

**KEWEENAW COMMUNITY FOUNDATION
HANCOCK, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
MARCH 31, 2016**

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RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

310 Sheldon Avenue, Houghton, Michigan 49931
906.482.6601 906.482.9046 fax www.rukkilanegro.com

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 Keweenaw Community Foundation, which comprise the statement of financial position as of March 31, 2016, and the related statement of activities and changes in net assets, statement of functional expenses, and cash flow for the year 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 Keweenaw Community Foundation as of March 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

February 14, 2017

KEWEENAW COMMUNITY FOUNDATION
STATEMENT OF NET POSITION
March 31, 2016

	2016
ASSETS	
Unrestricted:	
Cash and equivalents	\$ 93,318
Investments, at fair value	6,733,618
Prepaid expenses	570
Accrued interest receivable	10,320
Property and equipment, net	528
Total Unrestricted	6,838,354
Restricted:	
Investments held as trustee, at fair value	265,802
TOTAL ASSETS	\$ 7,104,156
 LIABILITIES	
Annuities payable	\$ 448,451
Grant payable	3,264
Funds held as agency endowments	266,489
Trust funds payable--charitable remainder unitrust	265,802
TOTAL LIABILITIES	984,006
 NET ASSETS	
Operating	120,197
Scholarship funds	298,637
Donor designated funds	2,927,401
Donor advised funds	1,234,188
Field-of-interest funds	1,411,305
Annuity funds	128,422
TOTAL UNRESTRICTED NET ASSETS	6,120,150
TOTAL LIABILITIES AND NET ASSETS	\$ 7,104,156

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

KEWEENAW COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended March 31, 2016

	<u>2016</u>
REVENUES	
Contributions, net	\$ 274,825
Fundraising:	
Keweenaw Gold	19,563
Brewfest	48,345
Interest and dividends	214,418
Realized gain (loss) on investment securities	60,451
Unrealized gain (loss) on investment securities	(348,498)
Administration fees on agency and unitrust funds	4,695
Grants returned	2,200
Grant income	5,250
Miscellaneous revenue	1,080
In-kind donations	151
Change in value of split interest agreements	(29,000)
TOTAL REVENUES	<u>253,480</u>
EXPENSES	
Program expenses	145,882
Administrative expenses	132,099
Fundraising expenses	40,589
TOTAL EXPENSES	<u>318,570</u>
EXCESS UNRESTRICTED REVENUES (EXPENSES)	<u>(65,090)</u>
Net assets, beginning of year	<u>6,185,240</u>
NET ASSETS, END OF YEAR	<u>\$ 6,120,150</u>

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

KEWEENAW COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2016

	<u>2016</u>
PROGRAM EXPENSES	
Designated grant/Endowment disbursements	\$ 90,899
Scholarships	5,337
Field-of-interest	29,151
Donor advised grants	12,700
Unrestricted	<u>7,794</u>
Total program expenses	<u>145,881</u>
ADMINISTRATIVE EXPENSES	
Salaries and benefits	61,062
Advertising	2,167
Audit and accounting services	8,518
Bank and credit card fees	629
Dues, conference fees, and registration	6,052
Investment management fees	17,538
Insurance	1,748
Small equipment and maintenance	40
FIMS	10,100
Software	5,172
Telephone and internet	1,907
Office supplies	3,125
Occupancy	7,245
Postage and printing	3,451
Events, meetings, travel	2,926
Contracted services	95
Depreciation	<u>324</u>
Total administrative expenses	<u>132,099</u>
FUNDRAISING EXPENSES	
Salaries and benefits	17,130
Keweenaw Gold	3,453
Brewfest	<u>20,006</u>
Total fundraising expenses	<u>40,589</u>
TOTAL EXPENSES	<u><u>\$ 318,569</u></u>

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

KEWEENAW COMMUNITY FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (65,090)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	324
Realized gain on investments	(60,451)
Unrealized (gain) loss on investments	348,498
(Increase) decrease accounts receivable	3,548
(Increase) decrease prepaid expenses	(570)
Increase (decrease) grants payable	3,264
Increase (decrease) annuities payable	(6,970)
Increase (decrease) agency endowment funds	(20,514)
NET CASH FROM OPERATING ACTIVITIES	202,039
 CASH FLOW FROM INVESTING ACTIVITIES	
Purchases of investment securities	(1,308,214)
Proceeds from sales and maturities of investment securities	1,103,094
NET CASH FROM INVESTING ACTIVITIES	(205,120)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,081)
 Cash and cash equivalents at beginning of year	96,399
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 93,318

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

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2016

NOTE A - PURPOSE OF FOUNDATION

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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Keweenaw Community Foundation uses the accrual basis of accounting for financial statement reporting purposes. Under the accrual basis, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Financial Statement Presentation

The Foundation's financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958 Not-for-Profit Entities. In accordance with FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) based on the existence or nature of any donor-imposed restrictions.

Unrestricted net assets - Those resources over which the Board has discretionary control.

Temporarily restricted net assets - Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Board or by the passage of time.

Permanently restricted net assets - Those resources subject to donor-imposed restrictions that are maintained permanently by the Board. Generally, the donors of these resources will allow the Board to utilize all or part of the income earned on the related investments for unrestricted or temporarily restricted purposes.

The Foundation has classified the majority of its net assets, including its endowments, as unrestricted. 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. These provisions make the contributions unrestricted in nature. This is in accordance with the recommendation of the Committee on Community Foundations, Council on Foundations, Washington, D.C., that concluded that, as a general rule, community foundations should classify all net assets as unrestricted, with the following exceptions:

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds subject to time restrictions should be classified as temporarily restricted.

Funds should only be classified as permanently restricted when both of the following conditions are met:

- i) The donor does not allow principal invasions in the gift instrument.
- ii) The governing documents of the community foundation do not provide for the invasion of corpus.

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 \$500 are capitalized.

Contributions – The Foundation reports gifts of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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 permanently restricted. When a donor restriction expires (such as when a stipulated time restriction ends), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are primarily released from donor restrictions when purpose restrictions are satisfied.

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.

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.

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2016

NOTE C - INVESTMENTS

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

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 226,805	\$ 275,050	\$ 48,245
Certificates of deposit	847,388	840,000	(7,388)
U.S. Government and Agencies	493,903	516,927	23,024
Corporate bonds and notes	219,382	225,118	5,736
Mutual funds/Exchange traded funds	3,129,551	4,185,046	1,055,495
Common stocks	600,752	691,477	90,725
Total Investments	<u>5,517,781</u>	<u>\$ 6,733,618</u>	<u>\$ 1,215,837</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.

	Fair Value	Level 1	Level 2	Level 3
Short-term investments	\$ 275,050	\$ 275,050	\$ -	\$ -
Certificates of deposit	840,000	-	840,000	-
U.S. Government and Agencies	516,927	-	516,927	-
Corporate bonds and notes	225,118	-	225,118	-
Mutual funds/Exchange traded funds	4,185,046	4,185,046	-	-
Common stocks	691,477	691,477	-	-
Total Investments	<u>\$ 6,733,618</u>	<u>\$ 5,151,573</u>	<u>\$ 1,582,045</u>	<u>\$ -</u>

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2016

NOTE D - PROPERTY AND EQUIPMENT

The composition of property and equipment is as follows:

Capital Asset activity of Keweenaw Community Foundation was as follows:

Capital assets, being depreciated	
Equipment	4,053
Furniture	99
	<u>4,152</u>
Accumulated depreciation	<u>(3,624)</u>
Net capital assets	<u>528</u>

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 year ended March 31, 2016. As of March 31, 2016, the fair market value of charitable gift annuity investments totaled \$576,873 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. The activities related to agency endowment funds are summarized as follows:

	<u>March 31, 2016</u>
Balance at beginning of year	\$ 287,003
Interest and dividend income	6,847
Realized gains	3,248
Unrealized gains	(13,179)
Grants	(11,599)
Custodial and investment management fees	(1,136)
Administrative expense allocation	(4,695)
Balance at end of year	<u>\$ 266,489</u>

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2016

NOTE H - CHARITABLE REMAINDER UNITRUST

The Foundation is the trustee for a charitable remainder unitrust. 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 Agreement currently names the Foundation as a partial (one-third) remainder beneficiary of the unitrust; however, the Agreement allows the unitrust 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 the 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 Foundation has elected to invest the assets of the unitrust in shares of a mutual fund. The investments are carried at fair value.

NOTE I - 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 2013.

NOTE J - LEASES

The Foundation leases office space under an operating lease that expires in December 2016. Total expense for the rental of office space was \$5,700 for the year ended March 31, 2016. Future minimum rental commitments under this operating lease approximate \$5,700.

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

310 Shelden Avenue, Houghton, Michigan 49931
906.482.6601 906.482.9046 fax www.rukkilanegro.com

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Trustees
Keweenaw Community Foundation
Hancock, Michigan

We have audited the financial statements of Keweenaw Community Foundation for the year ended March 31, 2016, and have issued our report thereon dated February 14, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 21, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Keweenaw Community Foundation are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2016. We noted no transactions entered into by the Keweenaw Community Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on 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 estimate affecting the Keweenaw Community Foundation's financial statements is depreciation expense.

Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 14, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Keweenaw Community Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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 Keweenaw Community Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the board and management of Keweenaw Community Foundation and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate your business, thank you.

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

February 14, 2017