

**Keokuk Area Community Foundation**

**Financial Statements**

**December 31, 2016**

## **C o n t e n t s**

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## **Independent Accountant's Review Report**

Board of Directors  
Keokuk Area Community Foundation  
Keokuk, Iowa

We have reviewed the accompanying financial statements of Keokuk Area Community Foundation (Foundation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to the financial data and making inquiries of Foundation 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, we do not express such an opinion.

### **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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

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

*CPA Associates PC*

December 5, 2017

**Keokuk Area Community Foundation**  
**Statement of Financial Position**  
**December 31, 2016**

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**Assets**

|   |                     |
|---|---------------------|
| Cash and cash equivalents                           | \$ 395,844          |
| Greater Cedar Rapids Community Foundation deposit   | 3,436,919           |
| Equipment, net of accumulated depreciation of \$742 | -                   |
| Cash value of life insurance                        | <u>137,023</u>      |
|   | <u>\$ 3,969,786</u> |

**Liabilities and Net Assets**

**Liabilities**

|                       |                |
|-----------------------|----------------|
| Accrued expenses      | \$ 1,337       |
| Funds held for others | <u>674,331</u> |
|                       | <u>675,668</u> |

**Net assets**

|                               |                     |
|-------------------------------|---------------------|
| Unrestricted                  |                     |
| Operating                     | 69,354              |
| Quasi-endowed                 | 554,596             |
| Endowed                       | <u>1,141,533</u>    |
| Total unrestricted net assets | 1,765,483           |
| Temporarily restricted        | <u>1,528,635</u>    |
| Total net assets              | <u>3,294,118</u>    |
|                               | <u>\$ 3,969,786</u> |

See accompanying notes and independent accountant's review report.

**Keokuk Area Community Foundation**  
**Statement of Activities**  
**Year Ended December 31, 2016**

|   | <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Total</b>        |
|---|---------------------|-----------------------------------|---------------------|
| <b>Revenues and Other Support</b>   |                     |                                   |                     |
| Contributions   | \$ 168,617          | \$ 160,888                        | \$ 329,505          |
| Net investment return   | 28,213              | (70)                              | 28,143              |
| Change in cash value of life insurance  | -                   | 2,626                             | 2,626               |
| Investment return from Greater Cedar Rapids Community<br>Foundation deposit, net of investment advisory<br>expense of \$2,678 | 91,468              | 81,340                            | 172,808             |
| Loss on sale of land  | -                   | (27,282)                          | (27,282)            |
| Administrative fees   | <u>9,937</u>        | <u>-</u>                          | <u>9,937</u>        |
|   | 298,235             | 217,502                           | 515,737             |
| Net assets released from restrictions:  |                     |                                   |                     |
| Satisfaction of program restrictions  | <u>69,226</u>       | <u>(69,226)</u>                   | <u>-</u>            |
| Total revenues and other support  | <u>367,461</u>      | <u>148,276</u>                    | <u>515,737</u>      |
| <b>Expenses</b>   |                     |                                   |                     |
| Program services  | 116,058             | -                                 | 116,058             |
| Supporting activities   | 51,838              | -                                 | 51,838              |
| Fundraising activities  | <u>26,209</u>       | <u>-</u>                          | <u>26,209</u>       |
| Total expenses  | <u>194,105</u>      | <u>-</u>                          | <u>194,105</u>      |
| Change in net assets  | 173,356             | 148,276                           | 321,632             |
| <b>Net assets, beginning of year</b>  | <u>1,592,127</u>    | <u>1,380,359</u>                  | <u>2,972,486</u>    |
| <b>Net assets, end of year</b>  | <u>\$ 1,765,483</u> | <u>\$ 1,528,635</u>               | <u>\$ 3,294,118</u> |

See accompanying notes and independent accountant's review report.

**Keokuk Area Community Foundation  
Statement of Functional Expenses  
Year Ended December 31, 2016**

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|                           | <b><u>Program<br/>Services</u></b> | <b><u>Supporting<br/>Activities</u></b> | <b><u>Fundraising<br/>Activities</u></b> | <b><u>Total</u></b>      |
|---------------------------|------------------------------------|---|--|--------------------------|
| Grants awarded            | \$ 98,637                          | \$ -                                    | \$ -                                     | \$ 98,637                |
| Grant administration fees | 7,331                              | 14,663                                  | -  | 21,994                   |
| Insurance                 | -                                  | 4,323                                   | -  | 4,323                    |
| Office expense            | 1,478                              | 7,201                                   | 3,831                                    | 12,510                   |
| Payroll taxes             | 612                                | 1,530                                   | 1,530                                    | 3,672                    |
| Professional fees         | -                                  | 3,950                                   | -  | 3,950                    |
| Wages                     | 8,000                              | 20,000                                  | 20,000                                   | 48,000                   |
| Travel                    | <u>-</u>                           | <u>171</u>                              | <u>848</u>                               | <u>1,019</u>             |
|                           | <b><u>\$ 116,058</u></b>           | <b><u>\$ 51,838</u></b>                 | <b><u>\$ 26,209</u></b>                  | <b><u>\$ 194,105</u></b> |

See accompanying notes and independent accountant's review report.

**Keokuk Area Community Foundation**  
**Statement of Cash Flows**  
**Year Ended December 31, 2016**

|   |                   |
|---|-------------------|
| <b>Cash Flows From Operating Activities</b>   |                   |
| Change in net assets  | \$ 321,632        |
| Adjustments to reconcile change in net assets to net cash used by operating activities: |                   |
| Depreciation  | 214               |
| Realized loss on investments  | 17,333            |
| Realized loss on land   | 27,281            |
| Unrealized gain on investments  | (39,914)          |
| Unrealized gain on life insurance policy  | (2,626)           |
| Contributions restricted by donor for temporary endowment                               | (46,954)          |
| (Increase) in:  |                   |
| Greater Cedar Rapids Community Foundation deposit                                       | (425,505)         |
| Increase in:  |                   |
| Funds held for others   | <u>16,269</u>     |
| Net cash used by operating activities   | <u>(132,270)</u>  |
| <br><b>Cash Flows From Investing Activities</b>   |                   |
| Proceeds from the sale of investments   | 362,470           |
| Proceeds from the sale of land  | <u>2,000</u>      |
| Net cash provided by investing activities   | <u>364,470</u>    |
| <br><b>Cash Flows From Financing Activities</b>   |                   |
| Proceeds from contributions restricted by donor for temporary endowment                 | <u>46,954</u>     |
| Net cash provided by financing activities   | <u>46,954</u>     |
| Net increase in cash and cash equivalents   | 279,154           |
| Cash and cash equivalents, beginning of year  | <u>116,690</u>    |
| Cash and cash equivalents, end of year  | <u>\$ 395,844</u> |

See accompanying notes and independent accountant's review report.

**Keokuk Area Community Foundation**  
**Notes to Financial Statements**

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**Note 1. Statement of Purpose and Nature of Business**

Keokuk Area Community Foundation (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.

**Note 2. Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. As of December 31, 2016, the Foundation had cash and cash equivalents of \$7,016 that is held for others account.

Community Foundation Deposit

Based on Financial Accounting Standards Board's Accounting Standards Codification (Professional Standards), the Foundation has recorded a deposit for the total assets that have been transferred to the Greater Cedar Rapids Community Foundation (GCRCF), since the Foundation was both the resource provider and beneficiary. At December 31, 2016, the Community Foundation deposit is recorded at fair value based on the underlying value of the investment pool managed by GCRCF. The change in the deposit consists of the Foundation's share of investment income, unrealized gains and losses, and investment advisory fees, and is shown as an increase in unrestricted and temporarily restricted net assets based on the underlying fund designations. Annually, the Foundation's board of directors or donors for donor-advised funds has the authority to request distributions of 4.5% of the average fund balance. For the year ended December 31, 2016, the Foundation received distributions of \$60,120 from GCRCF.

Investment Valuation and Income Recognition

The Foundation's investments are reported 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. See Note 4 for discussion of fair value measurement.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net investment return includes the Foundation's gains and losses on investments bought and sold as well as held during the year.

**Keokuk Area Community Foundation**  
**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies** (continued)

Conditional Promises to Give

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, 2016.

Property and Equipment

Property and equipment 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.

Amounts Held on Behalf of Others

The Foundation acts as an agent for certain unrelated charitable organizations. The total amount of the funds held on behalf of these organizations has been reflected in the GCRCF deposit or cash and cash equivalents and a liability on the Statement of Financial Position. These funds do not have an impact on the Statement of Activities.

Support and Contributions

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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 Code of Iowa. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the fifty percent (50%) charitable contributions deduction of individual donors. The Foundation has open tax years for the three years prior to December 31, 2016.

Expense Allocation

Directly identifiable expenses are charged to program services and supporting activities. Expenses related to more than one function are charged to program services and activities services based on management's estimated time allocation. Supporting activities expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

**Keokuk Area Community Foundation**  
**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies** (continued)

Concentration of Credit Risk

The Foundation invests in various investment securities through the GCRCF. Investment securities are exposed to various risks such as interest rate, market, and credit risks. 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 Statement of Financial Position. In addition, the Foundation maintains deposits in excess of federally-insured limits and in uninsured money market accounts. These amounts vary on a daily basis.

Subsequent Events

The Foundation performed an evaluation of subsequent events through December 5, 2017, which is the date the financial statements were available to be issued. There are no subsequent events that require disclosure or recognition in the financial statements as of December 31, 2016.

**Note 3. Investments**

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended December 31, 2016:

|                         | <u>Unrestricted</u> | Temporarily<br><u>Restricted</u> | <u>Total</u>     |
|-------------------------|---------------------|----------------------------------|------------------|
| Dividends and interest  | \$ 5,631            | \$ 35                            | \$ 5,666         |
| Realized gains (losses) | <u>22,582</u>       | <u>(105)</u>                     | <u>22,477</u>    |
|                         | <u>\$ 28,213</u>    | <u>\$ (70)</u>                   | <u>\$ 28,143</u> |

**Note 4. Fair Value Measurement**

Financial Accounting Standards Board's Accounting Standards Codification (Professional Standards) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Professional Standards are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access

**Keokuk Area Community Foundation  
Notes to Financial Statements**

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**Note 4. Fair Value of Financial Instruments** (continued)

Level 2 Inputs to the valuation methodology include:

- quoted prices for identical or similar assets and liabilities in active markets
- quoted prices for identical or similar assets and liabilities in inactive markets
- inputs other than quoted prices that are observable for the asset or liability
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset 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 methodology used for assets measured at fair value:

*Greater Cedar Rapids Community Foundation deposit:*

Valued at the underlying prorated fair value of the investment pool managed by GCRCF

The preceding method described 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 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.

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial assets at fair value as of December 31, 2016:

|  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|----------------|----------------|--------------|
| Greater Cedar Rapids Community<br>Foundation deposit | \$ -           | \$ 3,436,919   | \$ -           | \$ 3,436,919 |

**Keokuk Area Community Foundation**  
**Notes to Financial Statements**

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**Note 5. Net Assets**

Net assets were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

|                                   |                  |
|-----------------------------------|------------------|
| Purpose restrictions accomplished |                  |
| Grants                            | \$ 52,999        |
| Grant administration fees         | <u>16,227</u>    |
|                                   | <u>\$ 69,226</u> |

**Note 6. Endowment**

The Foundation's endowment consists of approximately 37 funds established for a variety of grants. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by Professional Standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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. The donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- duration and preservation of the various funds
- purposes of the donor-restricted endowment funds
- general economic conditions
- actual net investment income earned in prior years
- the Foundation's investment policies
- donor advice

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to grants supported by its endowment funds while also maintaining the purchasing power of endowment assets. Accordingly, the investment process seeks to achieve a total rate of return of 7%. The endowment assets are invested up to 50% in fixed income funds with the balance invested in equity, real estate, natural resources, or hedge funds.

**Keokuk Area Community Foundation**  
**Notes to Financial Statements**

**Note 6. Endowment (continued)**

As of December 31, 2016, the endowment net asset composition by type of fund is as follows:

|                                   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        |
|-----------------------------------|---------------------|-----------------------------------|---------------------|
| Donor restricted endowment funds  | \$ -                | \$ 1,209,033                      | \$ 1,209,033        |
| Board designated endowment funds  | <u>1,696,129</u>    | <u>-</u>                          | <u>1,696,129</u>    |
| Endowment net assets, end of year | <u>\$ 1,696,129</u> | <u>\$ 1,209,033</u>               | <u>\$ 2,905,162</u> |

For the year ended December 31, 2016, changes in the endowment net assets are as follows:

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year              | \$ 1,215,265        | \$ 1,142,590                      | \$ 2,357,855        |
| Investment return from GCRCF deposit                 | 92,916              | 82,570                            | 175,486             |
| Investment management fees                           | (1,448)             | (1,230)                           | (2,678)             |
| Contributions and unrestricted funds<br>endowed      | 395,163             | 46,954                            | 442,117             |
| Appropriation of endowment assets for<br>expenditure | <u>(5,767)</u>      | <u>(61,851)</u>                   | <u>(67,618)</u>     |
| Endowment net assets, end of year                    | <u>\$ 1,696,129</u> | <u>\$ 1,209,033</u>               | <u>\$ 2,905,162</u> |

**Note 7. Recent Accounting Pronouncement**

In August 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update, which supersedes the financial reporting requirements for not-for-profit entities under current professional standards. This update requires two classes of net assets instead of the current three classes for the statement of financial position and statement of activities. The update also requires enhanced disclosures regarding the governing board designations, composition of net assets with donor restrictions and liquidity of the entity through qualitative and quantitative disclosures. The effective date of the update will be for periods beginning after December 15, 2017, using the retrospective method. The Foundation has not determined the potential effect of the standard on the financial statements.