

ARCTIC SLOPE COMMUNITY FOUNDATION

Financial Statements

December 31, 2017 and 2016

(With Report of Independent Certified Public Accountants Thereon)

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial Statements:	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows	10
Notes to Financial Statements	11

GRANT THORNTON LLP

1029 W. Third Ave.
Suite 280
Anchorage, AK 99501

D +1 907.754.9200
F +1 907.754.9222

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Arctic Slope Community Foundation

We have audited the accompanying financial statements of Arctic Slope Community Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 Arctic Slope Community Foundation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Anchorage, Alaska
March 4, 2019

ARCTIC SLOPE COMMUNITY FOUNDATION

Statements of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 1,083,995	\$ 1,380,874
Contributions and grants receivable	75	93,500
Prepaid expenses	2,859	-
Investments in marketable securities	5,613,294	5,196,263
Property and equipment	<u>6,300</u>	<u>3,932</u>
Total assets	<u>\$ 6,706,523</u>	<u>\$ 6,674,569</u>
Liabilities:		
Accrued liabilities	\$ 37,065	\$ 809
Grants payable	<u>448,125</u>	<u>93,525</u>
Total liabilities	<u>485,190</u>	<u>94,334</u>
Net assets:		
Unrestricted	5,909,623	5,894,780
Temporarily restricted	<u>311,710</u>	<u>685,455</u>
Total net assets	<u>6,221,333</u>	<u>6,580,235</u>
Total liabilities and net assets	<u>\$ 6,706,523</u>	<u>\$ 6,674,569</u>

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

ARCTIC SLOPE COMMUNITY FOUNDATION

Statement of Activities

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Contributions	\$ 638,349	\$ -	\$ 638,349
Grant revenue	718,504	-	718,504
Special events			
Event revenues	110,489	-	110,489
Less direct donor benefit	(41,829)	-	(41,829)
Total special events revenue	68,660	-	68,660
Investment income and gains			
Interest and dividends	129,031	-	129,031
Realized gains, net	187,714	-	187,714
Unrealized gains, net	380,231	-	380,231
Total investment income and gains	696,976	-	696,976
Net assets released from restriction	373,745	(373,745)	-
Total revenues and other support	2,496,234	(373,745)	2,122,489
Program expenses:			
Grants awarded	1,995,473	-	1,995,473
Supporting services:			
Management and general	458,482	-	458,482
Fundraising activities	27,436	-	27,436
Total supporting services	485,918	-	485,918
Total expenses	2,481,391	-	2,481,391
Change in net assets	14,843	(373,745)	(358,902)
Net assets, beginning of year	5,894,780	685,455	6,580,235
Net assets, end of year	\$ 5,909,623	\$ 311,710	\$ 6,221,333

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

ARCTIC SLOPE COMMUNITY FOUNDATION

Statement of Activities

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Contributions	\$ 1,289,054	\$ 685,455	\$ 1,974,509
Grant revenue	1,091,843	-	1,091,843
Special events			
Event revenues	115,504	-	115,504
Less direct donor benefit	(20,626)	-	(20,626)
Total special events revenue	94,878	-	94,878
Investment income and gains			
Interest and dividends	118,324	-	118,324
Realized gains, net	91,559	-	91,559
Unrealized losses, net	188,680	-	188,680
Total investment income and gains	398,563	-	398,563
Net assets released from restriction	162,893	(162,893)	-
Total revenues and other support	3,037,231	522,562	3,559,793
Program expenses:			
Grants awarded	2,366,259	-	2,366,259
Supporting services:			
Management and general	339,525	-	339,525
Fundraising activities	17,874	-	17,874
Total supporting services	357,399	-	357,399
Total expenses	2,723,658	-	2,723,658
Change in net assets	313,573	522,562	836,135
Net assets, beginning of year	5,581,207	162,893	5,744,100
Net assets, end of year	\$ 5,894,780	\$ 685,455	\$ 6,580,235

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

ARCTIC SLOPE COMMUNITY FOUNDATION

Statement of Functional Expenses

For the Year Ended December 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ -	\$ 233,342	\$ -	\$ 233,342
Marketing	-	-	22,194	22,194
Dues and subscriptions	-	10,758	-	10,758
Insurance	-	5,865	-	5,865
Professional fees	-	66,652	-	66,652
Travel and meetings	-	62,984	1,127	64,111
Supplies and equipment	299,562	-	1,982	301,544
Pass-through grant expense	1,695,911	-	-	1,695,911
Bank fees	-	26,953	-	26,953
In-kind	-	47,178	-	47,178
Other expenses	-	4,750	2,133	6,883
	<u>\$ 1,995,473</u>	<u>\$ 458,482</u>	<u>\$ 27,436</u>	<u>\$ 2,481,391</u>

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

ARCTIC SLOPE COMMUNITY FOUNDATION

Statement of Functional Expenses

For the Year Ended December 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ -	\$ 175,443	\$ -	\$ 175,443
Marketing	-	-	13,895	13,895
Dues and subscriptions	-	4,659	-	4,659
Insurance	-	2,542	-	2,542
Professional fees	-	47,921	-	47,921
Travel and meetings	-	47,116	-	47,116
Supplies and equipment	234,127	-	1,225	235,352
Pass-through grant expense	2,132,132	-	-	2,132,132
Bank fees	-	20,881	-	20,881
In-kind	-	38,571	-	38,571
Other expenses	-	2,392	2,754	5,146
	<u>\$ 2,366,259</u>	<u>\$ 339,525</u>	<u>\$ 17,874</u>	<u>\$ 2,723,658</u>

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

ARCTIC SLOPE COMMUNITY FOUNDATION

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (358,902)	\$ 836,135
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Net gains on marketable securities	(567,945)	(280,239)
Changes in operating assets and liabilities providing (using) cash:		
Contributions receivable	93,425	170,394
Prepaid expenses	(2,859)	-
Accrued liabilities	36,256	610
Grants payable	<u>354,600</u>	<u>(7,602)</u>
Net cash provided (used) by operating activities	<u>(445,425)</u>	<u>719,298</u>
 Cash flows from investing activities:		
Purchases of property and equipment	(2,368)	-
Purchases of marketable securities	(982,565)	(353,089)
Proceeds from sale of marketable securities	<u>1,133,479</u>	<u>584,750</u>
Net cash provided by investing activities	<u>148,546</u>	<u>231,661</u>
 Net increase (decrease) in cash and cash equivalents	(296,879)	950,959
 Cash and cash equivalents at beginning of year	<u>1,380,874</u>	<u>429,915</u>
 Cash and cash equivalents at end of year	<u>\$ 1,083,995</u>	<u>\$ 1,380,874</u>

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

ARCTIC SLOPE COMMUNITY FOUNDATION

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

(1) Operations and Summary of Accounting Policies

(a) Operations

The Arctic Slope Community Foundation (the “Foundation”) is an Alaska nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was established on June 15, 2009 and was organized as a public foundation. The mission; to strengthen the culture of giving and improve the quality of life among the people of the Arctic Slope region of Alaska by providing and administering grants to support the community health and economic stability of the villages of Point Hope, Point Lay, Wainwright, Atkasuk, Barrow, Nuiqsut, Anaktuvuk Pass, and Kaktovik. The Foundation will leverage the charitable resources of individuals, businesses, public and private foundations and other charities to make grants to support community-based solutions and serve the people of the Arctic Slope.

(b) Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting according to accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

(c) 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments, maintained as part of the Foundation’s cash management activities, which are readily convertible into cash and have maturities of less than three months from their date of purchase. At times the Foundation’s cash account balances may exceed Federal Deposit Insurance Corporation insured limits. The Foundation believes the risk from this concentration is not significant.

(e) Contributions Receivable

All receivables are considered to be fully collectible, and accordingly, no allowance for doubtful accounts is recorded in the accompanying financial statements at December 31, 2017 and 2016.

(f) Investments in Marketable Securities

Investments in marketable securities include both debt and equity securities that have maturities greater than three months from the date of purchase. Marketable securities are accounted for in accordance with ASC Topic 320 - *Investments - Debt and Equity Securities* and are classified as available-for-sale. Available-for-sale securities are reported at fair value, with any unrealized holding gains and losses included in unrealized gains (losses) included in the statement of activities. The fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Fair value for the Foundation’s marketable securities is determined using quoted market prices. Purchases and sales are accounted for on the trade date, when the order to buy or sell is executed. The specific identification method is used to compute the realized gains and losses on securities.

ARCTIC SLOPE COMMUNITY FOUNDATION

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

(g) Property and Equipment

Property and equipment are recorded at cost or, if acquired by donation, at estimated fair value at the date of acquisition. Depreciation of property and equipment is provided over the estimated useful lives of the assets using the straight-line method.

(h) Grants Payable

Grants payable represent commitments to provide funding under approved grant applications and reimbursements to subrecipients of federal pass-through grants. All amounts are payable within one year.

(i) Donor Restricted Contributions

The Foundation records contributions as temporarily or permanently restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are released from restrictions. It is the Foundation's policy to record temporarily restricted contributions received for which the related restrictions are met in the same fiscal year as unrestricted contributions. During the years ended December 31, 2017 and 2016, additions to and release of temporarily restricted net assets are attributable to time and purpose restrictions, as are the ending balances as of December 31, 2017 and 2016.

(j) Functional Expense Allocation

The costs of providing the various programs' services and supporting activities have been summarized in the statement of functional expenses. Expenses are charged to programs and supporting services based on direct expenses incurred. Certain costs which are not directly related to programs have been allocated among the programs and supporting services benefited.

(k) Grant Revenues

Cost reimbursable grant revenues are recorded as the related disbursement liability is incurred. Monies received prior to incurring expenses are recorded as deferred revenues. Expenses incurred that exceed monies received are recorded as grants receivable.

(l) In-Kind Contributions

In-kind contributions consist primarily of donated airfare, professional services, and advertising. In-kind contributions are recorded at fair value as revenues and an equivalent amount is recorded as expense or property at the time of donation.

(m) Income Taxes

The Foundation is an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. Contributions to the Foundation are deductible for tax purposes by the donor, subject to the normal limitations imposed by the taxing authorities. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business,

ARCTIC SLOPE COMMUNITY FOUNDATION

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

regularly carried on, and not in furtherance of the purposes for which it was granted exemption. For the years ended December 31, 2017 and 2016 the Foundation had no unrelated business income tax.

The Foundation recognizes the effect of a tax position only if the position is “more likely than not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. The Foundation has not identified any unrecognized tax benefits or liabilities during the years ended December 31, 2017 and 2016, nor does it expect there will be a material change in the 12 months following the year ended December 31, 2017. The Foundation is no longer subject to examinations by income tax authorities for the tax years prior to 2015.

(n) Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the goal of improving not-for-profit entity financial statements to provide more useful information to donors, grantors, creditors, and other financial statement users. The new standard is effective for fiscal years beginning after December 15, 2017; however, early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of ASU 2016-14 on its financial statements.

(2) Investment in Marketable Securities

The Foundation invests in various marketable securities. Marketable securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain marketable securities, it is at least reasonably possible that changes in the values of marketable securities will occur in the near term and that such change could materially affect the amounts reported in the Foundation’s financial statements. The value, liquidity, and related income of those securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market’s perception of the issuers and changes in interest rates.

The carrying amount, net unrealized holding gains (losses), and fair value of the Foundation’s marketable securities as of December 31, 2017 are presented below:

	<u>Cost</u>	<u>Unrealized Holding Gains (Losses), net</u>	<u>Fair Value</u>
Exchange traded funds:			
Common equities	\$ 2,487,566	939,676	3,427,242
Fixed income securities	<u>2,191,880</u>	<u>(5,828)</u>	<u>2,186,052</u>
	<u>\$ 4,679,446</u>	<u>933,848</u>	<u>5,613,294</u>

ARCTIC SLOPE COMMUNITY FOUNDATION

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

The carrying amount, net unrealized holding gains (losses), and fair value of the Foundation’s marketable securities as of December 31, 2016 are presented below:

	Cost	Unrealized Holding Gains (Losses), net	Fair Value
Exchange traded funds:			
Common equities	\$ 2,588,136	562,901	3,151,037
Fixed income securities	2,059,492	(14,266)	2,045,226
	\$ 4,647,628	548,635	5,196,263

Interest and dividend earnings for the year ended December 31, 2017 were \$6,082 and \$122,949, respectively. Interest and dividend earnings for the year ended December 31, 2016 were \$591 and \$117,733, respectively.

The Foundation paid investment management and administrative fees for the years ended December 31, 2017 and 2016 of \$25,183 and \$17,455, respectively. These fees are included in management and general expenses in the statement of activities.

(3) Fair Value Measurement

Accounting Standards Codification (“ASC”) Topic 820 - *Fair Value Measurements and Disclosures* defines fair value as the price that would be received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. Fair value is a market-based measurement considered from the perspective of a market participant. The Foundation uses market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation. These inputs can be readily observable, market corroborated or unobservable. The Foundation applies a market approach for recurring fair value measurements using the best available information while utilizing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value Hierarchy

ASC Topic 820 establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

ARCTIC SLOPE COMMUNITY FOUNDATION

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Following is a description of the valuation methodologies used for the Foundation's investments measured at fair value:

Common equities funds: Valued at the closing price obtained from active exchanges for identical securities held by the Foundation at year end; accordingly these securities are classified as Level 1.

Fixed income securities funds: Valued at the closing price obtained from active exchanges for identical securities held by the Foundation at year end; accordingly these securities are classified as Level 1.

The preceding methods 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.

The following tables sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis:

December 31, 2017:

	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Common equities	\$ 3,427,242	-	-	3,427,242
Fixed income securities	2,186,052	-	-	2,186,052
	\$ 5,613,294	-	-	5,613,294

December 31, 2016:

	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Common equities	\$ 3,151,037	-	-	3,151,037
Fixed income securities	2,045,226	-	-	2,045,226
	\$ 5,196,263	-	-	5,196,263

The Foundation has no assets measured at fair value on a nonrecurring basis.

The Foundation made no transfers of assets between levels of the fair value hierarchy during the years ended December 31, 2017 and 2016.

(4) Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through March 4, 2019, the date at which the financial statements were available to be issued. There were no matters noted that require recognition or disclosure in these financial statements.