

**COMMUNITY FOUNDATION ALLIANCE, INC.
AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2010 AND 2009

CPAs / ADVISORS



**COMMUNITY FOUNDATION ALLIANCE, INC.
AND AFFILIATES**

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JUNE 30, 2010 AND 2009**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
Community Foundation Alliance, Inc.
Evansville, Indiana

We have audited the accompanying consolidated statement of financial position of the Community Foundation Alliance, Inc. and Affiliates (the "Organization"), as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Organization as of June 30, 2009, were audited by other auditors whose opinion dated October 16, 2009, expressed an unqualified opinion on those consolidated financial statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The 2010 consolidating information on pages 20 - 21 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations. Such information has been subjected to the auditing procedures applied in the audit of the 2010 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Blue & Co., LLC

September 20, 2010

**COMMUNITY FOUNDATION ALLIANCE, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009**

ASSETS

	2010	2009
Cash and cash equivalents	\$ 359,742	\$ 395,514
Investments	50,057,244	49,959,009
Beneficial interest in charitable trusts	3,337,980	3,409,422
Pledges receivable, net	875,685	214,584
Other assets	25,475	18,489
Property and equipment, net	35,044	28,698
Restricted investments	3,082,110	2,974,161
Total assets	\$ 57,773,280	\$ 56,999,877

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 60,938	\$ 63,897
Grants payable	140,364	212,911
Charitable gift annuities payable	141,338	134,214
Custodial funds	3,082,110	2,974,161
Total liabilities	3,424,750	3,385,183
Net Assets		
Unrestricted net assets		
Operating	2,156,960	2,519,109
Operating reserve	426,568	422,440
Administrative endowment	2,350,015	2,305,716
Funds for the benefit of other organizations	539,491	367,418
Endowed funds for the benefit of other organizations	38,035,998	36,579,964
Unrestricted net assets - Alliance Initiative Fund, Inc.	1,443,406	2,299,521
	44,952,438	44,494,168
Temporarily restricted net assets	4,396,092	4,120,526
Permanently restricted net assets	5,000,000	5,000,000
Total net assets	54,348,530	53,614,694
Total liabilities and net assets	\$ 57,773,280	\$ 56,999,877

See accompanying notes to consolidated financial statements.

**COMMUNITY FOUNDATION ALLIANCE, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	2010			Total	2009
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenues					
Contributions	\$ 1,852,249	\$ -0-	\$ -0-	\$ 1,852,249	\$ 1,004,654
Grant revenue	162,187	-0-	-0-	162,187	135,074
Administrative fee income	658,978	-0-	-0-	658,978	492,669
Investment return, net	1,327,924	697,588	-0-	2,025,512	(10,760,694)
Change in value of split interest agreements	-0-	80,846	-0-	80,846	136,749
Change in value of charitable gift annuities	(25,307)	-0-	-0-	(25,307)	(6,716)
Change in value of cash surrender value of life insurance	3,212	-0-	-0-	3,212	2,155
In-kind income	42,163	-0-	-0-	42,163	12,600
Other income	84,703	-0-	-0-	84,703	52,310
Net assets released from restrictions	<u>502,868</u>	<u>(502,868)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	4,608,977	275,566	-0-	4,884,543	(8,931,199)
Expenses					
Programs	2,235,415	-0-	-0-	2,235,415	3,085,679
Management and general	1,785,915	-0-	-0-	1,785,915	1,488,936
Fundraising	<u>129,377</u>	<u>-0-</u>	<u>-0-</u>	<u>129,377</u>	<u>148,487</u>
Total expenses	<u>4,150,707</u>	<u>-0-</u>	<u>-0-</u>	<u>4,150,707</u>	<u>4,723,102</u>
Change in net assets	458,270	275,566	-0-	733,836	(13,654,301)
Net assets, beginning of year	<u>44,494,168</u>	<u>4,120,526</u>	<u>5,000,000</u>	<u>53,614,694</u>	<u>67,268,995</u>
Net assets, end of year	<u>\$ 44,952,438</u>	<u>\$ 4,396,092</u>	<u>\$ 5,000,000</u>	<u>\$ 54,348,530</u>	<u>\$ 53,614,694</u>

See accompanying notes to consolidated financial statements.

**COMMUNITY FOUNDATION ALLIANCE, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Contributions	\$ 998,354	\$ 6,300	\$ -0-	\$ 1,004,654
Grant revenue	135,074	-0-	-0-	135,074
Administrative fee income	492,669	-0-	-0-	492,669
Investment return, net	(9,432,759)	(1,327,935)	-0-	(10,760,694)
Change in value of split interest agreements	-0-	136,749	-0-	136,749
Change in value of charitable gift annuities	(6,716)	-0-	-0-	(6,716)
Change in value of cash surrender value of life insurance	2,155	-0-	-0-	2,155
In-kind income	12,600	-0-	-0-	12,600
Other income	52,310	-0-	-0-	52,310
Net assets released from restrictions	185,351	(185,351)	-0-	-0-
Total support and revenues	(7,560,962)	(1,370,237)	-0-	(8,931,199)
Expenses				
Programs	2,905,433	180,246	-0-	3,085,679
Management and general	1,484,127	4,809	-0-	1,488,936
Fundraising	148,487	-0-	-0-	148,487
Total expenses	4,538,047	185,055	-0-	4,723,102
Change in net assets	(12,099,009)	(1,555,292)	-0-	(13,654,301)
Net assets, beginning of year	56,593,177	5,675,818	5,000,000	67,268,995
Net assets, end of year	<u>\$ 44,494,168</u>	<u>\$ 4,120,526</u>	<u>\$ 5,000,000</u>	<u>\$ 53,614,694</u>

See accompanying notes to consolidated financial statements.

**COMMUNITY FOUNDATION ALLIANCE, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Operating activities		
Change in net assets	\$ 733,836	\$ (13,654,301)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	15,243	20,082
Loss on disposal of property and equipment	1,622	-0-
Net realized and unrealized losses (gains) on investments	(926,018)	11,988,108
Change in beneficial interest in charitable trusts	71,442	185,426
Change in discount of pledges receivable	1,500	13,765
Change in operating assets and liabilities:		
Pledges receivable	(662,601)	(156,889)
Other assets	(6,986)	14,502
Restricted investments	(107,949)	879,178
Accounts payable and accrued expenses	(2,959)	(28,280)
Grants payable	(72,547)	(1,094)
Charitable gift annuities payable	7,124	(11,467)
Custodial funds	107,949	(879,178)
Net cash flows from operating activities	(840,344)	(1,630,148)
Investing activities		
Purchases of property and equipment	(23,211)	(6,952)
Net change in investments	827,783	1,252,306
Net cash flows from investing activities	804,572	1,245,354
Net change in cash and cash equivalents	(35,772)	(384,794)
Cash and cash equivalents, beginning of year	395,514	780,308
Cash and cash equivalents, end of year	\$ 359,742	\$ 395,514

See accompanying notes to consolidated financial statements.

COMMUNITY FOUNDATION ALLIANCE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Community Foundation Alliance, Inc. (CFA) was incorporated and commenced operations as a not-for-profit foundation in 1991 under the laws of the State of Indiana. The City of Evansville Endowment Fund, Inc. (CEEF) was incorporated and commenced operations as a nonprofit foundation in 1998 under the laws of the State of Indiana. Alliance Initiative Fund, Inc. (AIF) was incorporated and commenced operations as a nonprofit organization in 2000 under the laws of the State of Indiana.

Community Foundation Alliance, Inc. and Affiliates (the "Organization") are public charities, as defined in Internal Revenue Code Section 501(c)(3), whose mission and principal activities are to provide an accessible and flexible vehicle for individuals, families, corporations and agencies to create permanent funds for charitable purposes in their communities. The Organization's revenue and other support are derived principally from contributions, and its activities are conducted principally in the nine southwestern Indiana counties of Daviess, Gibson, Knox, Perry, Pike, Posey, Spencer, Vanderburgh and Warrick.

CEEF was established as a supporting organization of CFA and was initially funded by a \$5,000,000 commitment from the City of Evansville, which is permanently restricted.

AIF was established as a supporting organization of CFA to handle unusual gifts and large grants. The board of directors of CFA serves as the board of directors for AIF. AIF received its first grant in March 2001, a termed Lilly Endowment "Community Alliances to Promote Education" (CAPE) grant for approximately \$20,000,000 and was awarded an additional grant of \$7,200,000 in June 2005.

Consolidation Policy

The accounts of the CEEF and AIF are consolidated with the accounts of CFA as a result of common control. All inter-entity transactions have been eliminated in consolidation.

Management's Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

**COMMUNITY FOUNDATION ALLIANCE, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Basis of Presentation

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Gift instruments give the Organization's Board of Directors the right to vary the terms of the gift. Therefore, all gifts in which the Board of Directors exercise direct control are classified as unrestricted net assets in the accompanying consolidated financial statements. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. CFA maintains unrestricted funds as follows:

Operating – used to fund current operations of CFA.

Operating reserve – used to fund future operations of CFA as designated by the Board.

Administrative endowment – established with the expectation that the principal of the donation be maintained in perpetuity. The earnings are intended for the use of the general operations of specifically designated county foundations within CFA.

Funds for the benefit of other organizations – represent amounts to be expended for general or specifically designated community organizations, purposes, or programs.

Endowed funds for the benefit of other organizations – represent amounts to be maintained in perpetuity, whereby the earnings on such funds are intended for general or specifically designated community organizations, purposes, or programs. Distributions from these funds are based on CFA's spending policy.

Temporarily restricted net assets – Net assets that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions.

Permanently restricted net assets – Net assets restricted by donors to be maintained by CEEF in perpetuity.

**COMMUNITY FOUNDATION ALLIANCE, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market investments and exclude amounts held by the Organization's fund managers and included in investments.

Investments and Investment Return

The Organization carries its investments at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Consolidated Statements of Activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as unrestricted or temporarily restricted based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Organization's spending policy.

Property and Equipment

Property and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at fair value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred.

Property and equipment is depreciated over its estimated useful life ranging from three to seven years using the straight line method.

Restricted Investments

Restricted investments consist of monies received from organizations that have named themselves as the beneficiary of the income from funds they established for their own benefit. These amounts are also reported as custodial funds at June 30, 2010 and 2009.

Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (pledges receivable), are recognized as revenues in the period the contribution is received or the promise is made.

Support and revenues are reported as increases in either unrestricted or temporarily restricted net assets in accordance with the classification of the fund as it relates to the Organization's spending policy. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in either unrestricted or temporarily restricted

COMMUNITY FOUNDATION ALLIANCE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

net assets in accordance with the classification of the fund as it relates to the Organization's spending policy. All other revenue is recorded when earned.

Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Organization. Administrative fees from all funds are reflected as revenue on the Consolidated Statements of Activities. The administrative fees from custodial funds (agency endowments) are not included as expenses on the Consolidated Statements of Activities because they are included in the change in custodial funds.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For June 30, 2010 and 2009, no amounts have been reflected in the consolidated financial statements for donated services.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its consolidated financial statements and similarly increase contribution revenue by a like amount. In-kind contributions were received in the amounts of \$42,163 and \$12,600 for the years ended June 30, 2010 and 2009, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Community Foundation Alliance, Inc., City of Evansville Endowment Fund, Inc., and Alliance Initiative Fund, Inc. are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

**COMMUNITY FOUNDATION ALLIANCE, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the Consolidated Statement of Financial Position date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued, which is September 20, 2010.

Reclassifications

Certain prior year amounts have been reclassified herein to conform to the current method of presentation.

2. INVESTMENTS

Investments (including restricted investments) at June 30, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
Cash and money market funds	\$ 2,772,984	\$ 1,868,376
U.S. Government agency securities	1,565,055	9,530,878
Corporate bonds and fixed income funds	10,991,388	6,709,944
Municipal bonds	202,089	58,123
Equities and equity funds	25,514,283	30,268,370
Mortgage-backed securities	860,943	690,533
Hedge funds	<u>11,232,612</u>	<u>3,806,946</u>
	<u>\$ 53,139,354</u>	<u>\$ 52,933,170</u>

The following schedule summarizes the investment return and its classification in the Consolidated Statements of Activities:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 1,260,094	\$ 1,570,072
Realized gains (losses)	338,203	(6,453,912)
Unrealized gains (losses)	587,815	(5,534,196)
Investment fees	<u>(160,600)</u>	<u>(342,658)</u>
	<u>\$ 2,025,512</u>	<u>\$ (10,760,694)</u>

**COMMUNITY FOUNDATION ALLIANCE, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. RISKS AND UNCERTAINTIES

The Organization holds investments (Note 2). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and the lowest priority to unobservable value inputs. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

The hierarchy of inputs is as follows:

- Level 1 – Unadjusted quoted prices for identical assets and liabilities in active markets.
- Level 2 – Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the assets or liability, either directly or indirectly.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following tables set forth financial assets and liabilities measured at fair value in the Consolidated Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2010 and 2009:

	2010			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 50,057,244	\$ 38,824,632	\$ 11,232,612	\$ -0-
Beneficial interest in charitable trusts	3,337,980	-0-	-0-	3,337,980
Restricted investments	3,082,110	3,082,110	-0-	-0-
Liabilities:				
Charitable gift annuities payable	141,338	-0-	-0-	141,338

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	2009			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 49,959,009	\$ 46,152,063	\$ 3,806,946	\$ -0-
Beneficial interest in charitable trusts	3,409,422	-0-	-0-	3,409,422
Restricted investments	2,974,161	2,974,161	-0-	-0-
Liabilities:				
Charitable gift annuities payable	134,214	-0-	-0-	134,214

Fair values for investments and restricted investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for the hedge funds are based on the net asset value of the funds as determined by the reported valuations of underlying investment managers. Fair value for the beneficial interest in charitable trusts is determined by calculating the present value of the annuity using published life expectancy tables, an average 5% rate of return and discount rates ranging from 3.7% to 8.2%. Fair value for the charitable gift annuities payable is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with discount rates ranging between 5.4% and 8.2%.

The progression of beneficial interest in charitable trusts during the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Beginning balance	\$ 3,409,422	\$ 3,594,848
Change in present value	<u>(71,442)</u>	<u>(185,426)</u>
Ending balance	<u>\$ 3,337,980</u>	<u>\$ 3,409,422</u>

The progression of charitable gift annuities payable during the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Beginning balance	\$ 134,214	\$ 145,681
Payments to donors	(18,283)	(18,283)
Change in present value	<u>25,407</u>	<u>6,816</u>
Ending balance	<u>\$ 141,338</u>	<u>\$ 134,214</u>

**COMMUNITY FOUNDATION ALLIANCE, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. BENEFICIAL INTEREST IN CHARITABLE TRUSTS

CFA is the beneficiary of various charitable remainder trusts and current income beneficiary in lead trusts administrated by outside parties. Upon termination of the remainder trusts, CFA will receive either a portion of the assets or the entire amount remaining in the trusts. The estimated value of the expected residual benefit (which represents the fair value of the trust assets with an estimated 5% annual return on investment less the present value of the estimated future payments to income beneficiaries based on the applicable mortality tables and a discount rates ranging from 3.7% to 8.2%) of these trusts is \$3,337,980 and \$3,409,422 at June 30, 2010 and 2009, respectively.

6. PLEDGES RECEIVABLE

Pledges receivable consist of the following at June 30, 2010 and 2009:

	2010	2009
Unconditional pledges receivable	\$ 895,950	\$ 234,849
Less allowance for uncollectible accounts	(5,000)	(6,500)
	890,950	228,349
Less unamortized discount	(15,265)	(13,765)
Net unconditional contributions receivable	\$ 875,685	\$ 214,584
Amounts due in:		
Due within one year	\$ 842,700	\$ 176,349
Due in one to five years	44,500	43,300
Due in six to ten years	8,750	15,200
	\$ 895,950	\$ 234,849

Qualifying pledges receivable were discounted at 3.5%.

Management estimates an allowance for doubtful pledges receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to CFA's donors. The allowance for doubtful pledges receivable was determined to be \$5,000 and \$6,500 at June 30, 2010 and 2009, respectively.

**COMMUNITY FOUNDATION ALLIANCE, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 171,315	\$ 168,811
Leasehold improvements	4,335	-0-
	<u>175,650</u>	<u>168,811</u>
Less accumulated depreciation	<u>(140,606)</u>	<u>(140,113)</u>
	<u>\$ 35,044</u>	<u>\$ 28,698</u>

8. CHARITABLE GIFT ANNUITIES PAYABLE

CFA has eight charitable gift annuities, under which CFA received \$282,750 and is required to make payments to the donors in amounts ranging from \$609 to \$4,150 annually for the remainder of the donors' lifetimes. Upon the death of the specified persons, the remaining amount of the gifts are to be used by CFA as specified in the respective agreements. CFA has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiaries at June 30, 2010 and 2009, under these agreements. The liability was calculated based on the applicable mortality tables and discount rates ranging from 5.4% to 8.2%. The present value of amounts expected to be paid to the donors or their named beneficiaries was \$141,338 and \$134,214 at June 30, 2010 and 2009, respectively.

9. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with CFA by other organizations based on their individual board resolutions. CFA accounts for these transfers as a liability in accordance with standards set forth by the Financial Accounting Standards Board. Income is added to these funds periodically in accordance with CFA's investment allocation policies. Contributions by, investment interest credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Consolidated Statements of Activities.

**COMMUNITY FOUNDATION ALLIANCE, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Following is a progression of custodial funds at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Custodial funds, beginning balance	\$ 2,974,161	\$ 3,853,339
Contributions	140,663	43,157
Investment return, net	98,518	(727,940)
Administrative fees	(40,497)	(31,617)
Grant and scholarship payments	<u>(90,735)</u>	<u>(162,778)</u>
Custodial funds, ending balance	<u>\$ 3,082,110</u>	<u>\$ 2,974,161</u>

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Time restrictions related to:		
Charitable trusts	\$ 3,337,980	\$ 3,409,422
Pledges receivable	37,985	44,735
Other	14,620	169,849
Designated purpose restrictions related to:		
City of Evansville fund	<u>1,005,507</u>	<u>496,520</u>
	<u>\$ 4,396,092</u>	<u>\$ 4,120,526</u>

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are investments held in perpetuity in which the income is expendable to support CEEF program activities. Permanently restricted net assets are \$5,000,000 for the years ended June 30, 2010 and 2009.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions or time restrictions during the years ended June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Time restrictions related to:		
Charitable trusts	\$ 152,288	\$ 296
Pledges receivable	6,750	-0-
Other	155,229	-0-
Designated purpose restrictions related to:		
City of Evansville fund	<u>188,601</u>	<u>185,055</u>
	<u>\$ 502,868</u>	<u>\$ 185,351</u>

13. ENDOWMENT

The majority of the Organization's funds consists of endowed funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring endowment funds to be classified as unrestricted due to the variance power granted to the Organization. These funds are designated by the Board of Directors to function as endowments. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

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The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 8.65 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

The Organization has a policy of appropriating for distribution each year 4.5 percent of its endowment funds' average fair value over the prior 20 quarters, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Organization considered the long-term expected return on its endowment.

Donor restricted and board designated endowed funds by net asset type at June 30, 2010 and 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
2010	\$ 40,386,013	\$ 1,005,507	\$ 5,000,000
2009	\$ 38,885,680	\$ 496,520	\$ 5,000,000

Changes in endowed funds for the years ending June 30, 2010 and 2009 were as follows:

	2010		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets,			
beginning of year	\$ 38,885,680	\$ 496,520	\$ 5,000,000
Contributions and other revenue	1,788,148	-0-	-0-
Investment income	1,302,487	697,588	-0-
Appropriation of endowment assets for expenditure	(1,590,302)	(188,601)	-0-
Endowment net assets, end of year	\$ 40,386,013	\$ 1,005,507	\$ 5,000,000

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	2009		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets,			
beginning of year	\$ 49,842,686	\$ 2,009,510	\$ 5,000,000
Contributions and other revenue	800,915	-0-	-0-
Investment income	(9,670,633)	(1,327,935)	-0-
Appropriation of endowment assets for expenditure	(2,087,288)	(185,055)	-0-
Endowment net assets, end of year	\$ 38,885,680	\$ 496,520	\$ 5,000,000

14. RENT

CFA leases office space with various monthly payments. Rent expense was \$55,665 and \$69,935 for the years ended June 30, 2010 and 2009, respectively. Future minimum lease payments subsequent to June 30, 2010 under these leases are as follows:

<u>Year ending June 30,</u>	
2011	\$ 28,224
2012	12,069
	\$ 40,293

15. PENSION PLAN

Through the first half of the fiscal year, the Organization had a defined contribution pension plan covering substantially all employees which allowed for both employee and employer contributions. CFA contribution consisted of a matching contribution of 60% of employee contributions, up to 7.2% of eligible employee compensation. Starting in January 2010, the Organization switched to a Simple IRA plan in which CFA makes a 100% matching contribution of employee contributions up to 3% of eligible employee compensation. Pension expense was \$18,679 and \$22,612 for 2010 and 2009, respectively.

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16. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

Investments are maintained at several investment firms. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

SUPPLEMENTARY INFORMATION

**COMMUNITY FOUNDATION ALLIANCE, INC.
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**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010**

	Community Foundation Alliance, Inc.	City of Evansville Endowment Fund, Inc.	Alliance Initiative Fund, Inc.	Eliminations	Consolidated
Cash and cash equivalents	\$ 249,355	\$ 1,233	\$ 109,154	\$ -0-	\$ 359,742
Investments	42,709,033	6,004,274	1,343,937	-0-	50,057,244
Beneficial interest in charitable trusts	3,337,980	-0-	-0-	-0-	3,337,980
Pledges receivable, net	875,685	-0-	-0-	-0-	875,685
Other assets	25,475	-0-	-0-	-0-	25,475
Property and equipment, net	35,044	-0-	-0-	-0-	35,044
Restricted investments	3,082,110	-0-	-0-	-0-	3,082,110
Total assets	\$ 50,314,682	\$ 6,005,507	\$ 1,453,091	\$ -0-	\$ 57,773,280
Liabilities					
Accounts payable and accrued expenses	\$ 51,253	\$ -0-	\$ 9,685	\$ -0-	\$ 60,938
Grants payable	140,364	-0-	-0-	-0-	140,364
Charitable gift annuities payable	141,338	-0-	-0-	-0-	141,338
Custodial funds	3,082,110	-0-	-0-	-0-	3,082,110
Total liabilities	3,415,065	-0-	9,685	-0-	3,424,750
Net Assets					
Unrestricted net assets					
Operating	2,156,960	-0-	-0-	-0-	2,156,960
Operating reserve	426,568	-0-	-0-	-0-	426,568
Administrative endowment	2,350,015	-0-	-0-	-0-	2,350,015
Funds for the benefit of other organizations	539,491	-0-	-0-	-0-	539,491
Endowed funds for the benefit of other organizations	38,035,998	-0-	-0-	-0-	38,035,998
Unrestricted net assets - Alliance Initiative Fund, Inc.	-0-	-0-	1,443,406	-0-	1,443,406
Temporarily restricted net assets	43,509,032	-0-	1,443,406	-0-	44,952,438
Permanently restricted net assets	3,390,585	1,005,507	-0-	-0-	4,396,092
Total net assets	46,899,617	6,005,507	1,443,406	-0-	54,348,530
Total liabilities and net assets	\$ 50,314,682	\$ 6,005,507	\$ 1,453,091	\$ -0-	\$ 57,773,280

COMMUNITY FOUNDATION ALLIANCE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2010

	Unrestricted			Temporarily Restricted				
	Community Foundation Alliance, Inc.	City of Evansville Endowment Fund, Inc.	Alliance Initiative Fund, Inc.	Eliminations	Consolidated	Community Foundation Alliance, Inc.	City of Evansville Endowment Fund, Inc.	Consolidated
Support and revenues								
Contributions	\$ 1,852,249	\$ -0-	\$ -0-	\$ -0-	\$ 1,852,249	\$ -0-	\$ -0-	\$ -0-
Grant revenue	162,187	-0-	-0-	-0-	162,187	-0-	-0-	-0-
Administrative fee income	713,978	-0-	-0-	(55,000)	658,978	-0-	-0-	-0-
Investment return, net	1,306,194	-0-	21,730	-0-	1,327,924	-0-	697,588	697,588
Change in value of split interest agreements	-0-	-0-	-0-	-0-	-0-	80,846	-0-	80,846
Change in value of charitable gift annuities	(25,307)	-0-	-0-	-0-	(25,307)	-0-	-0-	-0-
Change in value of cash surrender value of life insurance	3,212	-0-	-0-	-0-	3,212	-0-	-0-	-0-
In-kind income	42,163	-0-	-0-	-0-	42,163	-0-	-0-	-0-
Other income	84,703	-0-	-0-	-0-	84,703	-0-	-0-	-0-
Net assets released from restrictions	314,267	188,601	-0-	-0-	502,868	(314,267)	(188,601)	(502,868)
Total support and revenues	4,453,646	188,601	21,730	(55,000)	4,608,977	(233,421)	508,987	275,566
Expenses								
Programs	1,227,570	180,000	877,845	(50,000)	2,235,415	-0-	-0-	-0-
Management and general	1,782,314	8,601	-0-	(5,000)	1,785,915	-0-	-0-	-0-
Fundraising	129,377	-0-	-0-	-0-	129,377	-0-	-0-	-0-
Total expenses	3,139,261	188,601	877,845	(55,000)	4,150,707	-0-	-0-	-0-
Change in net assets	1,314,385	-0-	(856,115)	-0-	458,270	(233,421)	508,987	275,566
Net assets, beginning of year	42,194,647	-0-	2,299,521	-0-	44,494,168	3,624,006	496,520	4,120,526
Net assets, end of year	\$ 43,509,032	\$ -0-	\$ 1,443,406	\$ -0-	\$ 44,952,438	\$ 3,390,585	\$ 1,005,507	\$ 4,396,092