

FY2019 Audit

KEWEENAW COMMUNITY FOUNDATION
HANCOCK, MICHIGAN

REPORT ON FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

RUKKILA | NEGRO
AND ASSOCIATES
Certified Public Accountants, PC

*Full Service Accounting Firm for
the Western Upper Peninsula*

KEWEENAW COMMUNITY FOUNDATION

STATEMENTS OF NET POSITION

March 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Assets | | |
| Unrestricted: | | |
| Cash and equivalents | \$ 256,720 | \$ 291,131 |
| Investments, at fair value | 7,957,947 | 7,801,114 |
| Property and equipment, net | <u>9,955</u> | <u>13,612</u> |
| Total Unrestricted | 8,224,622 | 8,105,857 |
| Restricted: | | |
| Investments held as trustee, at fair value | <u>819,553</u> | <u>291,877</u> |
| Total Assets | <u>\$ 9,044,175</u> | <u>\$ 8,397,734</u> |
| Liabilities | | |
| Annuities payable | \$ 428,601 | \$ 434,709 |
| Funds held as agency endowments | 259,578 | 265,587 |
| Trust funds payable--charitable remainder unitrust | <u>672,764</u> | <u>291,877</u> |
| Total Liabilities | 1,360,943 | 992,173 |
| Net Assets | | |
| Without donor restrictions | 7,536,443 | 7,405,561 |
| With donor restrictions | <u>146,789</u> | <u>-</u> |
| Total Net Assets | <u>7,683,232</u> | <u>7,405,561</u> |
| Total Liabilities and Net Assets | <u>\$ 9,044,175</u> | <u>\$ 8,397,734</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, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Changes in net assets without donor restrictions | | |
| Revenues and other support: | | |
| Contributions, net | \$ 633,591 | \$ 457,137 |
| Fundraising | 58,374 | 38,276 |
| Interest and dividends | 178,193 | 220,630 |
| Realized gain (loss) on investment securities | 202,401 | 62,476 |
| Unrealized gain (loss) on investment securities | (115,002) | 371,770 |
| Administration fees on agency and unitrust funds | - | 8,392 |
| Grant income | 86,923 | 2,500 |
| Change in value of split interest agreements | <u>11,334</u> | <u>(3,383)</u> |
| Total revenues and other support | <u>1,055,814</u> | <u>1,157,798</u> |
| Expenses | | |
| Program expenses | 682,481 | 190,363 |
| Administrative expenses | 200,662 | 196,025 |
| Fundraising expenses | <u>41,789</u> | <u>41,455</u> |
| Total Expenses | <u>924,932</u> | <u>427,843</u> |
| Increase (decrease) in net assets without donor restrictions | <u>130,882</u> | <u>729,955</u> |
| Changes in net assets with donor restrictions | | |
| Contributions, net | 145,329 | - |
| Change in value of split interest agreements | 1,460 | - |
| Net assets released from restrictions | <u>-</u> | <u>-</u> |
| Increase (decrease) in net assets with donor restrictions | <u>146,789</u> | <u>-</u> |
| Increase (decrease) in net assets | <u>277,671</u> | <u>729,955</u> |
| Net assets, beginning of year | <u>7,405,561</u> | <u>6,675,606</u> |
| Net assets, end of year | <u>\$ 7,683,232</u> | <u>\$ 7,405,561</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, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Program Expenses | | |
| Designated grant/Endowment disbursements | \$ 599,388 | \$ 89,366 |
| Scholarships | 14,290 | 7,600 |
| Field-of-interest | 45,379 | 76,097 |
| Donor advised grants | <u>23,424</u> | <u>17,300</u> |
| Total program expenses | <u>682,481</u> | <u>190,363</u> |
| Administrative Expenses | | |
| Salaries and benefits | 89,101 | 73,793 |
| Advertising | 11,821 | 13,579 |
| Audit and accounting services | 5,526 | 6,809 |
| Bank and credit card fees | 12,690 | 2,915 |
| Dues, conference fees, and registration | 13,767 | 2,767 |
| Investment management fees | 17,290 | 15,776 |
| Insurance | 1,765 | 1,755 |
| Small equipment and maintenance | 3,527 | - |
| Software | 7,454 | 28,172 |
| Telephone and internet | 6,127 | 5,723 |
| Office supplies | 4,730 | 15,396 |
| Occupancy | 6,426 | 7,436 |
| Postage and printing | 941 | 2,954 |
| Events, meetings, travel | 12,080 | 11,250 |
| Contracted services | 3,760 | 3,855 |
| Depreciation | <u>3,657</u> | <u>3,845</u> |
| Total administrative expenses | <u>200,662</u> | <u>196,025</u> |
| Fundraising Expenses | | |
| Fundraising expenses | <u>41,789</u> | <u>41,455</u> |
| Total fundraising expenses | <u>41,789</u> | <u>41,455</u> |
| Total Expenses | <u>\$ 924,932</u> | <u>\$ 427,843</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, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Cash flows from Operating Activities | | |
| Change in net assets | \$ 277,671 | \$ 729,955 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,657 | 3,845 |
| Realized (gain) loss on investments | (202,401) | (62,476) |
| Unrealized (gain) loss on investments | 115,002 | (371,770) |
| Loss on disposal of equipment | - | (31) |
| Increase (decrease) grants payable | - | (3,128) |
| Increase (decrease) annuities payable | (6,108) | (6,816) |
| Net Cash from Operating Activities | <u>187,821</u> | <u>289,579</u> |
| Cash flows from Investing Activities | | |
| Purchases of investment securities | (921,703) | (856,410) |
| Proceeds from sales and maturities of investment securities | 699,471 | 753,296 |
| Net Cash from Investing Activities | <u>(222,232)</u> | <u>(103,114)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (34,411) | 186,465 |
| Cash and cash equivalents at beginning of year | <u>291,131</u> | <u>104,666</u> |
| Cash and cash equivalents at end of year | <u>\$ 256,720</u> | <u>\$ 291,131</u> |

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

**KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2019**

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, 2019

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, 2019, per FDIC regulation number 330.8.

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2019

NOTE C - INVESTMENTS

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

| | 2019 | | Unrealized Appreciation (Depreciation) |
|------------------------------------|---------------------|---------------------|--|
| | Cost | Fair Value | |
| 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> |

| | 2018 | | Unrealized Appreciation (Depreciation) |
|------------------------------------|---------------------|---------------------|--|
| | Cost | Fair Value | |
| Short-term investments | \$ 219,058 | \$ 219,058 | \$ - |
| Corporate bonds and notes | 39,614 | 39,540 | (74) |
| Mutual funds/Exchange traded funds | 4,342,123 | 4,976,459 | 634,336 |
| Common stocks | 2,333,491 | 2,566,057 | 232,566 |
| Total Investments | <u>\$ 6,934,286</u> | <u>\$ 7,801,114</u> | <u>\$ 866,828</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.

| | 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>\$ 7,803,087</u> | <u>\$ 154,860</u> | <u>\$ -</u> |

| | 2018 | | | |
|------------------------------------|---------------------|---------------------|------------------|-------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Short-term investments | \$ 219,058 | \$ 219,058 | \$ - | \$ - |
| Corporate bonds and notes | 39,540 | - | 39,540 | - |
| Mutual funds/Exchange traded funds | 4,976,459 | 4,976,459 | - | - |
| Common stocks | 2,566,057 | 2,566,057 | - | - |
| Total Investments | <u>\$ 7,801,114</u> | <u>\$ 7,761,574</u> | <u>\$ 39,540</u> | <u>\$ -</u> |

**KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2019**

NOTE D - PROPERTY AND EQUIPMENT

Capital Asset activity of Keweenaw Community Foundation was as follows:

| | Balance 4/1/2018 | Additions | Deletions | Balance 3/31/2019 |
|--------------------------------------|---------------------|-----------------|-------------|----------------------|
| 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 | 7,914 | 3,657 | - | 11,571 |
| Furniture and fixtures | 99 | - | - | 99 |
| Subtotal | <u>8,013</u> | <u>\$ 3,657</u> | <u>\$ -</u> | <u>11,670</u> |
| Net capital assets being depreciated | <u>\$ 13,612</u> | | | <u>\$ 9,955</u> |

Depreciation expense for the years ending March 31, 2019 and 2018 were \$3,657 and \$3,845 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, 2019 and 2018. As of March 31, 2019 and 2018, the fair market value of charitable gift annuity investments totaled \$621,413 and \$630,306 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, 2019

NOTE G - AGENCY ENDOWMENT FUNDS (Continued)

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

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Balance at beginning of year | \$ 265,587 | \$ 277,268 |
| Interest and dividend income | 12,359 | 10,181 |
| Realized gains | 463 | 968 |
| Unrealized gains | (3,308) | 16,389 |
| Grants | (11,259) | (11,952) |
| Agency activity transfer | - | (22,707) |
| Custodial and investment management fees | (385) | (4,086) |
| Administrative expense allocation | (3,879) | (474) |
| Balance at end of year | <u>\$ 259,578</u> | <u>\$ 265,587</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 the current year.

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, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|---------------------|---------------------|
| Without donor restrictions: | | |
| Operating | \$ 122,005 | \$ 135,105 |
| Scholarship funds | 416,817 | 353,201 |
| Donor designated funds | 3,944,120 | 3,769,043 |
| Donor advised funds | 1,390,976 | 1,388,237 |
| Field-of-interest funds | 1,469,713 | 1,564,378 |
| Annuity funds | 192,812 | 195,597 |
| | <u>7,536,443</u> | <u>7,405,561</u> |
| With donor restrictions: | | |
| Time restricted: | | |
| Charitable remainder unitrust | 146,789 | - |
| Total | <u>\$ 7,683,232</u> | <u>\$ 7,405,561</u> |

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2019

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 2016.

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 \$5,650 for the years ended March 31, 2019 and 2018. Future minimum rental commitments under this operating lease approximate \$6,600.

NOTE L - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation has \$122,635 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 License to Solicit has not been filed on a timely basis in the last two years and may not be approved and/or revoked. In addition, the Foundation tax returns are past due for the fiscal years 2019 and 2020 and its non-profit status as a stand alone organization has been revoked by the IRS. The Foundation is currently affiliated with Community Foundation of the Upper Peninsula (CFUP) and is operating under their 501(c)3. The Foundation intends to reinstate its 501(c)3 status when its filings are to date.

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.