

Cooper Foundation

Accountants' Report and Financial Statements

December 31, 2008



Cooper Foundation

December 31, 2008

Contents

Independent Accountants' Report on Financial Statements..... 1

Financial Statements

Statement of Financial Position2
Statement of Activities.....3
Statement of Cash Flows4
Notes to Financial Statements.....5

Independent Accountants' Report on Financial Statements

Board of Trustees
Cooper Foundation
Lincoln, Nebraska

We have audited the accompanying statement of financial position of Cooper Foundation (the Foundation) as of December 31, 2008, and the related statements of activities and cash flows for the year 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 Cooper Foundation as of December 31, 2008, 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.

As discussed in Note 1, in 2008 the Foundation changed its method of recognition of classifications of net assets comprising donor-restricted endowment funds.

March 6, 2009

BKD, LLP

Cooper Foundation
Statement of Financial Position
December 31, 2008

Assets

Cash and cash equivalents	\$ 384,964
Prepaid expenses	7,408
Refundable excise taxes	13,394
Property and equipment, net	33,014
Investments	<u>14,396,484</u>
Total assets	<u>\$ 14,835,264</u>

Liabilities and Net Assets

Liabilities

Grants payable	\$ 127,968
Accounts payable and accrued expenses	28,306
Excise taxes payable	<u>-</u>
Total liabilities	<u>156,274</u>

Net Assets

Temporarily restricted	9,678,990
Permanently restricted	<u>5,000,000</u>
Total net assets	<u>14,678,990</u>
Total liabilities and net assets	<u>\$ 14,835,264</u>

Cooper Foundation
Statement of Activities
Year Ended December 31, 2008

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Investment loss	\$ -	\$ (9,326,917)	\$ -	\$ (9,326,917)
Other	-	25,000	-	25,000
Net assets released from restrictions	950,341	(950,341)	-	-
Total revenues, gains and other support (deficit)	950,341	(10,252,258)	-	(9,301,917)
Grants and Expenses				
Grants	586,557	-	-	586,557
Expenses				
Employees' compensation	174,191	-	-	174,191
Payroll taxes	12,104	-	-	12,104
Rent	45,485	-	-	45,485
Travel and entertainment	12,798	-	-	12,798
Telephone	3,362	-	-	3,362
Repairs and maintenance	4,661	-	-	4,661
Trustees' fees	13,850	-	-	13,850
Depreciation and amortization	7,813	-	-	7,813
Insurance	25,699	-	-	25,699
Property and other taxes	6,571	-	-	6,571
Professional services	24,305	-	-	24,305
Other general and administrative	23,239	-	-	23,239
Federal excise taxes	9,706	-	-	9,706
Total expenses	363,784	-	-	363,784
Total grants and expenses	950,341	-	-	950,341
Change in Net Assets	-	(10,252,258)	-	(10,252,258)
Net Assets, Beginning of Year, As Restated (Note 1)	-	19,931,248	5,000,000	24,931,248
Net Assets, End of Year	\$ -	\$ 9,678,990	\$ 5,000,000	\$ 14,678,990

Cooper Foundation
Statement of Cash Flows
Year Ended December 31, 2008

Operating Activities	
Payments to suppliers and employees	\$ (382,008)
Dividends and interest received	1,048,267
Other	25,000
Grants paid	<u>(734,577)</u>
Net cash used in operating activities	<u>(43,318)</u>
Investing Activities	
Purchase of property and equipment	(11,333)
Proceeds from sales of investments	6,598,209
Purchases of investments	(5,190,904)
Reinvested interest and dividends on investments	<u>(1,034,788)</u>
Net cash provided by investing activities	<u>361,184</u>
Increase in Cash and Cash Equivalents	317,866
Cash and Cash Equivalents, Beginning of Year	<u>67,098</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 384,964</u></u>
Reconciliation of Change in Net Assets to Net Cash	
Used in Operating Activities	
Change in net assets	\$ (10,252,258)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	7,813
Unrealized losses on investments	10,381,161
Changes in operating assets and liabilities	
Prepaid expenses	1,637
Grants payable	(148,020)
Accounts payable and accrued expenses	1,632
Excise taxes refundable/payable	<u>(35,283)</u>
Net Cash Used in Operating Activities	<u><u>\$ (43,318)</u></u>

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Cooper Foundation (the "Foundation") is a not-for-profit organization whose mission and principal activities are to provide grants for programs which further education, human services, the arts, humanities, community improvement, and the environment in Lincoln, Lancaster County, or Nebraska. The Foundation's revenues and other support are derived principally from investment income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2008, cash equivalents consisted of a money market fund recorded at fair value and a short term guaranteed trust account with a bank recorded at cost.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return consists of interest, dividends and realized and unrealized gains.

Investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors or by law to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation is classified as a private foundation as defined in Section 509(a) of the Internal Revenue Code. As a private foundation, the Foundation is also subject to excise tax on net investment income.

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. 48-3, the Foundation has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ending December 31, 2009. The Foundation has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

Change in Accounting Principle

In the year ended December 31, 2008, the Foundation adopted the recognition and disclosure provisions of Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). This new standard changes the method of classification of net assets comprising donor-restricted endowment funds when the Foundation is subject to an enacted and effective version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Initial application of FSP FAS 117-1 by reclassification of previously reported net assets at December 31, 2007 resulted in an increase in temporarily restricted and a corresponding decrease in unrestricted net assets of \$19,931,248 and had no impact on previously reported total net assets.

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 2: Investments and Investment Return

Composition of Investments

Investments at December 31, 2008 consisted of the following:

Mutual funds	
New Perspective Fund	\$ 1,674,133
Emerging Market Growth Fund	1,407,939
EuroPacific Growth Fund	1,855,290
Fundamental Investors	2,986,118
Growth Fund of America	2,512,320
Royce Opportunity Fund	613,030
Delaware REIT	757,303
Calamos Growth and Income Fund	2,011,167
Value Line Emerging Opportunities Fund	579,184
	<u>\$ 14,396,484</u>

Total 2008 investment return is comprised of the following:

Interest and dividend income	\$ 374,342
Capital gain distributions	679,901
Net realized and unrealized losses	<u>(10,381,160)</u>
	<u>\$ (9,326,917)</u>

Fair Value of Investments

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 2: Investments and Investment Return - Continued

Fair Value of Investments - Continued

- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities.

The fair value of the Foundation's investments and a money market mutual fund included in cash equivalents based on FAS 157 measurement criteria, is \$14,396,484 and \$341,271, respectively, and fall within Level 1 of the fair value hierarchy at December 31, 2008.

Note 3: Property and Equipment

Property and equipment at December 31, 2008 consists of:

Land	\$ 60
Furniture and fixtures	101,880
Leasehold improvements	8,186
	110,126
Less accumulated depreciation and amortization	77,112
	\$ 33,014

Note 4: Grants Payable

Grants payable 2008 activity consisted of the following:

Beginning of year	\$ 275,988
Grants paid	(734,577)
New grants promised, net of grants rescinded	581,010
Change in unamortized discount	5,547
	\$ 127,968

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 4: Grants Payable - Continued

Grants payable at December 31, 2008 are scheduled for payments as follows:

2009		\$	74,000
2010			45,000
2011			5,000
2012			5,000
			129,000
Unamortized discount			(1,032)
			\$ 127,968

Note 5: Endowment and Net Assets

The Foundation's endowment consists of an individual donor-restricted fund. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Nebraska Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 5: Endowment - Continued

At December 31, 2008, the endowment fund consisted of a donor-restricted endowment fund, comprised of \$5,000,000 of permanently restricted and \$9,678,990 of temporarily restricted funds.

Changes in endowment net assets for the year ended December 31, 2008, was:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year – as restated (Note 1)	\$ <u>19,931,248</u>	\$ <u>5,000,000</u>	\$ <u>24,931,248</u>
Investment return:			
Interest and dividend income	374,342	-	374,342
Capital gain distributions	679,901	-	679,901
Net realized and unrealized losses	<u>(10,381,160)</u>	<u>-</u>	<u>(10,381,160)</u>
Total investment return	<u>(9,326,917)</u>	<u>-</u>	<u>(9,326,917)</u>
Other	25,000	-	25,000
Appropriation of endowment assets for expenditure	<u>(950,341)</u>	<u>-</u>	<u>(950,341)</u>
Endowment net assets, end of year	\$ <u>9,678,990</u>	\$ <u>5,000,000</u>	\$ <u>14,678,990</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31, 2008, consisted of:

Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	\$ <u>5,000,000</u>
Temporarily restricted net assets	
Portion of perpetual endowment funds subject to a time restriction under SPMIFA	
With Board restrictions – Thompson Family Fund	\$ 307,691
Without purpose restrictions	<u>9,371,299</u>
	<u>\$ 9,678,990</u>

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 5: Endowment - Continued

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to grants and other expenses supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity as specified by the donor. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed the performance of the capital markets in which the funds are invested. The Foundation expects its endowment funds to provide an average rate of return of approximately 10% annually over time. 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. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund's five-year running average. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through investment return.

Note 6: Federal Excise Taxes

The Foundation is subject to either a 1% or 2% excise tax on net investment income, including realized gains, depending on the amount of qualifying distributions made during the year. During the year ended December 31, 2008, the Foundation qualified for the 1% tax rate on net investment income. Federal excise tax expense was \$9,706 for 2008.

Note 7: Operating Leases

The Foundation leases its office space under a noncancelable ten year operating lease which began March 2007. The Foundation is responsible for a prorata share of increases in direct building operating expenses over the lease term. Rental expense totaled \$45,485 for 2008.

Cooper Foundation
Notes to Financial Statements
December 31, 2008

Note 7: Operating Leases - Continued

Future minimum lease payments at December 31, 2008 were:

2009	\$	41,463
2010		41,667
2011		42,198
2012		42,304
2013		42,815
Thereafter		<u>139,826</u>
	<u>\$</u>	<u>350,273</u>

Note 8: Pension and Other Postretirement Benefit Plans

The Foundation has a 403(b) retirement plan covering substantially all employees. The Board of Trustees annually determines the amount, if any, of the Foundation's contributions to the plan through approved additions to employee's compensation. Foundation contributions through increased compensation were \$28,300 for 2008.

Note 9: Significant Estimates and Concentrations

Current Economic Conditions

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Foundation.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Foundation's ability to maintain sufficient liquidity.