

**BRANCH COUNTY COMMUNITY  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED SEPTEMBER 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Branch County Community  
Foundation, Inc.  
Coldwater, Michigan

November 10, 2011

We have audited the accompanying statement of financial position of Branch County Community Foundation, Inc. (a nonprofit organization) as of September 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Branch County Community Foundation, Inc. as of September 30, 2011, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 and 14 is presented for the purpose 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 basic 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 of 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.

*Taylor, Plant & Watkins, P.C.*  
**TAYLOR, PLANT & WATKINS, P.C.**  
(Formerly Rumsey & Watkins, P.C.)

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2011**

**ASSETS**

Cash and cash equivalents	\$ 248,718
Investments	4,149,239
Accounts receivable	7,902
Prepaid expense	580
Equipment at cost, less accumulated depreciation of \$3,471	<u>765</u>
Total assets	<u><u>\$ 4,407,204</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 39,036
Grants payable	6,300
Due to other agencies	347,102
Accrued liabilities	<u>2,047</u>
Total liabilities	394,485

**NET ASSETS**

Unrestricted	2,283,633
Temporarily restricted	<u>1,729,086</u>
Total net assets	<u>4,012,719</u>
Total liabilities and net assets	<u><u>\$ 4,407,204</u></u>

See accompanying notes to financial statements

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Contributions	\$ 280,384	\$ -	\$ 280,384
Investment income	123,053	-	123,053
Special events	32,180	-	32,180
Administrative fees from agencies	3,770	-	3,770
Net assets released from restrictions	64,846	(64,846)	-
	<hr/>	<hr/>	<hr/>
Total revenues, gains and other support	504,233	(64,846)	439,387
<b>EXPENSES AND LOSSES</b>			
Program services:			
Grants and scholarships	244,407	-	244,407
Special events	106,268	-	106,268
Investment management fees	22,742	-	22,742
Other expenses	69,723	-	69,723
	<hr/>	<hr/>	<hr/>
Total program services	443,140	-	443,140
Supporting services:			
General and administrative	47,935	-	47,935
Fundraising	43,964	-	43,964
	<hr/>	<hr/>	<hr/>
Total supporting services	91,899	-	91,899
Total expenses	535,039	-	535,039
Loss on investments	108,305	80,031	188,336
	<hr/>	<hr/>	<hr/>
Total expenses and losses	643,344	80,031	723,375
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(139,111)	(144,877)	(283,988)
<b>NET ASSETS - BEGINNING</b>	2,422,744	1,873,963	4,296,707
	<hr/>	<hr/>	<hr/>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,283,633</u>	<u>\$ 1,729,086</u>	<u>\$ 4,012,719</u>

See accompanying notes to financial statements

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (283,988)
Adjustments to reconcile increase in net assets to cash provided by operating activities	
Depreciation	255
Write off of loan receivable to scholarship	15,390
Net unrealized loss on investments	198,028
Net realized (gain) on sale of investments	(9,692)
(Increase) decrease in:	
Accounts receivable	(7,902)
Prepaid expense	(580)
Increase (decrease) in:	
Accounts payable	28,243
Grants payable	6,300
Due to other agencies	2,155
Accrued liabilities	(1,291)
	<hr/>
Net cash provided (used) by operating activities	(53,082)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of equipment	(1,020)
Net purchase and proceeds of investments	(121,145)
Scholarship loans collected	740
	<hr/>
Net cash provided (used) by investing activities	(121,425)

**NET INCREASE (DECREASE) IN CASH** (174,507)

**CASH AND CASH EQUIVALENTS - BEGINNING** 

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423,225

**CASH AND CASH EQUIVALENTS - ENDING** 

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\$ 248,718

See accompanying notes to financial statements

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

**Nature of activities** – The Branch County Community Foundation, Inc. is a public foundation established to aggregate funds created by individuals, families, and corporations to benefit programs and services primarily for people in the Branch County, Michigan area.

**Financial statement presentation** – The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification FASB ASC 958-210. Under FASB ASC 958-210, the Foundation is required to report information regarding its financial position and activities according to the following three classes of net assets:

**Unrestricted Net Assets** – This portion of net assets is available for general operations and is not subject to any donor-imposed restrictions. Revenue earned from program services, unrestricted gifts, and investment income available for general operations and all operations expenses are reported as changes in unrestricted net assets.

**Temporarily Restricted Net Assets** – This portion of net assets is limited to use as specified by donor-imposed restrictions. When donor restrictions expire or the nature and purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions.

**Permanently Restricted Net Assets** – This portion of net assets is limited to donor-imposed restrictions that require the gift to be maintained in perpetuity. Income not subject to donor restriction is recorded as unrestricted investment income. The Foundation does not have any permanently restricted net assets.

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of accounting** – The financial statements have been prepared on the accrual basis.

**Cash and cash equivalents** – For the purposes of the statements of cash flows, management considers all liquid investments with an original maturity date of three months or less to be cash equivalents.

**Loan receivable** – The Foundation’s policy is to record loan accounts to grant expense when loans are granted. During the year ended September 30, 2011, the Foundation reclassified the remainder of \$15,390 of loans receivable to grant expense.

**Equipment** – All acquisitions of equipment in excess of \$500 and all computer systems with a unit cost of \$1,000 or more are capitalized. Donated office equipment is recorded at fair market value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives are seven to ten years for office equipment and three years for computer equipment. Cost of repairs and maintenance are expensed when incurred.

**Administrative fees** – The Foundation charges a management fee to each fund to support the cost of its administrative operating budget. This fee varies by type of fund, but on average, varies between one and two and a half percent of the average fund balance. For the year ended September 30, 2011, the Foundation generated \$70,090 in administrative fees.

**Income taxes** – The Organization is a non-profit corporation exempt from Federal income taxes under regulation 501(c) (3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization has determined no unrelated business activity exists for the year ended September 30, 2011. The Organization believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

**Estimates** – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

**Subsequent events** – The Organization evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through the auditor’s opinion date.

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Recognition of Contributions and Other Revenue** – For financial statement purposes the Organization distinguishes between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received.

Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of their restrictions.

Contributions of noncash assets are recorded at fair market value as unrestricted net assets in the period received unless donor restrictions specify how the contribution is to be used.

**NOTE B – CASH AND EQUIVALENTS**

At September 30, 2011, the carrying amount of the Foundation's cash was \$248,718 and the bank balance was \$263,834. The differences between the balances are the result of deposits in transit and checks issued by the Foundation but not yet presented for payment. The risk of exposure of the cash may be summarized as follows:

Insured	\$ 72,825
Uninsured	<u>191,009</u>
Total cash	<u><u>\$ 263,834</u></u>

Investment return is as follows as summarized in the statement of activities for the year ended September 30, 2011.

Dividend and interest income	<u><u>\$ 123,053</u></u>
Net realized and unrealized gains (loss)	<u><u>\$ (188,336)</u></u>

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE C – EQUIPMENT**

Depreciation included in the increase (decrease) in net assets for the year ended September 30, 2011 amounted to \$255. Depreciation has been recorded on the straight line method.

The principal categories of equipment may be summarized as follows:

Equipment	\$ 4,236
Less, accumulated depreciation	<u>(3,471)</u>
Undepreciated cost	<u><u>\$ 765</u></u>

**NOTE D – FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels.

**Level 1** – inputs are quoted prices in active markets for identical assets or liabilities the Foundation has the ability to access.

**Level 2** – inputs are those that are observable for the asset or liability, either directly or indirectly.

**Level 3** – are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The Foundation values all assets at level 1 (Mutual Funds, Corporate Stock, and Corporate Bonds) all assets are values at unadjusted quoted market prices of shares held by the Foundation at September 30, 2011.

The following table summarizes by level, the Foundation’s assets at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutal funds	\$ 1,258,233	\$ -	\$ -	\$ 1,258,233
Corporate stocks	1,556,094	-	-	1,556,094
Corporate bonds	<u>1,334,912</u>	<u>-</u>	<u>-</u>	<u>1,334,912</u>
Total	<u><u>\$ 4,149,239</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,149,239</u></u>

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE E – DUE TO OTHER AGENCIES**

The Foundation maintains variance power and legal ownership of Agency Endowment Funds and as such reports the funds as assets of the Foundation. However, in accordance with ASC 958-605-25-24, a liability, representing the amount of contributions made to the agency endowments, has been established for the fair value of the fund, which is generally equivalent to the present value of future payments expected to be made to the organization.

Agency Endowment Fund balances at October 1, 2010	\$ 344,947
Gifts and contributions	14,098
Investment loss	(6,289)
Administrative fees	(3,771)
Management and investment fees	<u>(1,883)</u>
Agency Endowment Fund balance at September 30, 2011	<u><u>\$ 347,102</u></u>

**NOTE F – RETIREMENT PLAN**

The Foundation provides a 403(b)(7) retirement plan that allows employees to contribute pre-tax dollars from their compensation into a retirement fund. The Foundation matches one dollar, for each dollar the employee contributes, up to 3% of the employee's gross compensation. The Foundation has the right to change the employer matching contribution by Board action. At September 30, 2011 the Foundation incurred retirement expense of \$475 for employer contributions. The Foundation terminated this retirement plan as of December 31, 2010.

**NOTE G – ENDOWMENT**

The Foundation consists of approximately 127 individual funds, of which thirteen are agency funds and twenty-seven are non-endowed, established for a variety of purposes. Its endowment includes both unrestricted and donor-restricted endowment funds. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Michigan adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective for years ending after December 15, 2008. The Foundation's Board of Trustees had determined that the majority of the Foundation's net assets meet the definition of endowment funds under UPMIFA.

## BRANCH COUNTY COMMUNITY FOUNDATION, INC.

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2011

#### NOTE G – ENDOWMENT – Continued

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Foundation, the nature of the endowment fund, and donor restrictions
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization

The Foundation's agreements with donors include a variance provision, giving the Board of Directors the power to vary the use of endowed funds if a restriction becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Foundation. Based on these provisions, most contributions received by the Foundation are reported as unrestricted support. Any gift received that is not established in accordance with the aforementioned are subject to UPMIFA and are classified as either temporarily or permanently restricted assets.

**Investment Policy** – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets; the Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of endowment assets. The current long-term objective is to return 9%, net of investment fees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term objectives within prudent risk parameters.

**Spending Policy** – The spending policy calculates the amount of money annually distributed from the Foundation's various endowment funds, for grant making, scholarships and administration. The current spending policy is based on the previous twenty quarters' moving average balance of the market value of the endowment ending September 30<sup>th</sup>, with a 0-5% payout amount. Accordingly, over the long-term, the Foundation expects current spending policy to allow its endowment assets to grow at an average rate of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional growth through new gifts and investment return.

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE G – ENDOWMENT – Continued**

Changes in endowment net assets for the year ended September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 1,697,285	\$ 1,826,118	\$3,523,403
Reclassified Net Assets	<u>35,138</u>	<u>23,389</u>	<u>58,527</u>
Net Assets Reclassified	1,732,423	1,849,507	3,581,930
Contributions	126,067	6,601	132,668
Interest and dividends	47,997	54,711	102,708
Realized gains	3,533	4,630	8,163
Unrealized gains (losses)	(79,668)	(84,661)	(164,329)
Special events	6,385	-	6,385
Amounts appropriated for expenditure	<u>(183,174)</u>	<u>(92,684)</u>	<u>(275,858)</u>
Change in Endowment Net Assets	<u>(78,860)</u>	<u>(111,403)</u>	<u>(190,263)</u>
Endowment Net Assets, End of Year	<u><u>\$ 1,653,563</u></u>	<u><u>\$ 1,738,104</u></u>	<u><u>\$ 3,391,667</u></u>

Endowment net asset composition by type of fund as of September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment Funds:			
Donor Advised	\$ 628,415	\$ 55,013	\$ 683,428
Designated	484,574	165,211	649,785
Field of interest	99,851	777,461	877,312
Scholarship	392,884	740,419	1,133,303
Undesignated	<u>47,839</u>	<u>-</u>	<u>47,839</u>
Endowment Net Assets, End of Year	<u><u>\$ 1,653,563</u></u>	<u><u>\$ 1,738,104</u></u>	<u><u>\$ 3,391,667</u></u>

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**NOTE G – ENDOWMENT – Continued**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment funds	\$ 1,653,563	\$ 1,738,104	\$ 3,391,667
Non-endowment funds	1,909	(9,018)	(7,109)
Board designated - Quasi Endowments	628,161	-	628,161
	<u>628,161</u>	<u>-</u>	<u>628,161</u>
 Total Net Assets, End of Year	 <u>\$ 2,283,633</u>	 <u>\$ 1,729,086</u>	 <u>\$ 4,012,719</u>

Investment returns (dividends, capital gains, real and unrealized gains, etc.) from special project fund investments are absorbed by the operating fund pursuant to such agreements in lieu of the Foundation charging these funds administrative fees.

**NOTE H – DONATED OCCUPANCY**

The Foundation recognizes revenue and expense for certain contributed occupancy at fair market rental value \$8,775.

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**

**SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROGRAM SERVICES EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Program services:**

Grants and scholarships	\$ 244,407
Special events	106,268
Investment management fees	22,742
Other expenses	
Salaries	34,497
Payroll taxes	2,519
Employee benefits	3,665
Dues and memberships	1,494
Office supplies	1,203
Postage	611
Service fees	14,830
Rent	7,283
Telephone	630
Professional development	133
Travel and conferences	<u>2,858</u>
Total other expenses	<u>69,723</u>
Total program services expenses	<u><u>\$ 443,140</u></u>

See independent auditor's report  
on supplementary information

**BRANCH COUNTY COMMUNITY FOUNDATION, INC.**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF SUPPORTING SERVICES EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Supporting services:**

**General and administrative**

Salaries	\$ 16,453
Payroll taxes	1,232
Employee benefits	1,770
Dues and memberships	3,813
Office supplies	176
Postage	66
Professional fees	19,072
Insurance	1,159
Rent	1,570
Telephone	68
Professional development	14
Committee and board expense	724
Travel and conferences	893
Depreciation	255
Miscellaneous	670

Total general and administrative expenses	47,935
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**Fund raising**

Salaries	23,822
Payroll taxes	1,848
Employee benefits	2,762
Dues and memberships	144
Office supplies	116
Marketing	12,709
Postage	59
Rent	702
Web hosting	1,453
Telephone	61
Professional development	13
Travel and conferences	275

Total fund raising expenses	43,964
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Total supporting services expenses	\$ 91,899
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See independent auditor's report  
on supplementary information