December 15, 2021, with early adoption permitted.

The Foundation is currently evaluating the effect this ASU will have on its future financial statements, including related disclosures.