

**COMMUNITY FOUNDATION
OF NORTHWEST MISSISSIPPI
FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007**

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WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

2042 McIngvale Road, Suite A
Hernando, MS 38632

(662) 429-4436
FAX: (662) 429-4438
www.williamsandpitts.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Foundation of Northwest Mississippi
Hernando, Mississippi

We have audited the accompanying statements of financial position of the Community Foundation of Northwest Mississippi (a nonprofit organization), as of December 31, 2008 and 2007, and the related statements of activities, cash flows and functional expenses 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 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of Northwest Mississippi as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
August 14, 2009

COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 1,119,204	\$ 1,627,702
Promises to give	1,525,658	962,748
Grant receivable	246,849	428,176
Investments	2,945,656	1,707,794
Investment in CFNM, LLC	872,000	872,000
Property and equipment (net)	<u>797,092</u>	<u>211,072</u>
TOTAL ASSETS	<u>\$ 7,506,459</u>	<u>\$ 5,809,492</u>
LIABILITIES		
Accounts payable	\$ 24,313	\$ 5,804
Agency fund	<u>131,654</u>	<u>-</u>
TOTAL LIABILITIES	<u>155,967</u>	<u>5,804</u>
NET ASSETS		
Unrestricted	7,350,492	799,704
Temporarily restricted	-	713,391
Permanently restricted	<u>-</u>	<u>4,290,593</u>
TOTAL NET ASSETS	<u>7,350,492</u>	<u>5,803,688</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,506,459</u>	<u>\$ 5,809,492</u>

See accompanying notes to financial statements.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008 and 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
REVENUES					
Public support					
Contributions - cash	\$ 3,319,522	\$ -	\$ -	\$ 3,319,522	\$ 4,083,397
Gifts-in-kind	822,493	-	-	822,493	250,464
Fundraising	204,202	-	-	204,202	239,163
Administrative Revenue	89,957	-	-	89,957	27,682
Investment Income	146,467	-	-	146,467	139,795
TOTAL INCOME	4,582,641	-	-	4,582,641	4,740,501
EXPENSES AND LOSSES					
Programs					
Programs expense	1,800,884	-	-	1,800,884	1,029,390
Supporting services					
Fund raising	203,706	-	-	203,706	204,930
Administrative	112,990	-	-	112,990	80,986
TOTAL EXPENSES	2,117,580	-	-	2,117,580	1,315,306
Loss on the sale of property	183,989	-	-	183,989	-
TOTAL EXPENSES AND LOSSES	2,301,569	-	-	2,301,569	1,315,306
Change in net assets before unrealized gain (loss)	2,281,072	-	-	2,281,072	3,425,195
Unrealized gains (losses) on investments	(729,885)	-	-	(729,885)	(5,684)
CHANGE IN NET ASSETS	1,551,187	-	-	1,551,187	3,419,511
NET ASSETS AT BEGINNING OF YEAR	799,704	713,391	4,290,593	5,803,688	2,384,177
Prior period adjustments	4,999,601	(713,391)	(4,290,593)	(4,383)	-
NET ASSETS AT BEGINNING OF YEAR-RESTATED	5,799,305	-	-	5,799,305	2,384,177
NET ASSETS AT END OF YEAR	\$ 7,350,492	\$ -	\$ -	\$ 7,350,492	\$ 5,803,688

See accompanying notes to financial statements.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets, before prior period adjustment	\$ 1,551,187	\$3,419,511
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Prior period adjustment	(4,383)	-
Depreciation	1,866	316
Unrealized (gain) loss on investments	729,885	5,684
Realized (gain) loss on investments	(146,467)	(139,795)
Loss on sale of property and equipment	183,989	-
Donated assets	(828,361)	-
(Increase) decrease in operating assets		
Accounts receivable	-	10,602
Grant receivable	181,327	(428,176)
Promises to give	(562,910)	(451,442)
Increase (decrease) in operating liabilities		
Accounts payable	18,509	(6,420)
Agency funds	131,654	-
Net cash provided by operating activities	<u>1,256,296</u>	<u>2,410,280</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(685)	-
Sale of property and equipment	24,611	-
Investment in CFNM, LLC	-	(872,000)
Purchase of investments	(1,788,720)	(1,624,134)
Net cash used by investing activities	<u>(1,764,794)</u>	<u>(2,496,134)</u>
Net increase (decrease) in cash and cash equivalents	(508,498)	(85,854)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,627,702</u>	<u>1,713,556</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,119,204</u>	<u>\$1,627,702</u>

See accompanying notes to financial statements.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

	Programs		Supporting Services		2008	2007
	General	Fundraising	Administrative	Totals	Totals	
Advertising	\$ 3,000	\$ 1,000	\$ 1,000	\$ 5,000	\$ 1,879	
Bank charges	1,691	563	563	2,817	351	
Continuing education	13,375	4,459	4,459	22,293	7,251	
Depreciation expense	1,120	373	373	1,866	316	
Dues and subscription	1,398	466	466	2,330	1,567	
Fundraising expense	-	90,716	-	90,716	103,697	
Insurance	1,084	361	361	1,806	1,776	
Professional fees	41,336	13,779	13,779	68,894	9,529	
Miscellaneous	58	19	19	96	5,453	
Office expense	14,779	4,926	4,926	24,631	26,655	
Postage	2,500	833	833	4,166	4,796	
Program expense	1,461,907	-	-	1,461,907	806,680	
Rent and utilities	9,920	3,306	3,306	16,532	13,924	
Repairs and maintenance	5,267	1,756	1,756	8,779	191	
Salaries and employee benefits	212,784	70,928	70,928	354,640	298,449	
Taxes	16,754	5,584	5,584	27,922	21,564	
Travel and entertainment	13,911	4,637	4,637	23,185	11,228	
TOTAL EXPENSES	\$1,800,884	\$ 203,706	\$ 112,990	\$2,117,580	\$1,315,306	

See accompanying notes to financial statements.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

Note A: Organization and Summary of Significant Accounting Policies

Organization

The Community Foundation of Northwest Mississippi, (“the Foundation”) was organized January 7, 2002 as a nonprofit organization. It is dedicated to serving the people of Mississippi’s eight northwest counties: Coahoma, DeSoto, Marshall, Panola, Quitman, Tallahatchie, Tate, and Tunica. The Foundation’s purpose is to provide a flexible, tax-deductible vehicle to meet the needs of donors and philanthropists in Northwest Mississippi and stimulate the establishment of endowed funds that will serve the citizens and non-profit organizations of northwest Mississippi both now and in the future.

Donors contribute to the following fund types: Unrestricted Funds – those for which the Foundation has full discretion in making distributions for charitable purposes to meet community needs; Donor Advised Funds – unrestricted funds for which the donor has reserved the right to make nonbinding distribution recommendations to the Foundation; Field of Interest Funds – those used at the Foundation’s discretion to meet a general field of charitable need specified by the donor; Designated Purpose Funds – those used at the Foundation’s discretion to provide support specific charitable organizations or programs; and Scholarship Funds – used to provide scholarships for students.

Income Tax Exemption

The Foundation is exempt from Federal income taxes under the provisions of the Internal Revenue Code as an entity described in Section 501(c)(3).

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (“SFAS”) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

Donated Assets

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Investments

Investments consist of marketable equity and debt securities which are carried at fair market value (a Level 1 input.) All other investments are carried at cost basis. The Foundation's investments include securities held in various companies within various markets. All securities are held in an account with a major financial institution.

Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments securities will occur and those changes could materially affect the amounts reported in the Foundation's financial statements.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges for current year are recognized at face value and pledges beyond the current year are recognized at net present value.

Agency Funds

Assets contributed to the Foundation from or for the direct benefit of another nonprofit organization are accounted for as a liability rather than being recognized as revenue to the Foundation, as the Foundation is acting as an agent on the behalf of the other nonprofit organization. Investment or other income produced from the assets is also accounted for as a liability.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

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.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Of the total balance of cash and cash equivalents, \$1,084,841 and \$1,611,291 as of December 31, 2008 and 2007, respectively, were held in money market funds with a reputable broker. These investments are not covered by federal deposit insurance. The remaining balances of cash and cash equivalents do not exceed federal deposit insurance limits.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment is recorded at estimated fair market value at date of donation or at cost if purchased. Depreciation is computed on the straight-line method and is based on expected useful lives ranging from 3 to 25 years.

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year classification.

Note B: Investments

The components of investments as shown on the statement of financial position are as follows:

	<u>2008</u>	<u>2007</u>
Cost of equity and debt securities	\$ 3,675,541	\$ 1,702,110
Current year unrealized (losses) gains	<u>(729,885)</u>	<u>(5,684)</u>
Market value of securities	<u>\$ 2,945,656</u>	<u>\$ 1,707,794</u>

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

Investments in marketable securities consist of the following at December 31:

	<u>2008</u>	<u>2007</u>
Fixed Income	1,193,929	670,898
Equities	34,868	48,841
Mutual Funds	<u>1,716,859</u>	<u>988,055</u>
	<u>\$ 2,945,656</u>	<u>\$ 1,707,794</u>

Note C: Endowed Funds

The Foundation follows the Uniform Management of Institutional Funds Act of 1972 (“UMIFA”) and its own governing documents. The Board of Directors has recognized that the majority of the Foundations contributions are subject to the terms of specific agreements with the Foundation and its Financial Policies and Investment Guidelines.

Under the terms of the Bylaws and Financial Policies and Investment Guidelines, the Board of Directors has the ability to distribute so much of the original principal of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions are classified as unrestricted.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of those endowment assets. The Foundation’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return 8% - enough to make an annual distribution, pay management fees and maintain its purchasing power. Actual returns in any given year may vary from this amount.

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 and current yield. The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation’s various endowed funds for grant making and administration. The current spending policy is to distribute an amount at least equal to 4.5% to 5.0% of an annual average daily balance of the fair value of the endowment funds. Over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 3% to 3.5% annually. This is consistent with the Foundation’s objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

A summary of endowment net assets by type of fund is as of December 31, 2008 is as follows:

Board Designated	\$ 342,702
Designated Purpose	1,064,443
Donor Advised	539,182
Field of Interest	1,937,369
Scholarship	166,046
Total Endowment Funds	<u>\$4,049,742</u>

A summary of changes in endowment net assets as of December 31, 2008 is as follows:

Endowment net assets, beginning of year	\$4,271,837
Prior period adjustment	<u>(4,383)</u>
Endowment net assets, beginning of year-restated	4,267,454
Contributions	499,797
Interest and dividends, net of fees	113,409
Realized gains (losses)	469
Grants	(38,544)
Administrative fee	(48,452)
Other income (expense)	3,111
Unrealized gains (losses)	<u>(747,502)</u>
Change in endowment net assets	(217,712)
Endowment net assets, end of year	<u>\$4,049,742</u>

Note D: Promise to Give

On January 20, 2005 the Foundation entered into a retroactive grant agreement with the Maddox Foundation for the amount of \$10,000,000. This grant was awarded by the Maddox Foundation for the overall purpose of establishing the Foundation as a viable grant making institution. Toward that end, the Foundation may use the grant for the purposes of general operating support, capacity building, a grant making program and endowment building. This is a ten year grant commencing January 1, 2004 through December 31, 2013.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

The provisions of the grant are as follows:

- A minimum of \$9,000,000 of this grant shall be used by the Foundation to build permanently endowed funds. All grant funds for endowment building are considered a challenge grant, requiring the Foundation to establish permanently endowed funds that the Maddox Foundation will match on a dollar for dollar basis.
- For every dollar donated to the general permanent endowment of the Foundation, the Maddox Foundation will make equal matching payments into the general permanent endowment of the Foundation.
- For every dollar donated to any other permanently endowed or donor advised funds, the Maddox Foundation will make a payment of 50% of such amounts into the general permanent endowment of the Foundation. The Maddox Foundation will also establish a Maddox Foundation Advised Fund, and make a payment equal to 50% of donations to other permanently endowed funds held by the Foundation into the Maddox Foundation Advised Fund.
- A maximum of \$1,000,000 may be used by the Foundation for general operating costs.

The Maddox Foundation promise to give as of December 31, 2008 is \$1,525,658. The promise to give will fund \$793,621 into the general endowment of the Community Foundation and \$742,137 into the Maddox Foundation Donor Advised Fund.

A reconciliation between contributions received and the Maddox Foundation match for the year ended December 31, 2008 is as follows:

Contributions to Endowed Funds	\$ 499,797
Contributions to Agency Funds	150,000
Match related to proceeds from sale of donated asset	24,611
Match related to prior year contribution	872,000
Unmatched Maddox Foundation contribution	(20,750)
	<u>\$1,525,658</u>

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

Note E: Property and Equipment

Property and equipment consist of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Land - Donated	\$ 790,000	\$ 208,600
Equipment	10,868	4,382
Total	<u>800,868</u>	<u>212,982</u>
Accumulated depreciation	<u>(3,776)</u>	<u>(1,910)</u>
Net property and equipment	<u><u>\$ 797,092</u></u>	<u><u>\$ 211,072</u></u>

Note F: Current Assets and Current Liabilities

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$1,119,204	\$1,627,702
Promises to give	1,525,658	962,748
Grant receivable	246,849	428,176
Investments	<u>2,945,656</u>	<u>1,707,794</u>
Total current assets	<u><u>\$5,837,367</u></u>	<u><u>\$4,726,420</u></u>
Current Liabilities		
Accounts payable	<u>\$ 24,313</u>	<u>\$ 5,804</u>
Total current liabilities	<u><u>\$ 24,313</u></u>	<u><u>\$ 5,804</u></u>

Note G: Related Party

In December 2007, the Foundation received a donation of \$872,000. The Foundation formed a single member limited liability company, CFNM, LLC (the "LLC"), with the Foundation as the sole member, and invested the contribution into the LLC. The LLC chose to purchase a parcel of land in Shelby County, Tennessee with the funds it received.

In March 2008, the land purchased by CFNM, LLC was used as a capital contribution to acquire a 50% share in CBH Hospitality, LLC, which was formed by CFNM, LLC with two other members to build and operate a LEED-certified (Leadership in Energy and Environmental Design) "green" La Quinta hotel on the site.

**COMMUNITY FOUNDATION OF NORTHWEST MISSISSIPPI
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008 and 2007**

Note H: Prior Period Adjustment

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 inconsistent with the charitable needs of the community. Accordingly, all funds previously recorded as permanently restricted and temporarily have been reclassified as unrestricted. A prior period adjustment has been booked that transfers the permanently restricted and temporarily restricted net assets of \$5,003,984 to unrestricted net assets.

Additionally, a prior period adjustment of \$4,385 was made in order to properly account for the net assets of agency funds in the prior year.

A summary of prior period adjustment is shown below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net Assets at Beginning of the Year	\$ 799,704	\$ 713,391	\$ 4,290,593
Reclass permanantly restricted net assets	4,290,593	-	(4,290,593)
Reclass temporarily restricted net assets	713,391	(713,391)	-
Correct agency fund	<u>(4,383)</u>	<u>-</u>	<u>-</u>
Net Assets at Beginning of the Year-Restated	<u>\$ 5,799,305</u>	<u>\$ -</u>	<u>\$ -</u>