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Eastern Upper Peninsula Community Foundation Alliance, Inc.

dba

Chippewa County Community Foundation
Sault Ste. Marie, Michigan

Financial Statements
For the Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Eastern Upper Peninsula Community
Foundation Alliance, Inc.
dba / Chippewa County Community Foundation
P.O. Box 1979
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the Eastern Upper Peninsula Community Foundation Alliance, Inc., dba Chippewa County Community Foundation (a Michigan Nonprofit Corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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To the Board of Directors of the
Eastern Upper Peninsula Community
Foundation Alliance, Inc.
dba / Chippewa County Community Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Eastern Upper Peninsula Community Foundation Alliance, Inc., dba Chippewa County Community Foundation as of December 31, 2017, and the changes in net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

April 4, 2019

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Financial Statements

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Eastern Upper Peninsula Community Foundation Alliance, Inc.
dba/Chippewa County Community Foundation

Statement of Financial Position
December 31, 2017

ASSETS:		
Current Assets:		
Cash and cash equivalents-unrestricted	$	109,458
Total Current Assets		109,458
Non-Current Assets:		
Investments		3,529,874
Charitable remainder trust - assets		894,562
Total Non-Current Assets		4,424,436
Property and Equipment:		
Office equipment (net of accumulated depreciation)		1,204
Total Assets	$	4,535,098
LIABILITIES:		
Current Liabilities:		
Accounts payable and accrued expenses	$	3,161
Funds held under agency endowment agreements		220,721
Total Current Liabilities		223,882
Non-Current Liabilities:		
Charitable remainder trust - liabilities		402,321
Total Liabilities		626,203
NET ASSETS:		
Unrestricted		60,512
Temporarily restricted		711,515
Permanently restricted		3,136,868
Total Net Assets		3,908,895
Total Liabilities and Net Assets	$	4,535,098

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Eastern Upper Peninsula Community Foundation Alliance, Inc.
dba/Chippewa County Community Foundation

Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	$ 340	$ 139,078	$ 19,048	$ 158,466
Special events, net of costs	(9,929)		-	(9,929)
Administrative fees	56,574		-	56,574
Investment income	8,265	128,558	-	136,823
Realized and unrealized gains (losses) on investments, net of investment expenses	25,808	314,189	(9,378)	330,619
Miscellaneous	5,426	-	-	5,426
Net assets released from restrictions	268,232	(268,232)	-	-
Total Revenues and Other Support	354,716	313,593	9,670	677,979
Expenses				
Grants to community	268,232	-	-	268,232
Program services	32,906	-	-	32,906
Management and general	51,672	59,775	-	111,447
Fundraising expenses	2,206	-	-	2,206
Total Expenses	355,016	59,775	-	414,791
Changes in net assets	(300)	253,818	9,670	263,188
Net Assets, beginning of year	60,812	664,873	2,920,022	3,645,707
Prior period adjustment (See note 15)	-	(207,176)	207,176	-
Net Assets as restated	60,812	457,697	3,127,198	3,645,707
Net Assets, end of year	$ 60,512	$ 711,515	$ 3,136,868	$ 3,908,895

See accompanying notes to financial statements.

Eastern Upper Peninsula Community Foundation Alliance, Inc. DRAFT
dba/Chippewa County Community Foundation

Statement of Cash Flows
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 263,188
Adjustments to reconcile changes in net assets to net cash and cash equivalents used by operating activities:	
Net realized Investment gains or losses	50,749
Net unrealized Investment gains or losses	289,247
Depreciation	523
Changes in:	
Accounts receivable	830
Charitable remainder trust - assets	34,293
Accounts payable/ accrued expenses	2,390
Agency endowment agreements	21,266
Charitable remainder trust -liabilities	(24,915)
Net cash provided (used) by operating activities	637,571
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of investments	436,430
Purchases of investments	(1,145,983)
Loss on disposal of property and equipment	13,023
Net cash provided (used) by investing activities:	(696,530)
Net change in cash and cash equivalents	(58,959)
Cash and equivalents, beginning of year	168,417
Cash and equivalents, end of year	$ 109,458

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Notes to Financial Statements

NOTE 1 - NATURE OF FOUNDATION AND PURPOSE

The Eastern Upper Peninsula Community Foundation Alliance, Inc. dba Chippewa County Community Foundation was organized as a non-profit Michigan corporation October 27, 1994, under IRS code section 501(c)(3) and is exempt from federal and state income taxes.

The purpose of the Foundation is to receive and accept property to be administered exclusively for charitable purposes primarily in and for the benefit of the people of Chippewa, Mackinac, and Luce Counties, Michigan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Foundation are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting

The financial statements of the Foundation are recorded on the accrual basis, in accordance with U.S. generally accepted accounting principles.

Financial Statement Presentation

The financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its ASC Topic 958 regarding, "Financial Statements of Not-for-Profit Organizations." Under ASC Topic 958, Chippewa County Community Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Contributions

The Foundation has adopted ASC Topic 958 regarding, *Accounting for Contributions Received and Contributions Made*. In accordance with ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently 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 restricted net assets, depending on the nature of the restriction. 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.

Agency Endowment Funds

The Foundation may accept contributions from another nonprofit organization and agree to transfer the return on investment of those assets back to the nonprofit organization at some point in the future.

Because the Foundation maintains variance power and fiduciary responsibility for all funds held under agency endowment agreements, these funds continue to be reported as assets. However, a liability, Funds Held under Agency Endowment Agreements, has been established for the fair value of the funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials and Services

No amounts have been reflected in the accompanying financial statements for donated services. The Foundation pays for most services requiring specific expertise. However, many individuals volunteer significant amounts of time in the Foundation's programs. During the year, the value of contributed services was not material and has not been recorded.

Income Tax Status

The Foundation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Service Code. Therefore, no income taxes are accrued, nor are a provision computed in the accompanying statements. Although, the Foundation was granted income tax exemption by the Internal Revenue Service such exemption does not apply to "unrelated business taxable income."

Fundraising

The Organization hosted its first annual Stand Up Paddle Board Day event as its primary fundraising activity. The organization spent $1,430 on the prior year fundraising event dueling piano's which brought in no current year revenues, and the SUP day expenditures were $17,348 with revenues of $8,849 or expenses represented 196% of revenues which included all of the first-year startup expenses and it is projected to start making money in the next year. The Organization also spent $2,206 on general fundraising activities throughout the year. The total fundraising cost incurred by the organization were $21,038. No indirect costs have been allocated to fundraising expenses.

Advertising

Advertising costs are expensed as incurred. Total advertising costs for December 31, 2017, were $2,206.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Equivalents

For purposes of the statements of position and cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash and cash equivalents.

Fair Value Measurements

Financial assets required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy for fair value investments. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. Investments are the only assets of the Foundation measured at fair value on a recurring basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Foundation carries all investments in equity securities and equity funds and fixed income funds with readily determinable fair values at their fair values based on quoted prices in active markets (all Level 1 measurements). Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. Interest income is accrued as earned. Security transactions are recorded on a trade date basis.

Functional Expenses

The Foundation allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

Property and Equipment

The Foundation follows the practice of capitalizing over $500 with an estimated useful life greater than one year. Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets (5 – 39 years). Donations of property and equipment are reported as unrestricted support at their estimated fair value unless stipulations are made. If such stipulations are made, assets are recorded as restricted until the stipulation is met.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through April 4, 2019.

Uncertainty for Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from federal income tax on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue code section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. The Organization did not have any unrelated business income.

Uncertainty in Income Taxes – Management has considered the tax positions taken in its tax returns and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely-than-not to be sustained upon examination.

The Organization's federal returns for the years ended December 31, 2016, 2015, and 2014 could be subject to examination by federal taxing authorities, generally for three years after they are filed.

NOTE 3 - CASH AND EQUIVALENTS

The Foundation's composition of cash and equivalents as of December 31, 2017 (carrying amounts) is summarized as follows:

Checking & Savings	$	15,825
Money Market Savings		656
Certificates of Deposit		92.977
TOTAL	$	109,458

At December 31, 2017 the carrying amount of the Foundation's deposits was $109,458 and the bank balance was $180,956. Of the bank balance, 100% was covered by insurance provided by the Federal Depository Insurance Corporation (FDIC)/SIPC at December 31, 2017.

NOTE 4 - FAIR VALUE MEASUREMENTS

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 – Quoted prices in active markets for identical assets. Assets in this level typically include publicly traded equities, mutual fund investments, cash equivalents, and listed derivatives.

Level 2 – Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data such as published interest rates and yield curves, over-the-counter derivatives, market modeling, or other valuation methodologies. Assets in this level include debt securities and partnerships that hold Level 1 assets, provided that the Foundation has the ability to redeem the investment in the near term, and real estate held for investment if measured by a current appraisal.

Level 3 – Unobservable inputs that reflect management's assumptions and best estimated based on available data. Assets in this level include alternative investments, real estate held for investment if measured using management estimates, investments in partnerships and limited liability companies, and beneficial interests in charitable remainder trusts.

Investment securities are carried at fair value based on quoted prices in active markets (all Level 1 Measurements) and consist of the following at December 31, 2017:

	Cost	Fair Value
Mutual Funds	$ 2,098,342	$ 2,632,005
Annuity/Life Insurance Policy	625,691	897,869
Total	$ 2,724,033	$ 3,529,874

NOTE 5 - INVESTMENTS

The components of total investment return from investments for December 31, 2017 is reflected below:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 8,265	$ 128,558	$ -	$ 136,823
Net realized and unrealized gains and losses Net of expenses	25,808	314,189	(9,378)	330,619
Total return on investment	$ 34,073	$ 442,747	$ (9,378)	$ 467,442

The Foundations total investment expenditures were $21,592 for 2017.

NOTE 6 - LEASE COMMITMENTS

The Foundation has a cancelable operating lease for office space in Sault Ste. Marie, requiring monthly payments of $282 until January 2019 of which the Foundations is responsible for 50%. The Foundation 2017 lease expenses were $1,689.

Year Ending December 31	Lease
2018	$ 1,692
2019	282
Total	$ 1,974

NOTE 7 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of and for the year ended December 31, 2017 is as follows:

	Balance 1/1/2017	Additions	Deletions/ Adjustments	Balance 12/31/2017
Equipment	$ 20,757	$ -	$ (17,737)	$ 3,020
Less: Accumulated depreciation	(6,007)	(523)	4,714	(1,816)
Net Property, Equipment and Improvements	$ 14,750	$ (523)	$ (13,023)	$ 1,204

Depreciation expense charged to operations for the year ended December 31, 2017 was $523.

NOTE 8 - COMPENSATED ABSENCES

The Eastern Upper Peninsula Community Foundation Alliance, Inc., dba Chippewa County Community Foundation currently has no vacation policy for employees. Therefore, no liability is recorded for vested or accumulated vacation.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Investments consist primarily of financial instruments including cash equivalents, equity and fixed income securities, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk, as, from time to time, balances may exceed amounts insured by the Federal Deposit Insurance Corporation, the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

The majority of the Foundation's contributions are received from donors located in the Eastern Upper Peninsula. As such, the Foundation's ability to generate resources via contributions is dependent upon the economic health of that area. An economic downturn could cause a decrease in contributions that coincides with an increase in need among the not-for-profit organizations that the Foundation supports.

NOTE 10 - FUNDS HELD UNDER AGENCY ENDOWMENT AGREEMENTS

Although commingled with the Foundation's investments, the funds held under the agency endowment agreements are separately accounted for because the Foundation has agreed to transfer the return on investment of assets to the nonprofit organizations at some point in the future. Activity for December 31, 2017 is as follows:

Beginning balance	$	199,455
Additions:		
Contributions and transfers		25
Investment Income and gains (losses)		34,074
Total additions		34,099
Deductions:		
Grants		(7,264)
Service fees assessed		(5,569)
Total deductions		(12,833)
Ending balance	$	220,721

NOTE 11 - ENDOWMENTS

The Foundation's endowments consist of approximately seventy-five individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

For donor-restricted endowment funds, the Board of Trustees of the Foundation have interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classify as permanently restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified at temporarily restricted net assets until those amounts are appropriated for expenditures by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund.

(2) The purposes of the Foundation and the donor-restricted endowment fund.

(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 Foundation.

(7) The investment policies of the Foundation.

Spending Policy. The Foundation has a spending policy which determines the amount available for granting only once each year. The spending policy formula is applied against the net asset value of all endowed funds as of the previous calendar year end. The amount available for spending was calculated on the simple moving average, based on the number of quarters each fund has been in existence up to twelve quarters. After a fund has been in existence twelve quarters, the most recent twelve quarters will be used. It will be calculated as a twelve-quarter rolling average of the market value in the future. The available amount for spending from the fund's market value, for distribution and administration, will be up to five percent for granting purposes plus the current administrative fee rate. The fund's endowed principal will not be invaded for distribution except as allowed by the fund agreement.

NOTE 11 - ENDOWMENTS (Continued)

Changes in endowment net assets for the fiscal year ended December 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 664,873	$ 2,920,022	$ 3,584,895
Prior period reclassifications	(207,176)	207,176	-
Investment return:			
Interest and dividends	128,558	-	128,558
Realized and unrealized gains (losses)	314,189	(9,378)	304,811
Total Investment	442,747	(9,378)	433,369
Contributions	139,078	19,048	158,126
Appropriation for expenditure - special	(268,232)	-	(268,232)
Fees	(59,775)	-	(59,775)
Endowment net assets, end of year	$ 711,515	$ 3,136,868	$ 3,848,383

Return objective and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to accumulate a pool of assets sufficient to build community capital for future use with the corresponding obligation to support current and future community needs. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under the Foundation's policies, as approved by the Board of trustees, the endowment assets are invested in a manner that is intended to produce results that meet or exceed a target balanced index composed of: 40% of the S&P500 index, 15% Morgan Stanley Capital International Europe, Australia, Far East Index "EAFE" (international equity) and 30% of the LB Aggregate Bond Index (fixed income).

NOTE 12 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Net assets are restricted for the following purposes at December 31, 2017.

	Temporarily Restricted	Permanently Restricted
Scholarships	$ 261,432	$ 1,171,282
Education/Youth Funds	95,718	512,027
Arts/Dance	912	923
Environmental	78,441	124,085
History Preservation	15,684	61,543
Other	259,328	1,267,008
Total	$ 711,515	$ 3,136,868

NOTE 13 - CHARITABLE REMAINDER TRUST

The Foundation has been named a remainder beneficiary of a charitable remainder unitrust, which was created in 2015. One income beneficiary is to receive 5% of the net fair market value of the assets in the trust on the first day of the trust year annually. Upon the death of the income beneficiary, the remaining principal and income of the trust is to be distributed to the Foundation. A non-current asset for the charitable remainder trust has been recognized at the fair market value. The expected future cash flow of $492,242 represents the Foundation's share of the fair market value of the trust as of December 31, 2017. This balance has been recorded as a permanently restricted contribution. The present value has been calculated using a discount rate of 5.0% and a term of fourteen years.

NOTE 14 - COMITMENTS AND CONTINGENCIES

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The foundation maintains general commercial liability coverage at a level the board as deemed adequate for outstanding risks. The government pays an annual premium for its general insurance coverage.

The Foundation has renewal scholarship grants outstanding at 12/31/2017, but no liability is recorded for these grants as they are conditional to the student's GPA and continued attendance in school, therefore the liability is unmeasurable at the year end.

NOTE 15 - RESTATEMENT

	Temporarily Restricted	Permanently Restricted
Beginning net position as previously reported at January 1, 2017	$ 664,873	$ 2,920,022
Restatement of beginning net position:		
To reclassify funds as permanently restricted that Had previously improperly recorded as Temporarily restricted	(207,176)	207,176
Net position as restated, January 1, 2017	$ 457,697	$ 3,127,198

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors of the
Eastern Upper Peninsula Community
Foundation Alliance, Inc.
dba / Chippewa County Community Foundation
P.O. Box 1979
Sault Ste. Marie, MI 49783

We have audited the financial statements of the Eastern Upper Peninsula Community Foundation Alliance, Inc., dba Chippewa County Community Foundation, (a Michigan nonprofit corporation) for the year ended December 31, 2017, and have issued our report thereon dated April 4, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 21, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 21, 2019.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Eastern Upper Peninsula Community Foundation Alliance, Inc., dba Chippewa County Community Foundation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of Depreciation Expense is based on the estimated useful life of the depreciable long-lived asset. We evaluated the key factors and assumptions used to develop Depreciation Expense in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the valuation of investment securities is based on quoted market prices for publicly traded securities as provided by investment managers, brokers and bank trust departments. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 4, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Payroll (Prior Year)

Upon sampling the personnel files, we noted the files don't have all the required documentation required under the Fair Labor Standards Act. This act requires a W-4, I-9, MI-W-4, MI New Hire Form, pay rate authorization, and Employment Application. We recommend that these forms are present and properly filled out prior to processing payroll. Nonprofit organizations should be careful to document approval of salaries and all fringe benefits and how they were determined.

Status: Partially corrected, employee personnel files still lack documentation of wage rates, MI new hire forms, and note a few partial completed forms

Cash Receipt Process (Prior Year)

It was noted in our review of the mail log that there were inconsistencies of when checks were received versus when they were dated as being received in the log. It is our recommendation that the date used in the log is the same as the date the check was physically received. In the event of checks received in the mail, this date would be the date the mail was opened. In addition to this, we recommend that checks that have been logged within a certain fiscal year get recorded within QuickBooks for that year.

Status: Corrected

Required Fillings (Prior Year)

In review of the Form 990 that was submitted to the IRS, it was noted that no 1099's were filed during the year despite a known instance of at least one being needed. Additionally, it was noted that the Renewal Solicitation Form required by the State of Michigan was incomplete. We recommend developing a process to thoroughly evaluate the need for potential 1099's and to thoroughly review fillings prior to submission.

Status: Corrected

Journal Entries (Prior Year)

It was noted in our testing that journal entries posted lacked supporting documentation. It is recommended as a best practice that journal entries posted be printed and attached to the support used to make such entries. In the event that this support is in electronic form, we recommend printing a hard copy. Additionally, we recommend developing a process of journal entry review/approval.

Status: Uncorrected

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Endowment versus Agency Relationships (Prior Year)

Through our testing, and information brought forth by management, it was noted that two endowment funds had portions that were agency in nature. These instances individually were immaterial to the financial statements as a whole, however, it is our recommendation that endowment/agency funds get properly identified and recorded.

Status: Corrected

Capitalization Policy

During our review of current year expenditure classifications, we noted that one item that was above the Foundations capitalization threshold of $500 and with a useful life of greater than one year was fully expensed in the current year. We recommend that at least on an annual basis a review of all expenditures be completed to ensure that all items that meet the capitalization standards are recorded as addition to fixed assets and not fully expensed in that year.

Temporary v. Permanently Restricted Assets

We noted during our review of permanently restricted funds that in the current year there were adjustments made in the classification of balances from temporally restricted to permanently restricted due to a misclassification of these assets during their initial recording. We recommend that care be taken to ensure these balances agree to the original donor's intent as permanently restricted funds.

Equity Classification

In our review of equity, we noted that though the overall equity agreed to prior year audit records, but the individual classifications of equity balances did not agree to audit records. We recommend a year end review be performed yearly to ensure the equity classifications agree to the supporting funds level tracking support.

<u>Conclusion</u>

This information is intended solely for the use of the Board of Directors and management of the Eastern Upper Peninsula Community Foundation Alliance, Inc., dba Chippewa County Community Foundation and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that our staff, for the excellent cooperation we received while performing the audit. If we can be of any assistance in implementing the above recommendations, please contact us.

Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

April 4, 2019