Keokuk Area Community Foundation and Affiliate

Combined Financial Statements

December 31, 2023

GRAY HUNTER STENN LLP

CERTIFIED PUBLIC ACCOUNTANTS

Keokuk Area Community Foundation

Contents

December 31, 2023

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CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountants' Review Report

Board of Directors
Keokuk Area Community Foundation

We have reviewed the accompanying combined financial statements of Keokuk Area Community Foundation (a nonprofit organization) and affiliate (the Foundation), which comprise the statements of financial position as at December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity 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 combined 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 the combined financial statements that are free from material misstatement whether due to fraud or error.

Accountants' 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 combined financial statements 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.

We are required to be independent of Keokuk Area Community Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

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

Gray Hunter Stenn LLP

Gray Hunter Stenn LLP

Dated at Quincy, Illinois
May 4, 2023

Keokuk Area Community Foundation

Statement of Financial Position

December 31, 2023

Assets		
Cash and cash equivalents	$	54,647
Investments		20,484,430
Pledges receivable		70,978
Total Assets		20,610,055
Liabilities		
Accrued expenses		38,546
Agency liabilities		4,483,632
Total Liabilities		4,522,178
Net Assets		
Without donor restrictions		16,087,877
Total Liabilities and Net Assets	$	20,610,055

Keokuk Area Community Foundation

Statement of Activities

Years Ended December 31, 2023

Without Donor Restrictions

Revenues and Other Support		
Contributions	$	1,639,642
Investment return, net of investment advisory expense of $90,717		2,471,550
Donated services		9,000
Administrative fees		123,037
Total Revenues and Other Support		4,243,229
Expenses		
Program services		783,531
Supporting activities		275,062
Fundraising activities		59,134
Total Expenses		1,117,727
Change in Net Assets		3,125,502
Net Assets, Beginning of Year, as Restated		12,962,375
Net Assets, End of Year	$	16,087,877

Keokuk Area Community Foundation

Statement of Functional Expenses

Years Ended December 31, 2023

	Program Services	Supporting Activities	Fundraising Activities	Total
Grants and scholarships awarded	$ 726,768	$ -	$ -	$ 726,768
External administrative fees	-	105,493	-	105,493
Insurance	-	13,698	-	13,698
Office expense	13,635	34,841	15,312	63,788
Payroll taxes	3,069	3,521	2,437	9,027
Professional fees	-	69,742	-	69,742
Promotion expense	-	1,162	7,666	8,828
Wages	39,733	45,875	32,392	118,000
Travel	-	493	1,001	1,494
Miscellaneous	326	237	326	889
Total	$ 783,531	$ 275,062	$ 59,134	$ 1,117,727

Keokuk Area Community Foundation

Statement of Cash Flows

Years Ended December 31, 2023

Cash Flows from Operating Activities		
Change in net assets	$	3,125,502
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Donated securities		(31,264)
Realized (gain) loss on investment		190,319
Unrealized (gain) loss on investment		(2,448,050)
(Increase) decrease in:		
Pledges receivable		(69,048)
Accrued expenses		2,522
Agency liabilities		278,680
Net Cash from Operating Activities		1,048,661
Cash Flows from Investing Activities		
Purchase of investments		(8,411,123)
Proceeds from the sale of investments		6,950,476
Net Cash from Investing Activities		(1,460,647)
Net Increase (Decrease) in Cash and Cash Equivalents		(411,986)
Cash and Cash Equivalents at Beginning of Year		466,633
Cash and Cash Equivalents at End of Year	$	54,647

Keokuk Area Community Foundation
and Affiliate
Notes to Financial Statements

1. Nature of Activities

Keokuk Area Community Foundation (KACF), 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 Iowa, Missouri, and Illinois. It provides grants to various organizations in the tris-state Area to help foster and promote public, charitable, scientific, literary, and educational activities.

Keokuk Area Community Foundation has affiliation agreements with the Community Foundation of Des Moines County (CFDMC) and the North Lee Community Foundation (NLCF). These agreements provide for the affiliates to transfer endowment funds to KACF to be invested, managed, and granted in consultation with the affiliate. KACF provides administrative services under the agreements. The agreements allow for the transfer of affiliate funds to another community foundation and termination of the agreement at the request of the affiliate's board. NLCF and the KACF are under common management and as such their financial results are combined. Funds held on behalf of CFDMC are accounted for as agency funds as there is not common control between the entities and they are not financially interrelated.

2. Summary of Significant Accounting Policies

<u>Basis of Accounting</u>
The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

<u>Principles of Combination</u>
As described above the combined financial statements include the accounts of Keokuk Area Community Foundation and North Lee Community Foundation (collectively, the Foundation), which are under common management. Significant intercompany transactions and balances have been eliminated in the combination.

<u>Use of Estimates</u>
The preparation of financial statements 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. Significant estimates which are particularly susceptible to change in a short period of time relate to the allowance for uncollectible promises to give and valuation of level 3 fair value investments.

<u>Cash and Cash Equivalents</u>
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.

<u>Investments</u>
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.

2. Summary of Significant Accounting Policies (Continued)

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

Net Assets
Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed restrictions and available for use in general operations and fulfilling the purpose of donor established funds subject to agreements that grant variance power to the Foundation. Furthermore, the governing board has designated resources from these net assets establishing a board-designated (quasi) endowment).

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions restricted by donors are recorded as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both. No such assets are maintained by the Foundation.

Investment Pools
The Foundation maintains investment accounts for its endowment funds. Pooling endowment funds for investment purposes has many benefits including, but not limited to, spreading the total risk for each endowment fund and making the risk equal for all funds invested in the investment accounts, enhancing the investment performance relative to that of an individual fund; and reducing management fees. The investment return from securities in the investment accounts is allocated annually to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the investment accounts.

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. The Foundation has received notice of donors' intention to gift through estates totaling $450,000 as of December 31, 2023.

Unconditional Promises to Give
Unconditional promises to give are recognized as revenue in the period received. The Foundation uses the allowance method to determine uncollectible promises to give. The allowance is based on management's analysis of specific promises made. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

2. **Summary of Significant Accounting Policies** (Continued)

Funds Held for Others

The Foundation acts as an agent for certain charitable organizations. In addition to the assets held on behalf of CFDMC discussed previously, various charitable organizations have established funds at the Foundation and specified themselves as beneficiary. These funds are accounted for as agency liabilities by the Foundation, and do not have an impact on the Statement of Activities. As of December 31, 2023, the Foundation held $2,376,295 of investments on behalf of CFDMC and $2,107,337 on behalf of other charitable organizations.

Income Tax Status

The Foundation is exempt from income taxes under Section 50l(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. The Foundation has open tax years for the three years prior to December 31, 2023.

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

The Foundation's operating fund charges a management fee to each donor fund to support the cost of its administrative operating budget. These fees are recognized as the services are provided.

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 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. Salaries, payroll taxes, and benefits are allocated based on time and effort and office expenses are allocated based on usage.

Concentration of Credit Risk

The Foundation sometimes maintains deposits in excess of federally-insured limits and in uninsured money market accounts. These amounts vary on a daily basis.

In the current year, a significant amount of contributions were provided by a few major contributors. It is always considered reasonably possible that benefactors, grantors, or contributions might be lost in the near term.

Subsequent Events

The Foundation performed an evaluation of subsequent events through September 20, 2024, which is the date the financial statements were available to be issued.

3. Pledge Receivable

The Foundation uses the allowance method to determine uncollectible promises to give. The allowance is based on management's analysis of specific promises made. As December 31, 2023, management determined no allowance was necessary. Unconditional promises collectible in greater than one year are discounted to their present value using a discount rate of 8.50% at December 31, 2023, and as of that date unconditional promises to give consist of amounts due as follows:

2024	$	11,000
2025		11,000
2026		10,000
2027		10,000
2028		10,000
Thereafter		40,000
Total Promises to Give		92,000
Less discount to present value		(21,022)
Total	$	70,978

4. Investments

The Foundation carries investments in marketable securities with readily determinable fair value and all investments in debt securities at their fair values in the Statement of Financial Position Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

The following schedule summarizes the investment return for the year ended December 31, 2023:

Dividends and interest	$	304,536
Realized gains (losses)		(190,319)
Unrealized gains (losses)		2,448,050
Investment advisory expenses		(90,717)
Total	$	2,471,550

Financial Accounting Standards Board's Accounting Standards Codification 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 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.

Level 2 – Pricing inputs other than quoted prices included n Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities.

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

4. Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial assets at fair value as of December 31, 2023:

	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 1,505,654	$ -	$ -	$ 1,505,654
Certificates of deposit	304,268	-	-	304,268
U.S. Government obligations	-	288,215	-	288,215
Corporate bonds	-	296,537	-	296,537
Mutual funds	5,830,944	-	-	5,830,944
Equities	11,389,212	-	-	11,389,212
Structured investments	-	-	869,600	869,600
Total Investments	$ 19,030,078	$ 584,752	$ 869,600	$ 20,484,430

Structured investments are an illiquid fund of securities whose return is tied to the S&P 1000 market index. The value is based on the value, volatility and dividend yield, as applicable, of the underlying index and the securities comprising the underlying index, interest and yield rates, time remaining to maturity, geopolitical conditions and economic, financial, political and regulatory or judicial events and the issuer's internal credit ratings or credit spreads. This 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 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 table below presents a reconciliation for structured investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Balance, December 31, 2022	$ 1,386,738
Sales of securities	(1,460,513)
Purchases of securiteis	694,688
Unrealized gains (losses)	248,687
Balance, December 31, 2023	$ 869,600

5. Liquidity and Availability

The Foundation is substantially supported by donor contributions. Although the Foundation has variance power over most contributions, it intends to maintain sufficient resources to meet responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments. Although the Foundation does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

5. Liquidity and Availability (Continued)

Financial assets available for general expenditure and grantmaking, that is, without donor or other restrictions limiting their use, within one year of December 31, 2023 are as follows:

Cash and cash equivalents	$	54,647
Investments		20,484,430
Pledges receivable		70,978
Total Financial Assets as of Year End		20,610,055
Less those unavailable for general expenditures within one year:		
Assets held for others (agency)		(4,483,632)
Endowment, net of estimated spendable		(14,657,287)
Nonendowed donor advised funds		(749,319)
Financial Assets Available for General Expenditures and Grants Within One y	$	719,817

6. Funds Held for Others

The Foundation maintains legal ownership of agency funds and as such continues to report the funds as assets of the Foundation. However, in accordance with accounting standards, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments which could possibly be made to the charitable organizations under certain conditions. Agency activity comprised of the following for the year ended December 31, 2023.

Balance, December 31, 2022, as restated	$	3,643,570
Contributions		405,850
Investment income		608,345
Grants		(137,341)
Operating and administrative fees		(36,792)
Balance, December 31, 2023	$	4,483,632

7. Net Assets without Donor Restrictions

Net assets without donor restrictions are comprised of the following fund types at December 31, 2023:

Unrestricted	$	62,098
NLCF scholarships		4,356,207
Designated		1,007,082
NLCF designated		3,442,778
Donor-advised		2,796,063
NLCF donor-advised		1,351,703
Other named funds		1,537,301
Grants		1,032,936
NLCF grants		501,709
Total Net Assets without Donor Restrictions	$	16,087,877

8. Endowment

The Foundation's endowment consists of various funds established for a variety of grants and includes both funds established by donors and funds designated by the Boards of Directors to function as endowments. The Foundation's agreements with donors include a variance provision, giving the Boards of Directors the power to vary the use of endowed funds if the purpose becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Foundation. Based on these provisions, most contributions, received by the Foundation are reported as support without donor restrictions. Any gift instrument received that is not established in accordance with the aforementioned that limits the Boards' authority to accumulate or appropriate for expenditures, explicitly, is classified as net assets with donor restrictions pursuant to the provisions of the Iowa Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Interpretation of Relevant Law
The Board of Directors has adopted UPMIFA as policy governing the accumulation and appropriation of endowment gifts. UPMIFA provides organizations the ability to distribute corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) duration and preservation of the various funds (2) purposes of the donor-restricted endowment funds (3) general economic conditions (4) the possible effect of inflation and deflation (5) the expected total return from income and the appreciation of investments (6) other resources of the organization, and (7) the Foundation's investment policies.

Return Objectives and Risk Parameters
The Foundation has adopted investment and spending policies for endowment assets that attempt to provide 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%.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation or depreciation (realized and unrealized) and current yield (interest and dividends). The Foundation has developed a diversified asset allocation to achieve its long-term objectives with prudent risk parameters.

Spending Policy
The endowment spending rate is calculated as a percentage of the average endowment investment market value from the previous eight quarters. For the year ended December 31, 2023, the Board of Directors approved an endowment spending policy of 4.5%. The Board reviews and modifies the spending policy annually based on economic conditions.

For the year ended December 31, 2023, changes in the endowment net assets are as follows:

Endowment Net Assets, Beginning of Year, as Restate	$	12,393,238
Contributions		1,203,509
Investment returns, net		2,447,035
Appropriation of endowment assets for expenditure		(624,112)
Interfund grants and expenses		(138,271)
Endowment Net Assets, End of Year	$	15,281,399

8. Endowment (Continued)

As of December 31, 2023, the endowment net asset composition by type of fund is as follows:

NLCF scholarships	$	4,356,207
Designated		1,006,459
NLCF designated		3,442,778
Donor-advised		2,216,918
NLCF donor-advised		1,181,529
Other named funds		1,542,863
Grants		1,032,936
NLCF grants		501,709
Total	$	15,281,399

The Foundation's net assets without donor restrictions include amounts that have been designated by the Board of Directors as endowment funds. These endowments totaling $670,788 at December 31, 2023, are available for disbursement at the discretion of the Board and are subject to the Foundation's spending policy. Disbursements generally made are philanthropic grants and support the key objects of the Foundation's mission.

9. Restatement

The Foundation has restated net asset balances, classifications, and disclosures as of December 31, 2023 related to two matters. The Foundation determined that due to variance power provided in donor agreements, all net assets of the Foundation are without donor restriction. As a result, $12,288,438 of net assets previously reported with donor restrictions at December 31, 2023 were restated as without donor restrictions.

In addition, the Foundation determined that funds held on behalf of CFDMC which were previously reported as net assets of the Foundation were more appropriately accounted for as agency liabilities. As a result, $1,816,345 of net assets at December 31, 2023 were reclassified as liabilities. This change would have increased the 2022 change in net assets by $306,858.

10. Subsequent Events

On July 29, 2024, NLCF filed a petition in the Iowa District Court for Lee County against a community foundation with which it was previously affiliated related to a dispute over funds donated to NLCF and held by the defendant under their affiliation agreement. NLCF has demanded the return of approximately $10 million of donated funds and related administrative fees as well as damages, attorney fees, and interest. Because of the uncertainty of the outcome of this matter, no amounts have been recorded in the financial statements as of December 31, 2023.