

**THE ALASKA COMMUNITY FOUNDATION**

Audited Financial Statements

Years Ended December 31, 2005 and 2004

# THE ALASKA COMMUNITY FOUNDATION

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# ***Foster & Company***

**Karen M. Foster, CPA**

## Independent Auditor's Report

Board of Directors  
The Alaska Community Foundation  
Anchorage, Alaska

I have audited the accompanying statement of financial position of The Alaska Community Foundation (the Foundation, a nonprofit organization) as of December 31, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based upon my audit. The financial statements of The Alaska community Foundation as of December 31, 2004, were audited by another auditor whose letter dated February 9, 2005, expressed an unqualified opinion on those statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Alaska Community Foundation as of December 31, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Karen M. Foster, CPA  
Foster & Company

April 28, 2006

**THE ALASKA COMMUNITY FOUNDATION**

Statements of Financial Position

December 31, 2005 and 2004

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Current assets:		
Cash and cash equivalents:		
Restricted	\$ 98,928	-
Unrestricted	78,455	43,807
Total cash and cash equivalents	177,383	43,807
Accounts receivable	38,423	3,737
Prepaid expenses	939	898
Total current assets	216,745	48,442
Non-current assets:		
Investments:		
Held for operations	154,639	52,361
Held in trust for other organizations	2,801,313	1,631,391
Temporarily restricted	3,983,542	3,380,918
Held for endowments and charitable contributions	10,258,693	4,860,561
Total investments	17,198,187	9,925,231
Property and equipment, at cost, net of accumulated depreciation	37,019	1,051
Total non-current assets	17,235,206	9,926,282
	\$ 17,451,951	9,974,724
	17,451,951	9,974,724
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 22,260	14,098
Grants payable	-	10,000
Total current liabilities	22,260	24,098
Funds held for other organizations	2,801,313	1,631,391
Total liabilities	2,823,573	1,655,489
Net assets:		
Unrestricted:		
Undesignated	9,783,033	4,211,410
Invested in property and equipment	37,019	1,051
Total unrestricted	9,820,052	4,212,461
Temporarily restricted	4,082,470	3,380,918
Permanently restricted	725,856	725,856
Total net assets	14,628,378	8,319,235
	\$ 17,451,951	9,974,724
	17,451,951	9,974,724

See accompanying notes to financial statements.

**THE ALASKA COMMUNITY FOUNDATION**

Statements of Activities

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Unrestricted net assets:		
Operating activities:		
Public support:		
Contributions - operations	\$ 53,830	52,509
Contributions - endowments	<u>6,034,456</u>	<u>2,319,281</u>
Total public support	6,088,286	2,371,790
Revenue:		
Fund administration fees	157,436	48,128
Investment income, net	<u>258,335</u>	<u>211,843</u>
Total revenue	415,771	259,971
Total public support and revenue	<u>6,504,057</u>	<u>2,631,761</u>
Expenses:		
Contractual fees	182,027	117,801
Investment fees	175,515	264
Insurance	1,955	1,588
Supplies	38,037	19,819
Travel	12,616	5,548
Grants	<u>575,425</u>	<u>107,749</u>
Total expenses	985,575	252,769
Increase in net assets from operating activities, excluding depreciation, in-kind and non-operating activities	\$ <u>5,518,482</u>	<u>2,378,992</u>

See accompanying notes to financial statements.

**THE ALASKA COMMUNITY FOUNDATION**

Statements of Activities

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Unrestricted net assets:		
Non-cash operating activities:		
Depreciation	\$ (1,963)	(189)
In-kind revenue	32,705	44,500
In-kind expense	<u>(32,705)</u>	<u>(44,500)</u>
Total non-cash operating activities	(1,963)	(189)
 Unrestricted net assets:		
Non-operating activities:		
Net assets released from restrictions	66,072	-
Grants released for capital purposes	<u>25,000</u>	<u>-</u>
Increase (decrease) in unrestricted net assets from non-cash and non-operating activities	89,109	(189)
Increase in unrestricted net assets	<u>5,607,591</u>	<u>2,378,803</u>
 Changes in temporarily restricted net assets:		
Investment gains	602,624	481,558
Temporarily restricted grants	165,000	-
Net assets released from restrictions	<u>(66,072)</u>	<u>-</u>
Increase in temporarily restricted net assets	701,552	481,558
 Changes in permanently restricted net assets:		
Permanently restricted cash and pledges	<u>-</u>	<u>94,876</u>
Increase in net assets	6,309,143	2,955,237
Net assets, beginning of year	<u>8,319,235</u>	<u>5,363,998</u>
Net assets, end of year	<u>\$ 14,628,378</u>	<u>8,319,235</u>

See accompanying notes to financial statements.

**THE ALASKA COMMUNITY FOUNDATION**

Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Change in net assets	\$ 6,309,143	2,955,237
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,963	189
Unrealized (gain) on investments	(713,686)	-
Realized (gain) loss on investments	5,888	(686,097)
(Increase) decrease in assets:		
Accounts receivable	(34,686)	(3,165)
Prepaid expenses	(41)	(898)
Increase (decrease) in liabilities:		
Accounts payable	8,162	11,748
Grants payable	(10,000)	10,000
Funds held in trust for other organizations	1,169,922	1,240,962
Net cash provided by operating activities	6,736,665	3,527,976
Cash flows from investing activities:		
Purchase of equipment	(37,931)	(1,240)
Cash proceeds from sales of investments	2,017,639	152,243
Cash used to purchase investments	(8,582,797)	(3,668,410)
Net cash provided (used) by investing activities	(6,603,089)	(3,517,407)
Net increase in cash and cash equivalents	133,576	10,569
Cash and cash equivalents, beginning of year	43,807	33,238
Cash and cash equivalents, end of year	\$ 177,383	43,807

See accompanying notes to financial statements.

## THE ALASKA COMMUNITY FOUNDATION

Notes to Financial Statements

December 31, 2005 and 2004

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The Alaska Community Foundation (the Foundation) is presented to aid in understanding the Foundation's financial statements. The financial statements and notes are the representations of the Foundation's management, which is responsible for their integrity and objectivity. These accounting principles conform to generally accepted accounting principles.

#### Nature of the Organization

The Alaska Community Foundation was incorporated as a nonprofit organization in the State of Alaska in 1995. Its mission is to encourage and nurture philanthropy through the establishment of a permanent endowment that will address current and emerging needs in Alaskan communities.

#### Income Tax Status

The Foundation is recognized as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (the Code) and is classified as a public foundation as defined under Section 509(a). The Foundation is exempt from State income taxes under the Alaska Nonprofit Corporation Act. Therefore, the accompanying statements do not reflect a provision for income taxes.

Although The Foundation is exempt from federal income taxes, any income derived from unrelated business activities is subject to the requirement of filing Federal Income Tax Form 990-T and a tax liability may be determined on these activities.

#### Basis of Accounting

The Foundation's accounting records are maintained on the accrual basis of accounting.

#### Financial Statement Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets (equity): unrestricted, temporarily restricted, and permanently restricted.

#### Cash and cash equivalents

For the purpose of the statements of cash flows, The Foundation considers all unrestricted highly liquid investments with initial maturity of three months or less to be cash equivalents.

#### 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 ALASKA COMMUNITY FOUNDATION

Notes to Financial Statements, *continued*

### **NOTE A – Summary of Significant Accounting Policies, *continued***

#### Funds Held for Other Organizations (Agency Endowments)

SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, requires assets received from a nonprofit organization that names itself or its affiliate as the beneficiary of the fund created to be reported as liabilities rather than as contributions even if variance power is explicitly stated in the gift agreement. Assets received and net investment earnings are recorded as increases to agency endowment liabilities; fund distributions and fees are recorded as decreases to liabilities.

#### Contributions Recognition

The Foundation reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as *permanently restricted*. Assets received subject to donor-stipulated time or purpose restrictions are reported as *temporarily restricted*. Temporarily restricted net assets are shown in the Statement of Activities as net assets released from restrictions when time restrictions expire or the donor's stipulated purpose has been fulfilled.

Donor-advised fund agreements allow the donor to suggest the purpose for which the gift will be used, but the agreements indicate that those suggestions are not binding on the Foundation. By virtue of granting this variance power, assets received pursuant to donor-advised agreements are reported as *unrestricted*.

#### 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. Actual results could differ from those estimates.

#### Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

## THE ALASKA COMMUNITY FOUNDATION

Notes to Financial Statements, *continued*

### NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of amounts held in the Foundation's operating account. The balance as of December 31, 2005 and 2004 was comprised of the following:

	<u>2005</u>		<u>2004</u>	
	Bank	Book	Bank	Book
	<u>Balance</u>	<u>Value</u>	<u>Balance</u>	<u>Value</u>
Demand deposit accounts	\$ <u>197,879</u>	<u>177,383</u>	<u>53,612</u>	<u>43,807</u>

Amounts are insured up to Federal Depository Insurance (FDIC) limitations. As of December 31, 2006 and 2005 \$100,000 of the bank balance was insured and \$97,879 and \$0 respectively, was uninsured and uncollateralized.

### NOTE C – GRANTS AND AWARDS

Grants awarded to others are recorded as an expense and a liability when approved by the Governing Board or when the recipient fulfills the conditions of the grant.

### NOTE D – INKIND CONTRIBUTIONS

In-kind contributions revenue is comprised of the following amounts:

	<u>2005</u>	<u>2004</u>
Office occupancy	\$ 32,705	32,500
Investment management fees	-	10,000
Advertising design and layout	-	2,000
	\$ <u>32,705</u>	<u>44,500</u>

Valuation of office space, use of equipment, and other donated office costs are based upon estimated fair value of similar facilities obtained in an arm's length transaction. Investment management fees and advertising services are also recorded at estimated fair value for services provided.

### NOTE E – INVESTMENTS

#### Managed Investments

Publicly traded managed investments are stated on the basis of quoted market prices. Funds managed by the Foundation are subject to its investment policy, which is to maintain a well-diversified portfolio comprised of common stocks, fixed income securities, and cash reserves. Policy goals are prioritized to maintain safety of principal, provide sufficient liquidity to meet cash flow requirements, and diversify risk.

**THE ALASKA COMMUNITY FOUNDATION**

Notes to Financial Statements, *continued*

**NOTE E – INVESTMENTS** *(continued)*

Other Investments

Other investments are donor-managed and include money market funds and stock and bond mutual funds stated on the basis of quoted market prices, and closely held stocks for which market value is not readily determinable. Valuation of the closely held stock is based upon an annual review and estimation provided by the donor. It is reasonably possible that this estimate will change within one year of the date of these financial statements and the effect of the change would be material.

The fair value of the Foundation's investments at December 31, 2005 and 2004 was as follows:

	<u>2005</u>	<u>2004</u>
Common stock	\$ 5,792,330	2,367,819
Equity mutual funds	89,424	1,315,448
Treasury certificates of deposit	1,978,639	-
U.S. agency funds	1,480,775	1,079,018
U.S. treasury notes	2,526,558	669,856
Corporate bonds	1,334,401	666,854
Asset-backed securities	<u>12,518</u>	<u>96,063</u>
Subtotal, managed investments	13,214,645	6,195,058
Other investments	<u>3,983,542</u>	<u>3,730,173</u>
	\$ <u>17,198,187</u>	<u>9,925,231</u>

Investment income is summarized as follows:

	<u>2005</u>	<u>2004</u>
Unrealized gains	\$ 713,686	612,501
Dividends and interest	153,161	77,900
Realized gains (losses)	<u>(5,888)</u>	<u>3,000</u>
	\$ <u>860,959</u>	<u>693,401</u>
Unrestricted - operating	\$ 258,335	211,843
Temporarily restricted	<u>602,624</u>	<u>481,558</u>
	\$ <u>860,959</u>	<u>693,401</u>

**THE ALASKA COMMUNITY FOUNDATION**

Notes to Financial Statements, *continued*

**NOTE F – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets contain donor imposed restrictions that expire upon the passage of time or once specific actions are undertaken by The Foundation. These net assets are then released and reclassified to unrestricted net assets, from which they are expended. Temporarily restricted net assets consist of the following balances at December 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Capacity building	\$ 98,928	-
Time-restricted pledged investments	<u>3,983,542</u>	<u>3,380,918</u>
	<u>\$ 4,082,470</u>	<u>3,380,918</u>

**NOTE G – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets represent donor-restricted contributions that are to remain in perpetuity. Earnings are unrestricted; however, the Foundation does not have the right to invade the original principal. Permanently restricted net assets consist of \$725,856 and \$725,856 for the years ended December 31, 2005 and 2004 respectively.

**NOTE H – SUBSEQUENT EVENT**

During the first quarter of 2006, The Alaska Community Foundation founded a Limited Liability Company of which it is the sole member. *ACF Properties 1, LLC* was formed to hold title to a rental property, and to insulate the foundation from potential liabilities of owning rental real estate. The financial reports for *ACF Properties 1, LLC* will be consolidated with the financial reports for The Alaska Community Foundation for reporting purposes.