

**THE MUSKINGUM COUNTY COMMUNITY  
FOUNDATION AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2012 and 2011**

To the Board of Trustees  
The Muskingum County Community Foundation and Affiliates

Independent Auditor's Report

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Muskingum County Community Foundation and Affiliates as of December 31, 2012 and 2011, and the change 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.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated schedules of operating expenses and graphs on pages 20 through 24 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

A handwritten signature in cursive script that reads "John Gerlach & Company LLP".

Columbus, Ohio  
August 1, 2013

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 4,200,171	\$ 2,343,249
Certificates of deposit	12,708	795,166
Pledges receivable, net of allowance for uncollectible accounts of \$7,800 in 2012 and 2011	443,085	1,526,390
Accounts receivable	38,654	37,920
Other receivables	22,294	23,701
Inventory	6,049	7,253
Prepaid expenses	4,333	6,433
Total Current Assets	<u>4,727,294</u>	<u>4,740,112</u>
Property and equipment, net	<u>1,160,007</u>	<u>1,095,061</u>
Other Assets:		
Long-term certificates of deposit	260,121	74,726
Investments	15,171,649	14,842,830
Collections acquired since January 1, 1997	20,698	20,249
Cash surrender value - life insurance policies	320,194	310,546
Contributions receivable - charitable remainder trusts	63,242	58,650
Long-term pledges receivable	585,298	947,466
Total Other Assets	<u>16,421,202</u>	<u>16,254,467</u>
 Total Assets	 <u>\$ 22,308,503</u>	 <u>\$ 22,089,640</u>

See Notes to Financial Statements

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 9,790	\$ 127,770
Grants payable	250	32,250
Accrued vacation	6,316	4,671
Payroll taxes and withholdings	3,293	(373)
Current portion of annuity liability	14,100	14,100
Current portion of capital lease	3,012	3,012
Current portion of refundable advance	30,805	-
Funds held as agency endowments	820,662	754,076
Total Current Liabilities	<u>888,228</u>	<u>935,506</u>
Long-term Liabilities:		
Capital lease, net of current portion	2,760	5,772
Annuity liability, net of current portion	71,485	76,125
Refundable advances, net of current portion	70,870	212,830
Total Long-term Liabilities	<u>145,115</u>	<u>294,727</u>
Total Liabilities	<u>1,033,343</u>	<u>1,230,233</u>
Net Assets:		
Unrestricted	20,246,777	18,385,551
Temporarily restricted	1,028,383	2,473,856
Total Net Assets	<u>21,275,160</u>	<u>20,859,407</u>
Total Liabilities and Net Assets	<u>\$ 22,308,503</u>	<u>\$ 22,089,640</u>

See Notes to Financial Statements

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Support:			
Gifts and bequests	\$ 740,093	\$ 23,950	\$ 764,043
Grants received	105,976	-	105,976
In-kind donations	69,960	-	69,960
	<u>916,029</u>	<u>23,950</u>	<u>939,979</u>
Revenue:			
Interest and dividends	457,657	-	457,657
Net realized and unrealized gains on investments	1,159,108	-	1,159,108
Administrative fees	175,790	-	175,790
Auction revenue	10,995	-	10,995
Event revenue	50,643	-	50,643
Miscellaneous income	3,712	-	3,712
Increase in cash surrender value - life insurance	9,648	-	9,648
Change in value of trust agreements	9,232	-	9,232
	<u>1,876,785</u>	<u>-</u>	<u>1,876,785</u>
Net assets released from restrictions	1,469,423	(1,469,423)	-
Total Support and Revenue	<u>4,262,237</u>	<u>(1,445,473)</u>	<u>2,816,764</u>
Expenses:			
Grants awarded	1,621,540	-	1,621,540
Other expenses	11,124	-	11,124
Investment and trust expense	295,604	-	295,604
Operating expense	464,225	-	464,225
Fundraising expense	8,518	-	8,518
Net realized and unrealized losses on investments	-	-	-
Total Expenses	<u>2,401,011</u>	<u>-</u>	<u>2,401,011</u>
Change in Net Assets	1,861,226	(1,445,473)	415,753
Net Assets at Beginning of Year	18,385,551	2,473,856	20,859,407
Net Assets at End of Year	<u>\$ 20,246,777</u>	<u>\$ 1,028,383</u>	<u>\$ 21,275,160</u>

See Notes to Financial Statements

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Support:			
Gifts and bequests	\$ 1,285,638	\$ 1,343,725	\$ 2,629,363
Grants received	406,915	-	406,915
In-kind donations	74,167	-	74,167
	<u>1,766,720</u>	<u>1,343,725</u>	<u>3,110,445</u>
Revenue:			
Interest and dividends	454,490	-	454,490
Net realized and unrealized gains on investments	-	-	-
Administrative fees	171,594	-	171,594
Auction revenue	14,792	-	14,792
Event revenue	25,660	-	25,660
Miscellaneous income	14,645	-	14,645
Increase in cash surrender value - life insurance	21,110	-	21,110
Change in value of trust agreements	9,098	-	9,098
	<u>711,389</u>	<u>-</u>	<u>711,389</u>
Net assets released from restrictions	827,308	(827,308)	-
Total Support and Revenue	<u>3,305,417</u>	<u>516,417</u>	<u>3,821,834</u>
Expenses:			
Grants awarded	1,620,448	-	1,620,448
Other expenses	69,352	-	69,352
Investment and trust expense	298,230	-	298,230
Operating expense	474,900	-	474,900
Fundraising expense	9,356	-	9,356
Net realized and unrealized losses on investments	429,766	-	429,766
Total Expenses	<u>2,902,052</u>	<u>-</u>	<u>2,902,052</u>
Change in Net Assets	403,365	516,417	919,782
Net Assets at Beginning of Year	17,982,186	1,957,439	19,939,625
Net Assets at End of Year	<u>\$ 18,385,551</u>	<u>\$ 2,473,856</u>	<u>\$ 20,859,407</u>

See Notes to Financial Statements

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 415,753	\$ 919,782
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	20,512	20,450
Increase in cash surrender value of life insurance	(9,648)	(21,110)
Amortization of discount on unconditional promises to give	(1,656)	(4,268)
Donated inventory	(205)	(1,475)
Net realized and unrealized (gains)/losses on investments	(1,159,108)	429,766
(Increase) decrease in:		
Pledges receivable	1,447,129	(512,149)
Contributions receivable - charitable remainder unitrust	(4,592)	(4,325)
Accounts receivable	(734)	(37,920)
Other receivables	1,407	5,596
Inventory	1,409	1,444
Prepaid expenses	2,100	(861)
Increase (decrease) in:		
Accounts payable	(117,980)	96,757
Grants payable	(32,000)	30,250
Accrued vacation	1,645	4,671
Annuity liability	(4,640)	(4,773)
Payroll taxes payable	3,666	(554)
Deferred revenue - GEAR UP grant	-	(10,218)
Agency funds	66,586	(27,518)
Net Cash Provided (Used) by Operating Activities	<u>629,644</u>	<u>883,545</u>
Cash Flows from Investing Activities:		
Proceeds from redemption of life insurance policies	-	23,489
Redemption (purchase) of certificates of deposit	597,063	(367,519)
Purchase of property and equipment	(85,458)	(34,871)
Purchase of collections	(449)	(1,143)
Purchase of investments	(3,652,510)	(4,596,314)
Proceeds from redemption of investments	4,482,799	5,238,939
Net Cash Provided (Used) by Investing Activities	<u>1,341,445</u>	<u>262,581</u>
Cash Flows from Financing Activities:		
Proceeds from refundable advance	-	33,000
Repayment of refundable advance	(111,155)	(116,660)
Payments on capital lease	(3,012)	(2,917)
Net Cash Provided (Used) by Financing Activities	<u>(114,167)</u>	<u>(86,577)</u>
Net Increase (Decrease) in Cash and Equivalents	<u>1,856,922</u>	<u>1,059,549</u>
Cash and Equivalents, Beginning of Year	2,343,249	1,283,700
Cash and Equivalents, End of Year	<u>\$ 4,200,171</u>	<u>\$ 2,343,249</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 9,313</u>	<u>\$ 15,046</u>

See Notes to Financial Statements



THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Program and Supporting Services

The Muskingum County Community Foundation (the "Foundation"), formerly The Zanesville Foundation was formed in August 1985 for the purpose of encouraging gifts from individuals, estates, corporations, and other entities and to provide the means for those gifts to be accumulated and distributed for the benefit of the community of Muskingum County. The Foundation administers the funds of MCCF Limited ( a limited liability company), MCCF II LLC (a limited liability company), and MCCF III LLC (a limited liability company). The Foundation is the sole member of the three entities. MCCF Limited was formed in April 2002. MCCF II LLC and MCCF III LLC were formed in November 2004 and January 2010, respectively, to support the Foundation and its charitable purposes.

Principles of Consolidation and Method of Accounting

The consolidated financial statements are prepared on the accrual basis to include the Foundation, MCCF Limited, MCCF II LLC and MCCF III LLC. All intercompany accounts and transactions have been eliminated.

Net assets are classified as follows:

Unrestricted

May be used by The Muskingum County Community Foundation for any purpose consistent with the mission and objectives of the Foundation.

Temporarily Restricted

Those resources subject to donor imposed restrictions which will be satisfied either by action of the Foundation and/or passage of time.

Permanently Restricted

Those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. The donors of these resources permitted the Foundation to use all or part of the income earned, including capital appreciation, on related investments for unrestricted or temporarily restricted purposes. The Foundation did not have any permanently restricted net assets for the years ended December 31, 2012 or 2011.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give (pledges) are recorded as received and are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk free interest rates applicable to the years in which the promises are received to discount the amounts. Amortization of the discount is included in contribution revenues.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Donated Materials

Donated property, marketable securities, and other non-cash donations are recorded as contributions at their fair market value at the date of transfer.

In-Kind Services

Office space, printing costs and some architectural media and legal services are furnished without charge and are accounted for as revenue and expense at fair market values as determined by comparable properties and services.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Certificates of Deposit

Certificates of deposit with original maturities of 90 days or less are considered "cash and cash equivalents". Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "current". Certificates of deposit with remaining maturities greater than one year are classified as "long-term".

Investments

Marketable debt and equity securities are stated at fair market values as determined at year-end.

Inventory

Inventory consists of certain donated works of art or other assets, which are displayed for auction to the public. The Foundation auctions these items to interested parties for a specified minimum contribution or during an annual fundraising event. Gift income is recognized at the time of donation in the amount of the fair market value of the donated asset. Additional gift income is recognized for amounts contributed in excess of the fair market value at the time of the auction.

Collections

The Foundation capitalizes its collections, which include a stained glass work of art, 14 framed paintings by local artists, various pottery artifacts and various other items. These pieces are held for exhibition to the public and are protected and preserved by the Foundation. It is the intent of the Foundation to hold these items indefinitely.

Net Assets

Accounting standards provide that if the governing body of an organization has the ability to remove a donor restriction, the contributions should be classified as unrestricted net assets. Accordingly, the financial statements classify all net assets that the Foundation has obtained variance power from the donor as unrestricted.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Purchased equipment is recorded at cost. Assets acquired through capitalized leasing arrangements are recorded at the lower of fair market value or present value of minimum required lease payments. Donated equipment is recorded as support at its estimated fair value at the time of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. As of December 31, 2012 and 2011, the Foundation did not have donated property, which was restricted for a specific purpose. Expenditures for replacements are capitalized and the replaced items are retired. Maintenance and repairs are charged to operations. Gains and losses from the sale of fixed assets are included in income. Depreciation is computed using principally the straight-line method over the useful lives of the assets:

Building and renovations	39 years
Leasehold improvements	15 years
Equipment	7 years
Furniture and fixtures	5 years
Computer software	5 years

Depreciation expense at December 31, 2012 and 2011 was \$20,512 and \$20,450, respectively.

Property and equipment includes a house donated to the Foundation in 1998. Subsequent renovations have been made to the house by the Foundation, as it is intended to serve as an historic/educational museum for the PURE Center.

Provision for Federal Income Tax

The Foundation was incorporated as a non-profit entity and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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 affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Spending Policy

Subject to giving instruments and statutory requirements, the spending policy is determined by total return. The amount to be spent in the coming year is calculated in October, using September 30<sup>th</sup> figures, and is reviewed and approved by the Board of Trustees annually. The calculation is based on a 12-quarter moving average of the market value of the total fund multiplied by an amount not to exceed 5%. Half of all fees (administration, investment management, and custodianship) will be included in the multiplier. The other half of all fees will come from the principal balance.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investment Policy

The Foundation's investment policy was established to give general guidance to investment managers with a goal of earning a reasonable rate of return based on market conditions while minimizing risk. Benchmarks are as follows: equity 70%, fixed income 25%, and cash 5%. Acceptable ranges are also given for each category. This policy applies to all of the Foundation's investments as a whole, with the exception of those assets in the Donor Advised / Pass Thru pool, which has a benchmark of 30% equity and 70% fixed income.

**2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand, checking and savings accounts	\$ 3,624,059	\$ 1,898,893
Cash management funds	576,112	444,356
	<u>\$ 4,200,171</u>	<u>\$ 2,343,249</u>

**3. PLEDGES RECEIVABLE**

Pledges receivable at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 450,885	\$ 1,534,190
Receivable in one to five years at face value	586,351	950,175
Total Pledges Receivable at Face Value	<u>1,037,236</u>	<u>2,484,365</u>
Less: Discount to net present value	(1,053)	(2,709)
Total Pledges Receivable at Net Present Value	<u>1,036,183</u>	<u>2,481,656</u>
Less: Allowances for uncollectible Pledges Receivable	(7,800)	(7,800)
Net Pledges Receivable at December 31	<u>\$ 1,028,383</u>	<u>\$ 2,473,856</u>

Discount rates on long-term pledges receivable range from 0.02% to 5.89% depending upon the year of origination.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

4. INVESTMENTS

Investments at December 31 consist of the following:

	2012		
	Cost	Market	Unrealized Appreciation (Depreciation)
Equity funds	\$ 3,538,978	\$ 4,313,024	\$ 774,046
Common stock domestic	3,324,304	4,052,101	727,797
Common stock international	252,157	366,922	114,765
Preferred stock	65,121	63,515	(1,606)
Commodity funds	973,367	1,017,437	44,070
Bond funds	3,602,370	3,749,492	147,122
Corporate obligations domestic	1,260,242	1,294,537	34,295
Corporate obligations international	107,287	108,606	1,319
Governmental obligations	114,203	115,871	1,668
Interest in limited partnership	94,926	90,144	(4,782)
	<u>\$ 13,332,955</u>	<u>\$ 15,171,649</u>	<u>\$ 1,838,694</u>
	2011		
	Cost	Market	Unrealized Appreciation (Depreciation)
Equity funds	\$ 3,782,303	\$ 4,166,998	\$ 384,695
Common stock domestic	3,490,866	4,060,293	569,427
Common stock international	295,579	362,143	66,564
Preferred stock	44,275	43,246	(1,029)
Commodity funds	1,042,854	1,021,957	(20,897)
Bond funds	3,207,443	3,276,801	69,358
Corporate obligations domestic	1,685,810	1,752,761	66,951
Corporate obligations international	107,287	106,424	(863)
Governmental obligations	50,346	52,207	1,861
Interest in limited partnership	-	-	-
	<u>\$ 13,706,763</u>	<u>\$ 14,842,830</u>	<u>\$ 1,136,067</u>

The unrealized appreciation (depreciation) reported on the statement of activities is net of all fees.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**5. CONTRIBUTIONS RECEIVABLE – CHARITABLE REMAINDER TRUSTS**

For the years ended December 31, 2012 and 2011, the Foundation had contributions receivable from a unitrust of \$282,014 and \$274,850, respectively. These contributions receivable were discounted to \$63,242 for 2012 and \$58,650 for 2011 using fair market value of assets donated and a market discount rate. The unitrust is irrevocable and transfers assets upon the death of the life beneficiary. The agreement specified that a certain percentage of the net fair market value of the trust assets be paid in quarterly installments to the donor(s) from income and, to the extent income is insufficient, from principal. Any income in excess of the unitrust amount shall be added to the principal.

**6. ANNUITY LIABILITY**

The Foundation is the beneficiary of a charitable remainder trust, which specified that an annual annuity payment of \$14,100 is to be made to the donors during their lifetime. Upon the death of the donors, the balance remaining in the trust will pass to the Foundation. The liability for this charitable remainder trust has been recorded at the present value of the expected future payments to be made to the donors. The present value as of December 31, 2012 and 2011 is as follows:

	2012	2011
Total net present value	\$ 85,585	\$ 90,225
Current portion	14,100	14,100
Long-term portion	<u>\$ 71,485</u>	<u>\$ 76,125</u>

**7. PROPERTY AND EQUIPMENT**

These assets consist of:

	2012	2011
Buildings and renovations	\$ 327,736	\$ 327,736
Land	855,416	780,336
Leasehold improvements	115,645	110,355
Office equipment	100,948	101,687
Furniture and fixtures	41,313	40,885
	<u>1,441,058</u>	<u>1,360,999</u>
Accumulated depreciation	(281,051)	(265,938)
	<u>\$ 1,160,007</u>	<u>\$ 1,095,061</u>

**8. ADMINISTRATION FEES**

The Foundation assesses administration fees to the various funds at a rate of 0.25% of the market value of invested assets at each quarter end. Scholarship funds were assessed fees at a rate of 0.50% per quarter. Project type funds were assessed fees at a rate of 2% of income coming into the fund.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**9. CASH SURRENDER VALUE – LIFE INSURANCE**

The Foundation is the owner and beneficiary of various insurance policies given as contributions. The Foundation, in most cases, pays the premium and the donor reimburses the Foundation. Cash surrender values are determined at the end of the statement year and revenue is adjusted accordingly. For the years ended December 2012 and 2011, cash surrender values increased by \$9,648 and \$21,110, respectively. The aggregate face values of the policies assigned to the Foundation are \$2,173,580 and \$2,178,580 at December 31, 2012 and 2011, respectively.

**10. CONCENTRATION OF ECONOMIC RISK**

The Foundation invests its funds with local financial institutions or investment advisors. Other than funds needed for current operations, all funds are deposited with financial institution trust departments under various trust agreements and cash management arrangements. Monies are invested by the trust departments, subject to agreements and general guidelines, in cash management accounts, mutual funds, U.S. Treasury securities, agency issues of the United States government, corporate bonds, and corporate capital stock (foreign and domestic). Depository accounts are insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000 in aggregate.

**11. SEGREGATED INVESTMENTS**

Certain funds are required by donor and trust agreements to be invested and maintained separately in specific financial instruments or bank trust accounts. At December 31, 2012 and 2011, segregated funds include the Josephine Sebach Educational Fund assets with market values of \$1,502,316 and \$1,435,546, respectively, the Longaberger Quality of Life Endowment Fund assets with market values of \$1,129,807 and \$1,055,082, respectively, funds established from the estate assets of Mary Vashti Funk with market values of \$1,701,217 and \$1,631,733, respectively, funds established from the estate assets of Emmett J. France with market values of \$857,764 and \$825,408, respectively, the Sarah E. Slack Prevention of Blindness Fund with market values of \$1,050,678 and \$1,047,918, respectively, and the Cerney Charitable Remainder Trust Annuity with market values of \$180,100 and \$175,790, respectively. These funds included cash and cash equivalents of \$340,908 and \$209,243 at December 31, 2012 and 2011, respectively.

**12. RETIREMENT PLAN**

The Foundation has a Simple IRA in which employees may contribute any amount up to certain maximum limits allowable as specified in the Internal Revenue Code. The Foundation matches employee contributions up to 3%. The Foundation contributed \$5,217 and \$5,786 to the plan during the years ended December 31, 2012 and 2011, respectively.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**13. CAPITAL LEASE**

The Foundation entered into a capital lease for office equipment with a term of four years and no interest, which expires in 2014. The asset is being depreciated over the term of the lease. Depreciation of assets under capital lease is included in depreciation expense. The following is a summary of the property held under capital lease, which is included in property and equipment in the financial statements for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Office equipment	\$ 13,747	\$ 13,747
Accumulated depreciation	(6,177)	(3,428)
	<u>\$ 7,570</u>	<u>\$ 10,319</u>

The present value of future minimum lease payments under capital lease due subsequent to December 31, 2012 are as follows:

2013	3,012
2014	2,760
Total minimum lease payments	<u>\$ 5,772</u>

**14. OPERATING LEASES**

The Foundation leases its offices from a non-profit organization. The term of the lease is 20 years through 2019 and can be automatically renewed for an additional 20-year term upon notification to the lessor at least one year prior to the expiration of the primary term. The Foundation is required to set aside \$500 per month to provide for maintenance and repairs of the building. If this fund reaches \$6,000 of unneeded and uncommitted funds, the monthly set aside may cease as long as the sum of \$6,000 is maintained in the accounts. The Foundation recognizes the fair value of the building rent in the amount of \$60,000 annually as an in-kind contribution and corresponding rental expense.

**15. AGENCY FUNDS**

The Foundation has adopted provisions of the "Revenue Recognition" topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Provisions of this topic establish standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. Provisions also specifically require that if a Non-for-Profit Organization ("NPO") establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

The Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. However, in accordance with the "Revenue Recognition" topic of the FASB ASC, a liability has been established for the fair value of the funds, which is equivalent to the funds current fair market value.



THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**15. AGENCY FUNDS (Continued)**

At December 31, 2012 and 2011, the Foundation was the owner of 20 agency endowment funds with a combined value of \$820,662 and \$754,076, respectively. The following table summarizes activity in such funds during the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Agency Endowment Fund balances at January 1	\$ 754,076	\$ 781,594
Amounts raised	16,865	26,100
Investment income, net of administrative and bank fees	6,255	6,381
Net unrealized and realized gains (losses) on investments	69,100	(33,020)
Grants	(25,634)	(26,979)
Agency Endowment Fund balances at December 31	<u>\$ 820,662</u>	<u>\$ 754,076</u>

**16. GEAR UP GRANT**

During the year ended December 31, 2005, the Foundation was awarded a Gear Up Grant. The grant program is designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. The grant provides six-year grants to states and partnerships to provide services at high-poverty middle and high schools. The grant originally was set to expire during 2011 but was extended to March 2012. During 2012 and 2011, the Foundation received \$17,348 and \$371,535, respectively, from the grant. The total amount received through the grant was \$1.476 million. As of December 31, 2012 and 2011, \$-0- and \$17,637, respectively, of grants receivable was recorded relating to monies owed to the Foundation on behalf of the grant.

**17. ASSETS AND LIABILITIES – FAIR VALUE INFORMATION**

In accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC, all financial instruments that are being measured and reported on a fair value basis must be classified and disclosed in one of the following three categories:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has 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, and 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 MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**17. ASSETS AND LIABILITIES – FAIR VALUE INFORMATION (Continued)**

Assets measured at fair value on a recurring basis were as follows:

Description	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Equity funds	\$ 4,313,024	\$ 4,313,024	\$ -	\$ -
Common stock domestic	4,052,101	4,052,101	-	-
Common stock international	366,922	366,922	-	-
Preferred stock	63,515	63,515	-	-
Commodity funds	1,017,437	1,017,437	-	-
Bond funds	3,749,492	3,749,492	-	-
Corporate obligations domestic	1,294,537	1,294,537	-	-
Corporate obligations international	108,606	108,606	-	-
Government obligations	115,871	115,871	-	-
Interest in limited partnership	90,144	90,144	-	-
Total	<u>\$ 15,171,649</u>	<u>\$ 15,171,649</u>	<u>\$ -</u>	<u>\$ -</u>

Description	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Equity funds	\$ 4,166,998	\$ 4,166,998	\$ -	\$ -
Common stock domestic	4,060,293	4,060,293	-	-
Common stock international	362,143	362,143	-	-
Preferred stock	43,246	43,246	-	-
Commodity funds	1,021,957	1,021,957	-	-
Bond funds	3,276,801	3,276,801	-	-
Corporate obligations domestic	1,752,761	1,752,761	-	-
Corporate obligations international	106,424	106,424	-	-
Government obligations	52,207	52,207	-	-
Interest in limited partnership	-	-	-	-
Total	<u>\$ 14,842,830</u>	<u>\$ 14,842,830</u>	<u>\$ -</u>	<u>\$ -</u>

Gains and losses (realized and unrealized) included in change in net assets for the year ended December 31, 2012 are reported in net realized and unrealized gains on investments.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**18. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
For future periods	\$ 1,028,383	\$ 2,473,856
Total	<u>\$ 1,028,383</u>	<u>\$ 2,473,856</u>

**19. REFUNDABLE ADVANCES**

During 2008, the Foundation received a refundable advance on behalf of the Friends of Sulsberger Stadium, Inc. to aid in the renovation of Sulsberger Stadium. The funds have been included in the Friends of Sulsberger Stadium Fund held at the Foundation. The Foundation then uses pledges received by the Fund to repay the refundable advance in accordance with the payment terms of the promissory note the Friends of Sulsberger Stadium, Inc has with a bank. The balance of this refundable advance was \$79,675 and \$179,830 at December 31, 2012 and 2011, respectively.

During 2011, the Foundation received a refundable advance on behalf of Light the Hill, Inc. The funds have been included in the West Muskingum Local School District Light the Hill Improvements Fund. The Foundation then uses pledges received by the Fund to repay the refundable advance in accordance with the payment terms of the promissory note Light the Hill, Inc has with a bank. The balance of this refundable advance was \$22,000 and \$33,000 at December 31, 2012 and 2011, respectively.

**20. RECLASSIFICATION**

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. Such reclassifications had no effect on the reported change in net assets.

**21. ACCOUNTING FOR UNCERTAIN TAX POSITIONS**

The Foundation has adopted the provisions of the FASB ASC relating to uncertain tax positions. The Foundation does not believe its financial statements include any uncertain tax positions. With few exceptions, the Foundation is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2009.

**22. SUBSEQUENT EVENTS**

On January 22, 2013, the Foundation entered into secured borrowing agreements with PNC Bank, a bridge note in the amount of \$1,500,000 and a term note in the amount of \$2,542,550, for the purpose of issuing the promissory note described below. The bridge note's accrued interest is paid quarterly at a fixed annual interest rate of 3.84%. Quarterly interest payments commence on March 20, 2013 and continue through December 20, 2017. Annual principal payments, commence on December 31, 2013 and continue through December 31, 2017 in amounts of \$400,000, \$350,000, \$350,000, \$250,000 and \$150,000. The term note's accrued interest is paid quarterly at a fixed annual interest rate of 4.31%. Quarterly interest payments commence on March 20, 2013 and continue through December 20, 2019. The principal balance and all accrued interest is due on January 22, 2020.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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**22. SUBSEQUENT EVENTS (Continued)**

On January 22, 2013, the Foundation and two other third parties signed pledge agreements with PNC Bank regarding the two notes described above. Each party grants \$1.5 million security interest in the notes and pledges to PNC Bank to provide collateral for the above two notes. The collateral secures payment of the bridge note and the term note loans.

On January 23, 2013, the Foundation paid \$7,182,500 to Muskingum Investment Fund, LLC for the purpose of completing construction on the Muskingum Recreation Center. On the same date, the Foundation signed a \$7,182,500 promissory note receivable with Muskingum Investment Fund, LLC. Accrued interest is paid quarterly at a fixed annual interest rate of 2.519%. Quarterly interest payments commence on March 10, 2013 and continue through December 10, 2019. An interest only payment is due January 23, 2020. After January 23, 2020, payments of accrued interest and principal, sufficient to fully amortize the principal balance over the period of January 23, 2020 and January 23, 2042, are required to be made quarterly.

Subsequent events have been evaluated through August 1, 2013, which is the date the financial statements were available to be issued.

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

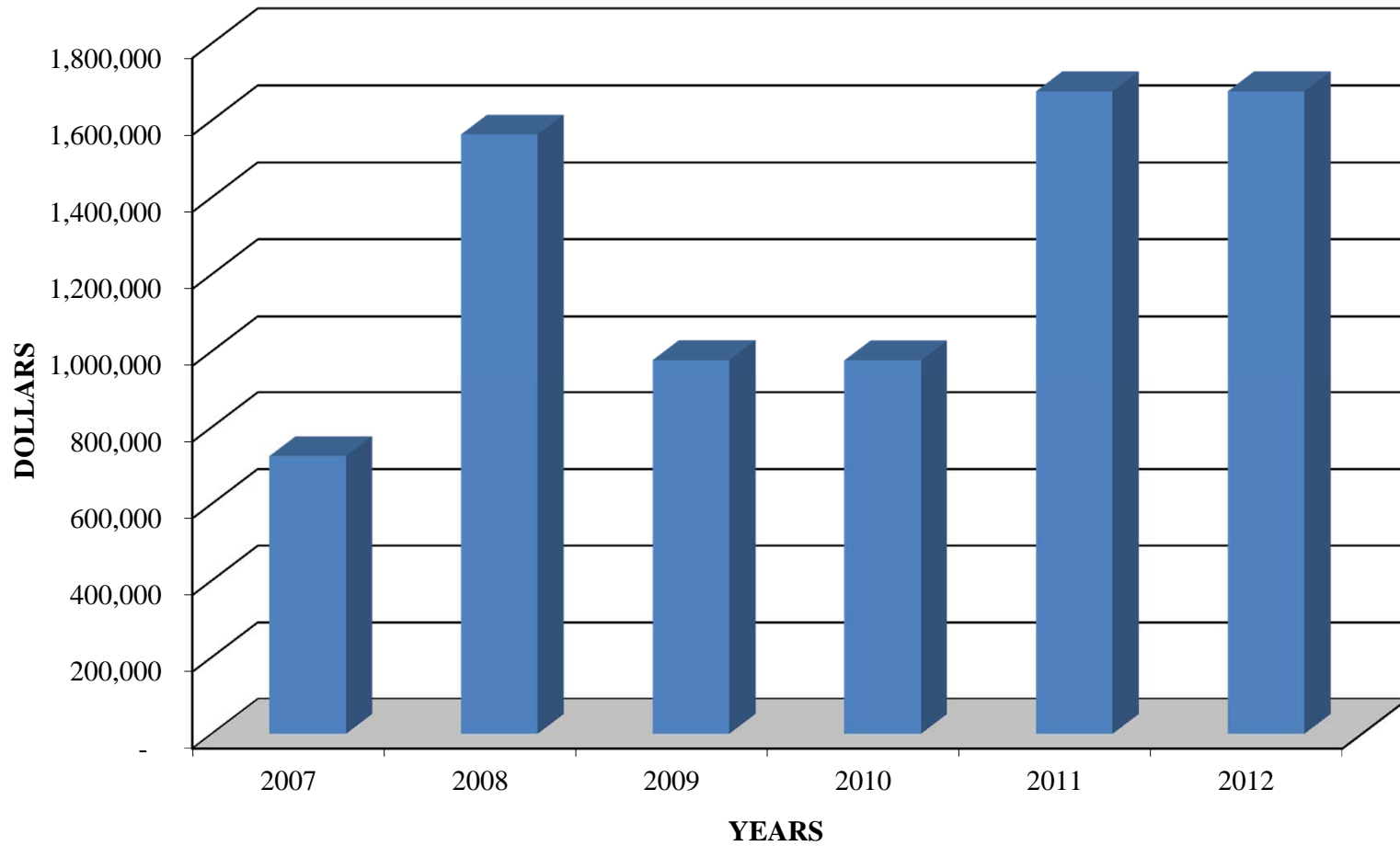
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES

For the Year Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries and wages	\$ 226,079	\$ 222,653
In-kind rent (office)	60,000	60,000
Special project expense	3,500	2,914
Depreciation expense	20,512	20,450
Audit fees	20,700	19,200
Payroll taxes	18,760	18,129
Contracted services	2,800	15,524
Interest expense	9,313	15,046
Unitrust annuity	14,100	14,100
Equipment rental and maintenance	14,586	10,176
Legal fees	5,363	9,082
Meetings and conferences	6,344	8,429
Public relations	6,494	7,125
Telephone	7,309	7,099
Custodial expenses	9,113	6,665
Utilities	6,173	5,105
Retirement plan employer match	5,217	5,786
Office supplies	4,842	5,760
Postage and shipping	4,706	4,495
Employee expense reimbursement	6,349	4,360
Publications and printing	-	2,443
Dues and subscriptions	3,120	2,248
Director/officer insurance	1,753	1,771
Health insurance	1,735	1,544
Business insurance	1,550	1,361
Disability insurance	1,330	1,173
Life insurance - employees	969	852
Workers' compensation	566	471
Commercial crime bond insurance	511	387
Credit card processing fees	180	208
State filing fees	200	200
Advertising	-	111
Miscellaneous expense	51	33
Total Operating Expense	<u>\$ 464,225</u>	<u>\$ 474,900</u>

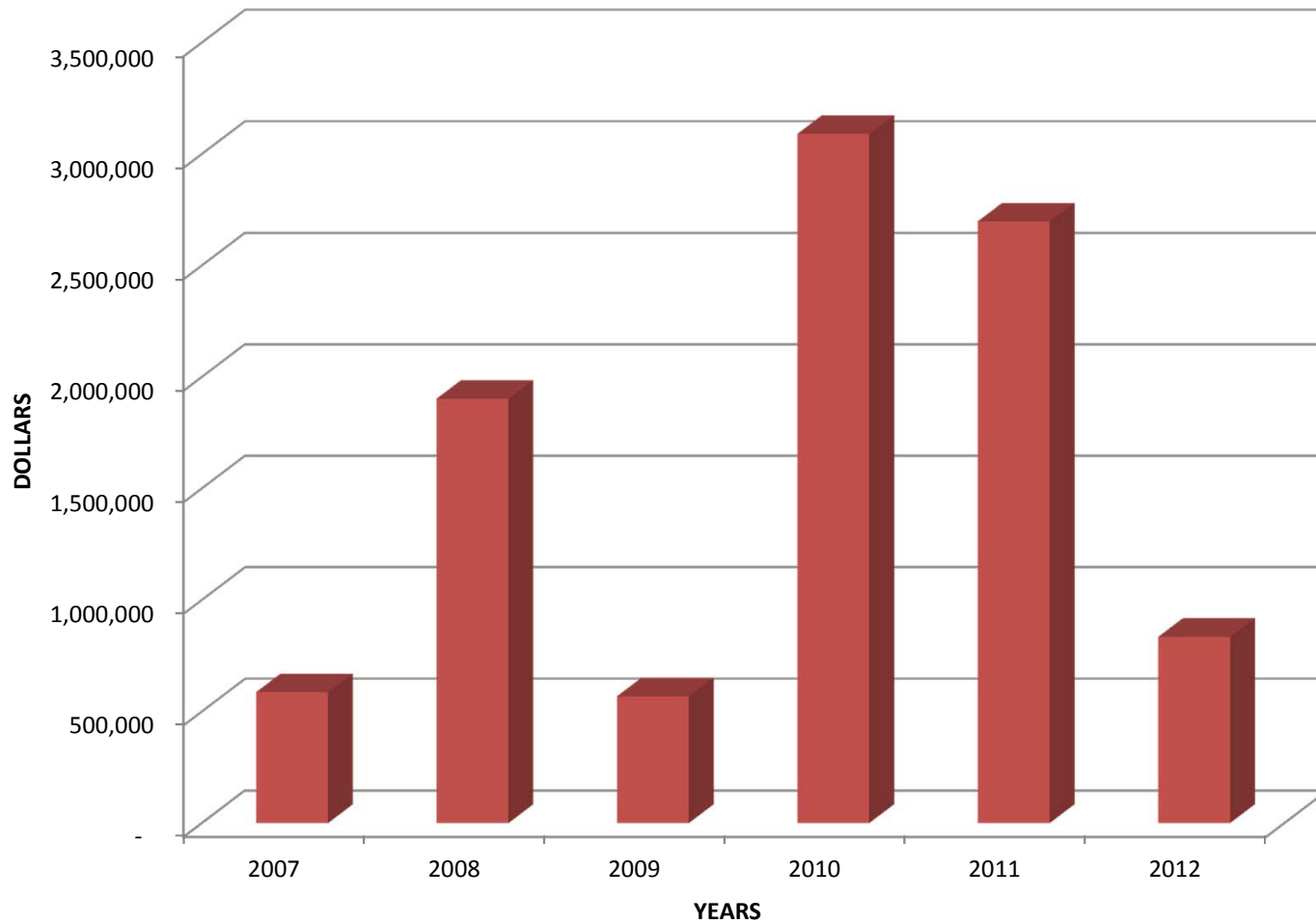
See Auditor's Report

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
GRANTS AWARDED  
Years Ended December 31,



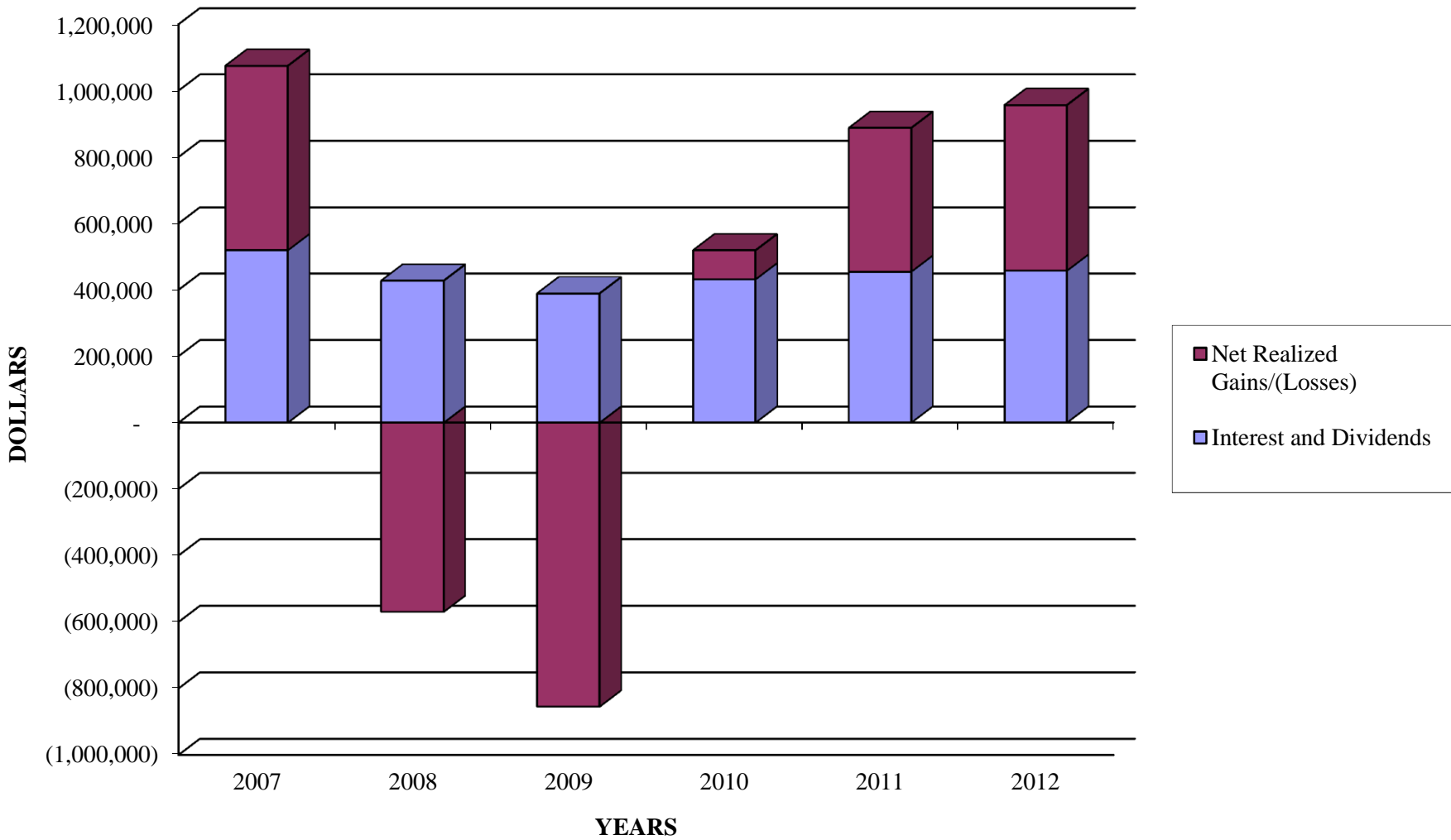
See Auditor's Report

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
GIFTS, BEQUEST AND IN-KIND DONATIONS  
Years Ended December 31,



See Auditor's Report

THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES  
 INVESTMENT INCOME (EXCLUDING UNREALIZED GAINS (LOSSES))  
 Years Ended December 31,

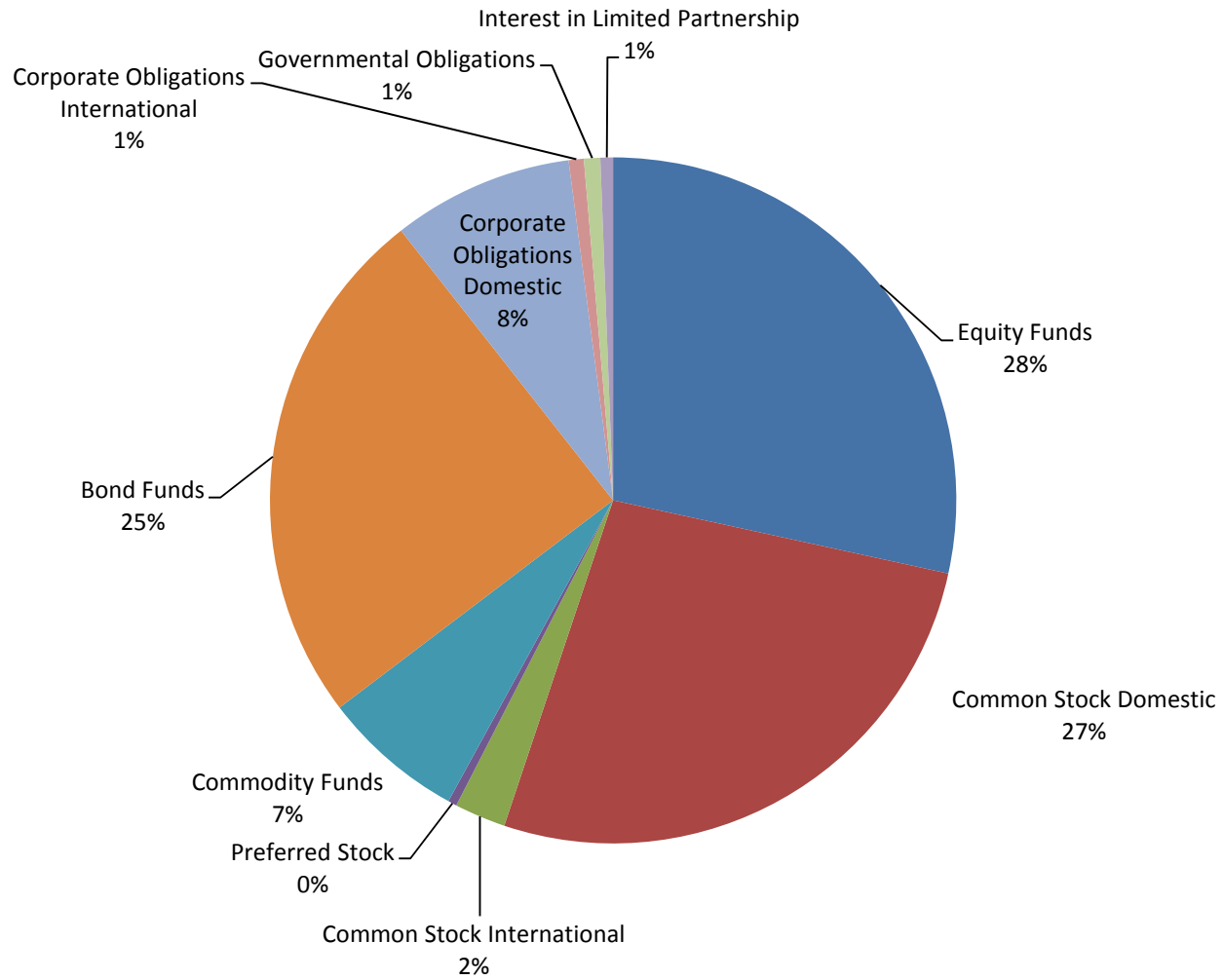


See Auditor's Report



THE MUSKINGUM COUNTY COMMUNITY FOUNDATION AND AFFILIATES

INVESTMENT (COMPOSITION - AT MARKET)



See Auditor's Report