

Audited Financial Statements

Midland Area Community Foundation

*Years Ended December 31, 2020 and 2019
with Report of Independent Auditors*



Midland Area Community Foundation

Audited Financial Statements

Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

Board of Trustees
Midland Area Community Foundation
Midland, Michigan

We have audited the accompanying financial statements of the Midland Area Community Foundation, which comprise the statement of financial position as of December 31, 2020 and 2019, the related statement of activities for the year ended December 31, 2020, the statements of cash flows and functional expenses for the years ended December 31, 2020 and 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Midland Area Community Foundation as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Midland Area Community Foundation's 2019 financial statements, and our report dated April 8, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Andrews Hooper Paulik PLC

Midland, Michigan
April 14, 2021

Midland Area Community Foundation

Statements of Financial Position

	December 31	
	2020	2019
Assets		
Cash and cash equivalents	\$ 3,217,725	\$ 3,669,015
Investments	116,446,208	105,600,299
Prepaid expenses and other assets	330,056	192,941
Parks and improvements	668,647	668,647
Office facility and equipment, net	540,068	549,967
Total assets	<u>\$ 121,202,704</u>	<u>\$ 110,680,869</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 99,846	\$ 54,329
Grants payable	138,051	41,238
Restricted organizational funds	2,877,415	2,547,582
Total liabilities	<u>3,115,312</u>	<u>2,643,149</u>
Net assets:		
Without donor restrictions	115,803,226	105,797,922
With donor restrictions	2,284,166	2,239,798
Total net assets	<u>118,087,392</u>	<u>108,037,720</u>
Total liabilities and net assets	<u>\$ 121,202,704</u>	<u>\$ 110,680,869</u>

Midland Area Community Foundation

Statements of Activities

	Year Ended December 31, 2020			Year Ended December 31, 2019
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Totals
Public support, revenue, and gains				
Contributions	\$ 8,964,147	\$ -	\$ 8,964,147	\$ 7,048,990
Investment return, net	10,192,866	228,867	10,421,733	16,149,049
Miscellaneous	133,313	-	133,313	208,292
Net assets released from restrictions	184,499	(184,499)	-	-
Total public support, revenue, and gains	<u>19,474,825</u>	<u>44,368</u>	<u>19,519,193</u>	23,406,331
Expenses				
Program services:				
Developing our talent	2,379,025	-	2,379,025	1,599,907
Enriching our community	1,868,203	-	1,868,203	1,701,740
Caring for our people	3,348,631	-	3,348,631	932,877
Building our livelihood	742,029	-	742,029	1,849,895
Support services:				
Management and general	801,952	-	801,952	638,424
Fundraising	329,681	-	329,681	258,733
Total expenses	<u>9,469,521</u>	<u>-</u>	<u>9,469,521</u>	6,981,576
Change in net assets	10,005,304	44,368	10,049,672	16,424,755
Net assets at beginning of year	105,797,922	2,239,798	108,037,720	91,612,965
Net assets at end of year	<u>\$ 115,803,226</u>	<u>\$ 2,284,166</u>	<u>\$ 118,087,392</u>	<u>\$ 108,037,720</u>

See accompanying notes.

Midland Area Community Foundation

Statements of Cash Flows

	Year Ended December 31	
	2020	2019
Operating activities		
Change in net assets	\$ 10,049,672	\$ 16,424,755
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	32,108	30,828
Net change in fair value of investments	(8,807,737)	(14,425,604)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	(137,115)	(61,501)
Accounts payable	45,517	(245,612)
Grants payable	96,813	(199,362)
Restricted organizational funds	329,833	368,194
Net cash from operating activities	1,609,091	1,891,698
Investing activities		
Purchases of equipment	(22,209)	(9,946)
Proceeds from sale of investments	-	1,000,000
Purchases of investments	(2,038,172)	(2,973,716)
Net cash used in investing activities	(2,060,381)	(1,983,662)
Net change in cash and cash equivalents	(451,290)	(91,964)
Cash and cash equivalents at beginning of year	3,669,015	3,760,979
Cash and cash equivalents at end of year	\$ 3,217,725	\$ 3,669,015

Midland Area Community Foundation

Statement of Functional Expenses

Year Ended December 31, 2020

	Developing Our Talent	Enriching Our Community	Caring for Our People	Building Our Livelihood	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 73,499	\$ 52,223	\$ 40,618	\$ 27,079	\$ 193,419	\$ 266,786	\$ 206,759	\$ 666,964
Employee benefits	8,434	5,993	4,661	3,107	22,195	34,723	20,294	77,212
Payroll taxes	5,460	3,879	3,017	2,012	14,368	19,818	15,360	49,546
Grants	728,884	1,639,988	1,639,988	546,663	4,555,523	-	-	4,555,523
Scholarships	893,884	-	-	-	893,884	-	-	893,884
Contracted services	-	-	-	-	-	159,681	-	159,681
Legal fees	95	381	-	1,427	1,903	15,226	1,903	19,032
Accounting	-	-	-	-	-	17,909	-	17,909
Employee relations	-	-	-	-	-	5,317	-	5,317
Life insurance	-	-	-	-	-	46,520	-	46,520
Awards and recognition	-	-	-	-	-	480	-	480
Occupancy	-	-	-	-	-	47,075	-	47,075
Telephone	244	174	135	90	643	6,748	643	8,034
Postage	443	315	245	162	1,165	9,321	1,165	11,651
Equipment and maintenance	-	-	-	-	-	14,432	-	14,432
Information technology	-	-	-	-	-	56,421	-	56,421
Conferences and meetings	763	542	422	282	2,009	6,028	-	8,037
Education and training	390	277	215	143	1,025	4,101	-	5,126
Dues	-	-	-	-	-	7,295	-	7,295
Meals and entertainment	-	-	-	-	-	87	-	87
Travel	33	23	18	13	87	8,572	-	8,659
Development	-	-	-	-	-	-	50,072	50,072
Printing	724	514	400	267	1,905	19,337	1,905	23,147
Public relations and advertising	8,844	6,284	4,887	3,258	23,273	23,723	31,580	78,576
Project expense	656,359	157,526	1,654,025	157,526	2,625,436	-	-	2,625,436
Program expense	969	84	-	-	1,053	-	-	1,053
Miscellaneous	-	-	-	-	-	244	-	244
Depreciation	-	-	-	-	-	32,108	-	32,108
	\$ 2,379,025	\$ 1,868,203	\$ 3,348,631	\$ 742,029	\$ 8,337,888	\$ 801,952	\$ 329,681	\$ 9,469,521

See accompanying notes.

Midland Area Community Foundation

Statement of Functional Expenses

Year Ended December 31, 2019

	Developing Our Talent	Enriching Our Community	Caring for Our People	Building Our Livelihood	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 62,977	\$ 44,747	\$ 34,803	\$ 23,201	\$ 165,728	\$ 228,591	\$ 177,158	\$ 571,477
Employee benefits	8,200	5,826	4,531	3,021	21,578	29,762	23,066	74,406
Payroll taxes	4,364	3,101	2,412	1,607	11,484	15,839	12,276	39,599
Grants	596,312	993,853	761,954	960,725	3,312,844	-	-	3,312,844
Scholarships	783,336	-	-	-	783,336	-	-	783,336
Contracted services	-	-	-	-	-	106,183	-	106,183
Legal fees	66	264	-	990	1,320	10,560	1,320	13,200
Accounting	-	-	-	-	-	16,678	-	16,678
Employee relations	-	-	-	-	-	5,794	-	5,794
Life insurance	-	-	-	-	-	46,520	-	46,520
Awards and recognition	-	-	-	-	-	825	-	825
Occupancy	4,249	1,416	1,416	1,416	8,497	29,739	-	38,236
Telephone	290	206	160	107	763	6,090	761	7,614
Postage	364	259	201	134	958	7,667	958	9,583
Equipment and maintenance	-	-	-	-	-	7,496	-	7,496
Information technology	5,607	1,869	1,869	1,869	11,214	39,247	-	50,461
Conferences and meetings	1,196	850	661	441	3,148	9,442	-	12,590
Education and training	872	619	482	321	2,294	9,175	-	11,469
Dues	-	-	-	-	-	7,642	-	7,642
Meals and entertainment	-	-	-	-	-	470	-	470
Travel	1,064	756	588	392	2,800	11,201	-	14,001
Development	-	-	-	-	-	-	32,272	32,272
Printing	985	700	544	363	2,592	11,945	2,592	17,129
Public relations and advertising	2,138	1,519	1,182	788	5,627	6,304	8,330	20,261
Project expense	122,074	645,250	122,074	854,520	1,743,918	-	-	1,743,918
Program expense	5,813	505	-	-	6,318	-	-	6,318
Miscellaneous	-	-	-	-	-	426	-	426
Depreciation	-	-	-	-	-	30,828	-	30,828
	\$ 1,599,907	\$ 1,701,740	\$ 932,877	\$ 1,849,895	\$ 6,084,419	\$ 638,424	\$ 258,733	\$ 6,981,576

See accompanying notes.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

1. Nature of Organization, Risks, and Uncertainties

Midland Area Community Foundation (Foundation) is organized as a not-for-profit community foundation for the purpose of promoting and enabling community-wide philanthropic giving to enrich and improve the lives of residents throughout the Michigan counties of Midland, Clare, and Gladwin. Clare County and Gladwin County Community Foundations operate as affiliates of the Foundation and all activity is included in these financial statements, as presented. In fulfilling this mission, the Foundation receives and administers gifts and bequests that are used to meet various needs.

The Foundation receives most of its contributions from numerous individuals, public and private foundations, and businesses located in Midland County. Contributions from a small number of large dollar amount donors may represent a material portion of total contribution revenue. The composition of large dollar amount donors changes each year. A large dollar donor is one who contributed at least \$100,000 cumulatively during the year. During the year ended December 31, 2020, contributions from the Foundation's large dollar donors represented approximately 49% of contribution revenue. During the year ended December 31, 2019, contributions from the Foundation's large dollar donors represented approximately 69% of contribution revenue as well.

The Foundation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (Code). The Foundation has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and contributions to it are tax deductible by donors within the limitations prescribed by the Code.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Foundation to report information regarding its financial position and activities according the following mutually exclusive net assets classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods, including market, income, and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the fair value standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. For the years ended December 31, 2020 and 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits held in bank demand deposit accounts and money market funds. Bank demand deposits are held by high-credit-quality financial institutions. Although such cash balances exceeded the federally insured limits at certain times during the year, they are, in the opinion of management, subject to minimal risk. Money market funds are not federally insured. Management believes these funds are subject to minimal risk since a significant portion of securities held by money market funds consist of United States Treasury bonds or notes.

Investments

The Foundation reports investments in marketable securities and real estate at their fair values in the statements of financial position. Unrealized gains and losses are included in investment income or loss in the accompanying statements of activities.

The Foundation's investment portfolio consists of long-term certificates of deposit and mutual funds including bond and equity funds. These mutual funds invest in and hold investment securities that are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position. The Foundation's investment in the LLC is accounted for on the equity method under which it is carried at cost, adjusted for the Foundation's proportionate share of its undistributed earnings or losses.

Cash Surrender Value of Life Insurance

The Foundation is the owner of certain life insurance policies on the lives of various donors who have named the Foundation as the beneficiary. These policies are valued at their cash surrender value.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Parks and Improvements

Parks and improvements consist of Overlook Park and related improvements recorded at estimated fair value at the date of donation plus any improvements.

Office Facility and Equipment and Depreciation

The office facility and equipment are stated at cost, if purchased, or at the estimated fair value at date of donation. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Depreciation is computed on the straight-line method and is based on expected useful lives ranging from 3 to 39 years.

Restricted Organizational Funds

Restricted organizational funds are recorded as liabilities and consist of amounts received from other not-for-profit organizations that specify the donor organization or a related organization as the beneficiary. Investment earnings or losses allocated to the funds and distributions paid to the beneficiary organization are recorded as increases and decreases, respectively, to the liability. Distributions from restricted organizational funds are subject to the current spending policies of the Foundation.

Net Asset Classifications

The Foundation classifies net assets with donor restrictions due to perpetual time a) the original value of the gifts and grants to permanent endowments, b) the original value of subsequent gifts to the permanent endowments, and c) accumulations to the permanent endowments in accordance with the applicable donor or grantor gift instrument. The remaining portion of endowment fund investments that is not classified as net assets with donor restrictions due to perpetual time is classified as net assets with donor restrictions due to purpose until those amounts are appropriated for expenditure for the intended purpose or, when unrestricted, reported as without donor restrictions and designated by management for specific purposes.

Net assets with donor restrictions due to purpose consist of the earnings from donor restricted endowment funds that are not classified as with donor restrictions due to perpetual time. When a restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is fulfilled, net assets with donor restrictions due to purpose are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Net Asset Classifications (continued)

The Board, on advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of an endowment under the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation is governed subject to the Governing Documents for the Foundation and most contributions are subject to the terms of the Governing Documents and the related Fund or Gift Agreements. Certain contributions are received subject to other gift or grant instruments, or are subject to specific agreements with the Foundation, and may be recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the specific terms of the agreements.

Under the terms of the Governing Documents and the Fund or Gift Agreements, the Board has the ability to modify any restrictions or condition on the distribution of funds that becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area of service. The Board also has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

Contributions

Generally, contributions, including unconditional pledges to give, are recorded at fair value when received. Contributions of services, fixed assets, and other non-monetary contributions are recorded at the donor's estimated fair value. All current contributions are considered unrestricted.

Functional Classification of Expenses

The Foundation reports its expenses on the statements of activities in functional classifications based on direct identification, time studies and floor space. Each category is defined as follows:

Program Services

Program service expenses are broken out into the Foundation's four main areas of community focus:

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Functional Classification of Expenses (continued)

Developing Our Talent (talent, education, youth development, and engagement): The local area offers high quality education and learning opportunities throughout life, and the community nurtures a skilled workforce and places high value on post-secondary learning. The Foundation provides opportunities for children and youth to realize their hopes and dreams.

Enriching Our Community (arts, culture, entertainment, recreation, diversity, community leadership, and environment): The local area is a vibrant hub of arts, culture, entertainment and recreational opportunities. The Foundation is committed to equality and inclusion, and welcomes, embraces, and accepts all people. The local area is a sustainable community that values and protects its natural resources.

Caring for Our People (human services, social services, poverty, housing, mental and physical health, and public safety): The local community provides a coordinated and comprehensive system of supportive health and human services so that all may thrive. The Foundation encourages self-sufficiency and accepts its responsibility to collaborate to create the safest community in the country.

Building Our Livelihood (economic development and infrastructure): The local area creates and sustains competitive advantages for existing and future businesses. The Foundation is well-connected and invests in physical and technological infrastructure.

Management and General

Management and general expenses include those expenses associated with the management of the Foundation.

Fundraising

Fundraising expenses include those expenses associated with promoting and raising funds for the Foundation.

Grant Awards

Grants are recorded as expenses when approved by the Foundation's Board. Grant awards are presented in the financial statements net of grant refunds.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Comparative Financial Information

The statements of activities 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Income Tax

Generally, tax years from 2017 through the current year remain open to examination. The Foundation does not believe that the results from any examination of these open years would have a material adverse effect on the Foundation.

Risk and Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a global pandemic, continues to spread throughout the United States of America and the globe. Many State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibit in-person work activities for most businesses and industries including nonprofit entities, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak has affected 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 the community and its funders, program recipients, employees, vendors, and other constituents, all of which cannot be reasonably predicted at this time.

In addition, the current environment may place additional demands on the Foundation for providing additional financial support and/or services to its program recipients. In March 2020, the Foundation provided \$1 million in COVID-19 response and relief efforts to assist with urgent community needs. While management reasonably expects the COVID-19 outbreak could still negatively impact the Foundation's financial position, changes in net assets, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration remain highly uncertain.

In May of 2020, the dam breaks in the Great Lakes Bay Region resulted in severe flooding in Midland and the surrounding communities. This event has negatively impacted jobs, economic growth, property values and tax revenues in the Midland area. In response, the Foundation has raised over two million dollars for short-term and long-term recovery and is working with community organizations and its leaders to continue long-term support for victims of the flooding.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Risk and Uncertainties (continued)

The Foundation's methodology for spending applies a spending rate to a rolling 20-quarter average of the market value of assets (see Note 6). This allows spending to be consistent from year to year and not subject to rapid changes in the markets and the economy. The Foundation also maintains an operating reserve fund for administrative operating expenses, exclusive of grantmaking. The monies in the operating reserve fund can be used with Board approval for unanticipated operating expenses.

As a result, although there is no expected change to the approved endowment spending rate for 2021, in 2020, the Foundation directed a portion of spendable funds to a Community Response Fund as mentioned above. This fund was used to help rapidly deploy resources for basic needs of individuals and support for organizations whose programs and staff are on the front lines of response. As longer-term impacts continue, demand for additional resources is anticipated.

Subsequent Events

Management has evaluated subsequent events through April 14, 2021, which is the date the financial statements were available to be issued.

3. Investments

The following summarizes the cost basis and market value (carrying value) of investments.

	December 31, 2020		December 31, 2019	
	Cost	Market	Cost	Market
Fixed income mutual funds	\$20,967,651	\$ 22,386,830	\$20,084,526	\$ 20,955,483
Equity mutual funds	54,556,237	80,393,968	52,536,656	71,227,799
Hedge funds	6,136,333	8,550,880	6,136,333	8,004,007
Real asset funds	4,894,963	5,114,530	4,828,301	5,413,010
Investment in LLC (1)	-	-	-	-
	<u>\$86,555,184</u>	<u>\$116,446,208</u>	<u>\$83,585,816</u>	<u>\$105,600,299</u>

(1) The Foundation holds a 15% interest in its LLC investment. In 2019, when the Foundation's share of losses equaled the \$300,000 carrying value of its investment, the equity method of accounting was suspended, and no additional losses were charged to investment earnings. The Foundation's unrecorded share of the LLC's losses as of December 31, 2020 is \$172,878.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

3. Investments (continued)

The components of net investment return consisted of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Interest, dividends, and distributions	\$ 2,069,777	\$ 2,269,900
Net appreciation in fair value	8,807,737	14,425,604
Investment management and bank fees	(161,553)	(112,991)
	<u>10,715,961</u>	<u>16,582,513</u>
Amounts allocated to restricted organizational funds	(294,228)	(433,464)
Net investment income	<u>\$ 10,421,733</u>	<u>\$ 16,149,049</u>

4. Office Facility and Equipment

Office facility and equipment consisted of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 65,000	\$ 65,000
Building and improvements	746,554	746,554
Office furniture and fixtures	135,500	114,544
Office equipment	55,138	53,886
Computer software	67,649	67,649
Total cost	<u>1,069,841</u>	<u>1,047,633</u>
Accumulated depreciation	(529,773)	(497,666)
Office facility and equipment, net	<u>\$ 540,068</u>	<u>\$ 549,967</u>

5. Endowments

Endowment Funds

The Foundation's endowment funds consist of 594 individual funds established for a variety of purposes. The endowment funds consist of both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with the endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

5. Endowments (continued)

Interpretation of Relevant Law

The Foundation has interpreted UPMIFA as requiring preservation of the fair value of the original gift, as of the gift date, of donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds and board-designated endowment funds:

- (1) Duration and preservation of the fund
- (2) Purposes of the Foundation and the donor restricted endowment fund
- (3) General economic conditions
- (4) Possible effect of inflation and deflation
- (5) Expected return from income and the appreciation or depreciation of investments
- (6) Other resources of the Foundation
- (7) Investment policies of the Foundation

Endowment Funds and Changes Therein

The Foundation's endowment net asset composition was as follows as of December 31, 2020:

	Without Donor Restrictions- Board Designated	<u>With Donor Restrictions</u>		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Endowment funds	\$ 99,629,019	\$ 1,284,166	\$ 1,000,000	\$101,913,185

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

5. Endowments (continued)

Endowment Funds and Changes Therein (continued)

Changes in board designated and donor restricted endowment funds during the year ended December 31, 2020 follows:

	Without Donor Restrictions- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Balance, December 31, 2019	\$ 92,794,040	\$ 1,239,798	\$ 1,000,000	\$ 95,033,838
Investment income:				
Interest and dividends	1,869,925	40,645	-	1,910,570
Net appreciation of investments	7,957,290	188,222	-	8,145,512
Net investment income	9,827,215	228,867	-	10,056,082
Contributions	5,537,901	-	-	5,537,901
Grants appropriated	(4,576,375)	(133,365)	-	(4,709,740)
Fees and expenses	(3,953,762)	(51,134)	-	(4,004,896)
Balance, December 31, 2020	\$ 99,629,019	\$ 1,284,166	\$ 1,000,000	\$101,913,185

The Foundation's endowment net asset composition was as follows as of December 31, 2019:

	Without Donor Restrictions- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Endowment funds	\$ 92,794,040	\$ 1,239,798	\$ 1,000,000	\$ 95,033,838

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

5. Endowments (continued)

Endowment Funds and Changes Therein (continued)

Changes in board designated and donor restricted endowment funds during the year ended December 31, 2019 follows:

	Without Donor Restriction- Board Designated	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual Time Restrictions	
Balance, December 31, 2018	\$ 78,694,731	\$ 1,021,815	\$ 1,000,000	\$ 80,716,546
Investment income:				
Interest and dividends	2,127,022	48,038	-	2,175,060
Net appreciation of investments	13,798,705	346,424	-	14,145,129
Net investment income	15,925,727	394,462	-	16,320,189
Contributions	4,996,080	50	-	4,996,130
Grants appropriated	(3,844,123)	(55,338)	-	(3,899,461)
Fees and expenses	(2,978,375)	(121,191)	-	(3,099,566)
Balance, December 31, 2019	\$ 92,794,040	\$ 1,239,798	\$ 1,000,000	\$ 95,033,838

Funds with Deficiencies

From time to time, the fair value of investment assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. The fair value of the Foundation's investment assets at December 31, 2020 and 2019, associated with the endowment portion of its funds exceeded the level required by the donor or UPMIFA to be retained as a fund of perpetual duration.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

5. Endowments (continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for its investment portfolio that attempt to provide a predictable stream of funding to programs supported by the investment portfolio while seeking to maintain the purchasing power of the endowment investments. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period and board designated funds. Decisions about individual funds will not be made in isolation but rather in the context of the portfolio as a whole. As approved by the Foundation's Investment Committee, the investments are invested in a manner that is intended to achieve a target rate of return that exceeds the consumer price index by at least 5.50% on a net-of-fees basis over a five-year rolling average. The portfolio is also expected to outperform a weighted benchmark index without exceeding a standard deviation of 1.2 times the weighted benchmark index on a total return basis over the full market cycle. The benchmark index is comprised of each asset class index weighted by its target allocation. Actual returns in any given year may vary from target amounts.

Strategies Employed for Achieving Objectives

The Foundation's investment portfolio is expected to endure into perpetuity. The Foundation invests a significant portion of assets in equity or equity-like securities to meet performance objectives. Management believes the long-term risk of not investing in growth securities outweighs the short-term volatility risk of such securities. As a result, fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not viewed as a strategic asset of the portfolio, but instead is used to meet short-term liquidity needs. Other asset classes are included to provide diversification (e.g., international equities) and incremental return (e.g., small cap equities).

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Notes to Financial Statements

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6. Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's spending policy annually calculates the amount of money available for distribution from the various endowed funds for grant making and administration. The maximum spending policy is to distribute 5.00% of the average fair value over the prior 20 quarters determined as of September 30 of the year preceding the planned distributions. If the market value of an endowment fund on September 30 exceeds the fund's historic dollar value, then the maximum allowable spending from that endowment fund shall be 5.00% of the previous 20 quarter moving average of the fund's market value. However, spendable dollars may only come from accumulated earnings on the fund. If the market value of an endowment fund on September 30 is less than the fund's historic dollar value, then the maximum allowable spending from that endowment fund shall be the lesser of 1) 5.00% of the previous 20 quarter moving average of the fund's market value, or 2) the ordinary income earned on that fund during the previous four calendar quarters. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow annually. This is consistent with the Foundation's objectives to maintain the purchasing power of the endowment assets and to provide additional real growth through new gifts and investment return.

7. Fair Value Measurements

Fair value measurements for assets carried at fair value on a recurring basis were as follows as of December 31:

	2020			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 725,718	\$ 725,718	\$ -	\$ -
Investment securities	116,446,208	107,895,328	8,550,880	-
	<u>\$117,171,926</u>	<u>\$ 108,621,046</u>	<u>\$ 8,550,880</u>	<u>\$ -</u>

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2020

7. Fair Value Measurements (continued)

	2019			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 624,214	\$ 624,214	\$ -	\$ -
Investment securities	105,600,299	97,596,292	8,004,007	-
	<u>\$106,224,513</u>	<u>\$ 98,220,506</u>	<u>\$ 8,004,007</u>	<u>\$ -</u>

8. Liquidity and Availability of Resources

The Foundation has \$3,217,725 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$1,379,121 and short-term investments of \$1,838,604. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, to meet normal operating expenses, grants, scholarships, and projects expenses. The Foundation has a cash target range of 0% to 5% in its investment policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. The Foundation has \$29,291,611 of accumulated spendable funds available for distribution as of December 31, 2020. The entire amount would not be typically distributed in one year; however, the Foundation receives contributions on a regular basis and has sufficient long-term investments available to be liquidated to meet the request, if it occurred.

9. Retirement Plan

The Foundation maintains a deferred compensation plan qualified as in Internal Revenue Code Section 403(b) plan for the Foundation's employees. The 403(b) plan provides for an employer matching contribution of up to 5% of the employees' gross annual pay for all employees who have been employed for more than six months. Contributions totaled \$25,164 to the 403(b) plan for the year ended December 31, 2020. Contributions totaled \$26,287 to the 403(b) plan for the year ended December 31, 2019.