The Homer Foundation

Audited Financial Statements

June 30, 2013 and 2012

CONTENTS

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS

Statements of Financial Position 2

Statements of Activity 3 - 4

Statements of Cash Flows 5

Notes to the Financial Statements 6 – 14

Foster and Company, LLC

Karen M. Foster, CPA
Michael C. Foster, CPA

Independent Auditor's Report

Board of Trustees
The Homer Foundation
Homer, Alaska

We have audited the accompanying financial statements of The Homer Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities, statements of 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 audits 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 The Homer Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

For Foster and Company, LLC
Karen M. Foster, CPA
Wasilla, Alaska

November 18, 2013

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THE HOMER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Unrestricted Cash and Cash Equivalents	$ 34,142	$ 89,301
Accounts Receivable	112	-
Inventory	1,922	3,897
Prepaid Expenses	-	1,243
Cash Surrender Value of Life Insurance	5,504	5,695
TOTAL CURRENT ASSETS	41,680	100,136
INVESTMENTS		
Investments, at Fair Value		
Cash and Cash Equivalents	33,781	17,353
Kachemak Capitalization Partnership	100,000	-
Marketable Equity Securities	1,742,203	2,174,171
Mortgage Notes Receivable, Net of Discounts	138,371	152,364
Total Investments	2,014,355	2,343,888
PROPERTY AND EQUIPMENT		
Equipment	14,815	14,815
LESS ACCUMULATED DEPRECIATION	(14,283)	(13,219)
PROPERTY AND EQUIPMENT - NET	532	1,596
TOTAL ASSETS	$ 2,056,567	$ 2,445,620

LIABILITIES AND NET ASSETS	2013	2012
CURRENT LIABILITIES		
Grants Payable	$ 14,900	$ 37,667
Accounts Payable	2,832	2,032
Payroll Taxes Payable	258	187
Charitable Gift Annuity	-	768
Funds Managed For Others	287,356	354,409
TOTAL CURRENT LIABILITIES	305,346	395,063
TOTAL LIABILITIES	305,346	395,063
NET ASSETS		
Unrestricted	1,562,651	1,818,596
Temporarily Restricted	98,241	130,115
Permanently Restricted	90,329	101,846
TOTAL NET ASSETS	1,751,221	2,050,557
TOTAL LIABILITIES AND NET ASSETS	$ 2,056,567	$ 2,445,620

See Notes to the Financial Statements

THE HOMER FOUNDATION

STATEMENTS OF ACTIVITY - PAGE 1 of 2

YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS		
From Cash Operating Activities		
Support (including $132,637 and $268,714 in assets released from restrictions in FY13 and FY12. See Note 7)		
Individual and Corporation	$ 193,240	$ 359,592
Foundation	66,498	72,419
Government	171,434	84,650
SUBTOTAL - SUPPORT	431,172	516,661
Revenue		
Interest Income and	27,124	29,814
Investment Revenue, Dividends	116,161	263,917
Fundraising Event	2,648	9,600
Other Income, net of direct costs	2,365	-
SUBTOTAL - REVENUE	148,298	303,331
TOTAL REVENUE AND SUPPORT	579,470	819,992
Expense		
Distributions and Grants	335,553	471,337
Personnel Costs	48,819	61,369
Other Operating Expenses	26,576	21,012
TOTAL EXPENSE	410,948	553,718
Increase (Decrease) in Net Assets from Cash Operating Activities excluding depreciation and in-kind expenses	$ 168,522	$ 266,274

THE HOMER FOUNDATION

STATEMENTS OF ACTIVITY - PAGE 2 of 2

YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS		
From Non-Cash Activities		
Depreciation	$ (1,064)	$ (1,064)
Allowance for Managed Funds	67,053	22,500
In-Kind Goods and Services	34,146	24,211
In-Kind Donations - Facility Rental	(14,000)	(14,000)
In-Kind Donations - Professional Services	(20,146)	(10,211)
SUBTOTAL NON-CASH ACTIVITIES	65,989	21,436
From Non-Operating Activities		
Investment Revenue, Gain (Loss) on Sale	(75,612)	39,957
Investment Revenue, Unrealized Gain (Loss)	(414,845)	(191,951)
SUBTOTAL NON- OPERATING ACTIVITIES	(490,457)	(151,994)
Increase (Decrease) in Unrestricted Net Assets from Non-Operating and Non-Cash Activities	(424,468)	(130,558)
Increase (Decrease) in Unrestricted Net Assets	(255,946)	135,716
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	100,764	349,341
Net assets released from restrictions	(132,637)	(268,714)
Increase (Decrease) in Temporarily Restricted Net Assets	(31,873)	80,627
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	11,950	20,600
Investment Revenue, Unrealized Gain (Loss)	(23,467)	(8,389)
Increase (Decrease) in Permanently Restricted Net Assets	(11,517)	12,211
INCREASE (DECREASE) IN NET ASSETS	(299,336)	228,554
NET ASSETS, beginning of year	2,050,557	1,822,003
NET ASSETS, end of year	$ 1,751,221	$ 2,050,557

See Notes to the Financial Statements

THE HOMER FOUNDATION
STATEMENTS OF CASH FLOW
YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ (299,336)	$ 228,554
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Net Realized (Gains) Losses on Investments	2,198	153,841
Net Realized (Gains) Losses on Foreclosures	-	(14,977)
Net Unrealized Losses on Investments	436,171	200,341
Amortization of Discount on Mortgage Notes Receivable	(2,157)	(4,032)
Depreciation	1,064	1,064
(Increase) Decrease in Operating Assets		
Accounts Receivable	(112)	1,000
Inventory	1,975	1,402
Prepaid Expenses	1,243	5,502
Increase (Decrease) in Operating Liabilities		
Accounts Payable	800	-
Grants Payable	(22,767)	20,595
Payroll Taxes Payable	71	29
Charitable Gift Annuity	(768)	(710)
Funds Managed For Others	(67,053)	(22,499)
NET CASH PROVIDED BY OPERATING ACTIVITIES	51,329	570,110
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sale of Investments	1,507,255	2,586,768
Purchases of Options	(103,391)	(254,585)
Purchases of Investments	(1,410,074)	(3,002,109)
Payments Received on Mortgage Notes Receivable	16,150	20,681
Purchases of Mortgage Notes Receivable	-	(30,000)
Proceeds from Foreclosures	-	26,554
Investment in Kachemak Capitalization Partnership	(100,000)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(90,060)	(652,691)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(38,731)	(82,582)
BEGINNING CASH AND CASH EQUIVALENTS	106,654	189,236
ENDING CASH AND CASH EQUIVALENTS	$ 67,923	$ 106,654

See Notes to the Financial Statements

THE HOMER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Summary of Significant Accounting Policies

Nature of Activities

The Homer Foundation (the "Foundation") is a community foundation established in 1991 to increase charitable resources in the southern Kenai Peninsula of Alaska. The Foundation receives contributions from individuals, businesses and other non-profit organizations most of whom live or work in the area benefitted by the Foundation's activities. These funds are held in trust and pooled together for investment purposes. The income earned on these funds is distributed annually in the form of grants to nonprofit agencies enhancing the quality of life for area citizens.

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 has been determined not to be a private foundation as defined under Section 509(a)(1). 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. The Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements.

Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis in conformity with generally accepted accounting principles. The Organization has adopted FASB ASC 958-205 *Not-for-Profit Entities: Presentation of Financial Statements.* Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Classification of Revenue, Support and Net Assets

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor for specific purposes or for future periods are reported as an increase in temporarily restricted or permanently restricted support. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

FASB ASC Topic 958-605, *Not-for-Profit Entities: Revenue Recognition*, and its subsequent interpretations, provides that if the governing body of an organization has the ability to remove a donor restriction (i.e., variance power), the contribution should be classified as an unrestricted net asset. Accordingly, such assets are classified in the accompanying financial statements as unrestricted net assets absent donor-imposed restrictions to maintain the assets permanently. This classification does not alter the longstanding policy of the foundation to distribute assets entrusted to the Foundation in accordance with the original fund agreements and to manage the assets of the component funds in a manner similar to an endowment with only a portion of each component fund distributed annually, unless directed otherwise by the fund advisor.

Fund Groups

The Foundation maintains donated assets in individual component funds established primarily by donors. This framework classifies the Foundation's resources into funds established in accordance with the Foundation's objectives and ensures the observance of donor intentions. Grants charged to the individual funds are directed to purposes identified by the donors and by the Foundation's Distributions Committee.

Component Fund Investments and Spending Policy

Investments in equity securities with readily determinable fair values and all debt securities are measured at fair value in the statement of financial position. The Foundation allocates realized and unrealized gains and losses on investments to the individual component funds based on the average balance for each fund measured on a monthly basis.

The Foundation's component funds are managed in such a way as to balance the generation of income for the distribution process with the preservation and growth of principal to equal or exceed inflation. The Foundation uses an income approach to determine how much will be available for annual distributions. Under this income approach interest and dividends realized from the investment portfolio, pass-through grants, matching grants and appropriations from unrestricted net assets may be awarded by the Board of Trustees. Growth from realized and unrealized gains and losses is thus available to maintain or increase the real value of the component funds.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows excludes cash and cash equivalents of the Foundation that are held for investment. Cash and cash equivalents that are held for investment are in accounts that are not insured by the FDIC.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Conditional Promises and Indications of Intentions to Give

Pursuant with the Foundation's policy and in conformity with FASB ASC Topic 958-605, the Foundation does not recognize conditional promises as revenue until the condition is met. A donor's indication of an intention to give at a future date is not recognized as revenue until the intention is communicated as an unconditional promise to give.

Inventory

Inventory consists of books for resale and is stated at cost using the first in, first out method.

Furniture and Equipment

Purchases of furniture and equipment are made from operating funds and recorded at cost. Donated furniture is reported at fair value at the date of gift. It is the Foundation's policy to capitalize property and equipment purchases over $1,000. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which is generally five years.

Contributed Services & Facilities

Contributions in-kind are recognized in accordance with the provisions of FASB ASC Topic 958-605. Donated facilities are recorded at estimated fair value. Contributed services that require a specialized skill and that the Foundation would have paid for if not donated are recorded at the estimated fair value at the time the services are rendered. The Foundation also receives donated services that do not require specialized skills but which are nonetheless central to the Foundation's operations. These contributed services are not reflected in the financial statements.

Credit Risk

Financial instruments which potentially subject the Foundation to a concentration of credit risk consist principally of cash and investments. The Foundation has significant amounts of cash equivalents that are not federally insured, however, the Foundation places cash and temporary investments with high credit quality financial institutions.

The Foundation's investments are managed by an Investment Manager in accordance with asset allocation guidelines adopted by the Board of Trustees. An Investment Committee, consisting of members of the Board of Trustees and outside members, provides oversight of the Investment Manager and reports at least quarterly to the Board of Trustees. The Investment Manager is also a member of the Board of Trustees and does not receive compensation for his services.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

2. Investments and Fair Value Measurements

The fair value of an asset is the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The Foundation's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by generally accepted accounting principles. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's classification is based on the lowest level input that is significant to its measurement. For example, a level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spread and yield curves.

Level 3 – Certain inputs are unobservable (supported by little of no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Foundation's estimate of what hypothetical market participants would use to determine a transaction price for the asset at the reporting date.

<u>Managed Investments – Level 1</u>

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, and fixed income securities. Policy goals are prioritized to maintain safety of principal, provide sufficient liquidity to meet cash flow requirements, and diversify risk.

2. Investments and Fair Value Measurements, *continued*

Other Investments – Level 3

Mortgage notes receivable consist of first mortgage deeds of trust, secured by real estate and are carried at the amounts contractually due net of allowances for uncollectible amounts and discounts, if any. The Foundation typically purchases the notes at a discount to the face value of the note and the discount is amortized to interest income over the life of the note. The Foundation periodically reviews the balances of mortgage notes receivable and provides an allowance for uncollectible amounts when it believes collection of all or some portion of the balance is doubtful. No allowance for uncollectible notes was considered necessary at June 30, 2013 and 2012.

Fair values of assets measured on a recurring basis at June 30, 2013 are as follows:

	Fair Value	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable Equity Securities	$ 1,742,203	$ 1,742,203	$ -	$ -
Investment in Kachemak Capitalization Partnership	$ 100,000	$ 100,000	$ -	$ -
Mortgage Notes Receivable	138,371	-	-	138,371
	$ 1,880,574	$ 1,742,203	$ -	$ 238,371

Fair values of assets measured on a recurring basis at June 30, 2012 are as follows:

	Fair Value	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable Equity Securities	$ 2,174,171	$ 2,174,171	$ -	$ -
Mortgage Notes Receivable	152,364	-	-	152,364
	$ 2,326,535	$ 2,174,171	$ -	$ 152,364

THE HOMER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. Investments and Fair Value Measurements, *continued*

Cost, market value and unrealized appreciation for marketable equity securities and contractual amount due, carrying amount and unamortized discount for mortgage notes receivable at June 30, 2013 and 2012 are summarized as follows:

2013	Cost and Contractual Amount Due	Carrying Amount	Unrealized Appreciation & (Unamortized Discount)
Cash and Cash Equivalents	$ 33,781	$ 33,781	$ -
Marketable Equity Securities	2,412,517	1,742,203	(670,314)
Mortgage Notes Receivables	157,046	138,371	(18,675)
Investment in Kachemak Capitalization Partnership	100,000	100,000	-
	$ 2,703,344	$ 2,014,355	$ (688,989)

2012	Cost and Contractual Amount Due	Carrying Amount	Unrealized Appreciation & (Unamortized Discount)
Cash and Cash Equivalents	$ 17,353	$ 17,353	$ -
Marketable Equity Securities	2,408,505	2,174,171	(234,334)
Mortgage Notes Receivables	173,196	152,364	(20,832)
	$ 2,599,054	$ 2,343,888	$ (255,166)

Earnings from investments for the years ended June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Interest and Dividends	$ 25,910	$ 36,892
Net Realized Gains (Losses)	223,533	294,454
Change in Unrealized Gains (Losses)	(433,823)	(200,340)
	$ (184,380)	$ 131,006

3. Office Furniture & Equipment

Office furniture and equipment at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Office Furniture and Equipment	$ 14,815	$ 14,815
Less: Accumulated Depreciation	(14,283)	(13,219)
	$ 532	$ 1,596

4. Grants Payable

At June 30, 2013 and 2012, respectively, the Foundation has committed to award grants totaling $14,900 and $37,667.

5. Funds Managed for Others

FASB ASC Topic 958-605 identifies certain situations when an organization does not record contribution revenue when it receives funds. Instead, the recipient organization records an asset and a liability. These situations include transactions where the organization receives funds as an agent, trustee or intermediary.

The Foundation has agreements in which it invests resources for the sole benefit of donor organizations. These situations are created when the donor organization creates a component fund and specifies itself or an affiliate as the beneficiary. At June 30, 2013 and 2012, the amount invested by the Foundation for others was $287,356 and $354,409, respectively. The investment return earned on behalf of these organizations is not included in the Foundation's statement of activities.

6. Unrestricted Net Assets

Unrestricted net assets at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Administrative Funds	$ 59,903	$ 89,388
Board Designated Funds	59,193	79,127
Repair and Replacement Funds	89,447	-
Other Designated Funds	135,223	203,421
Field of Interest Funds	443,211	510,654
Donor Advised Funds	775,674	936,006
	$ 1,562,651	$ 1,818,596

7. Temporarily Restricted & Permanently Restricted Net Assets

Temporarily restricted net assets consisted entirely of funds whose use by the Foundation has been restricted by specified time or purpose limitations by the donor.

Permanently restricted net assets consisted of an endowment that must be maintained in perpetuity by the Foundation. In accordance with donor instructions the Foundation may use the investment income from this endowment to support operations.

	Temporarily Restricted Grants & Support				Unrestricted Grants & Support		
Type of Donor	Balance at 06/30/12	Grants Received in FY13	Grants Released to Unrestricted in FY13	Balance at 06/30/13	Temporarily Restricted Grants Released in FY13	Unrestricted Grants & Support Received in FY13	Total Unrestricted Grants & Support for FY13
Foundations	$ -	9,329	6,829	2,500	6,829	59,669	$ 66,498
Individuals & Corporations	119,116	30,000	63,374	85,742	63,374	129,866	193,240
Government	11,000	61,434	62,434	10,000	62,434	109,000	171,434
Total	$130,116	100,763	132,637	98,242	132,637	298,535	$ 431,172

	Temporarily Restricted Grants & Support				Unrestricted Grants & Support		
Type of Donor	Balance at 06/30/11	Grants Received in FY12	Grants Released to Unrestricted in FY12	Balance at 06/30/12	Temporarily Restricted Grants Released in FY12	Unrestricted Grants & Support Received in FY12	Total Unrestricted Grants & Support for FY12
Foundations	$ -	17,585	17,585	-	17,585	54,834	$ 72,419
Individuals & Corporations	32,397	253,698	166,979	119,116	166,979	192,613	359,592
Government	17,092	78,058	84,150	11,000	84,150	500	84,650
Total	$ 49,489	349,341	268,714	130,116	268,714	247,947	$ 516,661

8. Subsequent Events

Management has evaluated subsequent events through November 18, 2013, that date which the financial statements were available for issue. No events were identified that would require disclosure according to generally acceptable accounting principles.

9. Related Party Transactions

During 2013, the Foundation invested $100,000 in the Kachemak Capitalization Partnership (the Partnership), of which the Foundation's Board of Director's chair is the general partner. The function of the Partnership is to provide funds for the City of Kachemak (the City), of which another Board member is the Mayor, to install and supply natural gas to the residents of the City. The Partnership is loaning funds to the City at market interest rates.

During 2013, the Foundation received $100,000 from the City to establish the Kachemak City Institutional Reserve, a component portion of the Homer Foundation Repair and Replacement Fund. These funds will be used in the future by the City for maintenance and replacement of City assets.