

**KEWEENAW COMMUNITY FOUNDATION
HANCOCK, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017**

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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, 2018 and 2017, and the related statements of activities and changes in net assets, statements of functional expenses, and cash flows 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 the Keweenaw Community Foundation as of March 31, 2018 and 2017, 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 3, 2021

KEWEENAW COMMUNITY FOUNDATION
STATEMENTS OF NET POSITION
March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Unrestricted:		
Cash and equivalents	\$ 291,131	\$ 104,666
Investments, at fair value	7,801,114	7,265,053
Accrued interest receivable	-	10,320
Property and equipment, net	<u>13,612</u>	<u>17,488</u>
Total Unrestricted	8,105,857	7,397,527
Restricted:		
Investments held as trustee, at fair value	<u>291,877</u>	<u>296,521</u>
Total Assets	<u>\$ 8,397,734</u>	<u>\$ 7,694,048</u>
Liabilities		
Annuities payable	\$ 434,709	\$ 441,525
Grant payable	-	3,128
Funds held as agency endowments	265,587	277,268
Trust funds payable--charitable remainder unitrust	<u>291,877</u>	<u>296,521</u>
Total Liabilities	992,173	1,018,442
Net Assets		
Operating	135,105	156,455
Scholarship funds	353,201	321,705
Donor designated funds	3,769,043	3,263,214
Donor advised funds	1,388,237	1,269,785
Field-of-interest funds	1,564,378	1,459,100
Annuity funds	<u>195,597</u>	<u>205,347</u>
Total Unrestricted Net Assets	<u>7,405,561</u>	<u>6,675,606</u>
Total Liabilities and Net Assets	<u>\$ 8,397,734</u>	<u>\$ 7,694,048</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Contributions, net	\$ 457,137	\$ 171,783
Fundraising	38,276	76,329
Interest and dividends	220,630	178,932
Realized gain (loss) on investment securities	62,476	52,054
Unrealized gain (loss) on investment securities	371,770	494,380
Administration fees on agency and unitrust funds	8,392	8,489
Grant income	2,500	-
Miscellaneous revenue	-	1,993
In-kind donations	-	2,055
Change in value of split interest agreements	(3,383)	6,926
Total Revenues	<u>1,157,798</u>	<u>992,941</u>
Expenses		
Program expenses	190,363	237,427
Administrative expenses	196,025	147,340
Fundraising expenses	41,455	52,718
Total Expenses	<u>427,843</u>	<u>437,485</u>
Excess Unrestricted Revenues (Expenses)	<u>729,955</u>	<u>555,456</u>
Net assets, beginning of year	<u>6,675,606</u>	<u>6,120,150</u>
Net assets, end of year	<u>\$ 7,405,561</u>	<u>\$ 6,675,606</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, 2018 and 2017

	<u>2018</u>	<u>2018</u>
Program Expenses		
Designated grant/Endowment disbursements	\$ 89,366	\$ 113,668
Scholarships	7,600	13,083
Field-of-interest	76,097	35,044
Donor advised grants	17,300	75,632
Total program expenses	<u>190,363</u>	<u>237,427</u>
Administrative Expenses		
Salaries and benefits	73,793	74,682
Advertising	13,579	4,350
Audit and accounting services	6,809	5,458
Bank and credit card fees	2,915	1,086
Dues, conference fees, and registration	2,767	3,958
Investment management fees	15,776	15,585
Insurance	1,755	2,921
Small equipment and maintenance	-	400
FIMS	-	9,275
Software	28,172	2,401
Telephone and internet	5,723	4,271
Office supplies	15,396	5,318
Occupancy	7,436	6,313
Postage and printing	2,954	2,259
Events, meetings, travel	11,250	7,473
Contracted services	3,855	450
Depreciation	3,845	1,140
Total administrative expenses	<u>196,025</u>	<u>147,340</u>
Fundraising Expenses		
Fundraising expenses	41,455	52,718
Total fundraising expenses	<u>41,455</u>	<u>52,718</u>
Total Expenses	<u>\$ 427,843</u>	<u>\$ 437,485</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from Operating Activities		
Change in net assets	\$ 729,955	\$ 555,456
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,845	1,140
Realized (gain) loss on investments	(62,476)	(52,054)
Unrealized (gain) loss on investments	(371,770)	(494,380)
Loss on disposal of equipment	(31)	-
(Increase) decrease prepaid expenses	-	570
Increase (decrease) grants payable	(3,128)	(136)
Increase (decrease) annuities payable	(6,816)	(6,926)
Net Cash from Operating Activities	<u>289,579</u>	<u>3,670</u>
Cash flows from Investing Activities		
Purchase of fixed assets	-	(18,100)
Purchases of investment securities	(856,410)	(4,772,551)
Proceeds from sales and maturities of investment securities	753,296	4,798,329
Net Cash from Investing Activities	<u>(103,114)</u>	<u>7,678</u>
Net Increase (Decrease) in Cash and Cash Equivalents	186,465	11,348
Cash and cash equivalents at beginning of year	<u>104,666</u>	<u>93,318</u>
Cash and cash equivalents at end of year	<u>\$ 291,131</u>	<u>\$ 104,666</u>

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

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2018

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 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:

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.

**KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2018**

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 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.

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, 2018, per FDIC regulation number 330.8.

KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2018

NOTE C - INVESTMENTS

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

2018			
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
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>

2017			
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 143,169	\$ 143,169	\$ -
Corporate bonds and notes	40,289	39,697	(592)
Mutual funds/Exchange traded funds	4,330,189	4,777,412	447,223
Common stocks	2,216,940	2,304,775	87,835
Total Investments	<u>\$ 6,730,587</u>	<u>\$ 7,265,053</u>	<u>\$ 534,466</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.

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>

2017				
	Fair Value	Level 1	Level 2	Level 3
Short-term investments	\$ 143,169	\$ 143,169	\$ -	\$ -
Corporate bonds and notes	39,697	-	39,697	-
Mutual funds/Exchange traded funds	4,777,412	4,777,412	-	-
Common stocks	2,304,775	2,304,775	-	-
Total Investments	<u>\$ 7,265,053</u>	<u>\$ 7,225,356</u>	<u>\$ 39,697</u>	<u>\$ -</u>

**KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2018**

NOTE D - PROPERTY AND EQUIPMENT

Capital Asset activity of Keweenaw Community Foundation was as follows:

	Balance 4/1/2017	Additions	Deletions	Balance 3/31/2018
Capital assets, being depreciated:				
Equipment and software	\$ 22,153	\$ -	\$ 627	\$ 21,526
Furniture and fixtures	99	-	-	99
Subtotal	<u>22,252</u>	<u>\$ -</u>	<u>\$ 627</u>	<u>21,625</u>
Accumulated depreciation:				
Equipment and software	4,665	3,845	596	7,914
Furniture and fixtures	99	-	-	99
Subtotal	<u>4,764</u>	<u>\$ 3,845</u>	<u>\$ 596</u>	<u>8,013</u>
Net capital assets being depreciated	<u>\$ 17,488</u>			<u>\$ 13,612</u>

Depreciation expense for the years ending March 31, 2018 and 2017 were \$3,845 and \$1,140 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, 2018 and 2017. As of March 31, 2018 and 2017, the fair market value of charitable gift annuity investments totaled \$630,306 and \$646,872 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. The activities related to agency endowment funds are summarized as follows:

**KEWEENAW COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS - March 31, 2018**

NOTE G - AGENCY ENDOWMENT FUNDS (Continued)

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 277,268	\$ 266,489
Interest and dividend income	10,181	7,305
Realized gains	968	1,300
Unrealized gains	16,389	18,729
Grants	(11,952)	(11,650)
Agency activity transfer	(22,707)	-
Custodial and investment management fees	(4,086)	(822)
Administrative expense allocation	(474)	(4,083)
Balance at end of year	<u>\$ 265,587</u>	<u>\$ 277,268</u>

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 2015.

NOTE J - LEASES

The Foundation leases office space under an operating lease that expires each December. Total expense for the rental of office space was \$6,500 for the year ended March 31, 2018. Future minimum rental commitments under this operating lease approximate \$6,600.

NOTE K - 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.

License to Solicit - 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.

Income Tax Filings - Currently, the Foundation tax returns are past due for the fiscal years 2018 and 2019. The 2018 return must be filed before February 15, 2021.