

Financial Statements

DICKINSON AREA COMMUNITY FOUNDATION

December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Dickinson Area Community Foundation
Iron Mountain, Michigan

We have audited the accompanying financial statements of the **DICKINSON AREA COMMUNITY FOUNDATION** (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, 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 the basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **DICKINSON AREA COMMUNITY FOUNDATION** as of December 31, 2015, 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.



Certified Public Accountants
Iron Mountain, Michigan

October 10, 2016

DICKINSON AREA COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2015

| Assets | | | |
|---|---|-----------|-------------------------|
| Cash | | \$ | 565,746 |
| Accounts receivable | | | 1,820 |
| Prepaid fundraiser | | | 1,000 |
| Investments | | | 8,289,856 |
| Office equipment | 14,664 | | |
| Less accumulated depreciation | 11,359 | | 3,305 |
| | | | <u>3,305</u> |
| | Total assets | \$ | <u>8,861,727</u> |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Accounts payable | | \$ | 1,199 |
| Accrued payroll, taxes, and withholding | | | 3,673 |
| | | | <u>4,872</u> |
| | Total liabilities | | 4,872 |
| Net assets | | | |
| Unrestricted (Note B) | | | 22,936 |
| Temporarily restricted (Note C) | | | 1,124,661 |
| Permanently restricted (Note D) | | | 7,709,258 |
| | | | <u>8,856,855</u> |
| | Total net assets | | <u>8,856,855</u> |
| | Total liabilities and net assets | \$ | <u>8,861,727</u> |

See notes to financial statements.

DICKINSON AREA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES Year ended December 31, 2015

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total |
|---|-------------------------------|---|---|----------------------------|
| Revenues, gains and other support | | | | |
| Investment income | \$ 715 | \$ 195,081 | \$ - | \$ 195,796 |
| Net unrealized and realized gain (loss) on long-term investments | 60,067 | (371,975) | - | (311,908) |
| Contributions | 6,525 | 50,205 | 377,381 | 434,111 |
| Fundraising (net of direct expenses of \$24,922) | 6,621 | (201) | 9,881 | 16,301 |
| Donated services (Note J) | 780 | - | - | 780 |
| Miscellaneous | 7,466 | - | - | 7,466 |
| Net assets released from restrictions due to satisfaction of program restrictions | 305,974 | (305,974) | - | - |
| Reclassification of assets | - | (2,618) | 2,618 | - |
| | <u>388,148</u> | <u>(435,482)</u> | <u>389,880</u> | <u>342,546</u> |
| Total revenues, gains and other support | | | | |
| | 388,148 | (435,482) | 389,880 | 342,546 |
| Expenses | | | | |
| Program services | 369,889 | - | - | 369,889 |
| Fundraising | 41,932 | - | - | 41,932 |
| Administrative | 51,787 | - | - | 51,787 |
| | <u>463,608</u> | <u>-</u> | <u>-</u> | <u>463,608</u> |
| Total expenses | | | | |
| | 463,608 | - | - | 463,608 |
| Changes in net assets | (75,460) | (435,482) | 389,880 | (121,062) |
| Net assets - Beginning of year | <u>98,396</u> | <u>1,560,143</u> | <u>7,319,378</u> | <u>8,977,917</u> |
| Net assets - End of year | <u>\$ 22,936</u> | <u>\$ 1,124,661</u> | <u>\$ 7,709,258</u> | <u>\$ 8,856,855</u> |

See notes to financial statements.

DICKINSON AREA COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2015

| | Program Services | Support Services | | Total |
|-----------------------------|---------------------|------------------|------------------|-------------------|
| | | Fundraising | Administrative | |
| Salaries | \$ 12,539 | \$ 33,918 | \$ 26,267 | \$ 72,724 |
| Payroll taxes | 1,146 | 3,100 | 2,401 | 6,647 |
| Grants | 211,223 | - | - | 211,223 |
| Scholarships | 93,620 | - | - | 93,620 |
| Management fees | 36,551 | - | - | 36,551 |
| Accounting and legal | - | - | 10,725 | 10,725 |
| Rent | 3,024 | 216 | 1,080 | 4,320 |
| Office supplies and expense | 7,287 | 1,822 | 3,036 | 12,145 |
| Telephone | 818 | 58 | 292 | 1,168 |
| Advertising | - | 2,743 | - | 2,743 |
| Bank charges | - | - | 89 | 89 |
| Dues and subscriptions | - | - | 3,501 | 3,501 |
| Travel and meetings | - | - | 476 | 476 |
| YAC programs | 2,632 | - | - | 2,632 |
| Licenses and permits | - | - | 35 | 35 |
| Contracted services | - | - | 830 | 830 |
| Depreciation | - | - | 1,268 | 1,268 |
| Insurance | 1,049 | 75 | 375 | 1,499 |
| Meals and entertainment | - | - | 1,252 | 1,252 |
| Awards | - | - | 160 | 160 |
| Total expenses | \$ 369,889 | \$ 41,932 | \$ 51,787 | \$ 463,608 |

See notes to financial statements.

DICKINSON AREA COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

Year ended December 31, 2015

| | |
|--|-------------------|
| Cash flows from operating activities | |
| Change in net assets | \$ (121,062) |
| Adjustments to reconcile change in net assets to net cash (used in) operating activities | |
| Depreciation | 1,268 |
| Contribution of investment securities | (228,712) |
| (Increase) in accounts receivable | (1,120) |
| (Increase) in prepaids | (500) |
| Increase in accrued liabilities and accounts payable | 2,590 |
| Net unrealized and realized loss on long-term investments | 311,908 |
| Contributions to endowed funds | (148,669) |
| Net cash (used in) operating activities | (184,297) |
| Cash flows from investing activities | |
| Purchases of investment securities | (1,987,218) |
| Proceeds from sale of investments | 2,052,293 |
| Purchase of office equipment | (534) |
| Net cash provided by investing activities | 64,541 |
| Cash flows from financing activities | |
| Contributions to endowed funds | 148,669 |
| Net cash provided by financing activities | 148,669 |
| Net increase in cash | 28,913 |
| Cash - Beginning of year | 536,833 |
| Cash - End of year | \$ 565,746 |

Supplemental data

| | |
|---|------------|
| Noncash investing and financing activities - investment securities donated to endowed funds | \$ 228,712 |
|---|------------|

See notes to financial statements.

DICKINSON AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Dickinson Area Community Foundation ("Foundation") is a public, nonprofit organization that encourages philanthropic investment in Dickinson County, Michigan and the surrounding area by accumulating and managing funds and utilizing the income to support charitable activities within guidelines set forth in various grant and scholarship fund agreements. The Foundation generates the majority of its income from investments and endowed contributions.

In 2011, the Foundation applied for and received National Standards accreditation from the Council on Foundations which is valid for a five-year period.

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.

Cash

The Company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation to a maximum of \$250,000.

Risks and Uncertainties

The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets - unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Equipment

Donations of equipment are recorded as support at their estimated fair value. It is the Foundation's policy to capitalize all equipment purchased or donated with a fair market value of \$500 or more. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation does not imply a time restriction and reports the gifts as unrestricted support when the assets are placed in service. Equipment is depreciated using straight-line and accelerated methods over estimated useful lives. Purchased equipment is stated at cost.

Investment Securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position as further described in Note F. Unrealized gains and losses are included in the change in net assets. All of the Foundation's investments had readily available fair market values at December 31, 2015, which were determined by a bank trust department and an investment company.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The Foundation is a not-for-profit organization other than a private foundation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes.

The Organization's Forms 990, Return of Organization Exempt from Tax, are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE B - UNRESTRICTED NET ASSETS

Unrestricted net assets has been reduced at December 31, 2015 by the decrease in fair market value of the investments in the endowed funds that were below their permanently restricted basis. The aggregate amount of this depreciation at December 31, 2015 is \$98,006.

NOTE C - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of accumulated earnings on the permanently endowed funds that are restricted until awarded as grants or scholarships. These grants and scholarships are awarded by the Foundation under the terms of the fund agreements. These assets will be reclassified as unrestricted net assets in the period they are awarded.

NOTE D - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of investments in perpetuity, the income from which is expendable to support programs as stipulated by a given fund's agreement. The Foundation managed 74 scholarship, grant and administrative agreements during 2015.

NOTE E - COMMITMENTS

The Foundation has awarded a number of scholarships that are renewable for four years, if the recipient has maintained certain academic standards. The liability for payment of these scholarships has not been included in the financial statements due to the uncertainties of maintaining these standards. The potential scholarship commitments in future years are as follows:

| | | |
|---|-----------|-----------------------|
| Due in 2016 | \$ | 51,960 |
| Due in 2017 through 2019 | | <u>68,495</u> |
| Total commitments at December 31, 2015 | \$ | <u>120,455</u> |

NOTE F - INVESTMENT SECURITIES

The majority of the Foundation's investments are managed by a bank trust department. Two donors have stipulated that their gifts be managed by an investment company. Money market, fixed income and equity investments are not federally insured. Investments consist of the following which are provided by the trust department and investment company:

| | <u>Cost</u> | <u>Unrealized Gain (Loss)</u> | <u>Fair Value</u> |
|--------------------|----------------------------|-----------------------------------|----------------------------|
| Money market funds | \$ 831,292 | \$ - | \$ 831,292 |
| Fixed income | 2,095,748 | (82,364) | 2,013,384 |
| Equity | <u>4,971,880</u> | <u>473,300</u> | <u>5,445,180</u> |
| Totals | <u>\$ 7,898,920</u> | <u>\$ 390,936</u> | <u>\$ 8,289,856</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - INVESTMENT SECURITIES (CONTINUED)

The framework for measuring fair value provides 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 significant other observable inputs (including quoted prices for similar assets in active markets), and Level 3 inputs consist of significant unobservable inputs and have the lowest priority.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2015.

Level 1 Fair Value Measurements - These assets include stocks, bonds and mutual funds for which a quoted market price is available in an active market.

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2015:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|------------------------|---------------------|---------------------|----------------|----------------|
| Corporate bonds | \$ 750,371 | \$ 750,371 | \$ - | \$ - |
| U.S. obligations bonds | 255,938 | 255,938 | - | - |
| Common stock | 2,454,542 | 2,454,542 | - | - |
| Mutual funds | | | | |
| Equities | 2,248,894 | 2,248,894 | - | - |
| Bond funds | 1,007,075 | 1,007,075 | - | - |
| Alternative funds | 262,567 | 262,567 | - | - |
| MF Real assets | 479,177 | 479,177 | - | - |
| Totals | \$ 7,458,564 | \$ 7,458,564 | \$ - | \$ - |

NOTE G - ENDOWMENT FUNDS

The Foundation's endowed funds are governed by gift instruments and specific agreements with the Foundation.

The State of Michigan has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation's board of directors has interpreted Michigan's enacted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the donor imposed provisions, permanently restricted net assets represent the fair value of the original gifts as of the gift date and the original value of subsequent gifts to the donor-restricted endowment funds. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed in UPMIFA.

The Foundation has adopted investment and spending policies for endowed assets that attempt to develop an asset base in which the total investment return is sufficient to support the basic operations of the Foundation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - ENDOWMENT FUNDS (CONTINUED)

The investment policy emphasizes growth over the long term with a balanced approach targeting allocations of 10-50% fixed income, 35-75% equities, 0-25% real assets, 0-10% alternative strategies and 0-20% cash equivalents. Each category has its own set of guidelines.

The spending policy calculates the amount available for spending using 4% of the 12 quarter rolling average as long as the distribution does not invade principal, unless specified in the underlying document. Scholarship, agency and field of interest grant allocations for the upcoming year are reviewed in the fourth quarter each year using June 30th fund balances.

The composition of endowed net assets and the changes in endowed net assets for the year are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowed net assets, January 1, 2015 | \$ (3,065) | \$ 1,121,814 | \$ 7,319,377 | \$ 8,438,126 |
| Investment income | - | 195,080 | - | 195,080 |
| Net realized and unrealized (loss) | (94,941) | (216,967) | - | (311,908) |
| Contributions | - | - | 389,881 | 389,881 |
| Investment and administrative fees and expenses | - | (162,881) | - | (162,881) |
| Grants and scholarships | - | (258,442) | - | (258,442) |
| Endowed net assets, December 31, 2015 | \$ (98,006) | \$ 678,604 | \$ 7,709,258 | \$ 8,289,856 |

All endowed funds are donor restricted endowment funds.

NOTE H - LEASES

The Foundation leases office space and equipment under operating leases. Rental expense under these leases totaled \$5,748 for 2015.

Future minimum lease payments under operating leases with terms over one year are as follows:

| | |
|------|-----------------|
| 2016 | <u>\$ 1,144</u> |
|------|-----------------|

New lease agreements were signed in early 2016 for both the office space and the copier. The office space lease amount due for each month is \$300, totaling \$3,600 per year. The copier lease amount due is \$108.80 (plus taxes) each month, totaling \$1,306 per year.

NOTE I - 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 between program services, fundraising and administrative.

NOTE J - DONATED SERVICES/RELATED PARTY TRANSACTIONS

Donated payroll services of \$780 and donations totaling approximately \$6,373 were made to the Foundation by board and committee members.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K - CHARITABLE REMAINDER TRUST

The Foundation has been named as the remainder beneficiary of a charitable remainder trust. The amount of this donation is not determinable at this time and is not included in revenues or assets of the Foundation. In accordance with the Financial Accounting Standards Board, this amount will not be recognized as revenue or assets until it becomes irrevocable upon the death of the donors, when its value becomes fixed and determinable.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated events and transactions for potential recognition or recognition or disclosure through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.