Keokuk Area Community Foundation

For Good. For Ever.

# Financial Statements

## Years Ended December 31, 2014 and 2013

Keokuk Area Community Foundation
For Good. For Ever.

## Table of Contents

Dennis G. Koch
CERTIFIED PUBLIC ACCOUNTANT

## Independent Accountant's Review Report

To the Board of Trustees of
Keokuk Area Community Foundation

I have reviewed the accompanying statements of financial position of Keokuk Area Community Foundation (a nonprofit organization) as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

**Dennis G Koch CPA**

Quincy, Illinois
August 14, 2015



PO Box 1007 • 1706 North 16th Street • Quincy, Illinois 62306-1007 • Phone (217) 224-8484 • Fax (217) 224-0504
dgkoch@dgkochcpa.com • www.dgkochcpa.com

Keokuk Area Community Foundation
For Good. For Ever.

## Statements of Financial Position
December 31, 2014 and 2013

| Assets | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 70,100 | $ 69,292 |
| Investments | 3,273,915 | 3,187,603 |
| Equipment | 742 | 742 |
| Land | 29,281 | 29,281 |
| Cash value of life insurance | 134,385 | - |
| **Total Assets** | $ 3,508,423 | $ 3,286,918 |

| Liabilities and Net Assets | 2014 | 2013 |
|---|---|---|
| Liabilities: | | |
| Accrued expenses | $ 3,330 | $ 2,291 |
| Amounts held on behalf of others | 707,317 | 723,881 |
| **Total Liabilities** | $ 710,647 | $ 726,172 |
| Net Assets: | | |
| Unrestricted: | | |
| Operating | $ 20,866 | $ 332 |
| Quasi-endowed | 457,930 | 412,959 |
| Endowed | 877,825 | 939,338 |
| **Total Unrestricted Net Assets** | $ 1,356,621 | $ 1,352,629 |
| Temporarily Restricted | 1,441,155 | 1,208,117 |
| **Total Net Assets** | $ 2,797,776 | $ 2,560,746 |
| **Total Liabilities and Net Assets** | $ 3,508,423 | $ 3,286,918 |

| | 2014 Unrestricted | 2014 Temporarily Restricted | 2014 Total |
|---|---|---|---|
| **Support and Revenue** | | | |
| Contributions and grants | $ 80,550 | $ 262,030 | $ 342,580 |
| Less: Contributions on behalf of others | (50) | - | (50) |
| **Contributions, net** | $ 80,500 | $ 262,030 | $ 342,530 |
| Investment income, net of investment expense of $2,791 - 2014 | $ 75,421 | $ 44,993 | $ 120,414 |
| Net appreciation of investments | 28 | (2,585) | (2,557) |
| | $ 75,449 | $ 42,408 | $ 117,857 |
| Less: Earnings on behalf of others | (26,711) | - | (26,711) |
| **Investment income, net** | $ 48,738 | $ 42,408 | $ 91,146 |
| Administrative fees | $ 10,213 | $ - | $ 10,213 |
| Net assets released from restrictions | $ 71,400 | $ (71,400) | $ - |
| **Total Support and Revenue** | $ 210,851 | $ 233,038 | $ 443,889 |
| **Expenses** | | | |
| Grants | $ 150,607 | $ - | $ 150,607 |
| Administration of grants, allocated expenses | 27,080 | - | 27,080 |
| Less: Grants awarded on behalf of others, net | (43,324) | - | (43,324) |
| **Grant expense, net** | $ 134,363 | $ - | $ 134,363 |
| Management and general expense | 72,496 | - | 72,496 |
| **Total Expenses** | $ 206,859 | $ - | $ 206,859 |
| **Change in Net Assets** | $ 3,992 | $ 233,038 | $ 237,030 |
| Net Assets, Beginning of Year | 1,352,629 | 1,208,117 | 2,560,746 |
| **Net Assets, End of Year** | $ 1,356,621 | $ 1,441,155 | $ 2,797,776 |

Keokuk Area Community Foundation
For Good. For Ever.



| | 2013 | | |
|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Total** |
| **Support and Revenue** | | | |
| Contributions and grants | $ 723,682 | $ 502,520 | $ 1,226,202 |
| Less: Contributions on behalf of others | - | - | - |
| **Contributions, net** | $ 723,682 | $ 502,520 | $ 1,226,202 |
| Investment income, net of investment expense of $3,381 - 2013 | $ 99,687 | $ 26,670 | $ 126,357 |
| Net appreciation of investments | 74,400 | 62,408 | 136,808 |
| | $ 174,087 | $ 89,078 | $ 263,165 |
| Less: Earnings on behalf of others | (68,609) | - | (68,609) |
| **Investment income, net** | $ 105,478 | $ 89,078 | $ 194,556 |
| Administrative fees | $ 11,373 | $ - | $ 11,373 |
| Net assets released from restrictions | $ 129,426 | $ (129,426) | $ - |
| **Total Support and Revenue** | $ 969,959 | $ 462,172 | $ 1,432,131 |
| **Expenses** | | | |
| Grants | $ 216,941 | $ - | $ 216,941 |
| Administration of grants, allocated expenses | 13,913 | - | 13,913 |
| Less: Grants awarded on behalf of others, net | (31,058) | - | (31,058) |
| **Grant expense, net** | $ 199,796 | $ - | $ 199,796 |
| Management and general expense | 43,414 | - | 43,414 |
| **Total Expenses** | $ 243,210 | $ - | $ 243,210 |
| **Change in Net Assets** | $ 726,749 | $ 462,172 | $ 1,188,921 |
| Net Assets, Beginning of Year | 625,880 | 745,945 | 1,371,825 |
| **Net Assets, End of Year** | $ 1,352,629 | $ 1,208,117 | $ 2,560,746 |

| | 2014 | 2013 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Change in net assets | $ 237,030 | $ 1,188,921 |
| Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities: | | |
| Net appreciation/decrease in market value of investments | 2,557 | (136,808) |
| Reinvested investment earnings | (120,726) | (80,131) |
| Noncash contributions of life insurance | (131,625) | - |
| Effects of changes in operating assets and liabilities: | | |
| Accrued expenses | 1,039 | 865 |
| **Net Cash Provided by Operating Activities** | $ (11,725) | $ 972,847 |
| **Cash Flows From Investing Activities** | | |
| Investments held in trust | $ 31,857 | $ (983,518) |
| Purchases of capital assets | - | (742) |
| Increase in cash value of life insurance | (2,760) | - |
| **Net Cash Provided by Investing Activities** | $ 29,097 | $ (984,260) |
| **Cash Flows From Financing Activities** | | |
| Amounts held on behalf of others | $ (16,564) | $ 37,551 |
| **Net Cash Provided by Financing Activities** | $ (16,564) | $ 37,551 |
| **Net Increase in Cash and Cash Equivalents** | $ 808 | $ 26,138 |
| Cash and Cash Equivalents - Beginning of Year | 69,292 | 43,154 |
| **Cash and Cash Equivalents - End of Year** | $ 70,100 | $ 69,292 |

## 1. Summary of Significant Accounting Policies

***Organization***

Keokuk Area Community Foundation, an Iowa nonprofit corporation was created in October, 2004 as a community foundation for the purpose of receiving gifts and bequests to provide support for charitable enterprises in the Tri-State Area. The Foundation provides grants to various organizations in the Tri-State Area (Iowa, Missouri and Illinois) to help foster and promote public, charitable, scientific, literary and educational activities.

***Accounting 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 the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

***Basis of Presentation***

The financial statements of the foundation have been prepared on the accrual basis and follow the accounting guidance for contributions received and contributions made and financial statements for not-for-profit organizations. Under these standards, the Foundation is required to report 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 received are reported as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. The standards also provide that if the governing body of an organization has the right to remove a donor restriction, known as variance power, the contributions should be classified as unrestricted net assets. The Foundation receives contributions from donors with advice regarding distribution of the assets and the earnings therefrom. The Foundation attempts to meet the desires expressed by the donors at the time of the contribution; however, under the gifting agreements the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose, if, in the sole judgment of the Foundation's Board of Directors, such restrictions or conditions become unnecessary, undesirable, impractical or inconsistent with the charitable needs of the community.

***Description of Foundation Funds***

***Operating Funds*** include the unrestricted contributions and expenses associated with the principal activity of the Foundation.

***Endowed Funds,*** subject to variance power as described earlier, include gifts which require, by donor restriction, that the corpus of the gift be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. The related income and expenses associated with have been reflected in the endowed funds. The endowed funds are classified as unrestricted due to the Foundation's variance power over the assets. The various types of endowed agreements are as follows:

## 1. Summary of Significant Accounting Policies (Continued)

### *Description of Foundation Funds (Concluded)*

| Type of Endowed Fund | Description of Fund |
|---|---|
| Unrestricted | The donor has made a contribution of cash or assets to the Discretionary Fund at the Foundation which is invested in perpetuity. The investment earnings are then distributed by the Foundation as grants that address current issues and community needs. |
| Donor Advised | The donor has made a contribution of cash or assets to an endowed fund at the Foundation which is invested in perpetuity. The donor, or someone the donor names, makes recommendations to the foundation about how the investment earnings should be distributed as grants. The recommendations are submitted to the Foundation's Board of Directors for their approval. |
| Donor Designated | The donor has made a contribution of cash or assets to an endowed fund at the Foundation which is invested in perpetuity. The investment earnings are then distributed by the Foundation as grants to the beneficiary(ies) that were specified by the donor when the fund was established to support general operations or a specific program of the organization. |
| Field of Interest | The donor has made a contribution of cash or assets to an endowment fund at the Foundation which is invested in perpetuity. The investment earnings are then distributed by the Foundation as grants that focus on a particular charitable cause. |

***Non-Endowed Funds***

Non-endowed funds include gifts (other than for operations) that are presently available for use. The donor may establish a donor advised, donor designated or field of interest fund whereby the corpus of the fund is available for use as determined under the various donor agreements subject to the variance power as described earlier.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets include funds received under various trust and annuity agreements, which require the Foundation to follow the provisions of the trust or annuity agreement until termination. Upon termination, the funds will be classified as unrestricted net assets as outlined earlier.

***Amounts Held on Behalf of Others***

The Foundation acts as an agent for certain unrelated organizations. The total amount of the funds held on behalf of these organizations has been reflected in investments as an asset and a liability on the statement of financial position. On the statement of activities, the Foundation reports the gross amount of support, revenue and expenses with the amount raised and expended on behalf of others being shown as a reduction in the gross amounts of support, revenue and expenses.

## *1.* Summary of Significant Accounting Policies (Continued)

***Endowment Fund Investment and Distribution Policies***

The Foundation has adopted investment and distribution policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The long-term objective of the Foundation, as determined by its investment committee, is to achieve a total return in excess of the sum of its distribution rate, the long-term inflation rate, the aggregate costs of portfolio management and any growth factor which the investment committee may, from time to time, determine appropriate. Total endowment assets should return, over rolling 12-month periods, a nominal rate of return greater than or equal to a composite index created by combining the various benchmark indices adopted by the investment committee for each category of its portfolio allocation.

To satisfy its long-term return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (Interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

On an annual basis, the investment committee recommends the distribution rate to the Board of Directors for the ensuing year. It is the policy of the Foundation to distribute an amount equal to the product of the investment portfolio's average market value for the trailing 12 quarter average multiplied by the spending rate. All distributions are subject to compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

***Contributions***

The Foundation records contributions (including promises to give) when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the assets or at the time the unconditional promise to give is made. Bequests are recognized as a contribution at the time the will is declared valid, provided that the bequest is unconditional. Pledges, bequests and other promises to give that are to be received after more than a year have been discounted to reflect the present value of the future cash flows.

Conditional promises to give, where the donor has placed a condition on the gift that the ultimate transfer of the assets or promise to give is contingent on a future and uncertain event, are not recorded as contributions until the condition is met. There are no material amounts of conditional promises to give at December 31, 2014 and 2013.

Gifts of cash and other assets that are received under trust or annuity agreements to be received in subsequent periods are recorded as temporarily restricted net assets. The temporarily restricted net assets are released to unrestricted net assets when the trust or annuity agreement terminates and the assets are collected.

## 1. Summary of Significant Accounting Policies (Continued)

***Contributions (Concluded)***

Contributions of donated items are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

***Investments***

Investments of the Foundation are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation elected to report the fair value of alternative investments, comprised of hedge funds and private equity funds, using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the Foundation based on various factors. See Note 2 for discussion of fair value measurements. Realized gains or losses on investments are determined by the average cost method for mutual funds, and specific identification method for investments in common stock and are reported as increases or decreases in net assets. Investment income is also reported in the statement of activities as an increase in unrestricted or temporarily restricted net assets based on the intentions stipulated by the donor.

***Fair Value of Financial Instruments***

The present value of contributions, grants and bequests receivable are estimated based upon discounted cash flows. The carrying amount of long-term receivables approximate fair value since the receivables has been discounted to net present value. Investments are stated at fair value in the financial statements based primarily on quoted market values. Where quoted market values are not available for investments, fair value is determined based on supporting information received from the investees, including audited financial statements.

The carrying amounts of cash and accounts payable and accrued expenses approximate the fair value because of the short maturity of these instruments.

***Property and Equipment***

Property and equipment which are purchased are stated at their original cost and donated equipment is recorded at fair value at the date of receipt, typically determined through independent appraisal. Property and equipment are depreciated on the straight-line method over their estimated useful lives.

**1. Summary of Significant Accounting Policies (Concluded)**

***Impairment of Long-Lived Assets***

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

***Grants Payable***

Grants are charged to operations and recognized as liabilities when authorized by the Board of Directors, regardless of the year in which they are paid.

***Functional Expenses***

Operating expenses are allocated to program services, management and general, and fund raising based on estimated time spent in the activity. The amounts allocated to each functional expense category are included in the statement of activities.

***Income Tax Status***

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. Certain investments of the Foundation are subject to the unrelated business income tax regulations, and occasionally will require the Foundation to pay tax on this unrelated business income. The Foundation is not classified as a private foundation.

The Foundation follows the accounting guidance for Accounting for Uncertainty in Income Taxes. In accordance with the guidance for uncertainty in income taxes, management has evaluated their material tax positions and determined that there are no income tax effects with respect to its financial statements. The Foundation is no longer subject to examination by federal or state authorities for years prior to 2011, nor have we been notified of any impending examination and no examinations are currently in process.

***Current Accounting Developments***

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2017. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

**2. Fair Value Measurements**

The Foundation estimates fair value using the guidance established by Fair Value Measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market the most advantageous market for the investment or liability. The Foundation accounts for its investments at fair value. In accordance with the guidance, the Foundation has categorized its investments, based on the priority of the inputs to the valuation technique which give the highest priority to quoted prices in active markets and the lowest priority to unobservable inputs, into a three-level fair value hierarchy. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets that the Foundation has the ability to access as of the measurement date.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable, or can be corroborated by, observable market data. Level 2 investments also include other investments, measured using the practical expedient, that do not have any significant redemption restrictions, lock up periods, gates or other characteristics that would cause report and liquidation date NAV to tie significantly different, if redemption were requested at the report date.

Level 3: The Foundation has elected to report the fair value of certain investments, primarily those included in other investments on the statement of financial position, using the practical expedient. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from the investees. These investments would have significant redemption and other restrictions that would limit the Foundation's ability to redeem out of the fund at report date NAV. For all investments that don't meet the conditions for using the practical expedient, valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of option pricing models, discounted cash flow models and similar techniques.

The asset's or liability'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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification In the valuation hierarchy:

*Debt and equity securities:* Valued at the closing price reported on the active or observable market on which the individual securities are traded. In less active markets or if prices are not current, the valuation is based on quoted prices for identical or similar assets.

**2. Fair Value Measurements (Concluded)**

*Mutual funds:* Valued at the quoted closing price reported on the active market on which the individual securities are traded.

*Money market funds:* Valued at cost, which approximates fair value of shares held at year-end.

*Real estate based funds:* Fair value is determined based on the value of the underlying assets held by the funds. The valuation policy includes complete Independent appraisals at least annually for each asset. Additionally the fund performs quarterly internal valuations on each of the real estate investments in the fund with the exception of recently acquired real estate Investments with approximately 25 percent of the real estate investments externally appraised each quarter. Additionally the fund performs quarterly internal valuations on each of the real estate investments in the fund with the exception of recently acquired real estate Investments.

*Hedge funds:* Valued using the practical expedient, which allows for the use of NAV of shares held at year-end. Values are based on exchange quotes, broker quotes or third-party vendor pricing to value complex or Illiquid assets. Fair values of other assets are based on the best information available under the circumstances, which may include the reporting entity's own data.

*Private equity-limited partnerships:* Valued using the practical expedient, which allows for the use of the NAV of the ownership interest in the partnership based on the most recently completed audited financial statements of the partnership prepared in accordance with U.S. generally accepted accounting principles and adjusted for activity through the measurement date.

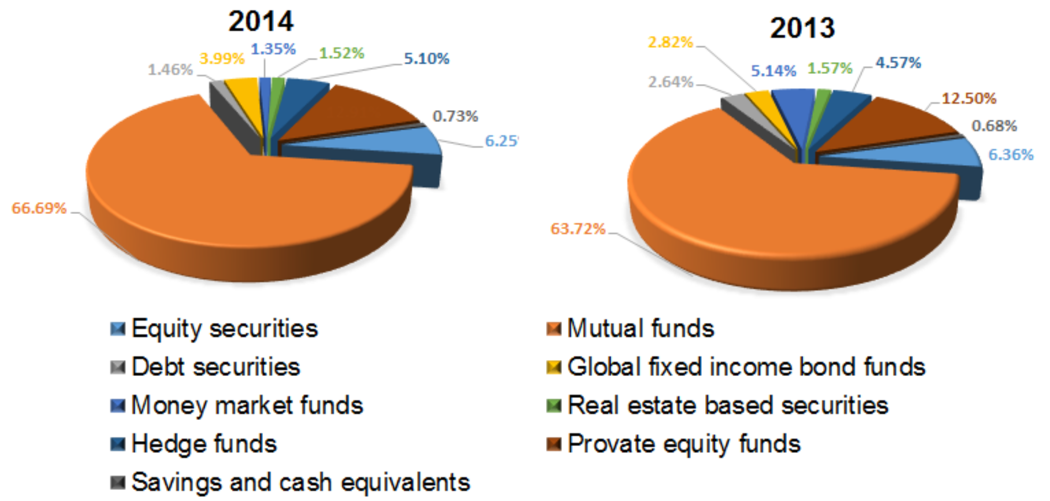
The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different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

There were no transfers between levels 2 and 3 during the years ended December 31, 2014 and 2013.

**3. Investments**

Many of the Foundation's investments are pooled on a market value basis at the Greater Cedar Rapids Community Foundation (GCRCF). Income from the pool is allocated to funds based on the respective market value of the particular funds. Investments of the Foundation accounted for 2.39% and 2.39% of GCRCF's investment portfolio for the years ended December 31, 2014 and 2013, respectively. The carrying value of Investments held by the GCRCF totaled $136,925,323 and $133,445,521 at December 31, 2014 and 2013, respectively and were allocated as:

**3. Investments (Concluded)**




Further information on the Greater Cedar Rapids Community Foundation and their investment portfolio is available at www.gcrcf.org or by contacting the Foundation at 324 3rd Street SE, Cedar Rapids, IA 52401, (319) 366-2862.

**4. Concentration of Credit Risk**

The Foundation maintains its cash and cash equivalents In commercial banks located in Keokuk, Iowa. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. The Foundation held no cash and cash equivalents in excess of the FDIC insured limits at December 31, 2014 and 2013. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**5. Management Review**

Management has evaluated subsequent events through August 14, 2015, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.