

**Eastern Upper Peninsula Community  
Foundation Alliance, Inc.**

**dba**

**Chippewa County Community Foundation  
Sault Ste. Marie, Michigan**

**Financial Statements  
For the Year Ended December 31, 2018**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT ACCOUNTANT'S REVIEW 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 reviewed the accompanying statement of financial position of the Eastern Upper Peninsula Community Foundation Alliance, Inc., dba Chippewa County Community Foundation, (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018, 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 management's financial data and making inquiries of 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 the 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 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.

To the Board of Directors of the  
Eastern Upper Peninsula Community  
Foundation Alliance, Inc.

**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.



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

May 6, 2020

# **Financial Statements**

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

**Statement of Financial Position  
December 31, 2018**

**ASSETS:**

Current Assets:

Cash and cash equivalents-unrestricted	\$ 152,517
Prepaid Expense	1,013
Total Current Assets	<u>153,530</u>

Non-Current Assets:

Investments	2,714,569
Charitable remainder trust - assets	822,590
Total Non-Current Assets	<u>3,537,159</u>

Property and Equipment:

Office equipment (net of accumulated depreciation)	<u>7,913</u>
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Total Assets	<u>\$ 3,698,602</u>
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**LIABILITIES:**

Current Liabilities:

Accounts payable and accrued expenses	\$ 3,026
Funds held under agency endowment agreements	186,600
Total Current Liabilities	<u>189,626</u>

Non-Current Liabilities:

Charitable remainder trust - liabilities	<u>356,971</u>
Total Liabilities	<u>546,597</u>

**NET ASSETS:**

Without Donor Restrictions	27,674
With Donor Restrictions	3,124,331

Total Net Assets	<u>3,152,005</u>
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Total Liabilities and Net Assets	<u>\$ 3,698,602</u>
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See accompanying notes to financial statements.

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

**Statement of Activities**  
**For the Year Ended December 31, 2018**

	<b>Assets Without Donor Restrictions</b>	<b>Assets With Donor Restrictions</b>	<b>Total</b>
<b>Revenues and Other Support</b>			
Contributions	\$ 5,580	\$ 177,020	\$ 182,600
Fundraising	12,980	-	12,980
Administrative fees	59,868	-	59,868
Investment income	15,742	170,479	186,221
Realized and unrealized gains (losses) on investments, net of investment expenses	(31,057)	(385,169)	(416,226)
Miscellaneous	7,005	-	7,005
<b>Total Revenues and Other Support</b>	<b>70,118</b>	<b>(37,670)</b>	<b>32,448</b>
<b>Expenses</b>			
Program services	63,530	634,292	697,822
Management and general	17,309	52,439	69,748
Fundraising expenses	22,117	(349)	21,768
<b>Total Expenses</b>	<b>102,956</b>	<b>686,382</b>	<b>789,338</b>
<b>Changes in net assets</b>	<b>(32,838)</b>	<b>(724,052)</b>	<b>(756,890)</b>
Net Assets, beginning of year	60,512	3,848,383	3,908,895
<b>Net Assets, end of year</b>	<b>\$ 27,674</b>	<b>\$ 3,124,331</b>	<b>\$ 3,152,005</b>

See accompanying notes to financial statements.

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

**Schedule of Functional Expenses  
For the Year Ended December 31, 2018**

	Program Services		Supporting Services		Total
	Endowment	Management	Fundraising		
	Funds	& General			
Grants to Community	\$ 551,984	\$ -	\$ -	\$ 551,984	
Scholarships	58,575	-	-	58,575	
Wages & Fringe	31,731	3,781	5,670	41,182	
Admin Fees	-	55,661	-	55,661	
Insurance	-	1,451	-	1,451	
Dues & Publications	645	1,525	120	2,290	
Rent	846	113	169	1,128	
Publications / Printing	1,648	361	330	2,339	
Postage & Delivery	652	233	275	1,160	
Travel / Conferences / Training	-	2,290	-	2,290	
Office Supplies	1,261	168	252	1,681	
Bank Fees	-	418	-	418	
Investment Fees	22,760	-	-	22,760	
Advertising & Marketing	2,597	20	-	2,617	
Professional Services	-	3,256	-	3,256	
Fundraising Supplies	20,530	-	14,045	34,575	
Youth Advisory Committee	1,502	-	-	1,502	
Telephone & Internet	1,113	148	223	1,484	
Other	1,722	289	633	2,644	
Depreciation	256	34	51	341	
<b>TOTAL</b>	<b>\$ 697,822</b>	<b>\$ 69,748</b>	<b>\$ 21,768</b>	<b>\$ 789,338</b>	

See accompanying notes to financial statements.



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

**Statement of Cash Flows  
 For the Year Ended December 31, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Changes in net assets	\$ (756,890)
Adjustments to reconcile changes in net assets to net cash and cash equivalents used by operating activities:	
Net realized Investment gains or losses	(86,470)
Net unrealized Investment gains or losses	502,696
Depreciation	341
Changes in:	
Prepaid expenses	(1,013)
Charitable remainder trust - assets	71,972
Accounts payable/accrued expenses	135
Agency endowment agreements	(34,121)
Charitable remainder trust -liabilities	(45,350)
	(348,700)
<b>Net cash provided (used) by operating activities</b>	<b>(348,700)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Proceeds from sale of investments	546,767
Purchases of investments	(147,958)
Purchase of property and equipment	(7,050)
	391,759
<b>Net cash provided (used) by investing activities:</b>	<b>391,759</b>

<b>Net change in cash and cash equivalents</b>	43,059
Cash and equivalents, beginning of year	109,458
<b>Cash and equivalents, end of year</b>	<b>\$ 152,517</b>

See accompanying notes to financial statements.

## **Notes to Financial Statements**

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**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 statements of the Foundation have been prepared in accordance with U.S. generally accepted account principles ("US GAAP"), which requires the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organizations. These net assets may be used at the discretion of the Foundation's management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in statements of activities.

**Contributions**

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-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending of the nature of the restriction. 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributions (Continued)**

Contributed property and equipment are recorded at fair value at the date of the donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded at net assets without donor restrictions.

**Agency Endowment Funds**

The Foundation may accept contributions from another nonprofit organization and agree to transfer those assets, and return on investment of those assets, or both, 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.

**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 is 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**

Total fundraising expense for the year ended December 31, 2018 was \$21,768. The Foundations primary fundraising activity is the Soo Ultimate Paddle Board Day event. Fundraising expenses related to the event totaled \$14,045 or 108% of the total contribution revenue generated from the event. Since this is only the second year for the event, the Foundation is still incurring some start-up costs to improve the event and is projected to start making money off the event in the next year. The Foundation also spent \$7,723 on general fundraising activities throughout the year, all of which were indirect costs that have been allocated to fundraising expenses.

**Advertising**

Advertising costs are expensed as incurred. Total advertising costs for December 31, 2018, were \$2,617.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 Cash 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.

**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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 May 6, 2020.

**Uncertainty for Income Taxes**

Under Section 501(c)(3) of the Internal Revenue Code, the Foundation 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 of performance of its exempt purpose. The Foundation did not have any unrelated business income.

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

The Foundation's federal returns for the years ended December 31, 2017, 2016, and 2015 could be subject to examination by federal taxing authorities, generally for three years after they are filed.

**New Accounting Pronouncement**

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Chippewa County Community Foundation has adjusted the presentation of these statements accordingly. Beginning net assets as of December 31, 2017, reclassified to be in compliance with ASU 2016-14 are:

As reported:		As reclassified under ASU 2016-14:	
Unrestricted	\$ 60,512	Without donor restrictions	\$ 60,512
Temporarily restricted	711,515	With donor restrictions	3,848,383
Permanently restricted	<u>3,136,868</u>		<u>                    </u>
	<u>\$ 3,908,895</u>		<u>\$ 3,908,895</u>

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

**Notes to Financial Statements  
December 31, 2018**

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The financial position accounts and types of cash items as of December 31, 2018 are presented below:

<u>Financial Position Account</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amounts</u>
Cash and Equivalents	\$ 152,517	Checking & Savings	\$ 66,694
		Money Market Savings	23,870
		Certificates of Deposit	<u>61,953</u>
	<u>\$ 152,517</u>		<u>\$ 152,517</u>

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Foundations deposits may not be returned. Federal law does not require and the Foundation does not have a policy for deposit custodial credit risk. As of year-end, \$80,967 of the Foundation's bank balance of \$163,993 was exposed to credit risk.

**NOTE 4 - AVAILABILITY AND LIQUIDITY**

The following represents the Foundation's financial assets at December 31, 2018.

Financial assets at year-end:

Cash and cash equivalents	\$ 152,517
Investments	2,714,569
Charitable remainder trust – assets	<u>822,590</u>
Total financial assets	3,689,676

Less:

Net assets with donor restrictions	<u>3,124,331</u>
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Financial assets available to meet general expenditures  
over the next twelve months

\$ 565,345

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses. It has a \$40,269 line of credit available to meet cash flow needs.

**NOTE 5 - INVESTMENTS**

As of December 31, 2018, all of the Foundation's investments are in external investment pools with the exception of investments in Certificates of Deposit.

*Interest rate risk.* The Foundation has a formal investment policy; however, it does not have a section that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Custodial credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment of securities that are in the possession of an outside party. Of the Foundation's \$2,714,569 in investments, \$0 is not in the name of the Foundation but in the name of the agent.

*Credit risk.* As of December 31, 2018, the Foundation's investments in the external investment pools had the following Morning Star ratings:

<u>Investment Name</u>	<u>Ticker</u>	<u>Rating</u>
MSCI EAFE Small Cap Fund ETF	SCZ	4 Star
Core US Aggregate Bond ETF	AGG	3 Star
Russell Midcap Growth Fund ETF	IWP	4 Star
Russell Midcap Value Fund ETF	IWS	4 Star
Russell 1000 Value Fund ETF	IWD	4 Star
Russell 2000 Fund ETF	IWM	3 Star
S&P 500 Growth Fund ETF	IVW	4 Star
MSCI EAFE Growth Fund ETF	EFG	3 Star
MSCI EAFE Value Fund ETF	EFV	3 Star
Vanguard Value ETF	VTV	4 Star
Vanguard Large Cap ETF	VV	5 Star
Vanguard FTSE All-Wld Ex-US ETF	VEU	4 Star
Vanguard Total Bond Market ETF	BND	3 Star
JPMorgan Federal Money Market	JFMXX	Not Available
PGIM High Yield R6	PHYQX	5 Star
American Europacific Growth Cl F3	FEUPX	3 Star
Bridge Builder Core Bond	BBTBX	5 Star
Bridge Builder Large Growth	BBGLX	3 Star
Bridge Builder Large Value	BBVLX	4 Star
Bridge Builder Small/Mid Value	BBVSX	2 Star
Clearbridge Small Cap Growth	LMOIX	4 Star
DFA Emerging Markets Value	DFEVX	2 Star
Dodge & Cox Stock Fund	DODGX	4 Star
Harbor International Class R	HNINX	2 Star
Invesco Global Real Estate Class R6	FGREX	3 Star
Invesco Growth and Income Class R6	GIFFX	3 Star
JPMorgan U.S. Government Money Market	OGVXX	Not Available
LSV Value Equity Class I	LSVEX	3 Star
MFS International Value Class R6	MINJX	5 Star
MFS MA Investors Growth Stock Class R6	MIGNX	4 Star



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

**Notes to Financial Statements  
December 31, 2018**

**NOTE 5 - INVESTMENTS (Continued)**

<u>Investment Name</u>	<u>Ticker</u>	<u>Rating</u>
PIMCO Commoditiesplus Styg Cl R6	PCLIX	4 Star
PIMCO High Yield Class I	PHIYX	4 Star
Principal Midcap Class I	PCBIX	5 Star
Royce Special Equity Class I	RSEIX	3 Star
T Rowe Price Equity Income Class I	REIPX	3 Star
T Rowe Price Overseas Stock Class I	TROIX	3 Star

\*\*Morningstar rates mutual funds from one to five stars based on how well they've performed (after adjusting for risk and accounting for all sales charges) in comparison to similar funds. Within each Morningstar Category, the top 10% of funds receive five stars, the next 22.5% four stars, the middle 35% three stars, the next 22.5% two stars, and the bottom 10% receive one star. Funds are rated for up to three time periods (three, five and 10 years) and these ratings are combined to produce an overall rating. Funds with less than three years of history are not rated. Ratings are objective, based entirely on a mathematical evaluation of past performance. They are a useful tool for identifying funds worthy of further research, but should not be considered buy or sell recommendations.

*Fair value measurement.* 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, 2018:

	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	\$ 2,367,172	\$ 2,345,944
ETF	<u>410,086</u>	<u>368,625</u>
Total	<u>\$ 2,777,258</u>	<u>\$ 2,714,569</u>

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

**Notes to Financial Statements  
December 31, 2018**

**NOTE 5 - INVESTMENTS (Continued)**

The components of total investment return from investments for December 31, 2018 is reflected below:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 15,742	\$ 170,479	\$ 186,221
Net realized and unrealized gains and losses Net of expenses	<u>(31,057)</u>	<u>(385,169)</u>	<u>(416,226)</u>
Total return on investment	<u>\$ (15,315)</u>	<u>\$ (214,690)</u>	<u>\$ (230,005)</u>

The Foundation's total investment expenditures were \$24,464 for 2018.

**NOTE 6 - PROPERTY AND EQUIPMENT**

A summary of property and equipment as of and for the year ended December 31, 2018 is as follows:

	<u>Balance 1/1/2018</u>	<u>Additions</u>	<u>Balance 12/31/2018</u>
Office Equipment	\$ 3,020	\$ 7,050	\$ 10,070
Less: Accumulated depreciation	<u>(1,816)</u>	<u>(341)</u>	<u>(2,157)</u>
Net Property, Equipment and Improvements	<u>\$ 1,204</u>	<u>\$ (6,709)</u>	<u>\$ 7,913</u>

Depreciation expense charged to operations for the year ended December 31, 2018 was \$341.

**NOTE 7 - 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 8- LINE OF CREDIT:**

The Foundation has an available line of credit through its investment account. The available amount as of December 31, 2018, was \$40,269. As of December 31, 2018, \$0 was borrowed against the line.

**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 those assets, and return on investment of assets, or both to the nonprofit organizations at some point in the future. Activity for December 31, 2018 is as follows:

Beginning balance	\$ <u>220,721</u>
Additions:	
Investment income and gains (losses)	<u>(15,315)</u>
Deductions:	
Grants	(12,894)
Service fees assessed	<u>(5,912)</u>
Total deductions	<u>(18,806)</u>
Ending balance	\$ <u><u>186,600</u></u>

**NOTE 11 - CHARITABLE REMAINDER UNITRUST**

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 was recognized at the fair market value. The expected future cash flow of \$465,619 represents the Foundation's share of the fair market value of the trust as of December 31, 2018. This balance has been recorded as a donor-restricted contribution. The present value has been calculated using a discount rate of 5.00% and a term of fifteen years.

**NOTE 12 - ENDOWMENTS**

The Foundation's endowments consist of approximately sixty-seven individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, 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.

**Interpretation of relevant law:**

For donor-restricted endowment funds, the Board of Directors 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.

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

**Notes to Financial Statements  
December 31, 2018**

**NOTE 12 - ENDOWMENTS (Continued)**

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Trustees of the Foundation has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

	<u>With Donor Restrictions</u>
Donor-restricted endowment funds	\$ 3,023,608
Board-designated endowment funds	<u>100,723</u>
	<u><u>3,124,331</u></u>

At December 31, 2018, funds with original gift values of \$862,611, fair values of \$851,654, and deficiencies of \$10,957 were reported in net assets with donor restrictions.

Changes in endowment net assets for the fiscal year ended December 31, 2018:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 3,848,383
Investment return:	
Interest and dividends	170,479
Net gain (loss) – realized and unrealized	<u>(385,169)</u>
Total investment return	(214,690)
Contributions	177,020
Appropriation for expenditure - special	(634,292)
Fees	<u>(52,090)</u>
Endowment net assets, end of year	<u><u>\$ 3,124,331</u></u>

**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 Directors, 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 13 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at December 31, 2018 are available for the following purposes:

	<u>With Donor Restriction</u>
Scholarships	\$ 1,130,250
Education/Youth Funds	545,292
Arts/Dance	1,726
Environmental	188,020
History Preservation	64,853
Other	<u>1,194,190</u>
Total	<u>\$ 3,124,331</u>