

**Cumberland Community Foundation, Inc.**

Fayetteville, North Carolina

Consolidated Financial Statements

Year ended June 30, 2014

CUMBERLAND COMMUNITY FOUNDATION, INC.

Fayetteville, North Carolina

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# HAIGH, BYRD & LAMBERT, LLP

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FAYETTEVILLE, NORTH CAROLINA 28305

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Cumberland Community Foundation, Inc.

We have audited the accompanying consolidated financial statements of Cumberland Community Foundation, Inc. (a nonprofit organization) and subsidiary, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 Cumberland Community Foundation, Inc. and subsidiary as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the Cumberland Community Foundation, Inc. and subsidiary's June 30, 2013 financial statements, and our report dated September 20, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of grants for charitable purposes on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Haigh, Byrd & Lambert, LLP*

Certified Public Accountants  
November 12, 2014

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2014

(With comparative totals as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,197,103	\$ 822,257
Interest and other receivables	2,430	4,557
Investments	70,917,310	64,430,026
Contributions receivable - split-interest agreements	341,052	355,236
Equipment and improvements, net	<u>272,848</u>	<u>179,736</u>
Total assets	<u>\$ 72,730,743</u>	<u>\$ 65,791,812</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Grants payable	\$ 1,154,212	\$ 632,082
Accounts payable	28,212	31,937
Annuities payable under split-interest agreements	1,516,939	1,454,961
Funds held for agencies	<u>4,679,934</u>	<u>3,887,072</u>
Total liabilities	<u>7,379,297</u>	<u>6,006,052</u>
Net assets:		
Unrestricted	7,307,057	5,762,196
Temporarily restricted	14,643,145	11,372,987
Permanently restricted	<u>43,401,244</u>	<u>42,650,577</u>
Total net assets	<u>65,351,446</u>	<u>59,785,760</u>
Total liabilities and net assets	<u>\$ 72,730,743</u>	<u>\$ 65,791,812</u>

The accompanying notes are an integral part of the financial statements.

**CUMBERLAND COMMUNITY FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

Year ended June 30, 2014

(With comparative totals for the year ended June 30, 2013)

	Totals				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
Revenues and other support:					
Contributions	\$ 2,224,692	\$ 135,650	\$ 297,510	\$ 2,657,852	\$ 4,888,329
Investment income	377,636	1,343,475	-	1,721,111	1,411,867
Net realized and unrealized gains (losses) on investments	1,394,713	4,475,415	-	5,870,128	3,903,353
Change in value of split-interest agreements	-	36,613	40,233	76,846	50,612
Other income	108,557	2,623	-	111,180	85,375
Net assets released from restrictions	2,310,694	(2,723,618)	412,924	-	-
Total revenues and other support	<u>6,416,292</u>	<u>3,270,158</u>	<u>750,667</u>	<u>10,437,117</u>	<u>10,339,536</u>
Expenses:					
Program services, grant making	4,394,856	-	-	4,394,856	3,525,895
Fundraising	156,272	-	-	156,272	137,677
Administrative	320,303	-	-	320,303	275,482
Total expenses	<u>4,871,431</u>	<u>-</u>	<u>-</u>	<u>4,871,431</u>	<u>3,939,054</u>
Change in net assets	1,544,861	3,270,158	750,667	5,565,686	6,400,482
Net assets at beginning of year	5,762,196	11,372,987	42,650,577	59,785,760	53,385,278
Net assets at end of year	<u>\$ 7,307,057</u>	<u>\$ 14,643,145</u>	<u>\$ 43,401,244</u>	<u>\$ 65,351,446</u>	<u>\$ 59,785,760</u>

The accompanying notes are an integral part of the financial statements.

**CUMBERLAND COMMUNITY FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

Year ended June 30, 2014

(With comparative totals for the year ended June 30, 2013)

	Program Services,			2014	2013
	Grant making	Fundraising	Administrative		
Salaries	\$ 197,696	\$ 68,708	\$ 144,600	\$ 411,004	\$ 350,620
Payroll taxes	14,914	5,183	10,909	31,006	27,256
Benefits	32,604	11,331	23,846	67,781	47,844
Total salaries and related benefits	245,214	85,222	179,355	509,791	425,720
Grants	3,947,936	-	-	3,947,936	3,116,641
Dues and subscriptions	515	489	13,291	14,295	14,218
Equipment rental and maintenance	-	-	2,476	2,476	4,485
Insurance	-	-	10,672	10,672	13,139
Meetings expense	1,927	23,897	15,182	41,006	35,049
Miscellaneous	-	-	1,129	1,129	1,818
Occupancy	183,614	14,773	14,773	213,160	213,935
Office expense	70	310	11,651	12,031	9,738
Postage and shipping	1,970	1,963	3,553	7,486	2,871
Printing and publications	1,775	18,271	1,789	21,835	13,289
Professional fees	-	-	50,591	50,591	52,547
Staff development	519	299	2,023	2,841	2,951
Telephone	2,189	2,190	2,500	6,879	7,194
Travel	1,237	968	3,428	5,633	6,358
Total expenses before depreciation	4,386,966	148,382	312,413	4,847,761	3,919,953
Depreciation	7,890	7,890	7,890	23,670	19,101
Total expenses	<u>\$ 4,394,856</u>	<u>\$ 156,272</u>	<u>\$ 320,303</u>	<u>\$ 4,871,431</u>	<u>\$ 3,939,054</u>

The accompanying notes are an integral part of the financial statements.

CUMBERLAND COMMUNITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2014

(With comparative totals for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,565,686	\$ 6,400,482
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	23,670	19,101
Net realized and unrealized (gains) and losses	(5,870,128)	(3,903,353)
Actuarial changes in value of split-interest agreements	152,013	107,134
Contributions restricted for long-term investment	(293,975)	(475,345)
Changes in:		
Interest and receivables	2,127	17,208
Contributions receivable - split-interest agreements	14,184	18,793
Grants payable	522,130	275,941
Accounts payable	(3,725)	(40,702)
Funds held for agencies	792,862	(67,967)
Net cash provided from operating activities	<u>904,844</u>	<u>2,351,292</u>
Cash flows from investing activities:		
Purchase of property and equipment	(116,782)	(24,833)
Increase in investments	(617,156)	(2,794,693)
Net cash (used) for investing activities	<u>(733,938)</u>	<u>(2,819,526)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investments	293,975	475,345
Investment income subject to annuity agreements	47,923	44,851
Payments on annuities payable	(137,958)	(131,034)
Net cash provided from financing activities	<u>203,940</u>	<u>389,162</u>
Net increase (decrease) in cash and cash equivalents	374,846	(79,072)
Cash and cash equivalents at beginning of year	<u>822,257</u>	<u>901,329</u>
Cash and cash equivalents at end of year	<u>\$ 1,197,103</u>	<u>\$ 822,257</u>

The accompanying notes are an integral part of the financial statements.

## CUMBERLAND COMMUNITY FOUNDATION, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

#### 1. Organization

Cumberland Community Foundation, Inc. was created in July, 1980 as a publicly supported non-profit entity formed and administered exclusively to promote and facilitate philanthropy in Cumberland County and the surrounding area. The Foundation concentrates its efforts on grant making, endowment building, education, and services to nonprofit organizations.

CCF Real Estate Foundation, a non-profit corporation, was created in December 2004 as a supporting organization for Cumberland Community Foundation, Inc. to operate primarily as a holding entity for all real property contributions received. The Board of Directors of CCF Real Estate Foundation are determined and appointed by the Board of Directors of Cumberland Community Foundation, Inc. and a majority of the directors serving for CCF Real Estate Foundation at any time shall simultaneously be directors of Cumberland Community Foundation, Inc.

#### 2. Summary of Significant Accounting Policies

##### a. Basis of Accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

##### b. Presentation

The Foundation classifies its net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the foundation may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments.

##### c. Principles of Consolidation

The consolidated financial statements as of and for the year ended June 30, 2014, include the accounts of Cumberland Community Foundation, Inc. and CCF Real Estate Foundation, after elimination of all inter-company accounts and transactions.



NOTES TO FINANCIAL STATEMENTS - continued

d. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

e. Investment Securities

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Domestic and international capital markets may experience significant volatility with respect to certain securities. As a result, significant fluctuations in the fair value of investments may have occurred subsequent to June 30, 2014.

f. Investment Pool

The Foundation maintains master investment accounts for its endowments. A portion of net income from securities in the master investment accounts is allocated to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

g. Promises to Give

Unconditional promises to give are recognized as revenue in the period the promise is made and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

h. Equipment, Improvements and Depreciation

Equipment and improvements are stated at cost if purchased and at fair value if donated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from five to forty years.

i. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of donor restrictions. Contributions are recorded at their fair market value as of the date received.

j. Variance Power

All contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance power gives the Board of Directors the ability to modify donor restrictions that are incapable of fulfillment or are inconsistent with the charitable needs of the community.

k. Tax Status

The Foundation has been classified as a publicly-supported charitable organization under the Internal Revenue Code Section 501(c)(3). As a publicly-supported charity, the Foundation is exempt from federal and state income taxes and, accordingly, do not reflect a provision or liability for federal and state taxes. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2014. Currently, the statute of limitations remains open subsequent to and including the year ended June 30, 2011; however, no examinations are in progress or anticipated.

NOTES TO FINANCIAL STATEMENTS - continued

i. Donated Services

A substantial number of volunteers have donated significant amounts of their time to oversight of operations and fund raising efforts. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition under SFAS No. 116.

m. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

n. Reclassification of Net Assets

Donors may request the disbursement of contributions originally characterized as permanently restricted in limited situations. Upon Board review and approval these requests may be granted.

3. Investments

Investments at June 30, 2014, included in the statement of financial position are as follows:

	<u>Fair Value</u>	<u>Cost</u>
Mutual funds	\$ 61,295,967	\$ 53,873,322
Equities	250,312	140,884
Corporate debt securities	1,031,103	1,032,403
Government debt securities	1,385,597	1,069,755
Cash held for investment	4,338,785	4,338,785
Land held for investment	2,526,615	2,526,615
Cash surrender value of life insurance	88,931	88,931
	<u>\$ 70,917,310</u>	<u>\$ 63,070,695</u>
Unrestricted	\$ 73,329,154	\$ 65,168,498
Restricted for lease commitment (Note 11)	(2,411,844)	(2,097,803)
	<u>\$ 70,917,310</u>	<u>\$ 63,070,695</u>

4. Concentration of Credit Risk

The Foundation maintains bank accounts at several banks. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$1,913,157 as of June 30, 2014.

5. Employee Benefit Plan

Beginning on January 1, 2013, the Foundation began offering a 401k retirement plan. Under this plan, employees may participate after three consecutive months of full-time employment but are not vested in the employer contribution until after they have been employed for three years. Employees are immediately vested in their personal contributions. The Foundation makes a five percent contribution for each employee's annual salary paid in equal bi-monthly installments to the individual's account. Total contributions from July 1, 2013 thru June 30, 2014 totaled \$20,701.

NOTES TO FINANCIAL STATEMENTS - continued

6. Conditional Promises to Give

Conditional promises to give were continued by the Foundation to benefit two nonprofit groups during the year ended June 30, 2014. Upon satisfaction of matching grants these nonprofits may receive up to \$50,000 in grants from the Foundation. An additional promise to give is contingent on successful fund raising and ground breaking. Details of conditional promises to give are as follows:

Conditional upon successful fund raising and ground breaking	\$ 500,000
Conditional upon matching grants	<u>60,000</u>
	<u>\$ 560,000</u>

7. Split-Interest Agreements

The Foundation administers a charitable lead trust and eight charitable remainder trusts. The charitable lead trust is an agreement in which a donor has established and funded a trust with quarterly distributions to be made to the Foundation for a period of time. Upon termination of the trust, the remainder of trust assets is paid to beneficiaries designated by the donor. The Foundation is not the trustee of these assets, therefore the financial statements reflect a contribution receivable measured at the present value of cash flows to be received by the Foundation.

The eight charitable remainder trusts are governed by trust agreements. The Foundation is the trustee under seven of these agreements. Under arrangements in which the Foundation is the trustee, assets contributed are held as general assets of the Foundation and the estimated liability to make annuity payments, which is limited to trust assets, is reflected as a liability of the Foundation. Under the agreement in which the Foundation is not the trustee, the Foundation reports a contribution receivable measured at the present value of estimated future cash flows expected to be received by the Foundation. Upon termination of the trusts, the assets are transferred to an endowed fund, chosen by the donor.

The estimate of liability to make future annuity payments and the estimate of remainder interest, under the above agreements, are recalculated at the end of each year, using updated actuarial assumptions. Present values are computed using a discount rate of 2.40%.

8. Equipment and Improvements

Equipment and improvements consist of the following at June 30, 2014:

Improvements	\$ 479,955
Furniture	26,580
Equipment	<u>82,394</u>
	588,929
Less: accumulated depreciation	<u>316,081</u>
Equipment and improvements - net	<u>\$ 272,848</u>

NOTES TO FINANCIAL STATEMENTS - continued

9. Endowment Spending Policy and Reinvested Endowment Income

Absent donor stipulations to the contrary, state law allows the Foundation's board to appropriate and spend so much of net appreciation in endowment investments (in addition to interest and dividends) as is prudent considering the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the Foundation's current endowment spending policy, 4.5 percent of the average of the market values at the end of the previous 12 quarters is appropriated for expenditure, or the Foundation may elect to spend the earned income. Earned income is defined as interest and dividends. The excess, if any, of total fund earnings over the 4.5 percent appropriation, retains its specific endowment fund identity and remains reinvested as reinvested endowment income.

The reinvested endowment income helps preserve the purchasing power of the endowment funds, and also provides the Foundation with the ability to continue charitable giving, in accordance with the donor's original wishes, in years of low investment returns. Reinvested endowment income is held as either unrestricted or temporarily restricted funds, depending on the donor's original stipulations regarding the use of the endowment.

The composition of endowment net assets and changes in net assets as of June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at July 1, 2013	\$ 558,748	\$ 8,766,889	\$ 42,067,729	\$ 51,393,366
Contributions	978	19,454	297,510	317,942
Investment income	363,750	1,344,662	-	1,708,412
Net appreciation	1,230,131	4,478,985	-	5,709,116
Program expenditures	(183,767)	(1,787,678)	-	(1,971,445)
Internal transfers and assets released from restrictions	<u>252,729</u>	<u>(757,178)</u>	<u>374,698</u>	<u>(129,751)</u>
Balance at June 30, 2014	<u>\$ 2,222,569</u>	<u>\$ 12,065,134</u>	<u>\$ 42,739,937</u>	<u>\$ 57,027,640</u>

10. Funds Held for Agencies

Funds held for agencies are unrestricted funds received from non-profit organizations who designate themselves as beneficiaries. Accordingly, such funds are reported as liabilities rather than as unrestricted net assets of the Foundation. The activities related to funds held for other agencies are summarized as follows:

Balance at July 1, 2013	\$ 3,887,072
Receipts	341,674
Investment income	135,270
Realized and unrealized gains and losses	454,320
Distributions	(86,165)
Investment management fees	(9,280)
Administrative expense allocation	<u>(42,957)</u>
Balance at June 30, 2014	<u>\$ 4,679,934</u>

NOTES TO FINANCIAL STATEMENTS - continued

11. Investments Restricted Under Lease Commitment

The Foundation's long-term investments at June 30, 2014, include government and corporate debt securities and U.S Treasury securities, with fair values totaling \$2,411,844, acquired as a result of two gifts received from a financial institution, who is also the assignor of the lease described in note 12. Securities totaling \$2,021,259, represent the funds from a 1984 gift that are restricted to fund operating facility lease payments until the year 2024. The remaining \$390,585, is from a 1995 gift of a U. S. Treasury zero-coupon bond due November 15, 2023 with a face amount of \$500,000. This bond will be available to exercise the lease purchase option described in note 12. If the Foundation elects not to exercise the lease purchase option in the year 2024, the funds will be available to the Foundation for unrestricted use on the condition that the Foundation assigns its lease purchase option back to the original assignor.

12. Lease Commitment

The Foundation is the assignee of a lease for the real estate used by the Foundation for its operations. The original lease was entered into on February 19, 1973. The assignor (the original lessee) transferred to the Foundation (the assignee), all of its rights and a limited amount of its liabilities under the lease agreement. Contemporaneously to the signing of the agreement, the assignor made a gift to the Foundation stipulating that the funds be restricted as security for payment of rentals from August 1, 1994 through the end of the lease term. From August 1, 1994 through July 31, 2014 the Foundation is liable for rental payments only to the extent of the income earned on the restricted funds. From August 1, 2014, through February 29, 2024, the Foundation is liable for rental payments limited to the balance of the restricted funds. If these funds or the income earned on these funds prove to be insufficient, the liability for payment reverts back to the assignor. At the end of the lease term, the Foundation can exercise an option assignment to purchase the leased property for \$500,000, as described in Note 11.

The terms of the original lease call for current monthly rental payments of \$17,159. The total amount of payments in the year ended June 30, 2014 totaled \$203,908. Terms of the lease call for an adjustment after a ten year period, representing the percentage increase in the Consumer Price Index published by the United States Department of Labor for the prior ten year period. Beginning in August 2014, the monthly rental payment will be \$21,684 for the next ten years until the termination of the lease in July 2024.

The future minimum lease payments are as follows:

Year ending June 30:	
2015	\$ 255,685
2016	260,211
2017	260,211
2018	260,211
2019	260,211
Later years	<u>1,214,319</u>
Total	<u>\$ 2,510,848</u>

NOTES TO FINANCIAL STATEMENTS - continued

13. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Charitable lead trust agreement	\$ 193,431
Grants to other organizations	12,065,133
Lease payments and building purchase option	<u>2,384,581</u>
	<u>\$ 14,643,145</u>

14. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to:

Investment in perpetuity, the income from which is expendable for:

Grants to other organizations	\$ 33,069,283
Operating activities of the Foundation	806,565
Any activities of the Foundation	<u>8,775,158</u>
	42,651,006
 Cash value of life insurance policies that will provide proceeds upon the death of the insured for endowments	 88,931
Present value of remainder interest for periods after June 30, 2014	<u>661,307</u>
	<u>\$ 43,401,244</u>

15. Dividends and Interest Revenue

Dividends and interest revenues are reflected in the statement of activities, net of investment management fees and other carrying costs. For the year ended June 30, 2014, these fees investment costs totaled \$116,083.

16. Return on Investments

Return on investments consists of the following:

Interest and dividends	\$ 1,842,701
Net realized and unrealized (losses) on investments carried at fair value	5,870,129
Investment management fees	(116,083)
Other investment expenses	<u>(5,508)</u>
	<u>\$ 7,591,239</u>

NOTES TO FINANCIAL STATEMENTS - continued

16. Fair Values of Financial Statements

FASB ASC 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 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.
- 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Mutual funds, corporate and government debt securities, cash held for investment, and life insurance accounts are valued at the net asset value of shares held by the Foundation at year end. Land held for investment is valued at either the real estate appraisal or the county tax value. Split interest agreements are estimated as the present value of expected future cash flows.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2014:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual Funds	\$ 61,295,967	\$ 61,295,967	\$ -	\$ -
Equities	250,312	250,312	-	-
Corporate debt securities	1,031,103	1,031,103	-	-
Government debt securities	1,385,597	1,385,597	-	-
Cash held for investment	4,338,785	4,338,785	-	-
Cash surrender value of life insurance	88,931	88,931	-	-
Land held for investment	2,526,615	-	2,526,615	-
Contribution receivable:				
- split interest agreements	341,052	-	-	341,052
<b>Total assets at fair value</b>	<b><u>\$ 71,258,362</u></b>	<b><u>\$ 68,390,695</u></b>	<b><u>\$ 2,526,615</u></b>	<b><u>\$ 341,052</u></b>

NOTES TO FINANCIAL STATEMENTS - continued

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs:

<u>Split Interest Agreements</u>	
July 1, 2013	\$ 355,236
Change in value of split-interest agreements	20,816
Payments from split-interest agreements	<u>(35,000)</u>
June 30, 2014	<u>\$ 341,052</u>

17. Compensated Absences

The Organization has not accrued a liability for compensated absences because the amount cannot be reasonably estimated.

18. Subsequent Events

Management has evaluated subsequent events thru November 12, 2014, the date on which the financial statements were available to be issued.



**CUMBERLAND COMMUNITY FOUNDATION, INC.**

**SCHEDULE OF GRANTS FOR CHARITABLE PURPOSES**  
Year ended June 30, 2014

	<u>Paid from Nonendowed Funds</u>	<u>Paid from Endowment Income</u>	<u>Total</u>
Animals	\$ 16,450	\$ 4,877	\$ 21,327
Arts, Culture, History	840,049	171,230	1,011,279
Children, Youth Development	60,054	6,350	66,404
Community	305,573	14,664	320,237
Education	401,115	572,373	973,488
Environment	52,870	124,010	176,880
Health	119,312	90,635	209,947
Human Services	232,805	61,626	294,431
Philanthropy	10,500	38,210	48,710
Recreation	10,000	-	10,000
Religious Organizations	494,409	156,353	650,762
Scholarships	51	164,420	164,471
	<u>\$ 2,543,188</u>	<u>\$ 1,404,748</u>	<u>\$ 3,947,936</u>

See accountants' report.