

Cadillac Area Community Foundation

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2015



Schepers & Hofstra, PC
Certified Public Accountants

March 17, 2016

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Cadillac Area Community Foundation

We have audited the accompanying financial statements of Cadillac Area Community Foundation (a Michigan nonprofit organization), which comprise the statement of financial position as of September 30, 2015 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 amount 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cadillac Area Community Foundation as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Schepers & Hopstra, P.C.

CADILLAC AREA COMMUNITY FOUNDATION
CADILLAC, MICHIGAN

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2015

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 153,369
Investment in Marketable Securities	8,725,885
Accounts Receivable	885
Current Portion of Student Loans Receivable	<u>2,697</u>

Total Current Assets 8,882,836

PROPERTY AND EQUIPMENT, NET 3,841

OTHER ASSETS

Land Held for Investment	32,000
Student Loans Receivable, Net of Current Portion	<u>32,228</u>

Total Other Assets 64,228

TOTAL ASSETS \$ 8,950,905

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 1,337
Grants Payable	<u>30,527</u>

Total Current Liabilities 31,864

NET ASSETS

Unrestricted	(16,663)
Temporarily Restricted for Grant Making	1,566,216
Permanently Restricted for Endowments	<u>7,369,488</u>

Total Net Assets 8,919,041

TOTAL LIABILITIES AND NET ASSETS \$ 8,950,905

The accompanying notes are an integral part of these financial statements.

CADILLAC AREA COMMUNITY FOUNDATION
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>REVENUE AND SUPPORT</u>				
Donations	\$ 0	\$ 88,778	\$ 123,932	\$ 212,710
Interest and Dividends	54,956	276,342	0	331,298
Miscellaneous	250	0	0	250
Net Unrealized and Realized Gain on Investments	(10,164)	(424,382)	0	(434,546)
Net Assets Released from Restrictions	369,692	(360,010)	(9,682)	0
 Total Revenue and Support	 <u>414,734</u>	 <u>(419,272)</u>	 <u>114,250</u>	 <u>109,712</u>
<u>EXPENSES</u>				
Grants	272,123	0	0	272,123
Administrative	116,521	0	0	116,521
Investment fees	36,254	0	0	36,254
 Total Expenses	 <u>424,898</u>	 <u>0</u>	 <u>0</u>	 <u>424,898</u>
 Net Increase (Decrease) in Net Assets	 (10,164)	 (419,272)	 114,250	 (315,186)
 <u>NET ASSETS - Beginning of Year</u>	 <u>(6,499)</u>	 <u>1,985,488</u>	 <u>7,255,238</u>	 <u>9,234,227</u>
 <u>NET ASSETS - End of Year</u>	 <u>\$ (16,663)</u>	 <u>\$ 1,566,216</u>	 <u>\$ 7,369,488</u>	 <u>\$ 8,919,041</u>

The accompanying notes are an integral part of these financial statements.

CADILLAC AREA COMMUNITY FOUNDATION
CADILLAC, MICHIGAN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (315,186)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities	
Increase in Assets Held for Endowments	(88,778)
Noncash Donations of Stock	(2,000)
Gain on Sale of Investments	(198,491)
Unrealized Loss on Investments	633,037
Depreciation	676
Changes in Operating Assets and Liabilities Which Provided (Used) Cash	
Accounts Receivable	345
Grants Payable	8,166
Accounts Payable	407
	<hr/>
Net Cash Provided by Operating Activities	38,176

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Investments	(1,213,365)
Proceeds from Sale of Investments	1,084,702
Purchase of Equipment	(2,605)
Student Loans Issued	(2,500)
Student Loan Repayments	8,736
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Net Cash Used by Investing Activities	(125,032)

CASH FLOWS FROM FINANCING ACTIVITIES

Endowment Donations	88,778
	<hr/>

NET INCREASE IN CASH AND CASH EQUIVALENTS

	1,922
<u>Cash and Cash Equivalents - Beginning of Year</u>	<hr/> 151,447
<u>Cash and Cash Equivalents - End of Year</u>	<hr/> <u>\$ 153,369</u>

The accompanying notes are an integral part of these financial statements.

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Cadillac Area Community Foundation (the "Foundation") was incorporated as a Michigan nonprofit corporation on June 29, 1988 to acquire and manage a collection of unrestricted, field-of-interest and restricted endowment funds with income from these funds used to support the public welfare of the people of and around Cadillac, Michigan.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions and restrictions imposed by specific fund agreements. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Donor restricted funds with accumulated deficits are classified as unrestricted net assets until future investment gains and/or contributions restore the deficits.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as net assets released from restrictions. Donor restricted funds with accumulated investment losses in excess of temporarily restricted net assets are classified as unrestricted net assets until future investment gains and/or unrestricted contributions restore the deficits.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Donors or established Fund Advisory Committees may, with the Foundation's Board of Trustees' approval, at any time, request that all or a portion of the fund's unrestricted net assets be maintained temporarily or permanently within the fund, at which time the net assets are transferred to temporarily or permanently restricted net assets as reported on the statement of net assets. This activity is recorded as transfers on the *Statements of Activities*.

It is the Foundation's intent to honor donor instructions and stipulations regarding the use of gifts made to the Foundation. However, the Foundation Board has retained authority to vary the condition of any gift otherwise subject to donor-imposed conditions if adherence to any such conditions or stipulations would, in the judgment of the Board, be unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation.

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

Contributions

Contributions, including unconditional promises to give, are recorded as made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using low-risk interest rates applicable to the years in which the promises are to be received.

Donated Services

A portion of the Foundation's activities has been conducted by volunteers without compensation and by professional and business organizations at significantly reduced charges. Support for goods and services contributed has only been recognized to the extent that such contributions (1) require specialized skills (and are provided by individuals possessing those skills) and would typically be purchased if not provided by donation or (2) create or enhance the non-financial assets of the Foundation.

Cash Equivalents

The Foundation considers all temporary investments with a maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities are stated at fair market value. Increases or decreases resulting from changes in market value of investments are included annually in the statements of activities whether or not realized by the sale of investments. Investments are recorded on the trade date of the transaction.

Investment in land held for investment is stated at the appraised value when it was received as an unrestricted donation.

Temporarily restricted funds with accumulated investment losses reduce temporarily restricted net assets of the respective fund to zero with future losses recorded as deficits within unrestricted net assets. Future investment gains shall be recorded as unrestricted until the unrestricted net assets of the respective funds are restored. Subsequently, future investment gains will be recorded as temporarily restricted once unrestricted net assets of the respective funds are restored.

Student Loans Receivable

Student loans receivable are unsecured loans to students carrying an interest rate of 3% and commencing repayment one year after graduation. There is no allowance for uncollectible loans

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

recorded because the Foundation does not expect such amounts to be significant.

The Foundation's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet the repayment terms, the deteriorating or deteriorated financial conditions, or for any other reasons. For the fiscal year ending September 30, 2015, the Foundation did not consider any student loans to be uncollectible.

Property and Equipment

Property and equipment are stated at cost. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance are expensed when paid. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets.

Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets as follows:

Office Furniture and Equipment	5 years
Leasehold Improvements	15 years

Grants Payable

Grants payable consist of grants approved for distribution and awarded but not paid to local non-profit organizations or individual scholarship recipients. All grants payable are current.

Tax Status

The Foundation has received determination from the Internal Revenue Service that it qualifies as a public charity and is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Also, the Foundation has been certified as a community foundation by the State of Michigan and has received determination of the Foundation as "other than a private foundation" under Section 170(b)(1)(A)(vi) of the Internal Revenue Code.

The Foundation files income tax returns in the U.S. Federal jurisdiction. With few exceptions, the Foundation is no longer subject to U.S. Federal income tax examination by tax authorities for years before September 30, 2013.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE B - INVESTMENTS AND DEPOSITS

The Foundation's cash and investments are held by financial institutions and consisted of the following at September 30, 2015:

	<u>Market Value</u>	<u>Cost</u>
Cash Equivalents		
Deposits and Cash Equivalent - Investments	<u>\$ 153,369</u>	<u>\$ 153,369</u>
Marketable Securities		
Equity Securities	1,865,783	1,303,528
Bond Securities	2,663,325	2,650,556
Mutual Funds - Equity	4,196,402	3,848,229
Mineral Interests	<u>375</u>	<u>375</u>
Total Investments in Marketable Securities	<u>8,725,885</u>	<u>7,802,688</u>
Total Cash Equivalents and Investments	<u><u>\$ 8,879,254</u></u>	<u><u>\$ 7,956,057</u></u>

Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. At September 30, 2015, the Foundation's cash balances were fully insured.

Brokerage accounts have insurance of \$500,000 per broker, provided by the Securities Investor Protection Corporation. The balance of investments exceeded insured limits by \$7.312 million at September 30, 2015.

NOTE C - LAND HELD FOR INVESTMENT

On June 15, 2005, the Foundation received an unrestricted donation of land from an unrelated donor. This land was appraised at a value of \$32,000 and the Foundation intends to hold it for investment.

NOTE D - STUDENT LOANS RECEIVABLE

Student loans receivable are unsecured and carry an interest rate of 3%. Terms of the loan state that the repayments begin one year after the recipient graduates or otherwise ceases to be a student in good standing. If the total amount of the recipient's student loans is less than \$5,000, the Foundation will establish a term for repayment not to exceed five years. If the total amount is \$5,000 or more,

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

the Foundation will establish a term for repayment not to exceed ten years. At September 30, 2015, student loan receivables were \$34,925. Amounts are to be received as follows:

2015-2016	\$ 2,697
2016-2017	1,684
2017-2018	1,420
2018-2019	1,463
2019-2020	1,508
Thereafter	<u>26,153</u>
	<u>\$ 34,925</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of September 30, 2015:

Office Furniture and Equipment	\$ 9,592
Leasehold Improvements	<u>1,856</u>
	11,448
Less Accumulated Depreciation	<u>(7,607)</u>
Total Property and Equipment	<u>\$ 3,841</u>

Depreciation expense for the year ending September 30, 2015 totaled \$676.

NOTE F - ENDOWMENT

The Foundation's endowment consists of approximately 45 donor-restricted funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets are classified as the following as of September 30, 2015:

Unrestricted	\$ (16,663)
Temporarily Restricted	1,566,216
Permanently Restricted	<u>7,369,488</u>
	<u>\$ 8,919,041</u>

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

The net changes in endowment net assets are as follows for September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ (6,499)	\$ 1,698,403	\$ 7,255,238	\$ 8,947,142
Investment Return				
Investment Income	0	276,342	0	276,342
Net Appreciation (realized and unrealized)	6,499	(441,045)	0	(434,546)
Reclassified Unrealized Loss on Investments	(16,663)	16,663	0	0
Total Investment Return	(10,164)	(148,040)	0	(158,204)
Contributions	0	0	86,355	86,355
Grants	0	0	0	0
Miscellaneous	0	0	0	0
Appropriation of Endowment Assets for Expenditure	0	15,853	27,895	43,748
Total	0	15,853	114,250	130,103
Endowment Net Assets, End of Year	<u>\$ (16,663)</u>	<u>\$ 1,566,216</u>	<u>\$ 7,369,488</u>	<u>\$ 8,919,041</u>

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to increase the purchasing power of the funds and to produce a reasonable return for distribution to meet current community needs. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. No Board-designated endowments have been established.

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

Strategies Employed for Achieving Objectives

To meet its investment objectives for endowment funds, the Foundation follows a total-return strategy; that is, investment decisions are made with the intent of maximizing the long-term total return of the entire portfolio both from market-value increases (realized and unrealized gains) and from current yield (interest and dividends). Assets may be invested among stocks, bonds, cash and other financial instruments in a manner that will produce the highest return without the constraint of producing a specified amount of income for distribution.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year, in general, up to 4.0% of the fund's average quarterly balance, for the prior year. The quarterly balances used to calculate the 4.0% available to be distributed was September 30 and December 31 of the prior year and March 31, and June 30 of the current year. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4.0% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE G - CHARITABLE REMAINDER TRUSTS

The Foundation has been named as the remainder beneficiary of certain trusts at the bequest of the various donors. The timing and method of disbursing the trusts' assets are governed by the provisions of the related legal documents. The amount of assets ultimately to be received and the date when these trusts' assets will be available to the Foundation is not determinable at this time. Accordingly, no such gift or corresponding asset has been recognized in the accompanying financial statements as of September 30, 2015.

NOTE H - OFFICE SPACE

The Foundation pays \$375 per month for office space until January 31, 2015. Beginning February 1, 2015, the monthly rent increased to \$400. Rent expense was \$4,650 for the year ending September 30, 2015. The Foundation pays for utilities and maintenance while the landlord pays for property taxes, insurance and repairs. The lease expires January 31, 2017.

NOTE I - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board Accounting Standards Codification 820-10 (FASB ASC 820-10), formerly Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs to minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for asset measured at fair value. There have been no changes in the methodologies used at September 30, 2015.

Equity and bond securities: Valued at fair value based on quoted market prices.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Foundation at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE I - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of September 30, 2015:

<u>Assets at Fair Value as of September 30, 2015</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
All Cap Funds	\$ 615,026	\$ 0	\$ 0	\$ 615,026
Blended Funds	838,639	0	0	838,639
Bond Funds	2,663,325	0	0	2,663,325
Emerging Markets	25,638	0	0	25,638
Growth Funds	1,266,234	0	0	1,266,234
Index Funds	572,760	0	0	572,760
International Funds	425,401	0	0	425,401
Large Cap Funds	65,984	0	0	65,984
Midcap Funds	54,487	0	0	54,487
Other	375	0	0	375
Real Estate Funds	125,298	0	0	125,298
Small Cap Funds	206,935	0	0	206,935
	<u>6,860,102</u>	<u>0</u>	<u>0</u>	<u>6,860,102</u>
Total Mutual Funds				
Equity Securities				
Consumer Discretionary	244,229	0	0	244,229
Consumer Staples	173,843	0	0	173,843
Energy	153,919	0	0	153,919
Financials	247,349	0	0	247,349
Health Care	320,986	0	0	320,986
Industrials	179,635	0	0	179,635
Information Technology	376,851	0	0	376,851
Materials	65,605	0	0	65,605
Telecommunications	47,574	0	0	47,574
Utilities	55,792	0	0	55,792
	<u>1,865,783</u>	<u>0</u>	<u>0</u>	<u>1,865,783</u>
Total Equity Securities				
	<u>\$ 8,725,885</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$8,725,885</u>

CADILLAC AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE J - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events and transactions for potential recognition and disclosure through March 17, 2016, the date the financial statements were available to be issued. Management has not identified any major subsequent events through March 17, 2016.