

**KEWEENAW COMMUNITY FOUNDATION  
HANCOCK, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS  
FOR THE YEARS ENDED MARCH 31, 2020 AND 2019**

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# **RUKKILA | NEGRO AND ASSOCIATES**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Keweenaw Community Foundation  
Hancock, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Keweenaw Community Foundation, which comprise the statements of financial position as of March 31, 2020 and 2019, and the related statements of activities and changes in net assets, statements of functional expenses, and cash flows 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 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 from 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 the entity's 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Keweenaw Community Foundation as of March 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Rukkila, Negro and Associates,  
Certified Public Accountants, PC*

September 19, 2022

**KEWEENAW COMMUNITY FOUNDATION**  
**STATEMENTS OF NET POSITION**  
**March 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Assets		
Unrestricted:		
Cash and equivalents	\$ 255,628	\$ 256,720
Investments, at fair value	6,973,583	7,957,947
Property and equipment, net	<u>6,299</u>	<u>9,955</u>
Total Unrestricted	7,235,510	8,224,622
Restricted:		
Investments held as trustee, at fair value	<u>654,362</u>	<u>819,553</u>
Total Assets	<u>\$ 7,889,872</u>	<u>\$ 9,044,175</u>
Liabilities		
Annuities payable	\$ 410,335	\$ 428,601
Funds held as agency endowments	224,745	259,578
Trust funds payable--charitable remainder unitrust	<u>534,725</u>	<u>672,764</u>
Total Liabilities	1,169,805	1,360,943
Net Assets		
Without donor restrictions	6,600,430	7,536,443
With donor restrictions	<u>119,637</u>	<u>146,789</u>
Total Net Assets	<u>6,720,067</u>	<u>7,683,232</u>
Total Liabilities and Net Assets	<u>\$ 7,889,872</u>	<u>\$ 9,044,175</u>

The accompanying notes to the financial statements are an integral part of this statement.

**KEWEENAW COMMUNITY FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended March 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions		
Revenues and other support:		
Contributions, net	\$ 206,165	\$ 633,591
Fundraising	55,362	58,374
Interest and dividends	190,343	178,193
Realized gain (loss) on investment securities	247,384	202,401
Unrealized gain (loss) on investment securities	(1,097,180)	(115,002)
Administration fees on agency and unitrust funds	3,893	-
Grants returned	1,600	-
Grant income	10,750	86,923
Change in value of split interest agreements	<u>(19,773)</u>	<u>11,334</u>
Total revenues and other support	<u>(401,456)</u>	<u>1,055,814</u>
Expenses		
Program expenses	300,970	682,481
Administrative expenses	190,119	200,662
Fundraising expenses	<u>43,468</u>	<u>41,789</u>
Total Expenses	<u>534,557</u>	<u>924,932</u>
Increase (decrease) in net assets without donor restrictions	<u>(936,013)</u>	<u>130,882</u>
Changes in net assets with donor restrictions		
Contributions, net	-	145,329
Change in value of split interest agreements	<u>(27,152)</u>	<u>1,460</u>
Increase (decrease) in net assets with donor restrictions	<u>(27,152)</u>	<u>146,789</u>
Increase (decrease) in net assets	<u>(963,165)</u>	<u>277,671</u>
Net assets, beginning of year	<u>7,683,232</u>	<u>7,405,561</u>
Net assets, end of year	<u>\$ 6,720,067</u>	<u>\$ 7,683,232</u>

The accompanying notes to the financial statements are an integral part of this statement.

**KEWEENAW COMMUNITY FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Years Ended March 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Program Expenses		
Designated grant/Endowment disbursements	\$ 178,028	\$ 599,388
Scholarships	10,544	14,290
Field-of-interest	71,367	45,379
Donor advised grants	<u>41,031</u>	<u>23,424</u>
Total program expenses	<u>300,970</u>	<u>682,481</u>
Administrative Expenses		
Salaries and benefits	85,132	89,101
Advertising	6,752	11,821
Audit and accounting services	7,725	5,526
Bank and credit card fees	553	12,690
Dues, conference fees, and registration	5,689	13,767
Investment management fees	22,069	17,290
Insurance	1,672	1,765
Small equipment and maintenance	-	3,527
Software	17,105	7,454
Telephone and internet	6,448	6,127
Office supplies	6,033	4,730
Occupancy	7,635	6,426
Postage and printing	776	941
Events, meetings, travel	11,722	12,080
Contracted services	7,152	3,760
Depreciation	<u>3,656</u>	<u>3,657</u>
Total administrative expenses	<u>190,119</u>	<u>200,662</u>
Fundraising Expenses		
Fundraising expenses	<u>43,468</u>	<u>41,789</u>
Total fundraising expenses	<u>43,468</u>	<u>41,789</u>
Total Expenses	<u>\$ 534,557</u>	<u>\$ 924,932</u>

The accompanying notes to the financial statements are an integral part of this statement.

**KEWEENAW COMMUNITY FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended March 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from Operating Activities		
Change in net assets	\$ (963,165)	\$ 277,671
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,656	3,657
Realized (gain) loss on investments	(247,384)	(202,401)
Unrealized (gain) loss on investments	1,097,180	115,002
Increase (decrease) annuities payable	<u>(18,266)</u>	<u>(6,108)</u>
Net Cash from Operating Activities	<u>(127,979)</u>	<u>187,821</u>
Cash flows from Investing Activities		
Purchases of investment securities	(919,430)	(921,703)
Proceeds from sales and maturities of investment securities	<u>1,046,317</u>	<u>699,471</u>
Net Cash from Investing Activities	<u>126,887</u>	<u>(222,232)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,092)	(34,411)
Cash and cash equivalents at beginning of year	<u>256,720</u>	<u>291,131</u>
Cash and cash equivalents at end of year	<u>\$ 255,628</u>	<u>\$ 256,720</u>

The accompanying notes to the financial statements are an integral part of this statement.

**KEWEENAW COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS - March 31, 2020**

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The Keweenaw Community Foundation (Foundation) is a non-profit organization committed to serving the residents of Houghton and Keweenaw counties, as well as any portions of adjacent counties not served by other affiliated Community Funds or Community Foundations. The Foundation's primary sources of revenue are public contributions and investment income. The Foundation's mission is:

- To develop permanent endowments to provide stable local funding sources for grants to especially vital local projects and programs.
- To increase charitable giving to a broad range of non-profit organizations serving the greater Keweenaw community.
- To provide a flexible philanthropic vehicle capable of adapting to changing community needs and conditions while fulfilling donors' wishes.
- To serve as a conveyor-catalyst, nurturing community leadership, devising creative and effective strategies for addressing community problems and enhancing the local quality of life.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the requirements of FASB ASC 958-605, Accounting for Contributions Received and Contributions Made; FASB ASC 958, Financial Statements of Not-for-Profit Organizations; FASB ASC 958-320, Accounting for Certain Investments Held by Not-for-Profit Organizations; and FASB ASC 9520, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others. For the year end March 31, 2019 and applied retrospectively to all periods presented, the presentation of the financial statements of Keweenaw Community Foundation follow the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 958 dated August 2016, and provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

In accordance with FASB ASC 958, Keweenaw Community Foundation net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions - Net assets that are not subject to use or time and may be expended for any purpose in performing the primary objectives of Keweenaw Community Foundation. The board may designate assets without restrictions for specific operational purposes from time to time. The various fund agreements of the Foundation include a variance provision and powers of modification, giving the Board the power to modify donor-imposed restrictions and conditions on the distribution of the funds, including the invasion of corpus, if, in its sole judgment and discretion, such restrictions or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. Based on that provision, the Foundation classifies contributions, except as noted below, as without donor restrictions for financial statement purposes.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors as to specific use or the occurrence of a certain future event. Those restrictions will be met by actions of Keweenaw Community Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. When a donor restriction expires (such as when a stipulated time restriction ends), restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.



**KEWEENAW COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS - March 31, 2020**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents – Cash and cash equivalents are comprised of demand deposits and time deposits with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair market value because of the short maturities of those financial investments.

Investment Securities – Investments are carried at fair value, determined by quoted market prices.

Pledges Receivable – Pledges receivable represent written or verbal promises to contribute cash or other assets. 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. The Foundation uses the allowance method to estimate uncollectible pledges receivable based on management's analysis of specific pledges made.

Property and Equipment – Property and equipment are recorded at cost, or if donated, at approximate fair value at the date of donation. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets. Capital items in excess of \$5,000 are capitalized.

Contributions – The Foundation reports gifts of cash and other assets as revenue as they occur and are measured at fair value and classified as not restricted or restricted based on .

The Foundation reports gifts of cash and other assets as temporarily restricted when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as restricted.

Grants – Grants are recorded as expenses when they are approved by the Board of Trustees for payment.

Donated Services and Facilities – Contributed professional services are recognized if the services received a) create or enhance non-financial assets or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH**

Cash includes cash on hand and checking accounts. One hundred percent (100%) of the Foundation's deposits are insured by the Federal Deposit Insurance Corp. (FDIC) at March 31, 2020, per FDIC regulation number 330.8.

**KEWEENAW COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS - March 31, 2020**

**NOTE C - INVESTMENTS**

The cost, market value, and unrealized appreciation (depreciation) of investment securities are as follows:

2020			
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 111,329	\$ 111,329	\$ -
Corporate bonds and notes	-	-	-
Mutual funds/Exchange traded funds	6,157,998	5,808,684	(349,314)
Common stocks	1,185,806	1,053,570	(132,236)
Total Investments	<u>\$ 7,455,133</u>	<u>\$ 6,973,583</u>	<u>\$ (481,550)</u>

  

2019			
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 115,165	\$ 115,165	\$ -
Corporate bonds and notes	39,695	39,695	-
Mutual funds/Exchange traded funds	5,657,976	6,304,527	646,551
Common stocks	1,337,724	1,498,560	160,836
Total Investments	<u>\$ 7,150,560</u>	<u>\$ 7,957,947</u>	<u>\$ 807,387</u>

The following table presents information about the Foundation's investments measured at fair value on a recurring basis and the valuation techniques used by the Foundation to determine those fair values. The FASB ASC 820 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority;
- Level 2 inputs consist of observable inputs other than quoted prices for identical assets;
- Level 3 inputs consist of unobservable inputs and have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

2020				
	Fair Value	Level 1	Level 2	Level 3
Short-term investments	\$ 111,329	\$ -	\$ 111,329	\$ -
Corporate bonds and notes	-	-	-	-
Mutual funds/Exchange traded funds	5,808,684	5,808,684	-	-
Common stocks	1,053,570	1,053,570	-	-
Total Investments	<u>\$ 6,973,583</u>	<u>\$ 6,862,254</u>	<u>\$ 111,329</u>	<u>\$ -</u>

  

2019				
	Fair Value	Level 1	Level 2	Level 3
Short-term investments	\$ 115,165	\$ 115,165	\$ -	\$ -
Corporate bonds and notes	39,695	-	39,695	-
Mutual funds/Exchange traded funds	6,304,527	6,304,527	-	-
Common stocks	1,498,560	1,498,560	-	-
Total Investments	<u>\$ 7,957,947</u>	<u>\$ 7,918,252</u>	<u>\$ 39,695</u>	<u>\$ -</u>

**KEWEENAW COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS - March 31, 2020**

**NOTE D - PROPERTY AND EQUIPMENT**

Capital Asset activity of Keweenaw Community Foundation was as follows:

	Balance 4/1/2019	Additions	Deletions	Balance 3/31/2020
Capital assets, being depreciated:				
Equipment and software	\$ 21,526	\$ -	\$ -	\$ 21,526
Furniture and fixtures	99	-	-	99
Subtotal	<u>21,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>21,625</u>
Accumulated depreciation:				
Equipment and software	11,571	3,656	-	15,227
Furniture and fixtures	99	-	-	99
Subtotal	<u>11,670</u>	<u>\$ 3,656</u>	<u>\$ -</u>	<u>15,326</u>
Net capital assets being depreciated	<u>\$ 9,955</u>			<u>\$ 6,299</u>

Depreciation expense for the years ending March 31, 2020 and 2019 were \$3,656 and \$3,657 respectively.

**NOTE E - 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE F - SPLIT INTEREST AGREEMENTS**

The Foundation administers various charitable gift annuities. A charitable gift annuity provides for the payment of distributions to the grantor or a designated beneficiary over the annuity term (usually the designated beneficiary's lifetime). At the end of the annuity's term, the remaining assets are available for the Foundation's or other designated beneficiary's use. Assets received are recorded at fair value at the date the agreement is recognized, and a liability equal to the present value of the future distributions is recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. The Foundation recognized contributions of \$0 for the years ended March 31, 2020 and 2019. As of March 31, 2020 and 2019, the fair market value of charitable gift annuity investments totaled \$513,173 and \$621,413 respectively, based on quoted market prices and is included with investments in the Foundation's statement of financial position. The Foundation will periodically re-value the liability based on applicable mortality tables and discount rates ranging between 3.2 percent and 8.0 percent.

**NOTE G - AGENCY ENDOWMENT FUNDS**

Agency endowment funds are unrestricted funds received from non-profit organizations that designate themselves as beneficiaries. Accordingly, agency endowment funds are reported as liabilities rather than net assets of the Foundation.

**KEWEENAW COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS - March 31, 2020**

**NOTE G - AGENCY ENDOWMENT FUNDS (Continued)**

The activities related to agency endowment funds are summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 259,578	\$ 265,587
Interest and dividend income	10,545	12,359
Realized gains	2,998	463
Unrealized gains	(32,620)	(3,308)
Grants	(11,443)	(11,259)
Agency activity transfer	-	-
Custodial and investment management fees	(421)	(385)
Administrative expense allocation	<u>(3,892)</u>	<u>(3,879)</u>
Balance at end of year	<u>\$ 224,745</u>	<u>\$ 259,578</u>

**NOTE H - CHARITABLE REMAINDER UNITRUST**

The Foundation is the trustee for two charitable remainder unitrusts. Under the terms of the unitrust agreement (Agreement) the trustee shall make quarterly payments to the designated Unitrust recipients based on the provisions set forth in the Agreement.

The Agreements currently name the Foundation as a partial remainder beneficiary of the trusts; however, one Agreement allows the grantors to revoke or terminate the interest of any of the remainder beneficiaries. Therefore, the Foundation has recorded a liability equal to the fair market value of that unitrust assets and, accordingly, no income or expense relating to the receipt of the unitrust assets and/or any other unitrust activity has been reflected in the Foundation's statement of activities. The other unitrust names the foundation as a partial (two-thirds) remainder beneficiary and contribution revenue of \$145,329 was recognized for the remainder interest of this unitrust for fiscal year 2019.

The Foundation has elected to invest the assets of the unitrust in various financial assets which are carried at fair value.

**NOTE I - NET ASSETS**

Net assets consist of the following at March 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Without donor restrictions:		
Operating	\$ 136,011	\$ 122,005
Scholarship funds	414,127	416,817
Donor designated funds	3,473,825	3,944,120
Donor advised funds	1,233,788	1,390,976
Field-of-interest funds	1,239,841	1,469,713
Annuity funds	<u>102,838</u>	<u>192,812</u>
	6,600,430	7,536,443
With donor restrictions:		
Time restricted:		
Charitable remainder unitrust	<u>119,637</u>	<u>146,789</u>
Total	<u>\$ 6,720,067</u>	<u>\$ 7,683,232</u>

**KEWEENAW COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS - March 31, 2020**

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**NOTE J - INCOME TAXES**

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization other than a private foundation under Section 509(a)(2).

The Foundation files Form 990 with the Internal Revenue Service. The Foundation believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Foundation's financial condition, results of operations, or cash flows. The Foundation's returns are generally no longer subject to examination by the Internal Revenue Service for years before 2017.

**NOTE K - LEASES**

The Foundation leases office space under an operating lease that expires each December. Total expense for the rental of office space was \$6,800 and \$5,650 for the years ended March 31, 2020 and 2019. Future minimum rental commitments under this operating lease approximate \$6,600.

**NOTE L - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Foundation has \$136,011 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditures exclusive of program grants. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. The Foundation's working capital and cash flows are consistent throughout the year. As part of their liquidity management, they have a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**NOTE M - SUBSEQUENT EVENTS**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

Non-Profit Status - The Foundation's Federal tax returns had been incomplete for fiscal years 2019 and 2020. Once completed its 501(c)3 non-profit status was successfully reinstated as of July 21, 2022 with an effective date of August 15, 2020. The Foundation's (state) License to Solicit has lapsed. Their current affiliation with Community Foundations of the Upper Peninsula (CFUP) allows them to continue with solicitation, under CFUP's state license.

Affiliation Agreement and Fund - The Foundation entered into an agreement with the Community Foundation of the Upper Peninsula (CFUP) as of September 1st, 2021 to establish The Keweenaw Community Foundation Fund which holds the Foundation component funds or sub-funds. CFUP will honor donor intent of the transferred funds, subject to CFUP's variance power and applicable law. The affiliate will operate under the auspices of CFUP and the affiliate fund will be held by CFUP in its corporate capacity.