

**AUDITED FINANCIAL STATEMENTS
SUPPLEMENTARY FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORT**

**MACKINAC ISLAND COMMUNITY FOUNDATION
MACKINAC ISLAND, MICHIGAN**

December 31, 2018

CONTENTS

| | |
|--|--------|
| Audited Financial Statements: | |
| Independent Auditor's Report | Page 3 |
| Statements of Financial Position | 6 |
| Statements of Activities..... | 7 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 10 |
| Supplementary Financial Information: | |
| Schedule of Net Assets..... | 16 |
| Supplemental Report: | |
| Report on Internal Control | A-1 |

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mackinac Island Community Foundation
Mackinac Island, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Mackinac Island Community Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mackinac Island Community Foundation as of December 31, 2018, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note F to the financial statements, Mackinac Island Community Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Mackinac Island Community Foundation's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary financial information on pages 16 through 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Makela, Pollock & Ahonen, PLLC

Certified Public Accountants

Ironwood, Michigan
October 11, 2019

AUDITED
FINANCIAL
STATEMENTS

STATEMENTS OF FINANCIAL POSITION
MACKINAC ISLAND COMMUNITY FOUNDATION

| | December 31, | |
|--|----------------------|----------------------|
| | 2018 | 2017 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 349,152 | \$ 66,606 |
| Investments | 11,271,295 | 11,407,456 |
| Contributions receivable | 16,065 | |
| TOTAL CURRENT ASSETS | \$ 11,636,512 | \$ 11,474,062 |
| OTHER ASSET | | |
| Conservation Easement | 377,778 | 377,778 |
| | \$ 12,014,290 | \$ 11,851,840 |
| LIABILITIES | | |
| CURRENT LIABILITIES - Accounts payable | \$ 72,471 | \$ 29,022 |
| OTHER LIABILITIES - Agency Funds | 324,498 | |
| | \$ 396,969 | \$ 29,022 |
| NET ASSETS | | |
| NET ASSETS | | |
| Without donor restrictions | \$ 11,615,411 | \$ 11,820,908 |
| With donor restrictions | 1,910 | 1,910 |
| | \$ 11,617,321 | \$ 11,822,818 |
| | \$ 12,014,290 | \$ 11,851,840 |

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

STATEMENTS OF ACTIVITIES

MACKINAC ISLAND COMMUNITY FOUNDATION

| | Year ended December 31, 2018 | | | Year ended December 31, 2017 |
|--|-------------------------------|----------------------------|-----------------------------|------------------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | (Summarized) |
| SUPPORT AND REVENUE | | | | |
| Donations | \$ 235,201 | | \$ 235,201 | \$ 344,303 |
| Grants received | | | | 2,500 |
| Grant funds returned | 11,429 | | 11,429 | |
| Investment income | 270,791 | | 270,791 | 1,885,443 |
| Donated services | 17,000 | | 17,000 | 17,000 |
| Other | 233 | | 233 | |
| Administrative fee income | <u>130,696</u> | | <u>130,696</u> | <u>94,765</u> |
| TOTAL SUPPORT AND REVENUE | \$ 665,350 | | \$ 665,350 | \$ 2,344,011 |
| EXPENSES | | | | |
| Program expenses: | | | | |
| Grants and scholarships to others | \$ 587,349 | | \$ 587,349 | \$ 339,792 |
| Advertising | 1,772 | | 1,772 | 6,928 |
| Conference fees | 940 | | 940 | 100 |
| Direct expenses | 2,301 | | 2,301 | 4,815 |
| Dues and subscriptions | 3,696 | | 3,696 | 3,870 |
| Miscellaneous | | | | 797 |
| Professional development | 320 | | 320 | |
| Supplies and postage | 8,009 | | 8,009 | 5,986 |
| Telephone and internet | 2,048 | | 2,048 | 1,853 |
| Travel | <u>2,568</u> | | <u>2,568</u> | <u>2,228</u> |
| | \$ 609,003 | | \$ 609,003 | \$ 366,369 |
| Supporting expenses: | | | | |
| Management and general: | | | | |
| Administrative fee expense | \$ 130,696 | | \$ 130,696 | \$ 94,765 |
| Payroll expenses | 74,509 | | 74,509 | 56,394 |
| Bank fees | 1,122 | | 1,122 | |
| Donated services | 17,000 | | 17,000 | 17,000 |
| Insurance | 2,711 | | 2,711 | 2,328 |
| Other | 1,976 | | 1,976 | 1,010 |
| Professional fees | <u>28,348</u> | | <u>28,348</u> | <u>15,242</u> |
| | \$ 256,362 | | \$ 256,362 | \$ 186,739 |
| Fundraising | <u>5,482</u> | | <u>5,482</u> | |
| TOTAL EXPENSES | \$ 870,847 | | \$ 870,847 | \$ 553,108 |
| CHANGE IN NET ASSETS | \$ (205,497) | \$ 0 | \$ (205,497) | \$ 1,790,903 |
| NET ASSETS AT BEGINNING OF YEAR | 11,820,908 | 1,910 | 11,822,818 | 10,031,915 |
| NET ASSETS AT END OF YEAR | <u>\$ 11,615,411</u> | <u>\$ 1,910</u> | <u>\$ 11,617,321</u> | <u>\$ 11,822,818</u> |

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

STATEMENTS OF CASH FLOWS
MACKINAC ISLAND COMMUNITY FOUNDATION

| | <u>Year ended December 31,</u> | |
|--|--------------------------------|-------------------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (205,497) | \$ 1,790,903 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Realized gain on investments | \$ (883,371) | \$ (865,893) |
| Unrealized (gain) loss on investments | 751,328 | (930,792) |
| Increase in accounts receivable | (16,065) | |
| Increase in accounts payable | <u>43,449</u> | <u>29,022</u> |
| Total adjustments | <u>\$ (104,659)</u> | <u>\$ (1,767,663)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | \$ (310,156) | \$ 23,240 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | \$(2,593,954) | \$ (4,294,399) |
| Agency funds received | 334,049 | |
| Proceeds from sales of investments | <u>2,852,607</u> | <u>4,222,069</u> |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | \$ 592,702 | \$ (72,330) |
| NET INCREASE (DECREASE) IN CASH | \$ 282,546 | \$ (49,090) |
| Cash at beginning of year | <u>66,606</u> | <u>115,696</u> |
| CASH AT END OF YEAR | <u>\$ 349,152</u> | <u>\$ 66,606</u> |

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

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS

MACKINAC ISLAND COMMUNITY FOUNDATION

December 31, 2018

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Mackinac Island Community Foundation (the Foundation) is a not-for-profit organization that operates under a governing Board of Directors. The accounting policies conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations and have been consistently applied in the preparation of the financial statements.

NATURE OF ACTIVITIES – The Foundation was organized in 1994, as a not-for-profit community foundation for the purpose of meeting the charitable, scientific, literary, and educational needs of Mackinac Island, Michigan. In fulfilling this mission, the Foundation receives and administers donations and bequests, which are used to meet various needs on Mackinac Island. The Foundation receives most of its contributions from individuals and businesses located on Mackinac Island and from other foundations in Michigan.

INCOME TAXES – The Foundation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the “Code”). The Foundation has been classified as a publicly supported charitable organization under section 509(a)(1) of the Code and contributions to it are tax deductible by donors within the limitations prescribed by the Code. The Foundation is a Michigan Certified Community Foundation.

Management has completed its evaluation of the impact of uncertain tax positions and the Foundation is unaware of any tax positions that would require disclosure.

ACCOUNTING BASIS – The accompanying financial statements are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

CASH AND CASH EQUIVALENTS – The Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2018 and 2017.

PROMISES TO GIVE – Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

INVESTMENTS – In accordance with generally accepted accounting principles, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the financial statements. The unrealized gain or loss on investments is reflected in the Statement of Activities. Investments are made in accordance with an investment policy approved by the Board of Directors.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED) – In accordance with provisions of the investment policy, the Foundation may invest 40% to 80% of its total assets in common stock and 20% to 60% in fixed income investments such as bank certificates of deposit, commercial paper, guaranteed investment contracts, preferred stocks and other long-term debt securities.

DONATED ASSETS – Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

CONSERVATION EASEMENT – In December 2001, the Foundation was granted a conservation easement to property on Mackinac Island. The easement is valued at fair market value at the date acquired. The Board of Trustees has determined the current value of the conservation easement to be equal to or more than its originally recorded value.

LONG-LIVED ASSETS – Long-lived assets held and used by the Foundation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived asset may be impaired, an evaluation of recoverability would be performed.

AGENCY FUNDS – Funds received or assets transferred by a donor are recorded by the Foundation as a liability to a beneficiary specified by the donor when an agreement is made between the donor and the Foundation that specifies the donor or a specified beneficiary is the recipient of the return on investment of the assets and the Foundation agrees to use the assets on behalf of the donor. The liability is recorded at fair market value. At December 31, 2018, the Foundation reports \$324,498 of agency funds held for the City of Mackinac Island Cemetery Perpetual Care Fund.

CLASSIFICATION OF NET ASSETS – The bylaws of the Foundation include a Variance Provision and Powers of Modification, giving the Board of Trustees the power to modify donor imposed restrictions and conditions on the distribution of funds if, in its sole judgment and discretion, such restrictions or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community.

Based on the variance power provisions, most contributions received by the Foundation are reported as support without donor restrictions. The Foundation reports contributions as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets and the donations are specifically excluded from the variance power provisions referred to above. When a donor's restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, assets with donor restrictions are reclassified to assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

FUNCTIONAL ALLOCATION OF EXPENSES – The costs of providing the various programs and activities of the Foundation have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited by them when necessary.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT AND SPENDING POLICIES – The Foundation has adopted investment and spending policies for assets to obtain a competitive rate of return on the assets commensurate with the prudent man rule, the Board’s risk-taking ability and its responsibility to manage assets for the sole interest and benefit of the Foundation’s donors. Within this framework, the current investment goal is to provide at least a 5% real rate of return over the long-term. Diversification between the asset mix of equities, cash equivalents and longer-term fixed income securities in order to increase investment returns and/or reduce risks is employed in the policy. The spending policy states income available for spending is determined by a total return system. The amount to be spent is determined on January 1 of each preceding year and is reviewed and approved by the Finance Committee annually. In accordance with the spending policy, using a 12 quarter rolling average, 4% of income earned on investments will be assessed for grants, 1% for designated and agency funds, 1.25% for unrestricted and field of interest and 1.5% for scholarships and donor advised funds will be kept for administrative fees. Any income above 5%, 5.25% or 5.5%, respectively, will be rolled back into the respective funds.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ALLOWANCE FOR DOUBTFUL ACCOUNTS – No allowance for doubtful accounts has been provided, as management believes that all promises to give and accounts receivable will be collected. Uncollectible accounts are written-off in the year management determines the promises to give will not be collected.

DONATED SERVICES – The Foundation recognizes the contributions of services, if the contributed services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. Contributed services that do not meet this criterion are not recognized.

SUBSEQUENT EVENTS – Subsequent events have been evaluated through the date of the auditor’s report, the date the financial statements were available to be issued.

NOTE B – CASH

All deposits were made in a bank account authorized by members of the governing Board. Cash as of December 31, 2018 exceeded Federal Deposit Insurance Corporation limits by \$140,294. Cash as of December 31, 2017 was covered by Federal Deposit Insurance Corporation limits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – INVESTMENTS

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Foundation’s investing activities are managed under the custody of the Board of Directors. Board policies authorize investments in direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers’ acceptances of United States banks; certain mutual funds and certain common stocks. All investments were made in accordance with Board policies and under authorization of the Board. Investments are stated at fair market value.

For investments, custodial 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 investments or collateral securities in the possession of an outside party. All of the Foundation’s investments are insured or registered or for which the securities are held by the Foundation or its agent in the Foundation’s name.

Investment costs and related market value consist of the following:

| | <u>December 31, 2018</u> | | | | |
|-------------------|---------------------------------|---|--|-------------------------------|---|
| | <u>Cost</u> | <u>Market Value/ Carrying Value</u> | <u>Average Credit Quality Rating (1)</u> | <u>Effective Duration (2)</u> | <u>Weighted Average Years to Maturity (3)</u> |
| Mutual funds | \$ 605,733 | \$ 568,598 | N/A | N/A | N/A |
| Equity securities | 8,399,995 | 10,322,223 | N/A | N/A | N/A |
| Money market | <u>380,474</u> | <u>380,474</u> | N/A | N/A | N/A |
| TOTAL | <u>\$ 9,386,202</u> | <u>\$ 11,271,295</u> | | | |

| | <u>December 31, 2017</u> | | | | |
|-------------------|---------------------------------|---|--|-------------------------------|---|
| | <u>Cost</u> | <u>Market Value/ Carrying Value</u> | <u>Average Credit Quality Rating (1)</u> | <u>Effective Duration (2)</u> | <u>Weighted Average Years to Maturity (3)</u> |
| Mutual funds | \$ 1,411,331 | \$ 1,388,052 | N/A | N/A | N/A |
| Equity securities | 6,829,025 | 9,495,132 | N/A | N/A | N/A |
| Money market | <u>524,272</u> | <u>524,272</u> | N/A | N/A | N/A |
| TOTAL | <u>\$ 8,764,628</u> | <u>\$ 11,407,456</u> | | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – INVESTMENTS (CONTINUED)

- (1) Ratings are provided, where applicable, to indicate associated credit risk. N/A indicates not applicable.
- (2) Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.
- (3) Interest rate risk is estimated using either duration or weighted average years to maturity depending on the respective policy. Amounts are shown in years.

As of December 31, 2018 and 2017, the Foundation held two international mutual growth funds with a market value of \$1,612,284 and \$1,969,974, respectively.

In accordance with generally accepted accounting principles, the Foundation has classified all of its investments in the fair value measurement hierarchy as Level 1, highest priority, classification except an investment in a local financial institution with a market value of \$128,129 and \$123,576 at December 31, 2018 and 2017, respectively. The fair value input for this investment is based on recent activity in stock transactions of the institution. Level 1 inputs are quoted market prices in active markets for identical assets that are accessible at the measurement date.

NOTE D – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Statement of Net Position reports the assets of the Foundation in a classified format, listing the assets nearest to liquidity first. The Foundation has cash and cash available, reduced by amounts not available for general use due to contractual or donor-imposed restrictions within one year of the balance sheet date, as of December 31, 2018 and 2017 of \$349,152 and \$66,606, respectively. In addition, as described in Note C, investments include money market funds as of December 31, 2018 and 2017 of \$380,474 and \$524,272, respectively. The cash and money market funds as of December 31, 2018 are available to meet cash needs for general expenses within one year of the balance sheet date.

NOTE E – CHANGE IN ACCOUNTING PRINCIPLE

The Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended December 31, 2018. The December 31, 2017 net assets were reclassified from “Unrestricted” to “Without donor restrictions” and “Temporarily restricted” to “With donor restrictions” as a result of the change in accounting principle. The cumulative effect of the change in accounting principle had no effect on the total net assets of the Foundation reported as of December 31, 2017.