

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

*CPAs / ADVISORS*



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

TABLE OF CONTENTS  
DECEMBER 31, 2016 AND 2015

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

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## 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, 2016 and 2015, 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, 2016 and 2015, 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

June 21, 2017

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

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

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**ASSETS**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,048,301	\$ 1,050,611
Investments	6,358,363	6,350,190
Charitable trust	302,979	300,764
Other assets	23,231	5,932
Property and equipment, net	<u>147,153</u>	<u>155,232</u>
	<u>\$ 7,880,027</u>	<u>\$ 7,862,729</u>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable	\$ 20,259	\$ 8,341
Grants payable	-0-	2,000
Accrued payroll	4,731	7,956
Deferred revenue	-0-	17,058
Liability under charitable trust	302,979	300,764
Custodial funds	<u>503,407</u>	<u>569,051</u>
Total liabilities	831,376	905,170

**Net assets**

Unrestricted:		
Operating	(608,907)	(526,511)
Board designated	<u>99,461</u>	<u>101,081</u>
	(509,446)	(425,430)
Temporarily restricted	1,754,688	1,580,986
Permanently restricted	<u>5,803,409</u>	<u>5,802,003</u>
Total net assets	<u>7,048,651</u>	<u>6,957,559</u>
	<u>\$ 7,880,027</u>	<u>\$ 7,862,729</u>

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*See accompanying notes to financial statements.*

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

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Support and revenues</b>					
Contributions and grants	\$ 122,450	\$ 633,662	\$ 1,406	\$ 757,518	\$ 1,549,692
Investment return, net	129,404	30,657	-0-	160,061	63,775
Administrative fee income	371,335	-0-	-0-	371,335	371,156
In-kind contributions	-0-	5,500	-0-	5,500	-0-
Special events income	30,934	32,433	-0-	63,367	129,484
Net assets released from restrictions	528,550	(528,550)	-0-	-0-	-0-
Total support and revenues	1,182,673	173,702	1,406	1,357,781	2,114,107
<b>Expenses</b>					
Grants	281,486			281,486	265,567
Program	307,880			307,880	313,659
Salaries and wages	330,478			330,478	367,435
Administrative fees	121,081			121,081	121,971
Professional fees	62,975			62,975	58,104
Printing and postage	3,476			3,476	7,274
Payroll taxes	25,773			25,773	28,636
Computer expense	25,421			25,421	25,635
Employee benefits	25,112			25,112	26,899
Repairs and maintenance	6,775			6,775	10,872
Events	9,182			9,182	13,472
Depreciation	8,936			8,936	9,281
Advertising	1,109			1,109	3,818
Telephone	6,310			6,310	6,154
Insurance	6,997			6,997	6,427
Training	9,214			9,214	4,609
Utilities	5,236			5,236	6,830
Equipment expense	11,924			11,924	8,500
Office supplies	5,153			5,153	6,825
Travel and entertainment	7,830			7,830	7,802
Board and committee expense	75			75	1,277
Dues and subscriptions	1,325			1,325	573
Donor relations	2,330			2,330	1,718
Contracted services	-0-			-0-	16,647
Miscellaneous	611			611	2,572
Total expenses	1,266,689	-0-	-0-	1,266,689	1,322,557
Change in net assets	(84,016)	173,702	1,406	91,092	791,550
<b>Net assets, beginning of year</b>	(425,430)	1,580,986	5,802,003	6,957,559	6,166,009
<b>Net assets, end of year</b>	\$ (509,446)	\$ 1,754,688	\$ 5,803,409	\$ 7,048,651	\$ 6,957,559

*See accompanying notes to financial statements.*

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

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenues</b>				
Contributions and grants	\$ 17,333	\$ 711,072	\$ 821,287	\$ 1,549,692
Investment return, net	49,459	14,316	-0-	63,775
Administrative fee income	371,156	-0-	-0-	371,156
Special events income	7,250	122,234	-0-	129,484
Net assets released from restrictions	<u>699,402</u>	<u>(699,402)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	1,144,600	148,220	821,287	2,114,107
<b>Expenses</b>				
Grants	265,567			265,567
Program	313,659			313,659
Salaries and wages	367,435			367,435
Administrative fees	121,971			121,971
Professional fees	58,104			58,104
Printing and postage	7,274			7,274
Payroll taxes	28,636			28,636
Computer expense	25,635			25,635
Employee benefits	26,899			26,899
Repairs and maintenance	10,872			10,872
Events	13,472			13,472
Depreciation	9,281			9,281
Advertising	3,818			3,818
Telephone	6,154			6,154
Insurance	6,427			6,427
Training	4,609			4,609
Utilities	6,830			6,830
Equipment expense	8,500			8,500
Office supplies	6,825			6,825
Travel and entertainment	7,802			7,802
Board and committee expense	1,277			1,277
Dues and subscriptions	573			573
Donor relations	1,718			1,718
Contracted services	16,647			16,647
Miscellaneous	<u>2,572</u>			<u>2,572</u>
Total expenses	<u>1,322,557</u>	<u>-0-</u>	<u>-0-</u>	<u>1,322,557</u>
Change in net assets	(177,957)	148,220	821,287	791,550
<b>Net assets, beginning of year</b>	<u>(247,473)</u>	<u>1,432,766</u>	<u>4,980,716</u>	<u>6,166,009</u>
<b>Net assets, end of year</b>	<u>\$ (425,430)</u>	<u>\$ 1,580,986</u>	<u>\$ 5,802,003</u>	<u>\$ 6,957,559</u>

*See accompanying notes to financial statements.*

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

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	2016	2015
<b>Operating activities</b>		
Change in net assets	\$ 91,092	\$ 791,550
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	8,936	9,281
Realized and unrealized losses (gains) on investments	(100,155)	34,531
Reinvested interest and dividends received on investments	(150,865)	(176,203)
Contributions restricted to endowment funds	(1,406)	(821,287)
Changes in assets and liabilities:		
Other assets	(17,299)	(2,909)
Accounts payable	11,918	6,091
Grants payable	(2,000)	(12,905)
Accrued payroll	(3,225)	739
Deferred revenue	(17,058)	(877,442)
Custodial funds	(65,644)	73,009
Net cash flows from operating activities	(245,706)	(975,545)
<b>Investing activities</b>		
Purchase of property and equipment	(857)	(21,590)
Purchase of investments	(2,637,425)	(2,439,026)
Proceeds from sales of investments	2,880,272	3,171,547
Net cash flows from investing activities	241,990	710,931
<b>Financing activities</b>		
Contributions restricted to endowment funds	1,406	821,287
Net change in cash and cash equivalents	(2,310)	556,673
<b>Cash and cash equivalents, beginning of year</b>	1,050,611	493,938
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,048,301</u>	<u>\$ 1,050,611</u>

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*See accompanying notes to financial statements.*



# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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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.

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 - 5 years

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### Deferred Revenue

During 2014, the Foundation received a \$1,000,000 grant from Lilly Endowment through its GIFT Phase VI initiative. The grant was required to be matched with new contributions to help build the Foundation's unrestricted endowments and provide support for specified charitable projects and needs. Therefore, deferred revenue related to the portion of the grant that had not yet been matched and earned. The matching period was from August 1, 2014 through March 31, 2016. As qualifying contributions were received, the related match amount was recognized as revenue. In 2016, the Foundation received qualifying contributions to recognize the remaining deferred revenue of \$17,058 into revenue.

### 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.

### 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.

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### Income Taxes

The Foundation 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 Foundation and recognize a tax liability if the Foundation 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 Foundation, and has concluded that as of December 31, 2016 and 2015, 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 Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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

### Going Concern Evaluation

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

### 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 June 21, 2017.

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

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

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**2. INVESTMENTS**

Investments at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 155,611	\$ 142,092
Common stocks		
Large-cap growth	-0-	393,944
All-cap growth	614,742	1,615,773
Mid-cap value	-0-	1,702,797
Mid-cap growth	3,497,493	321,361
Equity mutual funds		
Large-cap blend	286,373	272,645
Large-cap growth	286,700	-0-
Mid-cap growth	-0-	306,235
Other	141,819	161,016
Preferred/fixed rate cap securities	399,736	407,841
Corporate bonds	607,762	559,119
U.S. Government securities	126,298	182,686
Corporate mortgage/asset backed bonds	26,804	31,956
Exchange traded funds		
Growth	<u>215,025</u>	<u>252,725</u>
	<u>\$ 6,358,363</u>	<u>\$ 6,350,190</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 146,417	\$ 172,283
Realized and unrealized gains (losses)	97,425	(33,787)
Investment fees	<u>(83,781)</u>	<u>(74,721)</u>
	<u>\$ 160,061</u>	<u>\$ 63,775</u>

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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 Foundation's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. There were no changes in levels during 2016 or 2015. 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.

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 and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

- *Common stocks:* Valued at 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, 2016 AND 2015

- *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.
- *Charitable trust:* The trust is invested in various mutual funds and bonds that are valued based upon the closing price reported on the active market on which the individual securities are traded.
- *Liability under charitable trust:* Fair value is equivalent to the value of the charitable trust as the named beneficiary may be changed.

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, 2016 and 2015 are as follows:

	2016		
	Fair Value	Level 1	Level 2
<b>Assets:</b>			
Common stocks	\$ 4,112,235	\$ 4,112,235	\$ -0-
Mutual funds	714,892	714,892	-0-
Preferred/fixed rate cap securities	399,736	399,736	-0-
Corporate bonds	607,762	-0-	607,762
U.S. government securities	126,298	-0-	126,298
Corporate mortgage/asset backed bonds	26,804	-0-	26,804
Exchange traded funds	215,025	215,025	-0-
Charitable trust	302,979	-0-	302,979
<b>Liabilities:</b>			
Liability under charitable trust	302,979	-0-	302,979

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

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

	2015		
	Fair Value	Level 1	Level 2
Assets:			
Common stocks	\$ 4,033,875	\$ 4,033,875	\$ -0-
Mutual funds	739,896	739,896	-0-
Preferred/fixed rate cap securities	407,841	407,841	-0-
Corporate bonds	559,119	-0-	559,119
U.S. government securities	182,686	-0-	182,686
Corporate mortgage/asset backed bonds	31,956	-0-	31,956
Exchange traded funds	252,725	252,725	-0-
Charitable trust	300,764	-0-	300,764
Liabilities:			
Liability under charitable trust	300,764	-0-	300,764

**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 \$302,979 and \$300,764 at December 31, 2016 and 2015, respectively.

**6. PROPERTY AND EQUIPMENT**

A summary of property and equipment at December 31, 2016 and 2015 is as follows:

	2016	2015
Building and building improvements	\$ 162,688	\$ 162,688
Furniture and equipment	79,012	74,679
	<u>241,700</u>	<u>237,367</u>
Less accumulated depreciation	(94,547)	(82,135)
	<u>\$ 147,153</u>	<u>\$ 155,232</u>



# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 7. CUSTODIAL FUNDS

Custodial funds represent 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 2016 and 2015:

	2016	2015
Beginning balance	\$ 569,051	\$ 496,042
Contributions	519,817	911,995
Interest and dividend income	4,448	3,920
Realized and unrealized gains (loss)	2,730	(744)
Investment fees	(2,561)	(1,755)
Other revenue	184,464	146,056
Administrative fees	(27,124)	(31,497)
Grant payments	(714,262)	(888,751)
Other program expenses	(33,156)	(66,215)
Ending balance	<u>\$ 503,407</u>	<u>\$ 569,051</u>

### 8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for endowment funds not yet appropriated for expenditure of \$1,754,688 and \$1,580,986 at December 31, 2016 and 2015, respectively. Permanently restricted net assets of \$5,803,409 and \$5,802,003 at December 31, 2016 and 2015, 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 \$528,550 and \$699,402 based on endowment funds appropriated for expenditure for the years ended December 31, 2016 and 2015, respectively.

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# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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. 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 endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the 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, 2016 AND 2015

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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, 2016 and 2015 were as follows:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 99,461	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(956,658)</u>	<u>1,754,688</u>	<u>5,803,409</u>
	<u>\$ (857,197)</u>	<u>\$ 1,754,688</u>	<u>\$ 5,803,409</u>
	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 101,081	\$ -0-	\$ -0-
Donor Restricted Funds	<u>(430,089)</u>	<u>1,580,986</u>	<u>5,802,003</u>
	<u>\$ (329,008)</u>	<u>\$ 1,580,986</u>	<u>\$ 5,802,003</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 \$956,658 and \$430,089 as of December 31, 2016 and 2015, respectively. Non-endowed operating funds were \$347,751 and (\$96,422) as of December 31, 2016 and 2015, respectively.

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

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

Changes in endowment net assets for the years ended December 31, 2016 and 2015, were as follows:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets,			
beginning of year	\$ (329,008)	\$ 1,580,986	\$ 5,802,003
Contributions and grants	-0-	639,162	1,406
Investment return, net	128,468	30,657	-0-
Other income	-0-	32,433	-0-
Appropriation of endowment assets for expenditure	<u>(656,657)</u>	<u>(528,550)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ (857,197)</u>	<u>\$ 1,754,688</u>	<u>\$ 5,803,409</u>
	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets,			
beginning of year	\$ (103,835)	\$ 1,432,766	\$ 4,980,716
Contributions and grants	-0-	711,072	821,287
Investment return, net	49,028	14,316	-0-
Other income	2,332	122,234	-0-
Appropriation of endowment assets for expenditure	<u>(276,533)</u>	<u>(699,402)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ (329,008)</u>	<u>\$ 1,580,986</u>	<u>\$ 5,802,003</u>

# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015 are classified as follows:

	2016	2015
Development of Morgan County	\$ 879,263	\$ 846,911
Fundraising	74,268	94,102
General and administrative expenses	<u>313,158</u>	<u>381,544</u>
	<u>\$ 1,266,689</u>	<u>\$ 1,322,557</u>

### 12. RELATED PARTY TRANSACTIONS

The Foundation received \$309,925 and \$286,651 in contributions from members of the Foundation's board of directors and staff during 2016 and 2015, respectively.

### 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 one investment firm. Such balances, at times, may exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

### 14. RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which the Foundation is not required to adopt until its year ending December 31, 2019, deal with the timing of reporting revenues from contracts with customers,

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# COMMUNITY FOUNDATION OF MORGAN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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and disclosures related thereto.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Foundation is not required to adopt until its year ending December 31, 2018, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

The Foundation is presently evaluating the effect that these ASUs will have on its future financial statements, including related disclosures.