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December 31, 2009

Board of Directors
Dearborn Community Foundation, Inc.
322 Walnut St.
Lawrenceburg, IN 47025

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Dearborn Community Foundation, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The management letter contains two comments.

STATE BOARD OF ACCOUNTS

DEARBORN COMMUNITY FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

DEARBORN COMMUNITY FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Dearborn Community Foundation, Inc.
Lawrenceburg, Indiana

We have audited the accompanying statements of financial position of Dearborn Community Foundation, Inc. as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 audits 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 audits provide 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 Dearborn Community Foundation, Inc. as of December 31, 2007 and 2006, 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.

Blue & Co., LLC

April 24, 2007

DEARBORN COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2007 AND 2006

	ASSETS	
	<u>2007</u>	<u>2006</u>
Cash	\$ 998,735	\$ 919,425
Investments	4,748,372	4,471,061
Equipment, net	29,832	35,656
Other assets	-0-	5,700
Restricted cash	2,292,271	2,075,984
Restricted investments	<u>5,688,059</u>	<u>5,536,366</u>
	<u>\$ 13,757,269</u>	<u>\$ 13,044,192</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 7,275	\$ 10,255
Charitable gift annuities payable	12,144	11,896
Custodial funds	<u>7,980,330</u>	<u>7,612,350</u>
Total liabilities	7,999,749	7,634,501
Net assets		
Unrestricted net assets		
General operating	983,231	853,854
Unrestricted endowment	1,971,802	1,949,886
Board designated funds	62,259	31,847
Permanent funds held for the benefit of various purposes as advised by donors	243,149	231,745
Permanent funds held for the benefit of various agencies as designated by donors	276,235	255,787
Permanent funds held for the benefit of various purposes as designated by donors	1,489,416	1,324,238
Permanent funds held for the purpose of providing scholarships	<u>647,490</u>	<u>599,937</u>
Total unrestricted net assets	5,673,582	5,247,294
Temporarily restricted net assets	<u>83,938</u>	<u>162,397</u>
Total net assets	<u>5,757,520</u>	<u>5,409,691</u>
	<u>\$ 13,757,269</u>	<u>\$ 13,044,192</u>

See accompanying notes to financial statements.

DEARBORN COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES YEAR ENDED DECEMBER 31, 2007 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	
Support and revenues				
Contributions	\$ 191,995	\$ -0-	\$ 191,995	\$ 184,311
Investment return, net	473,660	-0-	473,660	617,345
Administrative fees	175,079	-0-	175,079	155,535
Other revenue	4,421	-0-	4,421	3,810
Net assets released from restrictions	78,459	(78,459)	-0-	-0-
Total support and revenues	<u>923,614</u>	<u>(78,459)</u>	<u>845,155</u>	<u>961,001</u>
Expenses				
Grants	128,489	-0-	128,489	73,087
Salaries and wages	158,049	-0-	158,049	161,447
Payroll taxes and employee benefits	22,834	-0-	22,834	19,464
Administrative fees	40,438	-0-	40,438	39,082
Advertising	18,886	-0-	18,886	17,299
Education	6,537	-0-	6,537	3,853
Supplies	5,223	-0-	5,223	4,699
Postage and printing	11,408	-0-	11,408	13,961
Telephone	3,961	-0-	3,961	4,320
Utilities	5,118	-0-	5,118	5,988
Rent	12,000	-0-	12,000	12,000
Contracted services	12,063	-0-	12,063	-0-
Depreciation	16,514	-0-	16,514	13,756
Professional fees	25,712	-0-	25,712	20,371
Dues and subscriptions	2,805	-0-	2,805	1,995
Donor development marketing	13,058	-0-	13,058	10,321
Lilly scholarship promotion	2,109	-0-	2,109	2,814
Insurance	325	-0-	325	325
Loss on timeshare	4,200	-0-	4,200	-0-
Miscellaneous	7,597	-0-	7,597	4,323
Total expenses	<u>497,326</u>	<u>-0-</u>	<u>497,326</u>	<u>409,105</u>
Change in net assets	426,288	(78,459)	347,829	551,896
Net assets, beginning of year	<u>5,247,294</u>	<u>162,397</u>	<u>5,409,691</u>	<u>4,857,795</u>
Net assets, end of year	<u>\$ 5,673,582</u>	<u>\$ 83,938</u>	<u>\$ 5,757,520</u>	<u>\$ 5,409,691</u>

See accompanying notes to financial statements.

DEARBORN COMMUNITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2006

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions	\$ 184,311	\$ -0-	\$ 184,311
Investment return, net	617,345	-0-	617,345
Administrative fees	155,535	-0-	155,535
Other revenue	3,810	-0-	3,810
Net assets released from restrictions	<u>87,546</u>	<u>(87,546)</u>	<u>-0-</u>
Total support and revenues	1,048,547	(87,546)	961,001
Expenses			
Grants	73,087	-0-	73,087
Salaries and wages	161,447	-0-	161,447
Payroll taxes and employee benefits	19,464	-0-	19,464
Administrative fees	39,082	-0-	39,082
Advertising	17,299	-0-	17,299
Education	3,853	-0-	3,853
Supplies	4,699	-0-	4,699
Postage and printing	13,961	-0-	13,961
Telephone	4,320	-0-	4,320
Utilities	5,988	-0-	5,988
Rent	12,000	-0-	12,000
Depreciation	13,756	-0-	13,756
Professional fees	20,371	-0-	20,371
Dues and subscriptions	1,995	-0-	1,995
Donor development marketing	10,321	-0-	10,321
Lilly scholarship promotion	2,814	-0-	2,814
Insurance	325	-0-	325
Miscellaneous	<u>4,323</u>	<u>-0-</u>	<u>4,323</u>
Total expenses	<u>409,105</u>	<u>-0-</u>	<u>409,105</u>
Change in net assets	639,442	(87,546)	551,896
Net assets, beginning of year	<u>4,607,852</u>	<u>249,943</u>	<u>4,857,795</u>
Net assets, end of year	<u>\$ 5,247,294</u>	<u>\$ 162,397</u>	<u>\$ 5,409,691</u>

See accompanying notes to financial statements.

DEARBORN COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating activities		
Change in net assets	\$ 347,829	\$ 551,896
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	16,514	13,756
Realized and unrealized gains on investments	(213,790)	(418,760)
Changes in assets and liabilities:		
Accounts receivable	-0-	-0-
Other assets	5,700	-0-
Net change in restricted cash and investments	(367,980)	(1,154,401)
Accounts payable and accrued expenses	(2,980)	306
Grants payable	-0-	(16,000)
Charitable gift annuities payable	248	(1,114)
Custodial funds	367,980	1,154,401
Net cash flows from operating activities	<u>153,521</u>	<u>130,084</u>
Investing activities		
Purchases of property and equipment	(10,690)	(40,812)
Net change in investments	<u>(63,521)</u>	<u>1,166</u>
Net cash flows from investing activities	<u>(74,211)</u>	<u>(39,646)</u>
Net change in cash	79,310	90,438
Cash, beginning of year	<u>919,425</u>	<u>828,987</u>
Cash, end of year	<u>\$ 998,735</u>	<u>\$ 919,425</u>

See accompanying notes to financial statements.

DEARBORN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Dearborn Community Foundation, Inc. (the "Organization") is a not-for-profit entity. The Organization is located in Lawrenceburg, Indiana, and was organized to be a dynamic, creative force, advancing social, educational and cultural opportunities, while preserving the community's heritage, by helping donors to create a permanent legacy in Dearborn County.

Management's Estimates

Management uses estimates and assumptions in preparing 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.

Basis of Presentation

Net assets, support, investment return, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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. Also included in unrestricted net assets are amounts designated by the Organization's board of directors for operating purposes and the donor-designated funds due to the variance power granted to the Organization's board of directors. The Organization maintains unrestricted funds as follows:

General Operating – net assets that are not subject to donor-imposed restrictions.

Unrestricted Endowment – includes all administrative and programming functions of the Organization, as well as gifts that are not subject to donor-imposed restrictions.

Board Designated Funds – designated to fund future operations, granting projects, or capital needs of the Organization.

Donor Advised Permanent Funds – designated to support those qualified agencies or organizations recommended by the donor.

Donor Designated Permanent Funds – these contributions are designated to support specific charitable organizations or areas of need as recommended by the donor through his or her ongoing involvement in the distribution process.

DEARBORN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Scholarship Permanent Funds – these contributions are designated to support the payment of scholarships as identified by the donor.

Temporarily restricted net assets – Net assets subject to 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Investments and Investment Return

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

Equipment

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

Equipment is being depreciated over its estimated useful life ranging from three to five years using the straight-line method.

Restricted Cash and Investments

Restricted cash and investments include monies received from various donors and organizations which are held in custodial funds at December 31, 2007 and 2006.

Support and Revenue Recognition

Contributions are recognized as revenues in the period the promise is made.

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decrease in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

All other support and revenue is recorded when earned.

DEARBORN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services.

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Organization.

Reclassifications

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

2. INVESTMENTS

Investments, including restricted investments, consist of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash and money market funds	\$ 1,621,861	\$ 419,180
Domestic equities	5,039,976	4,558,902
Foreign equities	1,124,210	1,382,220
Domestic equity mutual funds	404,157	696,631
Foreign equity mutual funds	523,952	298,036
U.S. government securities	691,493	1,405,246
Domestic corporate bonds	877,797	1,219,860
Foreign corporate bonds	27,432	27,352
Real estate investment funds	<u>125,553</u>	<u>-0-</u>
	<u>\$ 10,436,431</u>	<u>\$ 10,007,427</u>

DEARBORN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The following schedule summarizes the investment return, excluding the investment return related to the restricted investments which is a part of the change in custodial funds, and its classification in the Statements of Activities for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 313,073	\$ 242,652
Realized gains on investments	62,124	177,248
Unrealized gains on investments	151,666	241,512
Investment fees	<u>(53,203)</u>	<u>(44,067)</u>
	<u>\$ 473,660</u>	<u>\$ 617,345</u>

3. EQUIPMENT

A summary of equipment at December 31, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Furniture and fixtures	\$ 25,177	\$ 14,487
Equipment	<u>84,130</u>	<u>84,130</u>
	109,307	98,617
Less accumulated depreciation	<u>(79,475)</u>	<u>(62,961)</u>
	<u>\$ 29,832</u>	<u>\$ 35,656</u>

4. CHARITABLE GIFT ANNUITIES

The Organization has two charitable gift annuities, from which the Organization received \$10,000 from each charitable gift. The Organization is required to make annual payments to the donors: one in the amount of \$1,080 for the remainder of the donor's lifetime and the other in the amount of \$620 for the remainder of the donor's lifetime and one designated survivor's lifetime. Upon the death of the specified persons, the remaining amount of the gift is to be used by the Organization for unrestricted purposes. The Organization has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiaries at December 31, 2007 and 2006, under these agreements. The liability was calculated based on the life expectancy of the beneficiary, derived from the applicable one life annuity expected return multiples for the first annuity, and based on the life expectancy of both stated beneficiaries, derived from the applicable joint annuity expected return multiples for the second annuity. The present value was calculated

DEARBORN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

using an IRS discount rate of 5.6% on the single-life annuity and 4% on the two-lives annuity. The present value of amounts expected to be paid to the third party beneficiaries was \$12,144 and \$11,896 at December 31, 2007 and 2006, respectively.

5. CUSTODIAL FUNDS

Custodial funds represent funds placed on deposit with the Organization by other 501(c)(3) organizations based on their individual board resolutions. The Organization accounts for these transfers as a liability in accordance with Statement of Financial Accounting Standards No. 136. Income is added to these funds periodically in accordance with the Organization'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 Statements of Activities. Following is a progression of custodial funds during 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 7,612,350	\$ 6,457,949
Contributions	2,883,112	2,775,436
Investment return, net	357,789	545,637
Administrative fees	(60,232)	(50,897)
Grant payments	(2,566,823)	(2,030,519)
Other expenses	<u>(245,866)</u>	<u>(85,256)</u>
Ending balance	<u>\$ 7,980,330</u>	<u>\$ 7,612,350</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted relating to the Sustaining Resource Development grant from Lilly Endowment in the amount of \$83,938 and \$162,397 at December 31, 2007 and 2006, respectively.

Net assets were released from donor restrictions in 2007 and 2006 by the expiration of purpose restrictions met related to the Sustaining Resource Development grant from Lilly Endowment in the amount of \$78,459 and \$87,546, respectively.

DEARBORN COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

7. FUNCTIONAL EXPENSES

The Organization serves as a vehicle for residents of Dearborn County to donate to various organizations and projects in the county. Expenses related to providing this service for the years ended December 31, 2007 and 2006, are classified as follows:

	<u>2007</u>	<u>2006</u>
Development of Dearborn County	\$ 269,012	\$ 203,893
Fundraising	147,630	134,157
General and administrative expenses	<u>80,684</u>	<u>71,055</u>
	<u>\$ 497,326</u>	<u>\$ 409,105</u>

8. RENT

The Organization leases office space under a month-to-month lease agreement. Rent expense was \$12,000 for the years ended December 31, 2007 and 2006.

9. RELATED PARTY TRANSACTIONS

The Organization received \$23,775 and \$16,920 in contributions from members of the Organization's board of directors and staff during 2007 and 2006, respectively.

10. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. 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 with several investment firms. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.



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April 24, 2008

Board of Directors
Dearborn Community Foundation, Inc.
Lawrenceburg, Indiana

Dear Members of the Board:

We have audited the financial statements of Dearborn Community Foundation, Inc. (the "Organization") for the year ended December 31, 2007, and have issued our report thereon dated as of the date of this letter.

Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Organization. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were: the depreciation of property and equipment and the functional allocation of expenses. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

The following material misstatements detected as a result of audit procedures were corrected by management:

- Adjustments related to SFAS 136 for the current year to properly present custodial funds. These adjustments decreased the change in net assets by \$368,180. These adjustments are normally only posted through the audit process.

In addition, there were other misstatements detected as a result of audit procedures and corrected by management which were immaterial, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated as of the date of this letter.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of the Organization as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Identification of material misstatements from US GAAP during the audit

During the audit, we noted certain adjustments which we proposed to the Organization for posting which the Organization reviewed and agreed were necessary to post in order for the financial statements to be in accordance with US GAAP. The need to post certain adjustments as a result of the audit process is a reflection of the nature of the Organization. The Organization basically operates on a cash basis during the year with

accrual-basis adjustments only being determined and posted through the audit process. In addition, certain specific adjustments related to the community foundation arena are also only posted through the audit process including custodial fund changes, charitable trust changes, net asset designations and certain other changes as applicable. While the need to make these adjustments is technically a significant deficiency in internal controls related to financial reporting, the Organization has chosen this approach as it has judged the cost to exceed the benefit of maintaining its records on the accrual basis and including these specific adjustments on a monthly basis. The use of the cash method on a monthly basis throughout the year gives the Board information to manage the operations of the Organization in a sufficient manner in its estimation. This matter will be noted annually in accordance with professional standards.

OUR RECOMMENDATIONS FOR YOUR ORGANIZATION

During the course of an audit, we frequently become aware of matters which are opportunities to strengthen internal controls or improve operating efficiency or effectiveness.

CURRENT YEAR RECOMMENDATIONS

During the course of our 2007 audit, we have developed the following recommendations for your consideration.

Reconciliation of Cash

During the audit, we noted there are no procedures in place for further review after preparation of the bank account reconciliation. We recommend that the Organization consider having bank reconciliations periodically reviewed by someone outside of the process of preparing the reconciliation, such as the Executive Director or Board Treasurer. Given the limited number of personnel the Organization has, this additional control procedure would strengthen oversight of the cash cycle.

CURRENT ISSUES AFFECTING NOT-FOR-PROFIT ORGANIZATIONS

This section of the letter is not required by professional standards. However, we want to inform you about issues of importance to the not-for-profit community in order to assist you in continuing to plan proactively for the future of the Organization. The purpose of this section of this letter is to inform you as to the status of certain emerging developments which will affect not-for-profit organizations.

IRS Releases Good Governance Practices Guidelines for Not-For-Profits

In early 2007, the Internal Revenue Service ("IRS") issued a set of guidelines designed to help ensure that members of a 501(c)(3) organization's governing board are familiar with and understand their roles and responsibilities and actively promote good governance practices within the organization. While compliance with these guidelines is

not required for tax exempt status, the IRS indicates that adoption of some of the guidelines as best practices will aid an organization's success in pursuing exempt status and earning public support.

The guidelines address nine specific issues. The following is a brief summary of each recommendation:

Mission Statements: Adopt a clearly articulated statement that shows why the organization exists, what it hopes to accomplish, and what activities it will undertake, where, and for whom.

Codes of Ethics: Adopt and regularly evaluate a code of ethics and whistleblower policies that communicate a strong culture of legal compliance and ethical integrity.

Due Diligence: Ensure that policies are in place to help directors meet their duty of care, and ensure that directors are fully informed about the organization's activities, goals, and financial status.

Duty of Loyalty: Adopt and regularly evaluate a conflict of interest policy, which requires directors and staff to act solely in the interests of the organization. Directors and staff should be required to disclose annually in writing any known financial interest that the individual, or a member of the individual's family, has in any business entity that transacts business with the organization.

Transparency: Maintain full and accurate disclosure of the organization's mission, activities, and financial performance, and make this information available to the public on the organization's website and/or by request.

Fundraising Policies: Adopt and monitor policies to ensure that solicitation complies with the law and that materials are accurate, truthful, and candid.

Financial Audits: The governing board should approve annual budgets and regularly review current financial statements, as well as having an annual audit conducted by an independent auditor.

Compensation Practices: Compensation for services performed should be reasonable. Charities may pay reasonable compensation for services provided by officers and staff. In determining reasonable compensation, a charity may wish to rely on the rebuttable presumption test of IRC Section 4958 and Treasury Regulation Section 53.4958-6.

Document Retention Practices: Adopt a written policy establishing standards for the integrity, retention, and destruction of paper and electronic files. The policy should cover backup procedures, archiving of documents, and regular check-ups of the reliability of the system.

Principles for Effective Practice – Draft Recommendations from the Panel on the Nonprofit Sector

The Panel on the Nonprofit Sector is an independent effort by charities and foundations to ensure that the nonprofit community remains a vibrant and healthy part of American society. Formed by the Independent Sector in October 2004 at the encouragement of the U.S. Senate Finance Committee, the Panel in 2005 and 2006 provided recommendations for Congress and the not-for-profit sector to improve the oversight and governance of charitable organizations.

In early 2007, the Panel's Advisory Committee on Self-Regulation developed initial draft principles for effective practice after examining over 50 systems of self-regulation and accreditation that monitor charitable organizations. After receiving public comments on that initial draft, it produced a second set of draft principles. The Advisory Committee now invites public comment on its second draft of 29 principles and the staff drafts of two additional principles, which are arranged in the following five categories:

- Facilitating Legal Compliance and Public Disclosure - responsibilities and practices, such as implementing conflict of interest and whistleblower policies, that will assist charitable organizations in complying with their legal obligations.
- Effective Governance - policies and procedures a board of directors should implement to fulfill its oversight and governance responsibilities effectively.
- Strong Financial Oversight - policies and procedures an organization should follow to ensure wise stewardship of charitable resources.
- Responsible Fundraising - policies and procedures organizations that solicit funds from the public should follow to build donor support and confidence.
- Staff Drafts of Additional Principles – principles regarding risk management practices and adoption of a code of ethics.

We are sharing this information with you to illustrate the consistency of focus between the IRS guidelines and those of the Panel on the Nonprofit Sector. Effective not-for-profit governance, accountability and compliance are receiving unprecedented focus at the present time.

IRS Releases the Redesigned Form 990

On December 20, 2007, the IRS released the 2008 Form 990, *Return of Organization Exempt from Income Tax*, the informational form filed by public charities and other tax-exempt organizations. Organizations will begin using the new Form 990 for tax years beginning in 2008 (returns filed in 2009).

The 2008 Form 990 is based on the Form 990 Discussion Draft that was released to the public for comment on June 14, 2007. The IRS received approximately 700 emails and letters totaling approximately 3,000 pages of written comments during the draft's

90-day comment period. The new form incorporates many recommendations made in the public comments.

The current Form 990 consists of a nine-page core accompanied by Schedules A and B, in addition to thirty-six possible attachments. The 2008 Form 990 consists of an eleven-page core form that must be completed by each Form 990 filer. In addition, the form's sixteen schedules are designed to require reporting of information only from those organizations that conduct particular activities.

The form moves key information to the front page, creating a revealing snapshot of the Organization and its finances. Page one disclosures include a description of the organization's mission or most significant activities, and a two-year summary of revenues and expenses.

Areas of added emphasis include questions related to governance, management, and financial reporting. Examples of some new questions that will have to be answered on the 2008 Form 990 include:

- Does the Organization have a written conflict of interest policy? If so, are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? Does the organization regularly and consistently monitor and enforce compliance with the policy? If yes, describe how this is done.
- For the CEO, Executive Director, other officers or key employees, did the process for determining compensation include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?
- Does the Organization have a written whistleblower policy?
- Does the Organization have a written document retention and destruction policy?
- Was a copy of the Form 990 provided to the Organization's governing body before it was filed?
- Were the Organization's financial statements compiled, reviewed, or audited by an independent accountant? If so, does the Organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?
- The Organization must identify how it makes its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection.
- The Organization must describe whether (and if so, how) it makes its governing documents, conflict of interest policy, and financial statements available to the public.

The IRS expects to release draft instructions for the new form early in 2008.

The IRS also announced a graduated transition period for smaller organizations. These organizations will be allowed to file the Form 990-EZ instead of the Form 990. For the 2008 tax year (returns filed in 2009), organizations with gross receipts over \$1.0 million or total assets over \$2.5 million will be required to file the Form 990. For the 2009 tax year (returns filed in 2010), organizations with gross receipts over \$500,000 or total assets over \$1.25 million will be required to file the Form 990. The filing thresholds will be set permanently at \$200,000 gross receipts and \$500,000 total assets beginning with the 2010 tax year. Also, starting with the 2010 tax year, the IRS will increase the filing threshold for organizations required to file Form 990-N (the e-postcard) from \$25,000 to \$50,000.

The IRS also announced a phase-in of the form's new hospital and tax exempt bond schedules. Certain identifying information will be required for the 2008 tax year, with completion of the entire schedules required for the 2009 tax year. In response to the nonprofit sector's safety and security concerns regarding disclosure of certain foreign workers and volunteers, the IRS revised the form to permit reporting of foreign activities by region, rather than by country, until other safeguards may be implemented to protect the privacy interests of such persons.

IRS Issues Regulations on New E-Postcard Filing Requirement for Small Exempt Organizations

The IRS issued temporary regulations November 14, 2007 for the implementation of a new "e-postcard" filing requirement for small tax-exempt organizations. The Pension Protection Act of 2006 ("PPA") included a provision requiring that small tax-exempt organizations (generally organizations with annual gross income that is not normally in excess of \$25,000) file an annual notice with the IRS. Prior to the enactment of the PPA, many such smaller exempt organizations were not required to file a Form 990 or any other document annually with the IRS. The new regulations, effective November 15, 2007 and applicable to tax years starting January 1, 2007 or later, describe the information that needs to be included in the new electronic postcard filing (called Form 990-N):

- The legal name of the organization;
- Any number under which the organization operates or does business;
- The organization's mailing address and Internet Web site address (if any);
- Taxpayer identification number;
- Name and address of a principal officer; and
- Evidence of the continuing basis for the organization being exempt from filing a Form 990 or Form 990-EZ.

Note that the PPA provides that the failure to file the Form 990-N (or the Form 990 or Form 990-EZ if one is required) for three straight years will result in automatic revocation of tax-exempt status.

To the Board of Directors
Dearborn Community Foundation, Inc.
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The new regulations also set forth limited exceptions to the e-postcard filing requirements, provide that the notice will be due on or before the 15th day of the fifth calendar month following the close of a tax year, and address other matters.

The IRS has developed an electronic filing system for the new Form 990-N on its website.

This communication is intended solely for the information and use of management, the Board of Directors and its relevant committees (including as applicable the Audit and Finance Committee), and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to be of service and extend our thanks to everyone at the Organization for their cooperation and assistance. We would be pleased to discuss any of the above matters with you at your convenience.

Very truly yours,

Blue & Co., LLC