

THE ALASKA COMMUNITY FOUNDATION

Audited Financial Statements

Years Ended December 31, 2006 and 2005

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 statements of financial position of The Alaska Community Foundation (the Foundation, a nonprofit organization) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years 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 audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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 audits provide 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Karen M. Foster, CPA
Foster & Company

April 21, 2007

THE ALASKA COMMUNITY FOUNDATION

Statements of Financial Position

December 31, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents:		
Restricted	\$ 91,311	98,928
Unrestricted	15,174	78,455
Total cash and cash equivalents	<u>106,485</u>	<u>177,383</u>
Accounts receivable	17,344	38,423
Pledges receivable	676,700	-
Stock gifts in transit	32,224	-
Prepaid expenses	-	939
Total current assets	<u>832,753</u>	<u>216,745</u>
Non-current assets:		
Investments:		
Held for operations	415,155	154,639
Held in trust for other organizations	2,614,757	2,801,313
Temporarily restricted	5,097,048	3,983,542
Held for endowments and charitable contributions	<u>19,186,086</u>	<u>10,258,693</u>
Total investments	27,313,046	17,198,187
Property and equipment, at cost, net of accumulated depreciation	<u>353,342</u>	<u>37,019</u>
Total non-current assets	27,666,388	17,235,206
	<u><u>\$ 28,499,141</u></u>	<u><u>17,451,951</u></u>
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 49,314	22,260
Grants payable	5,000	-
Total current liabilities	<u>54,314</u>	<u>22,260</u>
Funds held for other organizations	<u>2,614,757</u>	<u>2,801,313</u>
Total liabilities	2,669,071	2,823,573
Net assets:		
Unrestricted:		
Undesignated	18,593,974	9,783,033
Invested in property and equipment	353,342	37,019
Total unrestricted	<u>18,947,316</u>	<u>9,820,052</u>
Temporarily restricted	5,895,059	4,082,470
Permanently restricted	987,695	725,856
Total net assets	<u>25,830,070</u>	<u>14,628,378</u>
	<u><u>\$ 28,499,141</u></u>	<u><u>17,451,951</u></u>

See accompanying notes to financial statements.

THE ALASKA COMMUNITY FOUNDATION

Statements of Activities, page 1 of 2
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Unrestricted net assets:		
Operating activities:		
Public support:		
Contributions - operations	\$ 75,093	53,830
Contributions - endowments	<u>10,071,681</u>	<u>6,034,456</u>
Total public support	10,146,774	6,088,286
Revenue:		
Fund administration fees	255,043	157,436
Operating investment income, net	1,691,779	258,335
Lease and other income	<u>12,244</u>	<u>-</u>
Total revenue	1,959,066	415,771
Total public support and revenue	<u>12,105,840</u>	<u>6,504,057</u>
Expenses:		
Administrative fees	347,465	182,027
Investment fees	327,277	175,515
Insurance	3,807	1,955
Communications and marketing	42,804	-
Supplies	24,148	38,037
Travel	40,479	12,616
Grants	<u>2,835,321</u>	<u>575,425</u>
Total expenses	3,621,301	985,575
Increase in net assets from operating activities, excluding depreciation, in-kind and non-operating activities	\$ <u>8,484,539</u>	<u>5,518,482</u>

See accompanying notes to financial statements.

THE ALASKA COMMUNITY FOUNDATION

Statements of Activities, page 2 of 2

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Unrestricted net assets:		
Non-cash operating activities:		
Depreciation	\$ (11,424)	(1,963)
Donated real property	340,232	-
In-kind revenue	25,124	32,705
In-kind expense	<u>(25,124)</u>	<u>(32,705)</u>
Total non-cash operating activities	328,808	(1,963)
 Unrestricted net assets:		
Non-operating activities:		
Net assets released from restrictions	313,917	66,072
Grants released for capital purposes	<u>-</u>	<u>25,000</u>
Increase (decrease) in unrestricted net assets from non-cash and non-operating activities	642,725	89,109
Increase in unrestricted net assets	<u>9,127,264</u>	<u>5,607,591</u>
 Changes in temporarily restricted net assets:		
Investment gains	1,113,506	602,624
Temporarily restricted grants	1,013,000	165,000
Net assets released from restrictions	<u>(313,917)</u>	<u>(66,072)</u>
Increase in temporarily restricted net assets	1,812,589	701,552
 Changes in permanently restricted net assets:		
Permanently restricted cash and pledges	<u>261,839</u>	<u>-</u>
Increase in net assets	11,201,692	6,309,143
Net assets, beginning of year	<u>14,628,378</u>	<u>8,319,235</u>
Net assets, end of year	\$ <u><u>25,830,070</u></u>	\$ <u><u>14,628,378</u></u>

See accompanying notes to financial statements.

THE ALASKA COMMUNITY FOUNDATION

Statements of Cash Flows

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 11,201,692	6,309,143
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,424	1,963
Donation of real property	(340,232)	-
Unrealized (gain) on operating investments	(1,777,175)	(713,686)
Realized (gain) loss on operating investments	(652,541)	5,888
(Increase) decrease in assets:		
Operating Investments	(7,665,143)	(6,565,158)
Pledges receivable	(676,700)	-
Accounts receivable	21,079	(34,686)
Stock gifts in transit	(32,224)	-
Prepaid expenses	939	(41)
Increase (decrease) in liabilities:		
Accounts payable	27,054	8,162
Grants payable	5,000	(10,000)
Funds held in trust for other organizations	(186,556)	1,169,922
Net cash provided (used) by operating activities	<u>(63,383)</u>	<u>171,507</u>
Cash flows from investing activities:		
Purchase of software	<u>(7,515)</u>	<u>(37,931)</u>
Net cash provided (used) by investing activities	(7,515)	(37,931)
Net increase (decrease) in cash and cash equivalents	(70,898)	133,576
Cash and cash equivalents, beginning of year	<u>177,383</u>	<u>43,807</u>
Cash and cash equivalents, end of year	<u>\$ 106,485</u>	<u>177,383</u>

See accompanying notes to financial statements.

THE ALASKA COMMUNITY FOUNDATION

Notes to Financial Statements

December 31, 2006 and 2005

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.

Consolidated Financial Statements

The financial statements include the accounts of the Organization and its wholly owned subsidiary, ACF Properties 1, LLC. There were no inter-company transactions requiring elimination prior to presentation in these financial statements.

Property and Equipment

Property and equipment is recorded at cost or, in the case of donated property, at its estimated fair value as of the date of the contribution. Depreciation is provided using the straight-line method over the estimated useful lives of the property, which varies from three to twenty years. Expenditures for repairs and maintenance are charged against operations as incurred.

THE ALASKA COMMUNITY FOUNDATION

Notes to Financial Statements, *continued*

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents in financial institutions is insured up to the Federal Depository Insurance (FDIC) limitation of \$100,000. As of December 31, 2006 and 2005, \$147,721 and \$97,879 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 AND DONATIONS OF REAL PROPERTY

In-kind contributions and donations of real property are comprised of the following amounts:

	<u>2006</u>	<u>2005</u>
Office occupancy	\$ 25,124	32,705
Real property (Note I)	\$ 340,232	-

Valuation of office space is based upon estimated fair value of similar facilities obtained in an arm's length transaction.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Building	\$ 309,032	-
Land	11,200	-
Furniture and equipment	10,686	10,686
Software	<u>36,001</u>	<u>28,456</u>
	366,919	39,142
Accumulated depreciation	<u>(13,577)</u>	<u>(2,123)</u>
	\$ <u>353,342</u>	<u>37,019</u>

THE ALASKA COMMUNITY FOUNDATION

Notes to Financial Statements, *continued*

NOTE F – 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.

Other Investments

Other investments include 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 an independent appraiser. 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, 2006 and 2005 was as follows:

	<u>2006</u>	<u>2005</u>
Common stock	\$ 17,078,747	5,792,330
Equity mutual funds	215,665	89,424
Treasury certificates of deposit	136,391	1,978,639
U.S. agency funds	1,372,821	1,480,775
U.S. treasury notes	1,392,721	2,526,558
Corporate bonds	1,006,580	1,334,401
Asset-backed securities	993,073	12,518
	<hr/>	<hr/>
Subtotal, managed investments	22,195,998	13,214,645
Other investments	5,117,048	3,983,542
	<hr/>	<hr/>
	\$ 27,313,046	17,198,187
	<hr/>	<hr/>

Investment income is summarized as follows:

	<u>2006</u>	<u>2005</u>
Unrealized gains	\$ 1,777,175	713,686
Dividends and interest	375,569	153,161
Realized gains (losses)	652,541	(5,888)
	<hr/>	<hr/>
	\$ 2,805,285	860,959
	<hr/>	<hr/>
Unrestricted - operating	\$ 1,691,779	258,335
Temporarily restricted	1,113,506	602,624
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	\$ 2,805,285	860,959
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THE ALASKA COMMUNITY FOUNDATION

Notes to Financial Statements, *continued*

NOTE G – 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 at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Capacity building	\$ 798,011	98,928
Time-restricted pledged investments	<u>5,097,048</u>	<u>3,983,542</u>
	<u>\$ 5,895,059</u>	<u>4,082,470</u>

NOTE H – 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 \$987,695 and \$725,856 for the years ended December 31, 2006 and 2005 respectively.

NOTE I – ACF PROPERTIES 1, LLC

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 and non-rental real estate. A rental property valued at \$320,232 is designated for the benefit of the Kenai Peninsula Community Care Center. Two additional parcels of land donated during 2006 valued at \$20,000 are undesignated and available for sale. The financial reports for *ACF Properties 1, LLC* have been consolidated with the financial reports for The Alaska Community Foundation for reporting purposes.