

**Grand Traverse Regional Community Foundation**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

December 31, 2021 and 2020

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Grand Traverse Regional Community Foundation

### *Opinion*

We have audited the accompanying financial statements of the Grand Traverse Regional Community Foundation, (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years 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 the Grand Traverse Regional Community Foundation as of December 31, 2021 and 2020, 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.

### *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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 the 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 the 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  
Grand Traverse Regional Community Foundation

***Auditor's 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 auditor's 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, including omissions, 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 the 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 the 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.

*Dennis, Gartland & Niergarth*

Certified Public Accountants  
Traverse City, Michigan

April 20, 2022

# Grand Traverse Regional Community Foundation

## STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 303,728	\$ 539,348
Investments (Note D )	3,214,337	2,975,777
Prepaid expenses and other	<u>3,500</u>	<u>3,800</u>
Total current assets	3,521,565	3,518,925
<b>OTHER ASSETS</b>		
Endowment investments (Note H)	<u>100,667,068</u>	<u>86,765,954</u>
Total assets	<u>\$ 104,188,633</u>	<u>\$ 90,284,879</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Grants payable (Note F)	\$ 73,323	\$ 119,479
Accounts payable	20,117	12,925
Accrued liabilities	<u>20,729</u>	<u>21,079</u>
Total current liabilities	<u>114,169</u>	<u>153,483</u>
<b>NET ASSETS</b>		
Without donor restrictions	<u>652,299</u>	<u>499,833</u>
With donor restrictions (Note G)		
Purpose and time restrictions	27,957,014	18,779,807
Perpetual in nature	<u>75,465,151</u>	<u>70,851,756</u>
Total with donor restrictions	<u>103,422,165</u>	<u>89,631,563</u>
Total net assets	<u>104,074,464</u>	<u>90,131,396</u>
Total liabilities and net assets	<u>\$ 104,188,633</u>	<u>\$ 90,284,879</u>

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

# Grand Traverse Regional Community Foundation

## STATEMENTS OF ACTIVITIES

Years Ended December 31,

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>						
Donations	\$ 209,430	\$ 5,545,398	\$ 5,754,828	\$ 56,504	\$ 15,626,420	\$ 15,682,924
Investment return (loss), net of investment fees of \$83,341 and \$68,184, respectively	(1,309)	12,849,444	12,848,135	7,485	11,535,116	11,542,601
Net assets released due to satisfaction of restrictions	3,330,435	(3,330,435)	-	3,976,321	(3,976,321)	-
Net assets transferred by Board action pursuant to fund advisor request	<u>1,273,805</u>	<u>(1,273,805)</u>	<u>-</u>	<u>1,145,576</u>	<u>(1,145,576)</u>	<u>-</u>
Total revenue and support	<u>4,812,361</u>	<u>13,790,602</u>	<u>18,602,963</u>	<u>5,185,886</u>	<u>22,039,639</u>	<u>27,225,525</u>
<b>EXPENSES</b>						
Program services	3,801,039	-	3,801,039	4,235,369	-	4,235,369
Management and general	330,826	-	330,826	305,147	-	305,147
Fundraising	<u>528,030</u>	<u>-</u>	<u>528,030</u>	<u>521,114</u>	<u>-</u>	<u>521,114</u>
Total expenses	<u>4,659,895</u>	<u>-</u>	<u>4,659,895</u>	<u>5,061,630</u>	<u>-</u>	<u>5,061,630</u>
<b>CHANGES IN NET ASSETS</b>	152,466	13,790,602	13,943,068	124,256	22,039,639	22,163,895
<b>NET ASSETS</b> , beginning of year	<u>499,833</u>	<u>89,631,563</u>	<u>90,131,396</u>	<u>375,577</u>	<u>67,591,924</u>	<u>67,967,501</u>
<b>NET ASSETS</b> , end of year	<u><u>\$ 652,299</u></u>	<u><u>\$ 103,422,165</u></u>	<u><u>\$ 104,074,464</u></u>	<u><u>\$ 499,833</u></u>	<u><u>\$ 89,631,563</u></u>	<u><u>\$ 90,131,396</u></u>

# Grand Traverse Regional Community Foundation

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	Program Services	Management & General	Fundraising	Total Expenses
Salaries and wages	\$ 215,135	\$ 193,550	\$ 241,512	\$ 650,197
Employee benefits	15,437	22,544	18,738	56,719
Retirement	16,794	15,109	18,853	50,756
Payroll taxes	15,877	14,283	17,823	47,983
Total payroll expenses	263,243	245,486	296,926	805,655
Grants	3,384,527	-	-	3,384,527
Consulting	88,350	5,000	66,000	159,350
Accounting	-	18,716	-	18,716
Advertising and promotion	-	-	89,856	89,856
Office expenses	6,513	5,858	7,310	19,681
Information technology	17,579	15,816	19,735	53,130
Charitable gift annuity	-	4,400	-	4,400
Occupancy	21,952	19,749	24,643	66,344
Travel	653	587	733	1,973
Conferences and meetings	9,645	8,678	10,828	29,151
Insurance	1,993	1,793	2,238	6,024
Component fund costs	1,313	-	3,843	5,156
Memberships	5,271	4,743	5,918	15,932
Total expenses	\$ 3,801,039	\$ 330,826	\$ 528,030	\$ 4,659,895

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

# Grand Traverse Regional Community Foundation

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2020

	Program Services	Management & General	Fundraising	Total Expenses
Salaries and wages	\$ 176,663	\$ 167,041	\$ 221,832	\$ 565,536
Employee benefits	16,142	22,538	17,063	55,743
Retirement	13,208	13,209	17,612	44,029
Payroll taxes	12,465	12,465	16,620	41,550
Total payroll expenses	218,478	215,253	273,127	706,858
Grants	3,805,787	-	-	3,805,787
Consulting	85,600	803	65,000	151,403
Legal fees	-	653	-	653
Accounting	-	17,592	-	17,592
Advertising and promotion	-	-	85,502	85,502
Office expenses	5,247	9,647	12,862	27,756
Information technology	30,185	30,185	40,246	100,616
Charitable gift annuity	4,400	-	-	4,400
Occupancy	18,720	18,719	24,959	62,398
Travel	937	937	1,249	3,123
Conferences and meetings	5,668	5,667	7,556	18,891
Insurance	1,528	1,529	2,038	5,095
Component fund costs	54,658	-	3,026	57,684
Memberships	4,161	4,162	5,549	13,872
Total expenses	\$ 4,235,369	\$ 305,147	\$ 521,114	\$ 5,061,630

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



# Grand Traverse Regional Community Foundation

## STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,943,068	\$ 22,163,895
Adjustments to reconcile change in net assets to net cash from operating activities		
Endowment gifts	(4,476,235)	(13,537,227)
Net realized gain on sales of investments	(842,146)	(359,479)
Net unrealized gain on investments	(9,251,752)	(9,367,426)
Noncash contribution of investments	(235,550)	(439,381)
Change in value of beneficial interest in charitable remainder trust	-	734,000
Changes in operating assets and liabilities		
Pledges receivable	-	9,400
Prepaid expenses and other	300	-
Grants payable	(46,156)	32,875
Accounts payable	7,192	2,637
Accrued liabilities	(350)	1,380
	(901,629)	(759,326)
Net cash flows from operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(14,444,553)	(15,894,923)
Proceeds from sales of investments	10,634,327	2,702,400
	(3,810,226)	(13,192,523)
Net cash flows from investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash donations restricted for endowment	4,476,235	13,537,227
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(235,620)	(414,622)
Cash and cash equivalents, beginning of year	539,348	953,970
Cash and cash equivalents, end of year	\$ 303,728	\$ 539,348

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

# Grand Traverse Regional Community Foundation

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### *Reporting Entity*

The Grand Traverse Regional Community Foundation (the "Foundation") was formed in January 1992 to accept, administer and distribute property for educational, scientific, literary, cultural and charitable purposes in accordance with the terms of gifts, bequests or devises. The Foundation primarily serves the residents of Antrim, Benzie, Grand Traverse, Kalkaska and Leelanau counties in northern Michigan.

#### *Description of Funds*

The Foundation administers approximately 300 funds under fund agreements established between original donors and the Foundation. Fund distributions are approved by the Board of Directors of the Foundation according to the purpose of the fund. Interfund grants and administrative charges are eliminated in the basic financial statements of the Foundation.

#### *Basis of Accounting and Financial Statement Presentation*

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

The Foundation reports information regarding its financial position and activities according to two classes of net assets depending on the existence or absence of donor-imposed restrictions and are as follows:

**Net Assets Without Donor Restrictions** – Net assets available for use in general operations and not subject to donor restrictions.

**Net Assets With Donor Restrictions** – Net assets subject to donor- (or certain grantor-) 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 has been fulfilled, or both.

#### *Cash and Cash Equivalents*

Cash and cash equivalents include demand deposits in a bank and money market funds with an original maturity of three months or less. Money market funds included in investment portfolios are classified as investments.

***Investments***

Investment securities purchased are initially recorded at cost and investment securities received by gift are recorded at fair value at the date of donation. Thereafter, the carrying value of such investments are adjusted to fair value, which is determined using published exchange market quotations where applicable or estimated fair values provided by external investment managers or other sources. Realized and unrealized gains and losses are reflected as investment return, net in the accompanying statements of activities.

***Grants Payable***

The Foundation approves assets for distribution and reduces grants payable upon payment to local nonprofit organizations or individual scholarship recipients.

***Fair Value Measurements***

The Foundation follows FASB ASC 820, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. FASB ASC 820, applies whenever other financial reporting standards require or permit assets or liabilities to be measured at fair value on a recurring basis and, therefore, does not expand the use of fair value in any new circumstances. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or more advantageous market for the asset or liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. FASB ASC 820, clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. For assets and liabilities recorded at fair value, it is the Foundation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market.

***Donations***

Donations, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Foundation records donations of non-cash assets at their appraised or fair value at the date of gift.

***Functional Allocation of Expenses***

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and benefits are allocated based on estimates of time and effort and certain other costs are allocated based on specific benefits received.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Tax Status*

The Internal Revenue Service has determined that the Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Also, the Foundation has been certified as a community foundation by the State of Michigan and has received determination as an "other than private foundation" under section 170(b)(1)(A)(vi) of the Internal Revenue Code. The Foundation is subject to income tax only on the business income not related to its exempt purpose. Such taxes are generally insignificant. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Foundation files information returns in the U.S. Federal jurisdiction. With few exceptions, the Foundation is no longer subject to U.S. Federal examinations by tax authorities for years before December 31, 2018.

### *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

### *Reclassifications*

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

### *Subsequent Events*

The Foundation has evaluated subsequent events and transactions for potential recognition and disclosure through April 20, 2022, the date the financial statements were available to be issued.

## **NOTE B - LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following at December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 303,728	\$ 539,348
Investments	3,214,337	2,975,777
Less donor restricted temporary funds	<u>(2,755,097)</u>	<u>(2,865,609)</u>
Total current assets available for general operations	<u>\$ 762,968</u>	<u>\$ 649,516</u>

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE C - DEPOSITS**

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances periodically exceed the Federal insurance limit for deposits. At December 31, 2021 and 2020, \$258,837 and \$161,415 were uninsured, respectively. Management evaluates the financial institutions in which the Foundation deposits its funds and assesses the level of risk associated with those institutions.

**NOTE D - INVESTMENTS**

The Foundation's investments are held by financial institutions and consisted of the following at December 31:

	<u>2021</u>		<u>2020</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Endowment Funds:				
Cash and cash equivalents	\$ 1,128,582	\$ 1,128,582	\$ 1,322,651	\$ 1,322,651
Fixed income	17,826,535	17,877,529	16,495,555	16,007,774
Domestic equity	44,761,892	19,928,765	36,203,795	19,717,554
International equity	22,118,159	17,200,867	20,545,626	16,073,184
Alternative investments	14,891,759	13,215,741	12,342,068	11,713,891
Temporary Funds:				
Fixed income	<u>3,154,478</u>	<u>3,167,572</u>	<u>2,832,036</u>	<u>2,818,399</u>
Total investments	<u>\$ 103,881,405</u>	<u>\$ 72,519,056</u>	<u>\$ 89,741,731</u>	<u>\$ 67,653,453</u>

Investment returns consisted of the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 2,837,578	\$ 1,883,880
Net realized gains	842,146	359,479
Unrealized gains	9,251,752	9,367,426
Investment fees	<u>(83,341)</u>	<u>(68,184)</u>
Net investment returns	<u>\$ 12,848,135</u>	<u>\$ 11,542,601</u>

*Concentration of Credit Risk - Investments*

Brokerage accounts have insurance of \$500,000 per broker, provided by the Securities Investor Protection Corporation. The balance of investments exceeded insured limits by \$102.3 million and \$88.5 million at December 31, 2021 and 2020, respectively.

**NOTE E - FAIR VALUE**

The Foundation utilizes fair value measurements to record fair value adjustments to investments to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

***Fair Value Hierarchy***

Under FASB ASC 820, the Foundation groups its investments at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

**Level 1:** Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds valued at net asset value of shares held by the Foundation at year-end.

**Level 2:** Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

**Level 3:** Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

Fair value measurement for the Foundation's investments is based upon quoted prices. Level 1 investments include equity securities (primarily mutual funds) and debt securities (principally corporate bonds).

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value:

<u>Assets at Fair Value as of December 31, 2021</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Fixed income	\$ 20,981,013	\$ -	\$ -	\$ 20,981,013
Domestic equity	44,761,892	-	-	44,761,892
International equity	22,118,159	-	-	22,118,159
Alternative investments	<u>14,891,759</u>	<u>-</u>	<u>-</u>	<u>14,891,759</u>
	<u>\$ 102,752,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$102,752,823</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Assets at Fair Value as of December 31, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Domestic equity	\$ 19,327,591	\$ -	\$ -	\$ 19,327,591
Domestic equity	36,203,795	-	-	36,203,795
International equity	20,545,626	-	-	20,545,626
Alternative investments	<u>12,342,068</u>	<u>-</u>	<u>-</u>	<u>12,342,068</u>
	<u>\$ 88,419,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,419,080</u>

Alternative investments consist of commodities, long/short equities, emerging market equities, nontraditional bonds, and real estate investment trusts.

**NOTE F - GRANTS PAYABLE**

The Foundation has an annual spending policy to distribute 4% of the fund's average fair values over the prior 12 quarters beginning on the previous year-end. Grants payable consist of grants approved for distribution under this spending policy but not paid to local non-profit organizations or individual scholarship recipients. At December 31, amounts scheduled to be paid are as follows:

	<u>2021</u>	<u>2020</u>
2021	\$ -	\$ 119,479
2022	71,823	-
2023	<u>1,500</u>	<u>-</u>
	<u>\$ 73,323</u>	<u>\$ 119,479</u>

**NOTE G - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consists of the following amounts at December 31:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specific purpose		
Endowments	\$ 100,667,068	\$ 86,765,954
Grant making	<u>2,755,097</u>	<u>2,865,609</u>
Total net assets with donor restrictions	<u>\$ 103,422,165</u>	<u>\$ 89,631,563</u>

**NOTE H - ENDOWMENT**

The Foundation's endowment consists of individual funds that are donor restricted or Board designated, and have been established for a variety of purposes. 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 restrictions.

***Interpretation of Relevant Law***

The Foundation is subject to the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Act 87 of 2009), and, thus, classifies amounts in its donor restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Foundation appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the organization and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation (depreciation) of investments;
6. Other resources of the organization;
7. The investment policies of the foundation.



NOTES TO FINANCIAL STATEMENTS - Continued

Following is a summary of the changes in the endowment net assets:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets as of January 1, 2020	\$ -	\$ 64,291,070	\$ 64,291,070
Investment return:			
Investment income	-	2,136,591	2,136,591
Net realized and unrealized gain (loss)	<u>-</u>	<u>9,359,624</u>	<u>9,359,624</u>
Net investment gain	-	11,496,215	11,496,215
Contributions and other revenue	-	13,666,701	13,666,701
Transfers from temporary funds requested by fund advisors	-	(632,969)	(632,969)
Appropriation of endowment assets for expenditure	2,055,063	(2,055,063)	-
Expenditure of endowment assets or approval of distribution	<u>(2,055,063)</u>	<u>-</u>	<u>(2,055,063)</u>
Changes to endowment net assets	<u>-</u>	<u>22,474,884</u>	<u>22,474,884</u>
Endowment net assets as of December 31, 2020	<u>-</u>	<u>86,765,954</u>	<u>86,765,954</u>
Investment return:			
Investment income	-	2,721,846	2,721,846
Net realized and unrealized gain (loss)	<u>-</u>	<u>10,127,132</u>	<u>10,127,132</u>
Net investment gain	-	12,848,978	12,848,978
Contributions and other revenue	-	4,563,737	4,563,737
Transfers from temporary funds requested by fund advisors	-	(1,172,631)	(1,172,631)
Net assets released due to satisfaction of restrictions	2,338,970	(2,338,970)	-
Expenditure of endowment assets or approval of distribution	<u>(2,338,970)</u>	<u>-</u>	<u>(2,338,970)</u>
Changes to endowment net assets	<u>-</u>	<u>13,901,114</u>	<u>13,901,114</u>
Endowment net assets as of December 31, 2021	<u>\$ -</u>	<u>\$ 100,667,068</u>	<u>\$ 100,667,068</u>

NOTES TO FINANCIAL STATEMENTS - Continued

***Underwater Endowment Funds***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration.

Donor restricted underwater endowments consisted of the following at December 31:

	<u>2020</u>
Number of underwater endowments	<u><u>1</u></u>
Current fair value	\$ 29,637
Original value	<u>30,159</u>
Deficiencies	<u>\$ (522)</u>

There were no donor restricted underwater endowment funds at December 31, 2021.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Foundation. The governing board appropriated for expenditure of \$1,020 from the underwater endowment fund during the year ending December 31, 2020.

***Return Objectives and Risk Parameters***

The Foundation has adopted investment policies for endowment assets that attempt to maximize total return over the long-term, recognizing there will be some volatility over the short-term, to provide a stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 7.5% annually. Actual returns in any given year may vary from this range.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets diversified asset allocation that places a greater emphasis on equity-based investments to achieve long-term return objectives within prudent risk constraints.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE I - ADMINISTRATIVE FEES**

The Foundation charges a fee for management of each fund. The fees are assessed at the end of each quarter based upon the ending quarterly average balances for net assets on a trailing twelve quarter rolling period. Fees vary by the fund agreement for each fund. Fees charged to most funds have been established at 1%. For the more recently established funds, the fee has been established at 1.5%. Any endowed fund that has been established for three full calendar years will be charged a minimum fee of \$250 annually. In the case of sponsored temporary funds, policy calls for a 2% fee. Exceptions to these fees may be made by the President/Chief Executive Officer of the Foundation.

Administrative fees charged by the Foundation to temporarily and permanently restricted funds amounted to \$1,148,968 and \$988,210 during the years ended December 31, 2021 and 2020, respectively.

**NOTE J - RETIREMENT PLAN**

The Foundation participates in a Group Retirement Annuities 403(b) Plan and contributes 8% of each employee's wages. The Foundation contributed \$50,756 and \$44,029 during the years ended December 31, 2021 and 2020, respectively.

**NOTE K - OPERATING LEASE**

On March 1, 2019, the Foundation entered into a three-year operating lease for its current office space. The lease has since been renewed for an additional five years with the option to cancel after year one. The lease requires monthly rental payments of \$4,500 to \$4,969 over the five-year period. Property taxes, maintenance and insurance are paid by the landlord.

Total rent expense for these leases amounted to \$54,000 and \$52,000 during the years ended December 31, 2021 and 2020, respectively.

Future minimum lease payments as of December 31, 2021 are as follows:

2022	\$ 54,900
2023	56,000
2024	57,124
2025	58,272
2026	<u>69,372</u>
	<u>\$ 295,668</u>

**NOTE L - RISKS AND UNCERTAINTIES**

***COVID-19***

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of American and the globe. As a result, the COVID-19 outbreak is disrupting and affecting the Foundation's normal activities. The extent of the ultimate impact of the pandemic on the Foundation's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on funders, program recipients, employees, vendors, and other constituents, all of which cannot be reasonably predicted at this time. In addition, the current environment placed additional demands on the Foundation for providing immediate financial support and/or services to its program recipients. The Foundation established the Urgent Needs Fund to meet this community need. While management reasonably expects the COVID-19 outbreak to have some impact on the Foundation's financial position, changes in net assets, and where applicable, the timing and amounts of cash flows, the related financial impact and duration are highly uncertain.