

Audited Financial Statements

Midland Area Community Foundation

*Years Ended December 31, 2023, and 2022
with Report of Independent Auditors*

Midland Area Community Foundation

Audited Financial Statements

Years Ended December 31, 2023, and 2022

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Report of Independent Auditors

Board of Trustees
Midland Area Community Foundation
Midland, Michigan

Opinion

We have audited the accompanying financial statements of Midland Area Community Foundation, which comprise the statements of financial position as of December 31, 2023, and 2022, and the related statements of activities, for the year ended December 31, 2023, the statements of cash flows and functional expenses 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 Midland Area Community Foundation as of December 31, 2023, and 2022, and the changes in its net assets 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Midland Area Community Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Midland 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.

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 GAAS 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 GAAS, 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 Midland 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 Midland 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 Midland Area Community Foundation's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 13, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Andrews Hooper Pavlik PLC

Midland, Michigan
April 10, 2024

Midland Area Community Foundation

Statements of Financial Position

	December 31	
	2023	2022
Assets		
Cash and cash equivalents	\$ 2,451,563	\$ 2,274,737
Investments	121,664,037	111,006,116
Prepaid expenses and other assets	245,627	236,920
Notes receivable - Impact Investing	429,104	189,633
Parks and improvements	668,647	668,647
Office facility and equipment, net	528,321	519,649
Total assets	<u>\$ 125,987,299</u>	<u>\$ 114,895,702</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 103,369	\$ 116,735
Grants payable	103,635	28,400
Restricted organizational funds	3,446,478	2,847,314
Total liabilities	<u>3,653,482</u>	<u>2,992,449</u>
Net assets:		
Without donor restrictions	120,187,333	109,930,618
With donor restrictions	2,146,484	1,972,635
Total net assets	<u>122,333,817</u>	<u>111,903,253</u>
Total liabilities and net assets	<u>\$ 125,987,299</u>	<u>\$ 114,895,702</u>

Midland Area Community Foundation

Statements of Activities

	Year Ended December 31, 2023			Year Ended December 31, 2022
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Totals
Public support, revenue, and gains				
Contributions	\$ 6,836,578	\$ 767	\$ 6,837,345	\$ 9,915,544
Investment return (loss), net	15,724,500	315,294	16,039,794	(15,633,975)
Miscellaneous	-	-	-	132,191
Net assets released from restrictions	142,212	(142,212)	-	-
Total public support, revenue, and gains	22,703,290	173,849	22,877,139	(5,586,240)
Expenses				
Program services:				
Developing our talent	1,972,249	-	1,972,249	2,387,428
Enriching our community	4,912,370	-	4,912,370	3,303,197
Caring for our people	2,895,102	-	2,895,102	3,038,340
Building our livelihood	1,261,402	-	1,261,402	3,570,932
Support services:				
Management and general	1,021,724	-	1,021,724	967,698
Fundraising	383,728	-	383,728	351,182
Total expenses	12,446,575	-	12,446,575	13,618,777
Change in net assets	10,256,715	173,849	10,430,564	(19,205,017)
Net assets at beginning of year	109,930,618	1,972,635	111,903,253	131,108,270
Net assets at end of year	\$ 120,187,333	\$ 2,146,484	\$ 122,333,817	\$ 111,903,253

See accompanying notes.

Midland Area Community Foundation

Statements of Cash Flows

	Year Ended December 31	
	2023	2022
Operating activities		
Change in net assets	\$ 10,430,564	\$ (19,205,017)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	35,889	31,506
Net change in fair value of investments	(13,861,246)	18,089,836
Change in operating assets and liabilities:		
Prepaid expenses and other assets	(8,707)	49,682
Notes receivable - Impact Investing	(239,471)	-
Accounts payable	(13,366)	(347,021)
Grants payable	75,235	(287,450)
Restricted organizational funds	599,164	(534,281)
Net cash used in operating activities	<u>(2,981,938)</u>	(2,202,745)
Investing activities		
Purchases of equipment	(44,561)	(28,198)
Proceeds from sale of investments	7,226,137	10,419,463
Purchases of investments	(4,022,812)	(8,878,343)
Net cash provided by investing activities	<u>3,158,764</u>	1,512,922
Net change in cash and cash equivalents	176,826	(689,823)
Cash and cash equivalents at beginning of year	2,274,737	2,964,560
Cash and cash equivalents at end of year	<u><u>\$ 2,451,563</u></u>	<u><u>\$ 2,274,737</u></u>

Midland Area Community Foundation

Statement of Functional Expenses

Year Ended December 31, 2023

	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	\$ 120,886	\$ 73,619	\$ 55,040	\$ 32,876	\$ 282,421	\$ 395,413	\$ 239,808	\$ 917,642
Employee benefits	15,184	9,181	6,709	4,238	35,312	54,143	28,249	117,704
Payroll taxes	8,460	5,115	3,738	2,361	19,674	30,167	15,739	65,580
Grants	748,818	998,424	2,046,771	1,198,109	4,992,122	-	-	4,992,122
Project expense	259,432	3,816,681	776,529	18,619	4,871,261	-	-	4,871,261
Scholarships	796,860	-	-	-	796,860	-	-	796,860
Contracted services	-	-	-	-	-	140,344	-	140,344
Legal fees	66	264	-	990	1,320	10,560	1,320	13,200
Accounting	-	-	-	-	-	21,282	-	21,282
Employee relations	-	-	-	-	-	9,672	-	9,672
Life insurance	-	-	-	-	-	32,683	-	32,683
Awards and recognition	-	-	-	-	-	625	-	625
Occupancy	-	-	-	-	-	62,446	-	62,446
Telephone	243	173	134	90	640	5,118	640	6,398
Postage	518	368	286	191	1,363	10,909	1,363	13,635
Equipment and maintenance	-	-	-	-	-	85,319	-	85,319
Conferences and meetings	2,240	1,592	1,238	825	5,895	17,685	-	23,580
Education and training	460	327	254	169	1,210	4,842	-	6,052
Dues	-	-	-	-	-	17,453	-	17,453
Meals and entertainment	-	-	-	-	-	372	-	372
Travel	1,070	760	591	394	2,815	11,258	-	14,073
Development	-	-	-	-	-	-	78,456	78,456
Strategic planning	-	-	-	-	-	10,355	-	10,355
Printing	1,300	923	718	478	3,419	6,842	3,421	13,682
Public relations and advertising	5,598	3,977	3,094	2,062	14,731	29,464	14,732	58,927
Program expense	11,114	966	-	-	12,080	-	-	12,080
Miscellaneous	-	-	-	-	-	28,883	-	28,883
Depreciation	-	-	-	-	-	35,889	-	35,889
	\$ 1,972,249	\$ 4,912,370	\$ 2,895,102	\$ 1,261,402	\$ 11,041,123	\$ 1,021,724	\$ 383,728	\$ 12,446,575

See accompanying notes.

Midland Area Community Foundation

Statement of Functional Expenses

Year Ended December 31, 2022

	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	\$ 106,719	\$ 64,527	\$ 44,673	\$ 32,264	\$ 248,183	\$ 367,698	\$ 216,791	\$ 832,672
Employee benefits	13,543	8,189	5,669	4,094	31,495	47,788	29,324	108,607
Payroll taxes	7,809	4,722	3,269	2,361	18,161	27,554	16,908	62,623
Grants	1,186,080	1,239,993	1,509,556	1,455,643	5,391,272	-	-	5,391,272
Project expense	96,856	1,976,395	1,468,511	2,071,139	5,612,901	-	-	5,612,901
Scholarships	958,081	-	-	-	958,081	-	-	958,081
Contracted services	-	-	-	-	-	88,432	-	88,432
Legal fees	66	264	-	990	1,320	10,560	1,320	13,200
Accounting	-	-	-	-	-	19,661	-	19,661
Employee relations	-	-	-	-	-	14,112	-	14,112
Life insurance	-	-	-	-	-	32,683	-	32,683
Awards and recognition	-	-	-	-	-	28,418	-	28,418
Occupancy	-	-	-	-	-	50,691	-	50,691
Telephone	220	157	122	81	580	4,641	580	5,801
Postage	592	420	327	218	1,557	12,457	1,557	15,571
Equipment and maintenance	-	-	-	-	-	71,676	-	71,676
Conferences and meetings	1,317	936	728	485	3,466	10,400	-	13,866
Education and training	1,591	1,131	879	586	4,187	16,748	-	20,935
Dues	-	-	-	-	-	10,143	-	10,143
Meals and entertainment	-	-	-	-	-	186	-	186
Travel	1,059	752	585	390	2,786	11,146	-	13,932
Development	-	-	-	-	-	-	65,552	65,552
Strategic planning	-	-	-	-	-	19,411	-	19,411
Printing	1,851	1,315	1,023	682	4,871	9,744	4,872	19,487
Public relations and advertising	5,425	3,855	2,998	1,999	14,277	28,555	14,278	57,110
Bad debts - COVID loans	-	-	-	-	-	45,000	-	45,000
Program expense	6,219	541	-	-	6,760	-	-	6,760
Miscellaneous	-	-	-	-	-	8,488	-	8,488
Depreciation	-	-	-	-	-	31,506	-	31,506
	<u>\$ 2,387,428</u>	<u>\$ 3,303,197</u>	<u>\$ 3,038,340</u>	<u>\$ 3,570,932</u>	<u>\$ 12,299,897</u>	<u>\$ 967,698</u>	<u>\$ 351,182</u>	<u>\$ 13,618,777</u>

See accompanying notes.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

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 2% of the Foundation's contributions in a given year. During the year ended December 31, 2023, contributions from the Foundation's large dollar donors represented approximately 55% of contribution revenue. During the year ended December 31, 2022, contributions from the Foundation's large dollar donors represented approximately 66% of contribution revenue.

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 to 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.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

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, whereby the donor has stipulated the funds be maintained in perpetuity.

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:

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

- 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.

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, 2023 and 2022, 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 regularly reviews the financial health of the banking institutions in which the balances exceed FDIC insurance limits as part of their due diligence. 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 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 impact 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.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies (continued)

Notes Receivable and Allowance for Credit Losses

Notes receivable are stated at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding net of charge-offs. The allowance for credit losses is an estimate of amounts that may not be collectible. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged off against the allowance when the receivable is deemed uncollectible. Management considers the payment status of these loans and expectations about current and future economic conditions to evaluate whether an allowance for credit losses needs to be recorded. Based on management's evaluation as of December 31, 2023, the estimate of allowance for credit losses was determined to be immaterial and no allowance was recorded. All payments have been made timely and there are no past due payments as of December 31, 2023.

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 and the balance is included in prepaid expenses and other assets.

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.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies (continued)

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.

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.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies (continued)

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:

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.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies (continued)

Functional Classification of Expenses (continued)

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.

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, 2022, from which the summarized information was derived.

Income Tax

Generally, tax years from 2020 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.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

2. Summary of Significant Accounting Policies (continued)

Risk and Uncertainties

The Foundation's investments consist of mutual funds composed of stocks and bonds. These investments 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 values of investment securities will occur in the near-term and long-term and that such changes could materially affect amounts reported in the Foundation's financial statements.

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 was no change to the approved endowment spending rate for 2023 and no change is expected for 2024, 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 10, 2024, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

On January 1, 2023, the Foundation adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including accounts and notes receivable. Such assets are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts.

The Foundation adopted ASC 326 using the modified retrospective method. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of this new standard did not have a significant impact on the Foundation.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

3. Investments

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

	December 31, 2023		December 31, 2022	
	Cost	Market	Cost	Market
Fixed income mutual funds	\$ 23,142,881	\$ 20,993,088	\$ 22,304,409	\$ 19,699,552
Equity mutual funds	62,307,816	82,763,303	60,817,677	73,500,878
Hedge funds	5,000,000	10,373,885	6,230,000	9,465,384
Real asset funds	5,129,482	7,533,761	5,029,937	6,754,166
Investment in Davis Lodging LLC (1)	-	-	-	-
Proceeds in transit from sale of investment	-	-	1,586,137	1,586,137
	\$ 95,580,179	\$ 121,664,037	\$ 95,968,160	\$ 111,006,117

(1) The Foundation holds a 15% interest in its Davis Lodging LLC investment. In 2019, when the Foundation's share of losses equaled the \$347,764 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, 2023 is \$89,867.

Components of investment income consisted of the following for the years ended December 31:

	2023	2022
Interest, dividends, and distributions	\$ 2,745,192	\$ 2,167,776
Net appreciation/(depreciation) in fair value	13,095,915	(18,089,836)
Investment management and bank fees	(116,607)	(133,333)
	15,724,500	(16,055,393)
Amounts allocated to restricted organizational funds	315,294	421,418
Net investment income/(loss)	\$ 16,039,794	\$(15,633,975)

4. Impact Investing – Notes Receivable

During the year ended December 31, 2021, the Foundation entered into a loan agreement with Early Explorers Child Care & Learning Center as part of its impact investing initiative, which positively impacts its focus areas of developing our talent and caring for our people. The note receivable was signed on May 26, 2021, and requires monthly payments of principal and interest at a fixed rate of 3.75%. The note is due in full on May 26, 2026. The outstanding balance at December 31, 2023 is \$182,391.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

4. Impact Investing – Notes Receivable (continued)

During the year ended December 31, 2023, the Foundation entered into a loan agreement with Michele’s Montessori School, Inc. (Hosfeld Holdings), as part of its impact investing initiative, which positively impacts its focus areas of developing our talent and caring for our people. The note receivable was signed on June 1, 2023, and requires monthly payments of principal and interest at a fixed rate of 6.00%. The note is due in full on June 15, 2028. The outstanding balance at December 31, 2023 is \$246,713.

5. Office Facility and Equipment

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

	<u>2023</u>	<u>2022</u>
Land	\$ 65,000	\$ 65,000
Building and improvements	788,327	747,567
Office furniture and fixtures	162,302	158,502
Office equipment	69,172	69,172
Computer software	67,649	67,649
Total cost	<u>1,152,450</u>	<u>1,107,890</u>
Accumulated depreciation	<u>(624,129)</u>	<u>(588,241)</u>
Office facility and equipment, net	<u>\$ 528,321</u>	<u>\$ 519,649</u>

6. Endowments

Endowment Funds

The Foundation’s endowment funds consist of 704 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.

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:

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

6. Endowments (continued)

Interpretation of Relevant Law (continued)

- (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, 2023:

	Without Donor Restrictions- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Endowment funds	\$105,651,669	\$ 1,146,484	\$ 1,000,000	\$107,798,153

Changes in board designated and donor restricted endowment funds during the year ended December 31, 2023 follows:

	Without Donor Restrictions- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Balance, December 31, 2022	\$ 95,784,932	\$ 972,635	\$ 1,000,000	\$97,757,567
Investment income:				
Interest and dividends	2,216,238	47,014	-	2,263,252
Net appreciation of investments	13,596,426	268,280	-	13,864,706
Net investment income	15,812,664	315,294	-	16,127,958
Contributions	2,220,367	767	-	2,221,134
Grants appropriated	(3,912,163)	(91,046)	-	(4,003,209)
Fees and expenses	(4,254,131)	(51,166)	-	(4,305,297)
Balance, December 31, 2023	\$ 105,651,669	\$ 1,146,484	\$ 1,000,000	\$107,798,153

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

6. Endowments (continued)

Endowment Funds and Changes Therein (continued)

The Foundation's endowment net asset composition was as follows as of December 31, 2022:

	Without Donor Restrictions- Board Designated	<u>With Donor Restrictions</u>		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Endowment funds	\$ 95,784,932	\$ 972,635	\$ 1,000,000	\$97,757,567

Changes in board designated and donor restricted endowment funds during the year ended December 31, 2022 follows:

	Without Donor Restriction- Board Designated	<u>With Donor Restrictions</u>		
		Purpose Restriction s	Perpetual Time Restrictions	Total
Balance, December 31, 2021	\$ 114,365,667	\$ 1,489,588	\$ 1,000,000	\$ 116,855,255
Investment income:				
Interest and dividends	1,995,994	45,357	-	2,041,351
Net (depreciation) of investments	(17,429,031)	(373,783)	-	(17,802,814)
Net investment income	(15,433,037)	(328,426)	-	(15,761,463)
Contributions	5,861,963	50	-	5,862,013
Grants appropriated	(3,784,413)	(139,650)	-	(3,924,063)
Fees and expenses	(5,225,248)	(48,927)	-	(5,274,175)
Balance, December 31, 2022	\$ 95,784,932	\$ 972,635	\$ 1,000,000	\$ 97,757,567

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

6. Endowments (continued)

Endowment Funds and Changes Therein (continued)

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, 2023 and 2022, 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.

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).

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

6. Endowments (continued)

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. Net Assets

Designated Net Assets - Designated net assets represent net assets without donor restrictions that have been designated by the Board of Directors to function as an endowment fund as a reserve for funding expenses for specific purposes, projects, or investments in future years.

Net Assets with Donor Restrictions – Included in donor-restricted net assets is \$1,000,000 that is perpetually restricted for youth philanthropy and volunteerism, through the Midland Area Youth Action Council, an initiative of the Midland Area Community Foundation. Purpose-restricted net assets, also restricted for youth philanthropy and volunteerism, were \$1,146,484 at December 31, 2023 and \$972,635 at December 31, 2022.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

8. Fair Value Measurements

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

	2023			
	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	\$ 711,766	\$ 711,766	\$ -	\$ -
Investment securities	121,664,037	111,290,152	10,373,885	-
	\$122,375,803	\$ 112,001,918	\$ 10,373,885	\$ -

	2022			
	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	\$ 435,298	\$ 435,298	\$ -	\$ -
Investment securities	110,570,818	101,105,434	9,465,384	-
	\$111,006,116	\$ 101,540,732	\$ 9,465,384	\$ -

9. Liquidity and Availability of Resources

The Foundation has \$2,451,563 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 \$572,776 and short-term investments of \$1,878,787. 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 \$32,982,043 of accumulated spendable funds available for distribution as of December 31, 2023. 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.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2023

10. 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 \$38,616 to the 403(b) plan for the year ended December 31, 2023. Contributions totaled \$36,541 to the 403(b) plan for the year ended December 31, 2022.