

Keokuk Area Community Foundation

Financial Statements

December 31, 2019

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Independent Accountant's Review Report

Board of Directors
Keokuk Area Community Foundation
Keokuk, Iowa

We have reviewed the accompanying financial statements of Keokuk Area Community Foundation (Foundation) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, 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 Foundation management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

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.

Correction of Error

As discussed in Note 9 to the financial statements, a certain error resulting in the overstatement of net assets without donor restrictions as of December 31, 2018, was discovered by management of the Foundation during the current year. Accordingly, amounts reported for net assets with and without donor restrictions have been restated in the 2019 financial statements now presented, and an adjustment has been made to net assets as of December 31, 2018, to correct the error. Our conclusion is not modified with respect to that matter.

CPA Associates PC

June 9, 2020

Keokuk Area Community Foundation
Statement of Financial Position
December 31, 2019

Assets

Cash and cash equivalents	\$ 2,777,406
Greater Cedar Rapids Community Foundation deposit	5,094,903
Investments	2,848,699
Unconditional promises to give	<u>47,642</u>
	<u>\$ 10,768,650</u>

Liabilities and Net Assets

Liabilities

Accrued expenses	\$ 5,912
Funds held for others	<u>1,695,853</u>
	<u>1,701,765</u>

Net assets

Without donor restrictions	
Operating	33,289
Quasi-endowed	<u>748,826</u>
Total net assets without donor restrictions	782,115
With donor restrictions	<u>8,284,770</u>
Total net assets	<u>9,066,885</u>
	<u>\$ 10,768,650</u>

See accompanying notes and independent accountant's review report.

Keokuk Area Community Foundation
Statement of Activities
Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 500	\$ 4,206,665	\$ 4,207,165
Investment return, net of investment advisory expense of \$5,006	850	135,105	135,955
Investment return from Greater Cedar Rapids Community Foundation deposit, net of investment advisory expense of \$3,340	107,168	502,565	609,733
Administrative fees	<u>3,834</u>	<u>-</u>	<u>3,834</u>
	112,352	4,844,335	4,956,687
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>322,011</u>	<u>(322,011)</u>	<u>-</u>
Total revenues and other support	<u>434,363</u>	<u>4,522,324</u>	<u>4,956,687</u>
Expenses			
Program services	295,765	-	295,765
Supporting activities	63,039	-	63,039
Fundraising activities	<u>26,292</u>	<u>-</u>	<u>26,292</u>
Total expenses	<u>385,096</u>	<u>-</u>	<u>385,096</u>
Change in net assets	49,267	4,522,324	4,571,591
Net assets, beginning of year, restated	<u>732,848</u>	<u>3,762,446</u>	<u>4,495,294</u>
Net assets, end of year	<u>\$ 782,115</u>	<u>\$ 8,284,770</u>	<u>\$ 9,066,885</u>

See accompanying notes and independent accountant's review report.

**Keokuk Area Community Foundation
Statement of Functional Expenses
Year Ended December 31, 2019**

	<u>Program Services</u>	<u>Supporting Activities</u>	<u>Fundraising Activities</u>	<u>Total</u>
Grants awarded	\$ 263,611	\$ -	\$ -	\$ 263,611
External administrative fees	6,502	15,421	-	21,923
Insurance	-	6,066	-	6,066
Office expense	4,653	4,737	6,153	15,543
Payroll taxes	1,477	1,723	1,256	4,456
Professional fees	-	12,277	-	12,277
Promotion expense	-	-	2,001	2,001
Wages	19,522	22,610	16,113	58,245
Travel	-	205	769	974
	<u>\$ 295,765</u>	<u>\$ 63,039</u>	<u>\$ 26,292</u>	<u>\$ 385,096</u>

See accompanying notes and independent accountant's review report.

**Keokuk Area Community Foundation
Statement of Cash Flows
Year Ended December 31, 2019**

Cash Flows From Operating Activities	
Change in net assets	\$ 4,571,591
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Donated securities	(218,420)
Realized gain on investments	(21,700)
Unrealized gain on investments	(97,533)
Contributions restricted by donor for temporary endowment	(3,909,510)
(Increase) decrease in:	
Greater Cedar Rapids Community Foundation deposit	(504,407)
Unconditional promises to give	5,287
Increase (decrease) in:	
Accrued expenses	4,267
Funds held for others	<u>58,154</u>
Net cash used by operating activities	<u>(112,271)</u>
Cash Flows From Investing Activities	
Purchases of investments	(2,365,556)
Proceeds from the sale of investments	<u>1,267,162</u>
Net cash used by investing activities	<u>(1,098,394)</u>
Cash Flows From Financing Activities	
Proceeds from contributions restricted by donor for temporary endowment	<u>3,909,510</u>
Net cash provided by financing activities	<u>3,909,510</u>
Net increase in cash and cash equivalents	2,698,845
Cash and cash equivalents, beginning of year	<u>78,561</u>
Cash and cash equivalents, end of year	<u>\$ 2,777,406</u>
Supplemental Schedule of Noncash Activities	
Donated securities	\$ 218,420

See accompanying notes and independent accountant's review report.

Keokuk Area Community Foundation
Notes to Financial Statements

Note 1. Statement of Purpose and Nature of Business

Keokuk Area Community Foundation (Foundation), an Iowa nonprofit corporation, was created in October 2004 as a community foundation for the purpose of receiving gifts and bequests to provide support for charitable enterprises in the Tri-State Area (Iowa, Missouri, and Illinois). The Foundation provides grants to various organizations in the Tri-State Area to help foster and promote public, charitable, scientific, literary, and educational activities. During 2018, the Foundation approved an affiliation agreement with the Community Foundation of Des Moines County, and during 2019, the Foundation approved an affiliation agreement with the Community Foundation of North Lee County.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates which are particularly susceptible to change in a short period of time relate to the allowance for uncollectible promises to give. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. As of December 31, 2019, the Foundation had cash and cash equivalents of \$48,747 and \$2,701,237 that is held for others and restricted, respectively.

Community Foundation Deposit

Based on Financial Accounting Standards Board's Accounting Standards Codification (Professional Standards), the Foundation has recorded a deposit for the total assets that have been transferred to the Greater Cedar Rapids Community Foundation (GCRCF), since the Foundation was both the resource provider and beneficiary. At December 31, 2019, the Community Foundation deposit is recorded at fair value based on the underlying value of the investment pool managed by GCRCF. The change in the deposit consists of the Foundation's share of investment income, unrealized gains and losses, and investment advisory fees, and is shown as an increase in net assets without donor restrictions or net assets with donor restrictions based on the underlying fund designations. Annually, the Foundation's board of directors, or donors for donor-advised funds, have the authority to request distributions of 4.5% of the average fund balance. For the year ended December 31, 2019, the Foundation received distributions of \$140,829 from GCRCF.

Keokuk Area Community Foundation
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Investment Valuation and Income Recognition

The Foundation's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. See Note 5 for discussion of fair value measurement.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net investment return includes the Foundation's gains and losses on investments bought and sold as well as held during the year.

Conditional Promises to Give

Conditional promises to give, where the donor has placed a condition on the gift that the ultimate transfer of the assets or promise to give is contingent on a future and uncertain event, are not recorded as contributions until the condition is met. The Foundation has received notice of donors' intention to gift through estates totaling \$950,000 as of December 31, 2019.

Unconditional Promises to Give

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

Funds Held for Others

The Foundation acts as an agent for certain unrelated charitable organizations. As of December 31, 2019, the total amount of the funds held on behalf of these organizations has been reflected on the Statement of Financial Position as follows:

Cash and cash equivalents	\$ 48,747
GCRCF deposit	760,402
Investments	<u>776,704</u>
	<u>\$ 1,585,853</u>

These funds do not have an impact on the Statement of Activities, and all activities on the Statement of Cash Flows are within the operating section.

Support and 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 restrictions.

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

Keokuk Area Community Foundation
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Income Tax Status

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Code of Iowa. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the fifty percent (50%) charitable contributions deduction of individual donors. The Foundation has open tax years for the three years prior to December 31, 2019.

Expense Allocation

Directly identifiable expenses are charged to program services and supporting activities. Expenses related to more than one function are charged to program services and activities services based on management's estimated time allocation. Supporting activities expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Concentration of Credit Risk

The Foundation invests in various investment securities through four brokerage accounts and the Greater Cedar Rapids Community Foundation. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statement of Financial Position. In addition, the Foundation maintains deposits in excess of federally-insured limits and in uninsured money market accounts. These amounts vary on a daily basis.

Subsequent Events

The Foundation performed an evaluation of subsequent events through June 9, 2020, which is the date the financial statements were available to be issued. Subsequent to year end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Foundation is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The financial statements do not include adjustments to fair value that have resulted from these declines.

Keokuk Area Community Foundation
Notes to Financial Statements

Note 3. Unconditional Promises to Give

The Foundation is currently conducting a fundraising campaign to generate funds to support the Foundation's annual grant program for community nonprofit organizations. As of December 31, 2019, promises to give of \$62,074 are included in net assets with donor restrictions.

As of December 31, 2019, unconditional promises to give consist of amounts due as follows:

Years Ending <u>December 31,</u>	
2020	\$ 18,628
2021	18,628
2022	16,625
2023	<u>8,193</u>
Total promises to give	62,074
Less allowance for uncollectible promises	(11,123)
Less discount to present value	<u>(3,309)</u>
	<u>\$ 47,642</u>

The Foundation uses the allowance method to determine uncollectible promises to give. The allowance is based on management's analysis of specific promises made.

Promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4.75%.

Note 4. Investments

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

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 850	\$ 20,878	\$ 21,728
Realized gains (losses)	-	21,700	21,700
Unrealized gains (losses)	<u>-</u>	<u>97,533</u>	<u>97,533</u>
	<u>\$ 850</u>	<u>\$ 140,111</u>	<u>\$ 140,961</u>

Keokuk Area Community Foundation
Notes to Financial Statements

Note 5. Fair Value Measurement

Financial Accounting Standards Board's Accounting Standards Codification (Professional Standards) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Professional Standards are described as follows:

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

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets and liabilities in active markets
- quoted prices for identical or similar assets and liabilities in inactive markets
- inputs other than quoted prices that are observable for the asset or liability
- 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 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 and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

Cash and cash equivalents and mutual funds:

Valued at the net asset value (NAV) of shares held by the Foundation at year end

Greater Cedar Rapids Community Foundation deposit:

Valued at the underlying prorated fair value of the investment pool managed by GCRCF

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

Keokuk Area Community Foundation
Notes to Financial Statements

Note 5. Fair Value Measurement (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial assets at fair value as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Greater Cedar Rapids Community Foundation deposit	\$ <u>-</u>	\$ <u>5,094,903</u>	\$ <u>-</u>	\$ <u>5,094,903</u>
Investments				
Cash and cash equivalents	<u>453,096</u>	<u>-</u>	<u>-</u>	<u>453,096</u>
Mutual funds				
Fixed income	493,424	-	-	493,424
International fixed income	78,833	-	-	78,833
International equity	328,135	-	-	328,135
Value	509,075	-	-	509,075
Growth	852,391	-	-	852,391
Real estate	50,399	-	-	50,399
Blend	<u>83,346</u>	<u>-</u>	<u>-</u>	<u>83,346</u>
	<u>2,395,603</u>	<u>-</u>	<u>-</u>	<u>2,395,603</u>
Total investments	<u>2,848,699</u>	<u>-</u>	<u>-</u>	<u>2,848,699</u>
Total financial assets	<u>\$ 2,848,699</u>	<u>\$ 5,094,903</u>	<u>\$ -</u>	<u>\$ 7,943,602</u>

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

<u>Subject to expenditure for specified purpose:</u>	
Family donor advised fund	\$ 224,092
Lee County	102,155
Other donor restricted funds under \$50,000	<u>122,850</u>
	<u>449,097</u>
<u>Subject to organization spending policy and appropriation:</u>	
Church of All Saints	178,076
Foundation Grant Funds	227,265
Foundation Affiliate Fund	92,806
Foundation Friends Fund	103,184
Foundation Fund for Iowa	689,605
Lee County Charitable Endowment	311,441
Iowa Arts, Culture & Education Friends	65,745
SCC Presidents Circle	259,043
Various family endowed funds	1,392,244
Other Foundation endowed funds under \$50,000	518,847
Community Foundation of Des Moines County	963,345
Community Foundation of North Lee County	<u>3,034,072</u>
	<u>7,835,673</u>
Total net assets with donor restrictions	<u>\$ 8,284,770</u>

Keokuk Area Community Foundation
Notes to Financial Statements

Note 6. Net Assets with Donor Restrictions (continued)

Net assets were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished	
Grants	\$ 211,111
Grant administration fees	44,125
Transfer for Foundation administration fees	64,358
Transfer for Community Foundation of DMC	<u>2,417</u>
	<u>\$ 322,011</u>

Note 7. Endowment

The Foundation's endowment consists of approximately 69 funds established for a variety of grants. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by Professional Standards, 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.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- duration and preservation of the various funds
- purposes of the donor-restricted endowment funds
- general economic conditions
- actual net investment income earned in prior years
- the Foundation's investment policies
- donor advice

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to grants supported by its endowment funds while also maintaining the purchasing power of endowment assets.

Accordingly, the investment process seeks to achieve a total rate of return of 6%. The endowment assets are invested up to 58% in equity funds with the balance invested in fixed income, alternative investments, real assets, and cash equivalents.

Keokuk Area Community Foundation
Notes to Financial Statements

Note 7. Endowment (continued)

As of December 31, 2019, the endowment net asset composition by type of fund is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 748,826	\$ -	\$ 748,826
Donor restricted endowment funds	<u>-</u>	<u>7,835,673</u>	<u>7,835,673</u>
Endowment net assets, end of year	<u>\$ 748,826</u>	<u>\$ 7,835,673</u>	<u>\$ 8,584,499</u>

For the year ended December 31, 2019, changes in the endowment net assets are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year, restated	\$ 705,590	\$ 3,467,823	\$ 4,173,413
Investment return	-	135,786	135,786
Investment return from GCRCF	107,780	505,294	613,074
Investment management fees	(612)	(7,734)	(8,346)
Contributions and unrestricted funds endowed	-	3,909,510	3,909,510
Appropriation of endowment assets for expenditure	<u>(63,932)</u>	<u>(175,006)</u>	<u>(238,938)</u>
Endowment net assets, end of year	<u>\$ 748,826</u>	<u>\$ 7,835,673</u>	<u>\$ 8,584,499</u>

Note 8. Availability and Liquidity

The following represents the Foundation's financial assets at December 31, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 2,777,406
GCRCF deposit	5,094,903
Investments	2,848,699
Unconditional promises to give	<u>47,642</u>
Total financial assets	<u>10,768,650</u>
Less amounts not available to be used within one year:	
Funds held for others	1,695,853
Net assets with donor restrictions	8,284,770
Quasi-endowment established by the Board	<u>748,826</u>
	<u>10,729,449</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 39,201</u>

Keokuk Area Community Foundation
Notes to Financial Statements

Note 8. Availability and Liquidity (continued)

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$30,000. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments. Although the Foundation does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

Note 9. Net Asset Classification Restatement

The Foundation had previously reported five segregated endowment accounts as net assets without donor restrictions. However, these accounts have a donor or regulatory time spending restriction and should be classified as net assets with donor restrictions. Accordingly, the net assets with and without donor restrictions were restated to reduce net assets without donor restrictions by \$1,053,978 and increase net assets with donor restrictions by \$1,053,978.