

WABASH VALLEY COMMUNITY FOUNDATION, INC.

**Financial Statements and Report of
Independent Certified Public Accountants**

September 30, 2011

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Incorporated

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Wabash Valley Community Foundation, Inc.
Terre Haute, Indiana

We have audited the accompanying statements of assets, liabilities and net assets - modified cash basis of Wabash Valley Community Foundation, Inc. as of September 30, 2011 and 2010, and the related statements of revenues, expenses and other changes in net assets and cash flows - modified cash basis for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Wabash Valley Community Foundation, Inc. as of September 30, 2011 and 2010 and its support, revenue, expenses, and change in its net assets for the years then ended, on the basis of accounting described in Note 2.

Sackrider & Company, Inc.

Terre Haute, Indiana
January 12, 2012

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Statements of Assets, Liabilities and Net Assets - Modified Cash Basis

September 30,

ASSETS	<u>2011</u>	<u>2010</u>
Cash	\$ 155,031	\$ 97,962
Investments	32,643,484	32,204,357
Office furniture and equipment	99,890	99,890
Less: Accumulated depreciation	<u>(93,460)</u>	<u>(90,073)</u>
	6,430	9,817
Real Estate	<u>1,584</u>	<u>34,000</u>
Total assets	\$ <u>32,806,529</u>	\$ <u>32,346,136</u>
 LIABILITIES AND NET ASSETS		
Agency endowments	\$ 2,490,058	\$ 2,453,717
Scholarships and grants payable	633,585	559,356
Retirement withheld	-	-
HRA payable	38,532	38,818
Annuity liability	<u>2,867</u>	<u>2,867</u>
Total liabilities	<u>3,165,042</u>	<u>3,054,758</u>
Net assets		
Unrestricted	27,016,218	26,663,931
Temporarily restricted	12,778	14,956
Permanently restricted	<u>2,612,491</u>	<u>2,612,491</u>
Total net assets	<u>29,641,487</u>	<u>29,291,378</u>
Total liabilities and net assets	\$ <u>32,806,529</u>	\$ <u>32,346,136</u>

The accompanying notes are an integral part of these statements.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

**Statements of Revenues, Expenses and Other
Changes in Net Assets - Modified Cash Basis**

For the Years Ended September 30,

	<u>2011</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Public Support:			
Total amounts raised	\$ 1,774,878	\$ -	\$ -
Less: Amounts received as agency endowments	<u>(83,251)</u>	<u>-</u>	<u>-</u>
Total contributions	1,691,627	-	-
Seminar fees	4,936	-	-
Fundraising revenue	71,570	-	-
Other fees	<u>36,555</u>	<u>-</u>	<u>-</u>
Total public support	1,804,688	-	-
Revenues and Gains:			
Investment income-net of custodial fees	1,223,399	-	-
Investment management fees	(39,000)	-	-
Loss on sale of investments	(134,868)	-	-
Unrealized gain (loss) on investments	(914,567)	-	-
Rental income	5,430	-	-
Excess management fees from agency endowments	29,698	-	-
Net assets released from restrictions:			
Satisfaction of donor restrictions	<u>2,178</u>	<u>(2,178)</u>	<u>-</u>
Total revenues and gains	<u>172,270</u>	<u>(2,178)</u>	<u>-</u>
Total public support and revenue and gains	<u>1,976,958</u>	<u>(2,178)</u>	<u>-</u>
Expenses:			
Community activities:			
Total grants and distributions	1,096,198	-	-
Less: Grants made from agency endowments	<u>(41,981)</u>	<u>-</u>	<u>-</u>
Total grants and distributions	1,054,217	-	-
Fundraising expenses	<u>38,498</u>	<u>-</u>	<u>-</u>
Total community activities expenses	1,092,715	-	-
Supporting activities:			
Personnel expenses	331,733	-	-
Administrative expenses	120,952	-	-
Occupancy expenses	32,194	-	-
Development expenses	<u>47,077</u>	<u>-</u>	<u>-</u>
Total supporting activities expenses	<u>531,956</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,624,671</u>	<u>-</u>	<u>-</u>
Change in net assets	352,287	(2,178)	-
Net assets at beginning of year	<u>26,663,931</u>	<u>14,956</u>	<u>2,612,491</u>
Net assets at end of year	\$ <u>27,016,218</u>	\$ <u>12,778</u>	\$ <u>2,612,491</u>

The accompanying notes are an integral part of these statements.

2010				
Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,774,878	\$ 2,253,840	\$ -	\$ -	\$ 2,253,840
(83,251)	(754,818)	-	-	(754,818)
<u>1,691,627</u>	<u>1,499,022</u>	<u>-</u>	<u>-</u>	<u>1,499,022</u>
4,936	2,120	-	-	2,120
71,570	68,418	-	-	68,418
36,555	25,127	-	-	25,127
<u>1,804,688</u>	<u>1,594,687</u>	<u>-</u>	<u>-</u>	<u>1,594,687</u>
1,223,399	673,010	-	-	673,010
(39,000)	(44,500)	-	-	(44,500)
(134,868)	(592,299)	-	-	(592,299)
(914,567)	2,180,372	-	-	2,180,372
5,430	8,050	-	-	8,050
29,698	19,441	-	-	19,441
-	23,175	(23,175)	-	-
<u>170,092</u>	<u>2,267,249</u>	<u>(23,175)</u>	<u>-</u>	<u>2,244,074</u>
<u>1,974,780</u>	<u>3,861,936</u>	<u>(23,175)</u>	<u>-</u>	<u>3,838,761</u>
1,096,198	1,209,738	-	-	1,209,738
(41,981)	(82,101)	-	-	(82,101)
<u>1,054,217</u>	<u>1,127,637</u>	<u>-</u>	<u>-</u>	<u>1,127,637</u>
38,498	22,226	-	-	22,226
<u>1,092,715</u>	<u>1,149,863</u>	<u>-</u>	<u>-</u>	<u>1,149,863</u>
331,733	289,211	-	-	289,211
120,952	128,162	-	-	128,162
32,194	31,380	-	-	31,380
47,077	73,739	-	-	73,739
<u>531,956</u>	<u>522,492</u>	<u>-</u>	<u>-</u>	<u>522,492</u>
<u>1,624,671</u>	<u>1,672,355</u>	<u>-</u>	<u>-</u>	<u>1,672,355</u>
350,109	2,189,581	(23,175)	-	2,166,406
<u>29,291,378</u>	<u>24,474,350</u>	<u>38,131</u>	<u>2,612,491</u>	<u>27,124,972</u>
<u>\$ 29,641,487</u>	<u>\$ 26,663,931</u>	<u>\$ 14,956</u>	<u>\$ 2,612,491</u>	<u>\$ 29,291,378</u>

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Statements of Cash Flows - Modified Cash Basis

For the Years Ended September 30,

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 350,109	\$ 2,166,406
Adjustments to reconcile increases in net assets to net cash provided by operating activities:		
Depreciation	3,387	2,963
Net unrealized appreciation on investments	914,567	(2,180,372)
Loss on sale of investments	134,868	592,299
Change in assets and liabilities:		
Scholarships and grants payable	74,229	41,338
Other liabilities	(286)	7,423
Agency endowments	36,341	834,383
Net cash from operating activities	1,513,215	1,464,440
Cash flows from investing activities:		
Purchase of office equipment	-	(3,311)
Proceeds from sale of investments	18,105,098	24,196,655
Purchase of investments	(19,559,028)	(25,531,914)
Proceeds from sale of real estate	8,788	19,288
Contribution of investments	(11,004)	(56,425)
Contribution of real estate	-	-
Net cash from investing activities	(1,456,146)	(1,375,707)
Net increase (decrease) in cash	57,069	88,733
Cash at beginning of year	97,962	9,229
Cash at end of year	\$ 155,031	\$ 97,962
Supplemental data:		
Noncash investing activities:		
Gifts of common stock	\$ 11,004	\$ 56,425

The accompanying notes are an integral part of these statements.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements

September 30, 2011 and 2010

NOTE 1 - PURPOSE OF ORGANIZATION

The Wabash Valley Community Foundation, Inc. (Foundation) was established December 20, 1991. The Foundation's mission is to engage people, build resources and strengthen the community. The Foundation's vision is to strive to be the primary steward of endowed funds and a leader that encourages broad-based charitable activities in the Wabash Valley. The Foundation's purpose is to enrich and enhance the quality of life in the Wabash Valley area by:

- (a) receiving and investing contributions to build a permanent endowment for the charitable needs of the Wabash Valley community. It will use the income from these contributions to respond to changing and emerging community needs and to sustain existing philanthropic organizations through grants to be used for social services, civic affairs, education, arts and culture, and recreation; and
- (b) providing a flexible and convenient giving vehicle for donors having a variety of charitable goals and needs. In doing so, the Foundation serves as a steward for individuals, families, foundations, and organizations entrusting assets to its care; and
- (c) assisting community leaders in identifying important needs and concerns, addressing serious problems, and shaping effective response and solutions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Foundation's significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The Foundation uses the "modified cash basis" method of accounting. Certain revenues are recognized when received rather than when earned and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred.

Basis of Presentation

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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. Also included in unrestricted net assets are amounts designated by the Foundation's board of directors for operating purposes and the donor-designated funds due to the variance power granted to the Foundation's board of directors in the event the donor's direct original intent cannot be met and the Foundation must find a similar charitable purpose.

Temporarily Restricted Net Assets - Net assets subject to 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenues, Expenses and Other Changes in Net Assets as net assets released from restrictions.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Investments

Investments are stated at fair value determined by market quotes. The great majority are held for long-term investment purposes. Investments include all assets held in agency accounts with trust departments and brokerage firms. Investment income includes only interest and dividend income received on these investments.

Agency Endowments

An agency endowment arises when funds are transferred to the Community Foundation from a donor who is a nonprofit organization and then specifies itself or its affiliates as the beneficiary of the funds. The transferred funds are maintained in perpetuity by the Community Foundation and the earnings of these funds less a management fee are transferred to the donor or its affiliate once a year. Agency endowment balances are recorded as liabilities in the Statements of Financial Position - modified cash basis. The Community Foundation currently has approximately 55 agency endowment agreements with donors.

Depreciation

Property, plant and equipment is recorded at historical cost and is depreciated over the estimated useful lives of the related assets using the straight-line method. Depreciation expense totaled \$3,387 and \$2,963 for the years ended September 30, 2011 and 2010, respectively.

Land Held for Investment

Land held for investment consists of rental real estate donated to the Foundation. The property is valued at the fair market value as of the date of the contribution and is listed for sale. The Foundation received rental income of \$5,430 and \$8,050 during the years ended September 30, 2011 and 2010, respectively. During the year ended September 30, 2011, one of the properties was sold for \$8,788, net of settlement fees at a loss of \$10,212. During the year ended September 30, 2011, the value of the remaining property was written down to reflect an offer of \$1,584, for an unrealized loss of \$13,416. During the year ended September 30, 2010, one of the properties was sold for \$19,288, net of settlement fees, at a loss of \$8,712.

Support

Contributions received are measured at their fair values and are reported as an increase in net assets. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Donated Materials and Services

Only those in-kind contributions for which a fair market value can be objectively determined are recorded as revenue.

Income Tax Exemption

The Internal Revenue Service has determined the Foundation to be exempt from the payment of federal income taxes under sections 509(a) and 501(c)(3) of the Internal Revenue Code. This ruling was obtained March 10, 1992. The Department of Revenue, State of Indiana, has also recognized the Foundation as a not-for-profit organization exempt from the payment of Indiana income taxes.

The Foundation's policy is to evaluate the likelihood that its uncertain tax provisions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence. It is the opinion of the management that the Foundation has no uncertain tax positions.

The Foundation's information returns are subject to examination by the appropriate taxing jurisdictions. As of September 30, 2011, the Foundation's federal and state tax returns for the last three years are open for examination as each year's returns remain open for examination for three years.

Cash

For purposes of the Statement of Cash Flows, the Foundation considers cash the same as cash as shown in the Statement of Assets, Liabilities and Net Assets - modified cash basis, which includes cash on hand and checking account balances.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through January 12, 2012, the date the financial statements were available to be issued, and determined no events occurred which would require adjustment to or disclosure in the financial statements.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 3 - INVESTMENTS

Investments are held in agency accounts administered by two local trust departments and are carried at fair value. The fair values of investment securities are as follows:

	<u>9/30/2011</u>	<u>9/30/2010</u>
Principal and income cash	\$ 16,287	\$ 28,807
Certificates of deposit	753,344	1,195,479
Cash equivalents	1,221,989	1,495,501
United States Government and government agency obligations	3,089,095	2,540,293
Municipal bonds-primarily taxable	275,453	634,445
Corporate bonds	1,420,672	1,604,705
Common stocks	2,487,767	2,525,214
Common stock mutual funds	11,479,858	15,206,257
Fixed income mutual funds	9,782,582	4,848,972
Investment in Speece Thorson Capital Group Value Fund, LLC	<u>2,116,437</u>	<u>2,124,684</u>
	\$ <u>32,643,484</u>	\$ <u>32,204,357</u>

These investments represent funds to be used to provide future income for grants, scholarships and supporting activity expenses.

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment income	\$ 1,276,628	\$ -	\$ -	\$ 1,276,628
Net realized losses	(134,868)	-	-	(134,868)
Net unrealized gains	(914,567)	-	-	(914,567)
Custodial fees	(53,229)	-	-	(53,229)
Management fees	<u>(39,000)</u>	<u>-</u>	<u>-</u>	<u>(39,000)</u>
Total investment return	\$ <u>134,964</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>134,964</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended September 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment income	\$ 719,186	\$ -	\$ -	\$ 719,186
Net realized losses	(592,299)	-	-	(592,299)
Net unrealized gains	2,180,372	-	-	2,180,372
Custodial fees	(46,175)	-	-	(46,175)
Management fees	<u>(44,500)</u>	<u>-</u>	<u>-</u>	<u>(44,500)</u>
Total investment return	\$ <u>2,216,584</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,216,584</u>

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 4 - FAIR VALUE MEASUREMENT

The Foundation adopted the Accounting Standards Codification No. 820, (“ASC 820”), *Fair Value Measurements*, on October 1, 2008. ASC 820 requires the Foundation to classify its assets and liabilities into three levels based on the method used to value the assets or liabilities. Level 1 values are based on quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the foundation’s determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investment.

Assets measured at fair value on a recurring basis at September 30, 2011 are as follows:

	Level 1-Quoted Prices in <u>Active Markets</u>	Level 2-Other Observable <u>Inputs</u>	Level 3- Unobservable <u>Inputs</u>
Cash and cash equivalents	\$ 1,238,277	\$ -	\$ -
Certificates of deposit	753,344	-	-
Corporate bonds	-	1,420,672	-
Municipal bonds – primarily taxable	-	275,453	-
United States Government obligations	3,089,095	-	-
Mutual funds:			
Small cap equity funds	1,761,124	-	-
Large cap equity funds	6,570,682	-	-
International equity funds	2,251,407	-	-
Emerging market funds	635,250	-	-
Fixed income funds	9,782,582	-	-
Other funds	261,396	-	-
Common stocks:			
Telecommunication services	36,334	-	-
Materials	91,008	-	-
Consumer discretionary	313,959	-	-
Industrials	286,780	-	-
Energy	293,775	-	-
Utilities	36,334	-	-
Information technology	510,749	-	-
Consumer staples	288,065	-	-
Health care	300,464	-	-
Financials	330,297	-	-
Speece Thorson Capital Group			
Value Fund, LLC	<u>-</u>	<u>-</u>	<u>2,116,437</u>
	\$ <u>28,830,922</u>	\$ <u>1,696,125</u>	\$ <u>2,116,437</u>

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 4 - FAIR VALUE MEASUREMENT - continued

Assets measured at fair value on a recurring basis at September 30, 2010 are as follows:

	Level 1-Quoted Prices in <u>Active Markets</u>	Level 2-Other Observable <u>Inputs</u>	Level 3- Unobservable <u>Inputs</u>
Cash and cash equivalents	\$ 1,524,307	\$ -	\$ -
Certificates of deposit	1,195,479	-	-
Corporate bonds	-	1,604,705	-
Municipal bonds -- primarily taxable	-	634,445	-
United States Government obligations	2,540,293	-	-
Mutual funds:			
Small cap equity funds	1,766,165	-	-
Large cap equity funds	8,967,416	-	-
International equity funds	3,347,478	-	-
Emerging market funds	1,054,162	-	-
Fixed income funds	4,834,792	-	-
Other funds	85,216	-	-
Common stocks:			
Telecommunication services	38,065	-	-
Materials	110,946	-	-
Consumer discretionary	241,345	-	-
Industrials	319,844	-	-
Energy	288,896	-	-
Utilities	50,754	-	-
Information technology	492,119	-	-
Consumer staples	354,279	-	-
Health care	283,229	-	-
Financials	345,738	-	-
Speece Thorson Capital Group Value Fund, LLC	<u>-</u>	<u>-</u>	<u>2,124,684</u>
	\$ <u>27,840,523</u>	\$ <u>2,239,150</u>	\$ <u>2,124,684</u>

The following is a description of the valuation methodologies used for assets at fair value.

For all *cash* and *cash equivalents*, *United States government obligations*, *common stocks* and *mutual funds* fair value is determined by reference to quoted market prices.

Corporate bonds are valued based on yields currently available on comparable securities or issuers with similar credit ratings.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 4 - FAIR VALUE MEASUREMENT - continued

The *Limited Liability Company (LLC)*, Speece Thorson Capital Group Value Fund, LLC, is a private equity fund LLC that invests primarily in mid-cap value equities. The fair value of this investment is determined based on the Foundation's percentage owned of total units outstanding multiplied by the total members equity of the LLC.

The following is a reconciliation of the beginning and ending balances for investments measured at fair value using significant unobservable inputs (level 3) during the year ended September 30, 2010.

	<u>Limited Liability Company</u>
Beginning balance, October 1, 2009	\$ -
Purchases	2,000,000
Sales	-
Transfers	-
Realized gains/(losses)	-
Unrealized gains	<u>124,684</u>
Ending balance, September 30, 2010	2,124,684
Purchases	-
Sales	-
Transfers	-
Realized gains/(losses)	-
Unrealized gains	<u>(8,247)</u>
Ending balance, September 30, 2011	\$ <u>2,116,437</u>

NOTE 5 - CONTRIBUTIONS FROM LILLY ENDOWMENT, INC.

The Foundation participated in the Lilly Endowment Sustaining Resource Development Program. In August 2005, the Foundation submitted a three-year strategic plan for development and fund-raising for each county served by the Foundation. Lilly Endowment analyzed the strategic plan and awarded up to 50% of the plan's implementation cost, not to exceed a maximum grant of \$250,000 for each county, upon approval of the plan. The Foundation was notified by Lilly Endowment that the strategic plan submitted was approved and the Foundation received \$384,667 in December, 2005. These funds were recorded by the Foundation as temporarily restricted. The Foundation received a 15-month extension of the grant period, through December, 2009. Expenses applicable to this program totaled \$0 and \$13,776 during the years ended September 30, 2011 and 2010, respectively.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 5 - CONTRIBUTIONS FROM LILLY ENDOWMENT, INC. - continued

The Foundation received funds from Lilly Endowment as part of their GIFT (Giving Indiana Funds for Tomorrow) initiative to help community foundations establish endowment funds and as part of their CAPE (Community Alliances Promoting Education) initiative to help communities establish alliances that address the communities educational needs. The total amount of funds from Lilly Endowment received that were recorded as permanently restricted were \$2,612,491.

NOTE 6 - MANAGEMENT FEES

Donor funds are charged a fee of 1% that is taken in quarterly installments of .25% of assets based on the principal balance as of December 31, March 31, June 30 and September 30 each year. Non-permanent and pass-through funds are charged a fee of 2% that is taken in quarterly installments of .5% of the principal balance as of December 31, March 31, June 30, and September 30. Effective October 1, 2008, scholarship endowment funds that use a selection committee other than those established by the Wabash Valley Community Foundation are charged a quarterly fee of .5% of assets based on the principal balance as of December 31, March 31, June 30 and September 30 each year. Scholarship endowment funds that are paid directly to an institution of higher education that selects the recipient and funds that use one of the selection committees established by the Wabash Valley Community Foundation are charged a quarterly fee of .25% of assets based on the principal balance as of December 31, March 31, June 30, and September 30 each year. Endowments funds accepted and deposited in the last two months of the fiscal year will not pay a fee for that year. For Trust Funds for which the Foundation serves as the trustee, a fee of \$1,000 per year is charged for selection of scholarship recipients; \$300 per year for payment of previously awarded scholarships and maintaining contact with prior recipients; a minimum fee of \$300 will be charged to the trust fund annually. In addition, the Foundation will pass on all expenses related to trust investments and completion of the Form 1041 or other reporting required to be filed with the Internal Revenue Service. The management fees are used in the unrestricted fund to offset operating expenses.

NOTE 7 - RENT EXPENSE

The Foundation leases office space under an operating lease that expires in May 2013. A member of the Foundation's board is an executive with the lessor. Rent payments made during the years ended September 30, 2011 and 2010 totaled \$18,072 and \$18,572, respectively.

Minimum future rental payments to be paid on operating leases as of September 30, 2011 for each of the next 5 years and the aggregate are:

2012	\$ 18,072
2013	12,048
2014	-
2015	-
2016	-

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 8 - CATEGORIES OF INTERNAL FUNDS WITH VARIANCE POWER

The Foundation has variance power over most funds received, and as such, these are reported as unrestricted net assets. However, the Foundation maintains various categories of internal funds based on the wishes and purposes established with donors in fund agreements. Those categories and balances at September 30, 2011 were as follows:

Donor Advised	\$ 2,140,669
Scholarship	6,844,390
Designated	3,489,326
Agency Endowment	1,865,880
Field of Interest	1,790,260
Special Project	38,278
Unrestricted	5,746,825
Operating Funds	<u>1,046,363</u>
	<u>\$ 22,961,991</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

The Wabash Valley Community Foundation has established a charitable gift annuity agreement with a donor. The donor has transferred assets to the Foundation, and in turn, the donor is to receive quarterly annuity payments for life. Upon death of the donor, the remaining assets revert to the Foundation. The assets held by the Foundation under this agreement are recorded as temporarily restricted. The gift was valued using present value factors and the applicable Internal Revenue Service 7520 rate which was 6.2%.

The Foundation participated in the Lilly Endowment Sustaining Resources Program. The grant received for this program is temporarily restricted (see Note 5).

Indiana EASE Grants

In 2006, Vigo and Sullivan Counties were among five Indiana counties offered an opportunity to apply for funding to develop a local program to address the barriers to education faced by youth ages 14-24 who are court involved, in foster care or homeless. This grant provided in 2007 a \$5,000 planning grant per county with up to \$20,000 per county being provided in 2008 and 2009 for implementation of the program. The implementation grant was a matching grant to the local communities support.

Both counties developed a mentoring program. In Sullivan County, the EASE grant leads to the creation of a new mentoring organization, Stairsteps to Success. In Vigo County, the grant provided for a college mentor relationship between students at Ivy Tech State College, Indiana State University and St. Mary-of-the-Woods College. It also provided for college visits by the students. A second component of the Vigo County EASE grant was the development of Youth Advocates at Ryves Hall Youth Center, a division of Catholic Charities. A final component was education of the community on issues related to the target population and the Community Foundation on community leadership issues.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS - continued

Expenditures for the Indiana EASE grants for the periods ended September 30, 2011 and 2010 were \$2,178 and \$9,446, respectively.

Temporarily restricted net assets are restricted for the following purposes at September 30,:

	<u>2011</u>	<u>2010</u>
Time restrictions:		
Charitable gift annuity	\$ 2,133	\$ 2,133
Purpose restrictions:		
Indiana EASE	30	2,138
Indiana EASE-Vigo	<u>10,616</u>	<u>10,685</u>
	\$ <u>12,779</u>	\$ <u>14,956</u>

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include designated purpose restrictions related to the following purposes at September 30,:

	<u>2011</u>	<u>2010</u>
Permanently restricted principal of non-variance clause endowment funds under UPMIFA:		
Lilly-CAPE Fund	\$ 646,658	\$ 646,658
Lilly Endowment-Vigo	1,828,696	1,828,696
Lilly Endowment-Sullivan	119,552	119,552
Lilly Endowment-Clay	<u>17,585</u>	<u>17,585</u>
	\$ <u>2,612,491</u>	\$ <u>2,612,491</u>

NOTE 11 - ENDOWMENT FUNDS

The Foundation's endowment consisted of approximately 392 and 380 individual funds established for various purposes at September 30, 2011 and 2010, respectively. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported on based on the existence or absence of donor-imposed restrictions.

Interpretation of the Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift and all subsequent gifts 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 the 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

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 11 - ENDOWMENT FUNDS - continued

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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors when making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the organization 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 organization
- 7) The investment policies of the organization.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the grant and scholarship programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment fund assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually net of inflation and administrative costs. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Because the Foundation is expected to endure indefinitely, and because inflation is a key component in its Performance Objective, the long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities are used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs. Other asset classes are included to provide diversification (e.g. international equities) and incremental return (e.g. small cap equities).

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 11 - ENDOWMENT FUNDS - continued

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value over the prior 12 quarters. In establishing this policy, the Foundation's Board of Directors considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The composition of and changes in endowment net assets as of and for the year ended September 30, 2011 are as follows:

	<u>Board Designated Endowment Funds Unrestricted</u>	<u>Donor-Restricted Endowment Funds</u>		<u>Total</u>
		Temporarily Restricted	Permanently Restricted	
Endowment net assets, October 1, 2010	\$ 25,214,899	\$ -	\$ 2,612,491	\$ 27,827,390
Investment returns:				
Investment income	806,021	-	-	806,021
Net depreciation (realized and unrealized)	<u>(1,030,748)</u>	<u>-</u>	<u>-</u>	<u>(1,030,748)</u>
Total investment returns	(224,727)	-	-	(224,727)
Rental income	5,430	-	-	5,430
Contributions	1,491,221	-	-	1,491,221
Appropriation of endowment assets for expenditure	<u>(794,224)</u>	<u>-</u>	<u>-</u>	<u>(794,224)</u>
Endowment net assets, September 30, 2011	\$ <u>25,692,599</u>	\$ <u>-</u>	\$ <u>2,612,491</u>	\$ <u>28,305,090</u>

The composition of and changes in endowment net assets as of and for the year ended September 30, 2010 are as follows:

	<u>Board Designated Endowment Funds Unrestricted</u>	<u>Donor-Restricted Endowment Funds</u>		<u>Total</u>
		Temporarily Restricted	Permanently Restricted	
Endowment net assets, October 1, 2009	\$ 23,006,425	\$ -	\$ 2,612,491	\$ 25,618,916
Investment returns:				
Investment income	288,596	-	-	288,596

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 11 - ENDOWMENT FUNDS - continued

	Board Designated Endowment Funds <u>Unrestricted</u>	Donor-Restricted Endowment Funds		<u>Total</u>
		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Net appreciation (realized and unrealized)	\$ <u>1,587,761</u>	\$ -	\$ -	\$ <u>1,587,761</u>
Total investment returns	<u>1,876,357</u>	-	-	<u>1,876,357</u>
Rental income	8,050	-	-	8,050
Contributions	1,274,052	-	-	1,274,052
Appropriation of endowment assets for expenditure	<u>(949,985)</u>	-	-	<u>(949,985)</u>
Endowment net assets, September 30, 2010	\$ <u>25,214,899</u>	\$ -	\$ <u>2,612,491</u>	\$ <u>27,827,390</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with UPMIFA, deficiencies of this nature that are reported in unrestricted net assets were \$(42,190) and \$(56,794) for the years ended September 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during the years presented and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

NOTE 12 - BENEFICIAL INTEREST TRUSTS

The Foundation has a remainder interest in ten charitable remainder trusts. A charitable remainder trust provides distributions to various designated beneficiaries over the term of the trust (usually the designated beneficiary's lifetime). At the end of the trusts' term, the remaining assets are to become part of the Foundation's permanent endowment funds. The income is to be used for designated purposes. These remainder interests are not recorded in the accompanying financial statements as the remainder beneficiary can generally be changed by the donor.

The Foundation has been informed that it is a beneficiary in twelve wills. The potential bequests are not included in the financial statements since the bequests are revocable at the discretion of the grantors.

NOTE 13 - TRUSTEESHIPS

During the years ended September 30, 2011 and 2010, the Foundation acted as trustee for three trusts. The total fair market value of these trusts at September 30, 2011 and 2010 was \$391,998 and \$413,302, respectively.

WABASH VALLEY COMMUNITY FOUNDATION, INC.

Notes to Financial Statements - Continued

September 30, 2011 and 2010

NOTE 14 - CONCENTRATIONS

The Foundation maintains cash balances at a local bank that is periodically in excess of the amount covered by the Federal Deposit Insurance Corporation.

During the year ended September 30, 2011, the Foundation received contributions of \$999,320 from two donors. This contribution was 59% of the total contributions the Foundation received during the year.

During the year ended September 30, 2010, the Foundation received a contribution of \$603,252 from one donor. The donors' total contribution represented 40% of the total contributions received.

NOTE 15 - RISKS AND UNCERTAINTIES

The Foundation invests in various investment securities. Investment securities are exposed to various risks as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonable possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.