

PETOSKEY-HARBOR SPRINGS AREA
COMMUNITY FOUNDATION

FINANCIAL STATEMENTS
for the year ended March 31, 2023



RASMUSSEN + TELLER + CARON

CERTIFIED PUBLIC ACCOUNTANTS & TRUSTED ADVISORS

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CERTIFIED PUBLIC ACCOUNTANTS & TRUSTED ADVISORS

July 7, 2023

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Petoskey-Harbor Springs Area Community Foundation:

Opinion

We have audited the accompanying financial statements of Petoskey-Harbor Springs Area Community Foundation (a nonprofit corporation), which comprise the statement of financial position as of March 31, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Petoskey-Harbor Springs Area Community Foundation as of March 31, 2023, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Petoskey-Harbor Springs Area Community Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Petoskey-Harbor Springs Area Community Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors
July 7, 2023

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Petoskey-Harbor Springs Area Community Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Petoskey-Harbor Springs Area Community Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Petoskey-Harbor Springs Area Community Foundation's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 8, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rasmussen, Teller & Caron, P.C.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

March 31, 2023

(with comparative totals for March 31, 2022)

ASSETS

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,727,964	\$ 5,001,430
Certificates of deposit	570,703	579,757
Investments	47,299,518	50,940,548
Contributions receivable	2,043,113	-
Program related investment receivable, net of discount	116,109	110,299
Prepaid expenses	22,125	19,125
Furniture and equipment, net of accumulated depreciation of \$40,704 and \$47,178 in 2023 and 2022, respectively	13,780	16,484
LLC investment - land	452,313	-
Total assets	<u>\$ 55,245,625</u>	<u>\$ 56,667,643</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ -	\$ 1,299
Grants payable	2,173,932	168,550
Charitable gift annuities	92,054	111,143
Funds held as agency endowments	9,628,079	10,422,617
Total liabilities	11,894,065	10,703,609

NET ASSETS:

Without donor restrictions:		
Undesignated	13,077,142	17,049,814
Board designated - other	2,939,792	3,216,056
Board designated - endowment	5,883,738	6,623,801
Total net assets without donor restrictions	21,900,672	26,889,671

With donor restrictions:

Restricted by time	2,038,113	-
Restricted in perpetuity - endowment	19,412,775	19,074,363
Total net assets with donor restrictions	21,450,888	19,074,363
Total net assets	<u>43,351,560</u>	<u>45,964,034</u>
Total liabilities and net assets	<u>\$ 55,245,625</u>	<u>\$ 56,667,643</u>

The accompanying notes are a part of the financial statements.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

for the year ended March 31, 2023

(with comparative totals for the year ended March 31, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE, GAINS, AND OTHER SUPPORT:				
Contributions	\$ 4,107,763	\$ 2,376,525	\$ 6,484,288	\$ 3,406,196
Program related investment income	7,310	-	7,310	7,310
Investment return, net	(3,604,546)	-	(3,604,546)	1,242,338
Remeasurement of charitable gift annuities	1,564	-	1,564	(1,909)
Agency endowments administration fees	47,026	-	47,026	44,342
Loss on asset disposition	(301)	-	(301)	-
Net revenue, gains, and other support associated with agency endowments	619,459	-	619,459	(417,740)
Total revenue, gains, and other support	1,178,275	2,376,525	3,554,800	4,280,537
EXPENSES:				
Program services:				
Grants	5,515,314	-	5,515,314	3,575,505
Operating expenses	83,134	-	83,134	96,716
Supporting services:				
General and administrative	536,072	-	536,072	415,278
Fundraising	160,806	-	160,806	125,092
Grants related to agency endowments	(128,052)	-	(128,052)	(200,459)
Total expenses	6,167,274	-	6,167,274	4,012,132
Change in net assets	(4,988,999)	2,376,525	(2,612,474)	268,405
NET ASSETS, Beginning of year	26,889,671	19,074,363	45,964,034	45,695,629
NET ASSETS, End of year	\$21,900,672	\$ 21,450,888	\$43,351,560	\$45,964,034

The accompanying notes are a part of the financial statements.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended March 31, 2023
(with comparative totals for the year ended March 31, 2022)

	Program Services		Supporting Services		Totals	
	Grants	Operating	General and Administrative	Fundraising	2023	2022
Grant expense	\$ 5,515,314	\$ -	\$ -	\$ -	\$ 5,515,314	\$ 3,575,505
Salaries and wages	-	58,892	238,500	86,392	383,784	354,404
Payroll taxes	-	4,505	20,349	6,609	31,463	28,069
Employee benefits	-	11,608	53,627	16,331	81,566	69,855
Professional fees	-	-	21,367	-	21,367	16,168
Computer and website	-	-	59,011	-	59,011	54,861
Printing and publishing	-	-	-	10,845	10,845	5,390
Occupancy	-	-	45,570	-	45,570	28,661
Telephone	-	-	4,239	-	4,239	4,012
Office expenses	-	50	21,729	5,095	26,874	28,947
Bank service fees	-	-	2,493	-	2,493	3,727
YAC expenses	-	6,298	-	-	6,298	3,263
Environmental assessment	-	-	-	-	-	13,460
Interest	-	-	3,797	-	3,797	-
Property tax	-	-	4,380	-	4,380	-
Insurance	-	-	5,776	-	5,776	5,261
Meetings and education	-	1,311	46,607	27,329	75,247	13,896
Travel	-	470	3,635	-	4,105	653
Public relations	-	-	2,590	8,205	10,795	3,849
Depreciation	-	-	2,402	-	2,402	2,610
Total	<u>\$ 5,515,314</u>	<u>\$ 83,134</u>	<u>\$ 536,072</u>	<u>\$ 160,806</u>	<u>\$ 6,295,326</u>	<u>\$ 4,212,591</u>

The accompanying notes are a part of the financial statements.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

for the year ended March 31, 2023

(with comparative totals for the year ended March 31, 2022)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,612,474)	\$ 268,405
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,402	2,610
Loss on asset disposition	301	-
Net unrealized and realized (gain) loss on investments	4,226,406	(7,380)
Changes in assets and liabilities:		
Contributions receivable	(2,043,113)	180,000
Prepaid expenses	(3,000)	-
Program related investment receivable	(5,810)	114,191
Accounts payable	(1,299)	79
Grants payable	2,005,382	29,027
Charitable gift annuities	(19,089)	(15,616)
Funds held as agency endowments	<u>(794,538)</u>	<u>172,940</u>
Net cash provided by operating activities	755,168	744,256
CASH FLOWS FROM INVESTING ACTIVITIES:		
Certificate of deposit maturities	109,054	667,576
Certificate of deposit purchases	(100,000)	(622,002)
Purchase of land	(452,312)	-
Purchases of investments	(3,135,376)	(6,576,272)
Proceeds from sale of investments	<u>2,550,000</u>	<u>6,780,590</u>
Net cash provided by (used in) investing activities	<u>(1,028,634)</u>	<u>249,892</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(273,466)	994,148
BEGINNING CASH AND CASH EQUIVALENTS	<u>5,001,430</u>	<u>4,007,282</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 4,727,964</u>	<u>\$ 5,001,430</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 3,797</u>	<u>\$ -</u>

The accompanying notes are a part of the financial statements.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
for the year ended March 31, 2023

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

The Petoskey-Harbor Springs Area Community Foundation (the Foundation), a Michigan nonprofit corporation, was incorporated December 20, 1991. The purpose of the Foundation is to operate a collection of funds, including endowment funds, to support charitable organizations and activities in the Petoskey-Harbor Springs and the Northwestern Michigan area.

Operations of the Foundation are conducted through a Board of Directors.

Basis of Presentation

The Foundation's financial statements have been prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash and Cash Equivalents

Cash and cash equivalents includes all cash and other highly liquid investments with initial maturities of three months or less.

Investments

Investments are stated at fair value. Investments received as donations are recorded at fair value on the date of the receipt. Net investment return or loss is included in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

Furniture and Equipment

Furniture and equipment are carried at cost. They are being depreciated over their estimated useful lives using the straight-line or an accelerated method defined in the Internal Revenue Code. Depreciation expense was \$2,402 for the year ended March 31, 2023.

LLC Investment – Land

The Foundation purchased land in May 2022 as part of its Strategic Work Plan to take a role in housing shortage issues in the area. The purchase was made by CF Initiatives LLC which was established by the Foundation during the prior fiscal year ended March 31, 2022 for the purpose of holding the property while providing liability protection. The Foundation plans on transferring the property to an entity that will manage the housing project.

Funds Held as Agency Endowments

Other nonprofit organizations establish endowment funds with the Foundation for the benefit of the creating organization. The endowment portion of the fund plus any accumulated income is accounted for as a liability in accordance with generally accepted accounting principles. The fund's income may be spent at the discretion of the creating organization. Any expenditure of the endowment portion of the fund is subject to the variance powers vested in the Foundation's Board.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2023

**NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued):**

Revenue Recognition:

Charitable Gift Annuities

A charitable gift annuity is a contract between the Foundation and a donor in which the Foundation agrees to pay the donor (or other person named by the donor) a lifetime annuity in return for the gift. Contribution revenue is recorded upon execution of an annuity contract at an amount less the present value of estimated future payments to the annuity's beneficiary. The present value of these future payments is recorded as a liability. Each year, the liability is re-measured, and changes in the liability due to factors other than cash payments, such as changing life expectancies and interest rates, are recorded as an increase or a decrease to revenue, gains, and other support. The discount factor ranged from 3.0 to 9.5 at 4.4 percent interest rate as of March 31, 2023.

Contributions

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restriction. Contributions received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Unconditional contributions expected to be collected within one year are reported at their net realizable value. The fair value of contributions receivable is initially determined as the present value of expected future cash flows using a discount rate.

Net Asset Classification

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired or been fulfilled. From net assets without donor restrictions, the governing board has designated an endowment as well as other amounts for grant making, housing solutions, an operating reserve, and impact investing.

The Foundation is governed subject to the Articles of Incorporation and by-laws and contributions received are subject to the terms of the governing documents. Under the terms of the governing documents, the board of directors has the ability to distribute the amount of income from any trust or separate gift, device, bequest, or fund as the board in its sole discretion shall determine. It also has the ability to modify any restriction or condition on the distribution of funds for any specified charitable purpose or purposes or to a specified charitable organization or organizations if, in the sole judgment of the board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served. Based on these provisions, some contributions received by the Foundation are reported as assets without donor restrictions.

**NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued):**

Net Asset Classification (Continued)

Net Assets With Donor Restrictions – Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted had been fulfilled, or both.

The Foundation classifies as net assets with donor restrictions (a) the original gift value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts donated to the permanent endowment.

The Foundation maintains separate accounting records for each of the individual established funds. These funds have been combined for presentation purposes. These net assets are classified as net assets with donor restrictions and without donor restrictions and the Board of Directors makes every effort to comply with the donors' instructions. The funds are of various types reflecting the wishes of the donors who have established or contributed to them and consist of the following:

Discretionary Funds – These funds have no suggested distribution restrictions. The board allocates these funds in making distributions for charitable purposes to meet community needs.

Field-of-Interest Funds – These funds establish support in a particular area of interest including short-term special project funds.

Advised Funds – These funds provide the donor with the ability to recommend grants for distribution and are approved by the board.

Scholarship Funds – These funds provide scholarship awards to benefit a certain type of student, a specific institution, or a particular field of study.

Agency Endowments and Designated Funds – These funds provide support to specific nonprofit organizations or programs based on the donors' wishes and subject to the board's discretion and approval.

Gift Annuity Funds – The Foundation operates a charitable gift annuity program whereby donors receive a life income in exchange for assets conveyed to the Foundation under an annuity contract.

Operating Funds – Operating Funds are used to support the operational expenses of the Foundation.

Estimates

Financial statements prepared in conformity with generally accepted accounting principles require that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reflected in the financial statements. Actual results could differ from the estimates embodied in the statements.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2023

**NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued):**

Functional Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. The expenses that are allocated include salaries and wages, payroll taxes, employee benefits, office expenses, meetings and education, and public relations, all of which are allocated on the basis of estimates of time and effort.

Prior Year Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles.

New Accounting Pronouncement

In 2022, the Foundation adopted Accounting Standards Update (ASU) No. 2016-02, Leases, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements.

NOTE B - CONCENTRATION OF CREDIT RISK:

The Foundation maintained cash and certificate of deposit balances at financial institutions and a brokerage company totaling \$5,426,150 at March 31, 2023, of which \$1,201,785 was insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investors Protection Company (SIPC) and \$4,224,366 was not insured. Total cash balance of \$2,010,733 was invested in a Government Cash Reserves Fund at March 31, 2023 and the Fund is comprised of various U.S. Treasury instruments.

NOTE C - INVESTMENTS:

Investments are comprised of bond, equity, and alternative mutual funds. The mutual funds are all traded in active markets.

The cost and market value of these investments is as follows as of March 31, 2023:

	<u>Cost</u>	<u>Market Value</u>
Bond mutual funds	\$ 9,383,417	\$ 8,373,006
Equity mutual funds	31,864,782	36,246,700
Alternatives (Commodities, REITS, etc.)	<u>3,028,720</u>	<u>2,679,812</u>
Total	<u>\$ 44,276,919</u>	<u>\$ 47,299,518</u>

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2023

NOTE D - FAIR VALUE MEASUREMENTS:

The Foundation utilizes the provisions of FASB ASC 820, Fair Value Measurements and Disclosures, in the preparation of its financial statements and related disclosures. This guidance establishes a framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs used in valuation techniques into the following three levels:

- Level 1 - Valuation is based on quoted prices for identical investments traded in an active market.
- Level 2 - Valuation is based on quoted prices of similar investments in an active market, quoted prices for identical or similar investments in an inactive market, or model-based valuation techniques for which all-significant assumptions are observable in the market.
- Level 3 - Valuation is based on a price that embodies significant assumptions that are not observable in the market.

The following table summarizes the valuation of the Foundation's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>
Investments:				
Bond mutual funds	\$ 8,373,006	\$ -	\$ -	\$ 8,373,006
Equity mutual funds	36,246,700	-	-	36,246,700
Alternatives (Commodities, REITS, etc.)	<u>2,679,812</u>	<u>-</u>	<u>-</u>	<u>2,679,812</u>
Total Investments	<u>\$ 47,299,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,299,518</u>
Charitable gift annuities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,054</u>	<u>\$ 92,054</u>

For a liability measured at fair value on a recurring basis using significant unobservable inputs as described in Note A, the following table provides a reconciliation of beginning and ending balances for the year ended March 31, 2023:

Charitable gift annuities:	
Beginning balance	\$ 111,143
Payments to beneficiaries	(17,525)
Actuarial adjustments	<u>(1,564)</u>
	<u>\$ 92,054</u>

NOTE E - PROGRAM RELATED INVESTMENT RECEIVABLE:

The Foundation makes program related investment loans to nonprofit organizations. The receivable balance is discounted if the loan term is more than a year.

The following summarizes the changes in program related investment receivable for the year ended March 31, 2023:

Beginning balance	\$ 110,299
Annual amortization of discount at 4.75% on a loan released during the year ended March 31, 2020	<u>5,810</u>
Ending balance, all collectible by December, 2029	<u>\$ 116,109</u>

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2023

NOTE F - GRANTS:

Grants, including scholarships, are recorded as an obligation of the Foundation when authorized by the Board of Directors. Any grants remaining unpaid at year end are recorded as grants payable.

The following summarizes the changes in grants payable for the year ended March 31, 2023:

Beginning of year	\$ 168,550
Grants approved	3,879,310
Payments made	<u>(1,873,928)</u>
End of year (expected to be disbursed in the next fiscal year)	<u>\$ 2,173,932</u>

NOTE G - FUNDS HELD AS AGENCY ENDOWMENTS:

Changes in the accounts held as agency endowments during the year ended March 31, 2023 are as follows:

Beginning of year	\$ 10,422,617
Contributions	82,986
Investment return	(702,445)
Grants	(128,053)
Administrative expenses and fees	<u>(47,026)</u>
Net decrease for the year	<u>(794,538)</u>
End of year	<u>\$ 9,628,079</u>

NOTE H - ENDOWMENT NET ASSETS:

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restriction.

The Foundation has adopted a spending policy applicable to all endowment funds, including those designated by the Board of Directors to function as endowment funds. Under this policy, up to 5 percent of an endowment fund's trailing twelve quarter rolling average balance as of December 31 of the preceding year may be distributed, provided it does not cause the endowment fund's principal amount to be eroded. In establishing this policy, the Foundation considered the long-term expected investment return on its endowments. It is the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Foundation has adopted an investment policy that attempts to maximize total return, without an undue exposure to risk. Endowments are invested in a well-diversified asset mix, which includes equity, fixed income, real estate, alternative investments and cash assets. The Foundation expects its endowment assets, over time, to produce an average rate of return that exceeds the Consumer Price Index by at least 6 percentage points. Actual return in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund: investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2023

NOTE H - ENDOWMENT NET ASSETS (Continued):

The Board of Directors of the Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the board-designated or donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation of the law and variance power, the Foundation classified as net assets without donor restrictions or net assets with donor restrictions (a) the original value of the donated endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The summary of changes in endowment net assets for the year ended March 31, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year (restated)	\$ 15,056,407	\$ 19,074,363	\$ 34,130,770
Investment return	(2,376,659)	-	(2,376,659)
Contributions	341,394	395,416	736,810
Amounts appropriated for expenditure	<u>(1,961,658)</u>	<u>-</u>	<u>(1,961,658)</u>
Endowment net assets, end of year	<u>\$ 11,059,484</u>	<u>\$ 19,469,779</u>	<u>\$ 30,529,263</u>

Net assets without donor restrictions at March 31, 2023 consist of the following endowed and non-endowed net assets:

Board designated endowment	\$ 5,883,738
Spendable portion of endowment	<u>5,175,746</u>
Endowment net assets without donor restrictions	11,059,484
Board designated, non-endowed	2,939,792
Undesignated, non-endowed	<u>7,901,396</u>
Total net assets without donor restrictions	<u>\$ 21,900,672</u>

Net assets with donor restrictions, restricted in perpetuity consists of the following:

Endowment net assets with donor restrictions	\$ 19,412,775
Endowment net assets reported as with donor restrictions, restricted by time	<u>57,004</u>
Endowment net assets with donor restrictions, restricted in perpetuity	<u>\$ 19,469,779</u>

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
for the year ended March 31, 2023

NOTE I - LIQUIDITY AND AVAILABILITY:

Financial assets available for grants and other expenses, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at March 31, 2023:

Cash and cash equivalents	\$ 4,727,964
Certificates of deposit	570,703
Investments available for current use	<u>22,713,765</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 28,012,432</u>

As part of the Foundation's liquidity management, financial assets are structured to be available for general expenditures, liabilities, and other obligations as they become due. The Foundation invests cash in excess of short-term requirements in certificates of deposit and mutual funds that can be withdrawn with a short notice.

As described in Note H, the Foundation's board-designated endowments are subject to an annual spending rate up to 5 percent and the spendable amounts are available for grant making and administrative expenses within the next 12 months. The Foundation will receive approximately \$778,000 in Foundation fees for operations in 2024.

NOTE J - LEASES:

The Foundation rented office space in Petoskey, Michigan that was terminated on April 30, 2023.

The Foundation entered into a three-year lease that commenced in April, 2023 and the lease includes one, three-year renewal option which will likely be elected. Under this lease the Foundation's right of use asset and lease liability is estimated to be \$243,000. Expected annual lease expense during the six-year lease term is \$40,500.

The lease expense for the year ended March 31, 2023 was \$40,505.

NOTE K - INCOME TAX STATUS:

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Foundation's Form 990, Return of Organization Exempt from Income Tax, for the years ending March 31, 2020, 2021 and 2022 are subject to examination by the IRS, generally for three years after they were filed.

NOTE L - RETIREMENT PLAN:

The Foundation provides retirement benefits to its full-time staff through a tax sheltered plan at an amount established by the Board of Directors annually. Expenses incurred for this benefit totaled \$25,080 for the year ended March 31, 2023.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 2023

NOTE M - SUBSEQUENT EVENTS:

In preparing these financial statements, the Foundation has evaluated events and transactions occurring during the period from March 31, 2023 through July 7, 2023, the date the financial statements were available for issue.

The Foundation expects to contribute approximately \$1.55M to the Lofts at Lumber Square project and the Foundation is exploring a bridge loan or program related investment with a private foundation.