

*Financial Statements*

**DICKINSON AREA COMMUNITY FOUNDATION**

**December 31, 2008**

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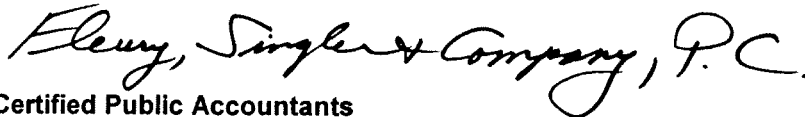
## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the **DICKINSON AREA COMMUNITY FOUNDATION** (a nonprofit organization) as of December 31, 2008 and the related statements of activities, functional expenses, and cash flows for the eight months then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the eight months then ended in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants

November 9, 2009

# DICKINSON AREA COMMUNITY FOUNDATION

## STATEMENT OF FINANCIAL POSITION

December 31, 2008

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<b>Assets</b>			
Cash		\$	124,403
Interest receivable			909
Investments			4,210,962
Office equipment	10,032		
Less accumulated depreciation	<u>7,660</u>		<u>2,372</u>
	<b>Total assets</b>	<b>\$</b>	<b><u>4,338,646</u></b>
 <b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accrued payroll and payroll taxes		\$	1,240
Funds designated for other nonprofit organizations			<u>25,523</u>
	<b>Total liabilities</b>		26,763
 <b>Net assets</b>			
Unrestricted (Note B)		(	967,669)
Temporarily restricted (Note C)			522,487
Permanently restricted (Note D)			<u>4,757,065</u>
	<b>Total net assets</b>		<u>4,311,883</u>
	<b>Total liabilities and net assets</b>	<b>\$</b>	<b><u>4,338,646</u></b>

See notes to financial statements.

# DICKINSON AREA COMMUNITY FOUNDATION

## STATEMENT OF ACTIVITIES

Eight months ended December 31, 2008

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
<b>Revenues, gains and other support</b>				
Investment income	\$ -	\$ 116,091	\$ -	\$ 116,091
Net unrealized and realized loss on long-term investments	( 926,443)	( 723,286)	-	( 1,649,729)
Contributions	-	6,293	105,211	111,504
Fundraising (net of direct expenses of \$2,104)	6,961	210	-	7,171
Donated services (Note J)	1,863	-	-	1,863
Grants	1,200	-	-	1,200
Miscellaneous	672	940	-	1,612
Net assets released from restrictions due to satisfaction of program restrictions	149,153	( 149,153)	-	-
<b>Total revenues, gains and other support</b>	<b>( 766,594)</b>	<b>( 748,905)</b>	<b>105,211</b>	<b>( 1,410,288)</b>
<b>Expenses</b>				
Program services	207,836	-	-	207,836
Fundraising	4,682	-	-	4,682
Administrative	31,290	-	-	31,290
<b>Total expenses</b>	<b>243,808</b>	<b>-</b>	<b>-</b>	<b>243,808</b>
<b>Change in net assets</b>	<b>( 1,010,402)</b>	<b>( 748,905)</b>	<b>105,211</b>	<b>( 1,654,096)</b>
Net assets - April 30, 2008	37,733	1,271,392	4,656,854	5,965,979
Correction of prior year error - Note L	5,000	-	( 5,000)	-
<b>Net assets - End of year</b>	<b><u>\$( 967,669)</u></b>	<b><u>\$ 522,487</u></b>	<b><u>\$ 4,757,065</u></b>	<b><u>\$ 4,311,883</u></b>

See notes to financial statements.

# DICKINSON AREA COMMUNITY FOUNDATION

## STATEMENT OF FUNCTIONAL EXPENSES

Eight months ended December 31, 2008

	Program Services	Support Services		Total
		Fundraising	Administrative	
Salaries	\$ 28,069	\$ 2,005	\$ 10,024	\$ 40,098
Payroll taxes	2,181	156	779	3,116
Grants	76,726	-	-	76,726
Scholarships	71,392	-	-	71,392
Management fees	20,659	-	-	20,659
Accounting and legal	-	-	6,712	6,712
Rent	1,540	110	550	2,200
Office supplies and expense	3,724	1,400	3,514	8,638
Telephone	368	26	131	525
Advertising	-	918	-	918
Bank charges	-	-	20	20
Dues and subscriptions	-	-	1,872	1,872
Travel and meetings	-	-	6,202	6,202
Program services	2,234	-	-	2,234
Depreciation	-	-	780	780
Insurance	943	67	337	1,347
YAC general expenses	-	-	369	369
<b>Total expenses</b>	<b>\$ 207,836</b>	<b>\$ 4,682</b>	<b>\$ 31,290</b>	<b>\$ 243,808</b>

See notes to financial statements.

# DICKINSON AREA COMMUNITY FOUNDATION

## STATEMENT OF CASH FLOWS

Eight months ended December 31, 2008

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<b>Cash flows from operating activities</b>	
Change in net assets	\$( 1,654,096)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	780
Decrease in interest receivable	634
Increase in accrued liabilities	24,848
Net unrealized and realized loss on long-term investments	<u>1,649,729</u>
<b>Net cash provided by operating activities</b>	<b>21,895</b>
<b>Cash flows from investing activities</b>	
Purchases of investment securities	( 2,189,083)
Proceeds from sale of investments	<u>2,224,858</u>
<b>Net cash provided by investing activities</b>	<b><u>35,775</u></b>
<b>Net increase in cash</b>	<b>57,670</b>
Cash - April 30, 2008	<u>66,733</u>
<b>Cash - End of year</b>	<b><u>\$ 124,403</u></b>

See notes to financial statements.

# DICKINSON AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 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. It has been certified by the State of Michigan as a Community Foundation for the purpose of Michigan tax credits for tax year 2008.

#### **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.

#### **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**

Under SFAS No. 117, 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**

In accordance with SFAS No. 116, 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 organization'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 to a specific purpose. Without 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**

The Foundation has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, 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. Unrealized gains and losses are included in the change in net assets. All of the Foundation's investments had readily available fair market values which are determined by a bank trust department at December 31, 2008.

#### **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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE B - UNRESTRICTED NET ASSETS

Unrestricted net assets has been reduced at December 31, 2008 by the decrease in fair market value of the investments in the majority of the endowed funds below their permanently restricted bases. The aggregate amount of this depreciation at December 31, 2008 is \$967,924.

### 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 per SFAS No. 116.

### 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 86 scholarship, grant and administrative agreements during the current fiscal year.

### 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 2009	\$ 86,750
Due in 2010 through 2012	<u>107,250</u>
<b>Total commitments at December 31, 2008</b>	<b><u>\$ 194,000</u></b>

### 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. These funds, though managed by this company, are held by the bank's trust department. Money market, fixed income and equity investments are not federally insured. Investments consist of the following which is provided by the trust department:

	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Money market funds	\$ 337,591	\$ -	\$ 337,591
Fixed income	1,669,720	( 101,685)	1,568,035
Equities	2,767,439	( 502,932)	2,264,507
Certificates of deposit	<u>40,829</u>	<u>-</u>	<u>40,829</u>
<b>Totals</b>	<b><u>\$ 4,815,579</u></b>	<b><u>\$( 604,617)</u></b>	<b><u>\$ 4,210,962</u></b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE F - INVESTMENT SECURITIES (CONTINUED)

The investments are stated at fair value which is measured by the trust department as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2008</b>				
Government bond	\$ 30,928	\$ -	\$ 30,928	\$ -
Corporate bond	30,339	-	30,339	-
Fixed income mutual funds	1,506,768	1,506,768	-	-
Equities	2,264,507	2,264,507	-	-
<b>Totals</b>	<b>\$ 3,832,542</b>	<b>\$ 3,771,275</b>	<b>\$ 61,267</b>	<b>\$ -</b>

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This 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, and Level 3 inputs have the lowest priority. The trust department uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the trust department measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

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

*Level 2 Fair Value Measurements* - These assets include government and corporate bonds. Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset, either directly or indirectly. The prices were obtained from a pricing service, Interactive Data Corporation.

### NOTE G - ENDOWMENT FUNDS

In August 2008, the Financial Accounting Standards Board issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FAS 117-1). FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FAS 117-1 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Michigan has adopted UPMIFA effective September 10, 2009. The Foundation has adopted FAS 117-1 for the eight months ending December 31, 2008. Implementation of UPMIFA classifications will occur in 2009 as necessary.

The Foundation's endowed funds are governed by gift instruments and specific agreements with the Foundation. None of the agreements allow the distribution of principal. As a result of these 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. Temporarily restricted net assets consist primarily of contributions designated by donors to fund current grants and scholarships and any earnings on endowed funds above the permanently restricted basis amounts that may be allocated for distributions.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE G - ENDOWMENT FUNDS (CONTINUED)

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.

The investment policy emphasizes growth over the long term with a balanced approach targeting allocations of 60% equity and 40% fixed income. The policy establishes eligible investments with no more than 10% of the invested funds allowed to be in securities which do not pay interest or dividends. All assets are required to have readily ascertainable market values and shall be readily marketable.

The spending policy calculates the amount available for spending using 4% of the 16 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 third quarter each year using June 30<sup>th</sup> fund balances.

#### Changes in Endowed Net Assets

For the eight months ended December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 1, 2008	\$ (6,111)	\$ 1,245,723	\$ 4,656,854	\$ 5,896,466
Investment income	-	162,997	-	162,997
Net realized and unrealized losses	(965,797)	(737,630)	-	(1,703,427)
Contributions	-	-	105,211	105,211
Investment and administrative fees	-	(62,731)	-	(62,731)
Grants and scholarships	-	(184,504)	-	(184,504)
Correction of prior year error	5,000	-	(5,000)	-
<b>Endowment net assets, December 31, 2008</b>	<b>\$ (966,908)</b>	<b>\$ 423,855</b>	<b>\$ 4,757,065</b>	<b>\$ 4,214,012</b>

All endowed funds are donor restricted endowment funds.

### NOTE H - LEASE

The Foundation leases office space under a one-year operating lease. The total rental expense for the eight months ending December 31, 2008 was \$2,200.

### 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 \$1,863 and donations totaling approximately \$17,820 were made to the Foundation by board and committee members. Certain funds are invested with a trust department where one of the trust officers also serves as a member of the Foundation's finance committee.

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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### **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 - CORRECTION OF PRIOR YEAR ERROR**

During 2008, an adjustment of \$5,000 was made to permanently restricted net assets for the correction of a prior year contribution that was distributed as per the donor's intent for scholarships and therefore not permanently endowed.