

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
(A Nonprofit Organization)

Financial Report

For the Years Ended December 31, 2012 and 2011

**NORTH GEORGIA COMMUNITY FOUNDATION, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of
North Georgia Community Foundation, Inc.

We have audited the accompanying consolidated financial statements of North Georgia Community Foundation, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, cash flows, and functional expenses for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Georgia Community Foundation, Inc., as of December 31, 2012 and 2011, 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.

Rushton & Company, LLC

Certified Public Accountants
Gainesville, Georgia
March 25, 2013

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 650,710	\$ 2,247,107
Certificates of deposit	11,680	26,308
Investments	28,567,488	25,809,295
Notes receivable, net	4,476	4,476
Other receivables	0	10,000
Prepaid expenses	13,110	0
Total Current Assets	29,247,464	28,097,186
Notes receivable, net	142,520	142,520
Property and equipment, net	2,076,802	2,141,713
Investments held in trust	8,053,629	6,256,696
TOTAL ASSETS	\$ 39,520,415	\$ 36,638,115
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 6,611	\$ 7,501
Security deposits	640	640
Deferred revenue	200	0
Notes payable	25,585	167,016
Liabilities under split interest agreements	244,452	238,942
Annuity liabilities	0	11,204
Total Current Liabilities	277,488	425,303
Long-Term Liabilities		
Notes payable	387,800	254,762
Funds held as agency endowments	6,607,711	6,555,494
Funds held as other beneficiary trusts	4,050,468	2,710,492
Liabilities under split interest agreements	1,253,093	1,265,108
Annuity liabilities	56,111	86,880
Total Long-Term Liabilities	12,355,183	10,872,736
TOTAL LIABILITIES	12,632,671	11,298,039
Net Assets		
Unrestricted	25,392,047	23,939,333
Temporarily restricted	1,495,697	1,400,743
TOTAL NET ASSETS	26,887,744	25,340,076
TOTAL LIABILITIES AND NET ASSETS	\$ 39,520,415	\$ 36,638,115

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Statement of Activities
For the Year Ended December 31, 2012
(with comparative totals for the year ended December 31, 2011)

	2012			2011 Total
	Unrestricted	Temporarily Restricted	Total	
Revenues, Gains and Other Support				
Contributions	\$ 2,899,029	\$ 0	\$ 2,899,029	\$ 2,111,105
Rentals	77,675	0	77,675	71,230
Investment revenue	385,822	24,462	410,284	442,947
Realized/unrealized gain (loss) on investments	2,277,934	155,899	2,433,833	(310,256)
Change in value of split interest agreements	0	(51,491)	(51,491)	(56,237)
Special events	102,809	0	102,809	51,704
Foundation fees, net	107,847	0	107,847	67,359
Administrative fees	21,000	0	21,000	21,000
Other	5,148	0	5,148	7,021
Total Revenue, Gains and Other Support	5,877,264	128,870	6,006,134	2,405,873
Net Assets Released from Restrictions				
Restrictions satisfied by payments	33,916	(33,916)	0	0
Total Revenue, Gains, reclassifications and other support	5,911,180	94,954	6,006,134	2,405,873
Expenses				
Program Services				
Grants Awarded				
Arts	135,252	0	135,252	115,440
Education	1,005,524	0	1,005,524	529,145
Civic	117,238	0	117,238	124,236
Religious	258,420	0	258,420	248,000
Social services	1,188,705	0	1,188,705	789,412
Health	275,543	0	275,543	208,852
Environmental	332,225	0	332,225	214,679
Scholarships	187,300	0	187,300	173,925
Other program expense	614,264	0	614,264	441,301
Total program services	4,114,471	0	4,114,471	2,844,990
General and administrative	213,077	0	213,077	197,722
Fundraising	107,264	0	107,264	110,263
Costs of direct benefits to donors	23,654	0	23,654	10,517
Total Expenses	4,458,466	0	4,458,466	3,163,492
INCREASE (DECREASE) IN NET ASSETS	1,452,714	94,954	1,547,668	(757,619)
BEGINNING NET ASSETS (RESTATED)	23,939,333	1,400,743	25,340,076	26,097,695
ENDING NET ASSETS	\$ 25,392,047	\$ 1,495,697	\$ 26,887,744	\$ 25,340,076

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

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Statement of Activities
For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Contributions	\$ 2,111,105	\$ 0	\$ 2,111,105
Rentals	71,230	0	71,230
Investment revenue	416,011	26,936	442,947
Realized/unrealized gain (loss) on investments	(295,790)	(14,466)	(310,256)
Change in value of split interest agreements	0	(56,237)	(56,237)
Special events	51,704	0	51,704
Foundation fees, net	67,359	0	67,359
Administrative fees	21,000	0	21,000
Other	7,021	0	7,021
Total Revenue, Gains and Other Support	2,449,640	(43,767)	2,405,873
Net Assets Released from Restrictions			
Restrictions satisfied by payments	37,283	(37,283)	0
Total Revenue, Gains, Reclassifications and Other Support	2,486,923	(81,050)	2,405,873
Expenses			
Program Services			
Grants Awarded			
Arts	115,440	0	115,440
Education	529,145	0	529,145
Civic	124,236	0	124,236
Religious	248,000	0	248,000
Social services	789,412	0	789,412
Health	208,852	0	208,852
Environmental	214,679	0	214,679
Scholarships	173,925	0	173,925
Other program expense	441,301	0	441,301
Total program services	2,844,990	0	2,844,990
General and administrative	197,722	0	197,722
Fundraising	110,263	0	110,263
Costs of direct benefits to donors	10,517	0	10,517
Total Expenses	3,163,492	0	3,163,492
INCREASE (DECREASE) IN NET ASSETS	(676,569)	(81,050)	(757,619)
BEGINNING NET ASSETS	24,615,902	1,481,793	26,097,695
ENDING NET ASSETS (RESTATED)	\$ 23,939,333	\$ 1,400,743	\$ 25,340,076

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 1,547,668	\$ (757,619)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	71,578	75,194
Unrealized (gain) loss on investments	(2,190,443)	90,444
(Increase) decrease in operating assets:		
Notes receivable allowance account	0	(39)
Other receivables	10,000	(10,000)
Prepaid expenses	(13,110)	0
Increase (decrease) in operating liabilities		
Accounts payable	(890)	(13,628)
Deferred revenue	200	0
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(574,997)	(615,648)
Cash Flows From Investing Activities		
Proceeds from maturity of investments	4,815,087	2,697,337
Purchases of investments	(5,945,711)	(6,574,294)
Principal payments received on notes receivable	0	396
Purchase of property and equipment	(6,667)	(9,164)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,137,291)	(3,885,725)
Cash Flows From Financing Activities		
Agency endowment funds received	190,171	1,262,192
Agency endowment grants	(899,912)	(504,318)
Net earnings on agency endowments	38,750	47,010
Beneficiary trust contributions received	2,689,213	3,138,342
Distributions from beneficiary trusts	(1,689,198)	(450,000)
Net earnings on funds held in beneficiary trusts	20,674	22,194
Earnings on annuities	26,270	31,005
Annuity payments	(251,684)	(288,434)
Proceeds from notes payable	45,000	15,000
Principal payments on notes payable	(53,393)	(37,197)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	115,891	3,235,794
NET INCREASE (DECREASE) IN CASH	(1,596,397)	(1,265,579)
CASH, BEGINNING	2,247,107	3,512,686
CASH, ENDING	\$ 650,710	\$ 2,247,107

Supplemental Cash Flow Information:

Cash paid during 2012 and 2011 for interest expense was \$18,525 and \$15,863, respectively.

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2012
(with comparative totals for the year ended December 31, 2011)

	2012				Totals	2011 Totals
	Program Services	General and Administrative	Fundraising	Direct Benefits to Donors		
Personnel						
Compensation	\$ 71,840	\$ 132,159	\$ 67,096	\$ 0	\$ 271,095	\$ 262,788
Retirement expense	2,082	3,830	1,945	0	7,857	7,154
Employee benefits	6,739	12,396	6,293	0	25,428	23,260
Payroll taxes	5,602	10,307	5,233	0	21,142	19,825
Total personnel expenses	<u>86,263</u>	<u>158,692</u>	<u>80,567</u>	<u>0</u>	<u>325,522</u>	<u>313,027</u>
Marketing						
Advertising	716	1,317	668	0	2,701	3,633
Other	0	0	0	0	0	831
Total marketing expenses	<u>716</u>	<u>1,317</u>	<u>668</u>	<u>0</u>	<u>2,701</u>	<u>4,464</u>
Office						
Equipment and software support	7,479	13,759	6,985	0	28,223	45,585
Dues and subscriptions	2,744	5,048	2,563	0	10,355	10,216
Postage	948	1,744	885	0	3,577	3,317
Supplies	960	1,766	897	0	3,623	3,039
Printing	701	1,289	655	0	2,645	3,932
Telephone	5,654	10,401	5,280	0	21,335	19,067
Other	2,704	4,974	2,527	0	10,205	8,036
Total office expenses	<u>21,190</u>	<u>38,981</u>	<u>19,792</u>	<u>0</u>	<u>79,963</u>	<u>93,192</u>
Occupancy						
Insurance	5,462	258	94	0	5,814	5,321
Interest	17,406	821	298	0	18,525	15,863
Depreciation	67,255	3,171	1,152	0	71,578	75,194
Repairs and maintenance	22,960	1,082	393	0	24,435	26,814
Utilities	21,330	1,006	366	0	22,702	24,962
Total occupancy expenses	<u>134,413</u>	<u>6,338</u>	<u>2,303</u>	<u>0</u>	<u>143,054</u>	<u>148,154</u>
Grants to others	3,500,207	0	0	0	3,500,207	2,403,689
Program expense	97,285	0	0	0	97,285	122,902
Special events	235,775	0	0	23,654	259,429	20,024
Board and committee expense	4,190	0	0	0	4,190	3,561
Professional fees	21,427	2,654	1,348	0	25,429	33,229
Travel and training expense	839	1,543	783	0	3,165	3,377
Investment commissions	10,235	0	0	0	10,235	11,674
Other	1,931	3,552	1,803	0	7,286	6,199
Total expenses	<u>\$ 4,114,471</u>	<u>\$ 213,077</u>	<u>\$ 107,264</u>	<u>\$ 23,654</u>	<u>\$ 4,458,466</u>	<u>\$ 3,163,492</u>

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2011

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Direct Benefits to Donors</u>	<u>Totals</u>
Personnel					
Compensation	\$ 78,442	\$ 118,071	\$ 66,275	\$ 0	\$ 262,788
Retirement expense	2,135	3,214	1,805	0	7,154
Employee benefits	6,943	10,451	5,866	0	23,260
Payroll taxes	5,918	8,907	5,000	0	19,825
Total personnel expenses	<u>93,438</u>	<u>140,643</u>	<u>78,946</u>	<u>0</u>	<u>313,027</u>
Marketing					
Advertising	1,085	1,632	916	0	3,633
Other	248	373	210	0	831
Total marketing expenses	<u>1,333</u>	<u>2,005</u>	<u>1,126</u>	<u>0</u>	<u>4,464</u>
Office					
Equipment and software support	13,607	20,481	11,497	0	45,585
Dues and subscriptions	3,050	4,590	2,576	0	10,216
Postage	990	1,490	837	0	3,317
Supplies	907	1,366	766	0	3,039
Printing	1,174	1,766	992	0	3,932
Telephone	5,691	8,567	4,809	0	19,067
Other	2,399	3,610	2,027	0	8,036
Total office expenses	<u>27,818</u>	<u>41,870</u>	<u>23,504</u>	<u>0</u>	<u>93,192</u>
Occupancy					
Insurance	5,026	206	89	0	5,321
Interest	14,984	613	266	0	15,863
Depreciation	71,028	2,903	1,263	0	75,194
Repairs and maintenance	25,329	1,035	450	0	26,814
Utilities	23,579	964	419	0	24,962
Total occupancy expenses	<u>139,946</u>	<u>5,721</u>	<u>2,487</u>	<u>0</u>	<u>148,154</u>
Grants to others	2,403,689	0	0	0	2,403,689
Program expense	122,902	0	0	0	122,902
Special events	9,507	0	0	10,517	20,024
Board and committee expense	3,561	0	0	0	3,561
Professional fees	28,263	3,181	1,785	0	33,229
Travel and training expense	1,008	1,517	852	0	3,377
Investment commissions	11,674	0	0	0	11,674
Other	1,851	2,785	1,563	0	6,199
Total expenses	<u>\$ 2,844,990</u>	<u>\$ 197,722</u>	<u>\$ 110,263</u>	<u>\$ 10,517</u>	<u>\$ 3,163,492</u>

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

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The North Georgia Community Foundation, Inc. (the "Foundation") was incorporated in 1985 for the purpose of managing and disbursing funds to charitable organizations located in the Gainesville-Hall County area in accordance with the donors' and Directors' request. The Foundation's major revenue sources include contributions and investment income.

Basis of Accounting

The accompanying financial statements of North Georgia Community Foundation, Inc., have been prepared using the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board [FASB] ASC 958, *Financial Statements for Not-for-Profit Organizations*. FASB ASC 958 requires classification of net assets and revenue, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of these three classes of net assets: permanently restricted, temporarily restricted and unrestricted be displayed in the statement of activities and changes in net assets. The accounting standards provide that if a governing body of an organization has the ability to remove a donor restriction, the contributions should be classified as unrestricted net assets.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurement

The Foundation follows an accounting standard that defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair Value Measurement, continued

Level 2 - Financial assets and liabilities are valued using inputs that are quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

Level 3 - Financial assets and liabilities are valued using pricing inputs which are unobservable for the assets, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds, and real estate.

Fair Value of Financial Instruments

At December 31, 2012 and 2011, the fair value of all financial instruments approximates carrying value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments - Investments, other than cash and cash equivalents are carried at fair value. Publicly traded investments are valued at fair value based on quoted market prices. A substantial portion of the fair value measurements included within investments are provided to the Foundation by third parties and are not calculated by the Foundation. These valuations are based on the fair value based on quoted market prices, financial models of hypothetical transactions, or net asset value as determined by the fund manager. Some valuations may also be determined and approved by the managers or valuation committees of the funds in which the Foundation invests. The fair value assigned to a particular security by the fund does not necessarily reflect the amount that would be realized. In addition, in light of the judgment involved in fair value decisions, there can be no assurance that a fair value assigned to a particular security by the fund is accurate.

Obligations for Agency Funds and Endowments - Carrying value, which approximates fair value, of obligations for agency funds and beneficiary endowments is based on the related fair values of investments discussed above and the beneficiaries' shares of the related investment assets.

Obligations for Charitable Gift Annuities and Remainder Trusts - Carrying value, which approximates fair value, of obligations of charitable gift annuities and charitable remainder trusts is based on the life expectancies of the beneficiaries, mortality tables, and interest rates imputed at the inception date of the obligations (see Note 8)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments such as checking, savings and money market accounts to be cash equivalents.

Investments

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 statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. The fair values are determined from current market values. Investments in non-marketable securities are carried at cost. Investments are held in trust if designated as such by the donor.

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and Equipment

Property and equipment are carried at cost or, if donated, at their approximate fair value at the date of donation. Interest expense incurred in direct relation to construction projects is capitalized and recorded in the cost of the constructed asset. Depreciation is computed using the straight-line method over the following years:

	<u>Years</u>
Furniture and equipment	5-15
Land Improvements	15
Building	10-40

Restricted and Unrestricted Contributions

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

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Assets and Property and Equipment

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

Donated Services

Donated services are recognized as contributions in accordance with Financial Accounting Standards Board [FASB] ASC 958, *Financial Statements for Not-for-Profit Organizations*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes

The Internal Revenue Service has ruled that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an other than private foundation. The Foundation is also exempt from state income tax.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function have been allocated among the programs and supporting services. General and administrative expenses include those expenses that provide for the overall support and direction of the Foundation.

For the years ended December 31, 2012 and 2011, indirect expenses have been allocated on the basis of personnel costs or space usage.

Subsequent Events

Management has evaluated subsequent events through March 25, 2013, the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the accompanying financial statements.

NOTE 2 - INVESTMENTS

Investments presented in the financial statements at December 31, 2012 consist of the following:

	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Money Market Funds	\$ 2,117,085	\$ 2,117,085	\$ 0	\$ 0
Domestic Stocks	12,533,064	12,533,064	0	0
Foreign Stocks	4,121,398	4,121,398	0	0
Bonds	8,965,952	8,965,952	0	0
Convertibles and Preferred Stocks	829,989	829,989	0	0
Certificates of Deposit	11,680	11,680	0	0
	<u>\$ 28,579,168</u>	<u>\$ 28,579,168</u>	<u>\$ 0</u>	<u>\$ 0</u>
Investments Held in Trust				
Money Market Funds	905,364	905,364	0	0
Domestic Stocks	3,402,510	3,402,510	0	0
Foreign Stocks	1,127,259	1,127,259	0	0
Bonds	2,399,648	2,399,648	0	0
Convertibles and Preferred Stocks	218,848	218,848	0	0
	<u>\$ 8,053,629</u>	<u>\$ 8,053,629</u>	<u>\$ 0</u>	<u>\$ 0</u>

NORTH GEORGIA COMMUNITY FOUNDATION, INC.
Consolidated Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

NOTE 2 - INVESTMENTS, CONTINUED

Investments presented in the financial statements at December 31, 2011 consist of the following:

	<u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Mutual Fund Shares	\$ 25,749,696	\$ 25,749,696	\$ 0	\$ 0
Corporate Stock	196,202	46,202	0	150,000
Certificates of Deposit	26,308	26,308	0	0
Insurance Annuity	48,374	0	0	48,374
	<u>\$ 26,020,580</u>	<u>\$ 25,822,206</u>	<u>\$ 0</u>	<u>\$ 198,374</u>
Investments Held in Trust				
Mutual Fund Shares	<u>\$ 6,071,719</u>	<u>\$ 6,071,719</u>	<u>\$ 0</u>	<u>\$ 0</u>

The corporate stock listed above includes \$150,000 of non-marketable securities carried at cost.

The following schedule summarizes the investment return for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Investment revenue	\$ 410,284	\$ 442,947
Realized/unrealized gain (loss)	2,433,833	(310,256)
Total Investment Return	<u>\$ 2,844,117</u>	<u>\$ 132,691</u>

NOTE 3 - NOTES RECEIVABLE, NET

The Foundation has the following notes receivable as of December 31:

	<u>2012</u>	<u>2011</u>
The Foundation has five mortgage notes receivable from a charitable trust. The original amount of these notes was \$355,840. The Foundation received eighteen notes receivable, of which ten have been paid in full and three have been foreclosed. Monthly payments consist of interest and principal. Interest rates vary from 8.5% to 12%. The terms vary from three to thirty years. These notes are secured by real property. As of December 31, several of these notes were in arrears. An allowance for doubtful receivables has been established, due to the uncertainty of these receivables. This allowance is 10% of the balance of the receivables.	\$ 163,329	\$ 163,329
Less: Current Portion	(4,476)	(4,476)
Allowance for Doubtful Accounts	<u>(16,333)</u>	<u>(16,333)</u>
Notes Receivable - Long-Term	<u>\$ 142,520</u>	<u>\$ 142,520</u>

Interest revenue on notes receivable totaled \$0 and \$744 for 2012 and 2011, respectively.

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NOTE 4 - PREPAID EXPENSES

At December 31, 2012, the Foundation had prepaid expenses related to software maintenance contracts of \$13,110.

NOTE 5 - PROPERTY & EQUIPMENT, NET

Property and equipment consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Furniture and Equipment	\$ 324,003	\$ 317,503
Buildings	1,905,546	1,901,546
Land and Land Improvements	639,646	639,646
Construction in progress	<u>0</u>	<u>5,333</u>
	2,869,195	2,864,028
Less: Accumulated Depreciation	<u>(792,393)</u>	<u>(722,315)</u>
Total Property & Equipment, Net	<u>\$ 2,076,802</u>	<u>\$ 2,141,713</u>

Depreciation expense for 2012 and 2011 was \$71,578 and \$75,194, respectively.

NOTE 6 - NOTES PAYABLE

	<u>2012</u>	<u>2011</u>
Note payable to United Community Bank in the original amount of \$281,438, secured by land and building at 615 Oak Street with interest at prime and a minimum of 4.00%; monthly payments of \$2,950 beginning December 10, 2011, with payment of unpaid principal and interest due October 10, 2014.	\$ 254,859	\$ 281,438
Line of credit to United Community Bank in the original amount of \$175,000 with interest at prime and a minimum of 4.00%; monthly interest payments due with payment of unpaid principal and interest due November 8, 2012.	0	140,340
Line of credit to United Community Bank in the original amount of \$175,000 with interest at prime and a minimum of 4.00%; monthly interest payments due with payment of unpaid principal and interest due October 10, 2014.	<u>158,526</u>	<u>0</u>
Total Notes Payable	413,385	421,778
Less: Current Portion	<u>(25,585)</u>	<u>(167,016)</u>
Long-Term Portion of Notes Payable	<u>\$ 387,800</u>	<u>\$ 254,762</u>

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NOTE 6 - NOTES PAYABLE, CONTINUED

Maturity of notes payable
for the year ended December 31,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 25,585	\$ 16,174	\$ 41,759
2014	387,800	12,631	400,431
	<u>\$ 413,385</u>	<u>\$ 28,805</u>	<u>\$ 442,190</u>

Interest expense for 2012 and 2011 was \$18,525 and \$15,863, respectively.

NOTE 7 - FUNDS HELD AS AGENCY ENDOWMENTS

The Foundation has adopted Financial Accounting Standards Board [FASB] ASC 958, *Financial Statements for Not-for-Profit Organizations*. This statement establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. [FASB] ASC 958 specifically requires that if a Not-for-Profit Organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

The Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. However, in accordance with FASB ASC 958, a liability has been established for the fair value of the funds, which is generally equivalent to the value of future payments expected to be made to the NPOs.

At December 31, 2012, the Foundation was the owner of 38 agency endowment funds with a combined value of \$6,607,711. At December 31, 2011, the Foundation was the owner of 39 agency endowment funds with a combined value of \$6,555,494. The following table summarizes activity in such funds during the year:

	<u>2012</u>	<u>2011</u>
Agency Endowment Fund balances as of January 1	\$ 6,555,494	\$ 5,800,962
Amounts raised	190,171	1,262,192
Investment Income	111,952	113,381
Investment Fees	(73,202)	(66,371)
Unrealized and realized investment gains (losses)	723,208	(50,352)
Grants	(899,912)	(504,318)
Agency Endowment Fund Balances as of December 31	<u>\$ 6,607,711</u>	<u>\$ 6,555,494</u>

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NOTE 8 - FUNDS HELD AS OTHER BENEFICIARY TRUSTS

The Foundation has agreed to serve as trustee and custodian for assets held in various trusts. At December 31, 2012, the Foundation is trustee for three grantor trusts and one private foundation, which provide for the payment of distributions to designated beneficiaries. Assets held in the grantor trusts at December 31, 2012 totaled \$3,843,174. Assets held in the private foundation at December 31, 2012 totaled \$207,294. The assets are reported at fair value in the Foundation's Statement of Financial Position. A liability (\$4,050,468 at December 31, 2012) has been established for the fair value of the assets, which is generally equivalent to the value of future payments expected to be made to the beneficiaries. At December 31, 2011, the Foundation was trustee for one grantor trust and one private foundation, which provide for the payment of distributions to designated beneficiaries. Assets held in the grantor trust at December 31, 2011 totaled \$2,525,515. Assets held in the private foundation at December 31, 2011 totaled \$184,977. The assets were reported at fair value in the Foundation's Statement of Financial Position. A liability (\$2,710,492 at December 31, 2011) was established for the fair value of the assets, which is generally equivalent to the value of future payments expected to be made to the beneficiaries.

NOTE 9 - LIABILITIES UNDER SPLIT INTEREST AGREEMENTS

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiary over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trust is established. There were no such contributions in 2012 or 2011. Assets held in the charitable remainder trusts totaled \$2,984,807 and \$2,907,274 at December 31, 2012 and 2011, respectively, and are reported at fair value in the Foundation's Statement of Financial Position. At December 31, 2012, the Foundation is holding in trust ten Charitable Remainder Unitrusts and two Charitable Lead Annuity Trusts, which are payable as annuities over the life of the donor. The amount of \$1,497,545, shown as \$244,452 current and \$1,253,093 long-term is the present value of the remaining annuity calculated using a discount rate of 1.2% and applicable Internal Revenue Service life expectancy tables. At December 31, 2011, the Foundation was holding in trust ten Charitable Remainder Unitrusts and one Charitable Lead Annuity Trust, which are payable as annuities over the life of the donor. The amount of \$1,504,050, shown as \$238,942 current and \$1,265,108 long-term was the present value of the remaining annuity calculated using a discount rate of 1.6% and applicable Internal Revenue Service life expectancy tables. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions.

NOTE 10 - ANNUITY LIABILITIES

At December 31, 2012, the Foundation is holding one deferred gift annuity, which is an insurance annuity that begins payment 15 years after the date of gift. The amount of \$56,111 is the present value of the remaining annuity. At December 31, 2011, the Foundation was holding one life insurance annuity, which is payable as an annuity over the life of the donor, and one deferred gift annuity, which is an insurance annuity that begins payment 15 years after the date of gift. The amount of \$98,084, shown as \$11,204 current and \$86,880 long-term, is the present value of the remaining annuity.

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NOTE 11 - CHARITABLE LEAD TRUSTS

At various times, donors will establish trusts with the Foundation naming the Foundation as a lead beneficiary of charitable lead trusts. Under the terms of the split-interest agreements, the Foundation is to receive a percentage of the trust assets for a specified term. Assets held in the charitable lead trusts totaled \$1,020,241 and \$638,933 at December 31, 2012 and 2011, respectively, and are reported at fair value in the Foundation's Statement of Financial Position. The trust assets are valued at the beginning of the calendar year and the distributions are made as specified in the trusts. At the time of termination, the assets remaining in the trusts are to be distributed to others. Using a discount rate of 1.2% and 1.6% at December 31, 2012 and 2011, respectively, the present value of future benefits to be received by the Foundation was estimated to be \$913,065 and \$663,623 at December 31, 2012 and 2011, respectively. The Foundation received payments from the trusts totaling \$80,120 and \$79,873 during the years ended December 31, 2012 and 2011, respectively.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Charitable Remainder Trust Contributions (See Note 9)	\$ 1,495,525	\$ 1,400,571
Contributions for the Benevolent Fund	172	172
Total Temporarily Restricted Net Assets	<u>\$ 1,495,697</u>	<u>\$ 1,400,743</u>

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets in the following amounts were released from restriction by satisfying the restricted purpose during the year ended December 31:

	<u>2012</u>	<u>2011</u>
Changes in Charitable Remainder Unitrusts	<u>\$ 33,916</u>	<u>\$ 37,283</u>

NOTE 14 - RETIREMENT PLAN

The Foundation provides retirement benefits for its employees through a SIMPLE IRA retirement plan, which is administered by an independent third party. Any full-time employee may participate in the plan. After 6 months of service, the Foundation will match employee contributions up to 3% of the employee's annual salary. All employee contributions are optional.

Funds are vested 100% at the time of contribution. Amounts held in the plan are not available to the employees until termination, retirement, death, or unforeseeable emergency.

The employer's contributions into the retirement plan for the years ended December 31, 2012 and 2011 was \$7,857 and \$7,154, respectively.

The Organization has no fiduciary relationship with the plan, and plan assets are not available to the Organization or its general creditors. Plan assets are held in trust by the administrator for the exclusive benefit of the participants of the plan.

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NOTE 15 - RISK AND UNCERTAINTIES

Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Foundation maintains several interest and non-interest bearing deposit accounts in local banks. The total of these deposits is \$485,463, of which \$260,575 is insured by the Federal Deposit Insurance Corporation, leaving \$224,888 uninsured.

Concentration of Credit Risk Arising from Uncollateralized Investments

The Foundation maintains deposits and investments in various money market and mutual fund accounts. The total of these is \$36,849,895, which is at the risk of market change. This amount is secured from brokerage failure for up to \$2,084,386 by the Securities Investor Protection Corporation, leaving \$34,765,509 unsecured.

Testamentary Gifts

The Foundation has been named a beneficiary in various testamentary documents. These documents may be changed at any time and, therefore, are not considered completed gifts. The values of these contingent gifts are not determinable at this time and have not been recorded in the financial statements.

NOTE 16 - CONSOLIDATION

The financial statements of the Foundation are presented as consolidated to include the statements of the wholly-owned entity of Lake Rabun Pavilion, LLC. The Foundation is the only Member of the Lake Rabun Pavilion, LLC. The LLC was created to construct and own a pavilion on Lake Rabun, Georgia for the public benefit of the local community. The LLC also has a donor advised fund at the Foundation. All interrelated transactions have been eliminated in the consolidation. The following is a summary of the amounts that are included in the financial statements as of December 31:

	<u>2012</u>	<u>2011</u>
Property and equipment, net	\$ 925,710	\$ 943,234
Depreciation expense	17,524	17,524

NOTE 17 - UNCERTAIN TAX POSITIONS

Effective January 1, 2010, the Foundation implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board [FASB] ASC 740, Income Taxes. The guidance prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2012, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

With few exceptions, the Foundation is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before fiscal year 2008.

NOTE 18 - CHANGES IN BEGINNING NET ASSETS

A prior period adjustment has been made to remove the activity of a previously reported private foundation. North Georgia Community Foundation serves only as trustee of the private foundation and should not report the activity on the Statement of Activities. The adjustment decreased beginning net assets by \$184,977.