

AUDIT REPORT

**COMMUNITY FOUNDATION OF
THE UPPER PENINSULA
Escanaba, Michigan**

December 31, 2022 and 2021

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*Schneider, Larche,
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CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

David P. Pechawer, C.P.A., P.C.
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January 26, 2024

Board of Trustees
Community Foundation of the Upper Peninsula
Escanaba, MI

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of Community Foundation of the Upper Peninsula, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021 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 Community Foundation of the Upper Peninsula as of December 31, 2022 and 2021, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Community Foundation of the Upper Peninsula 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.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Community Foundation of the Upper Peninsula'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 Community Foundation of the Upper Peninsula'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.

Schneider, Larche, Hoopala & Co., PLLC

Certified Public Accountants
Escanaba, Michigan

FINANCIAL STATEMENTS

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 3,320,642	\$ 3,573,509
Accounts receivable	1,564	33,916
Prepaid expenses	4,151	4,380
	<u>3,326,357</u>	<u>3,611,805</u>
<u>PROPERTY AND EQUIPMENT</u>		
Furniture, fixtures, and office equipment	178,528	178,528
Building and building improvements	242,895	242,895
Land	20,000	20,000
Less: accumulated depreciation	<u>(193,537)</u>	<u>(183,559)</u>
	<u>247,886</u>	<u>257,864</u>
<u>OTHER ASSETS</u>		
Pledges receivable, net	68,915	155,303
Investments	36,712,724	42,804,095
Unemployment investment	20,677	19,563
Cash surrender value of life insurance	21,989	21,088
Remainder interest in life estate	790,000	790,000
Investments held as trustee at fair market value	716,678	901,270
Beneficial interest in perpetual trust	<u>279,073</u>	<u>379,800</u>
	<u>38,610,056</u>	<u>45,071,119</u>
	<u>42,184,299</u>	<u>48,940,788</u>
TOTAL ASSETS	\$ <u>42,184,299</u>	\$ <u>48,940,788</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2022</u>	<u>2021</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 623	\$ 882
Grants payable	32,412	16,950
Deferred revenue	-	37,100
Payroll and payroll taxes payable	19,589	9,599
Funds held on behalf of agency endowments	<u>2,177,468</u>	<u>2,564,848</u>
TOTAL CURRENT LIABILITIES	2,230,092	2,629,379
<u>LONG-TERM LIABILITIES</u>		
Trust funds payable-charitable remainder unitrusts	<u>566,830</u>	<u>720,817</u>
TOTAL LONG-TERM LIABILITIES	<u>566,830</u>	<u>720,817</u>
TOTAL LIABILITIES	<u>2,796,922</u>	<u>3,350,196</u>
<u>NET ASSETS</u>		
Without donor restrictions	3,732,332	3,639,480
With donor restrictions	<u>35,655,045</u>	<u>41,951,112</u>
TOTAL NET ASSETS	<u>39,387,377</u>	<u>45,590,592</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,184,299</u>	<u>\$ 48,940,788</u>

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2022 and 2021

	2022		2021		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
REVENUES, GAINS, AND OTHER SUPPORT					
Contributions	\$ 777,068	\$ 1,645,658	\$ 2,422,726	\$ 2,217,511	\$ 2,400,030
Interfund grants	321,544	1,139,809	1,461,353	276,509	504,104
Administrative fees	654,023	-	654,023	-	476,605
Interest and dividend income	70,102	1,011,024	1,081,126	1,281,943	1,345,867
Realized gain (loss) on investments	110,064	1,089,443	1,199,507	1,924,108	1,981,037
Unrealized gain (loss) on investments	(538,449)	(7,642,320)	(8,180,769)	195,641	269,637
Change in value of beneficial interest	-	(83,635)	(83,635)	39,739	39,739
Change in value of split interest	-	14,146	14,146	(1,950)	(1,950)
Fundraising	16,343	101,578	117,921	57,161	59,881
PPP loan forgiveness	-	-	-	-	160,870
Grants	43,104	54,043	97,147	30,324	35,324
Contract income (hub fees)	108,839	-	108,839	-	114,505
Program income	-	-	-	-	8,490
Grant cancellation revenue	4,453	2,903	7,356	2,415	3,750
Other income	5,459	15,390	20,849	6,639	4,699
Net assets released from restrictions	3,644,106	(3,644,106)	-	2,328,057	(2,328,057)
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	5,216,656	(6,296,067)	(1,079,411)	3,701,774	7,411,642
EXPENSES					
Program Services	4,502,979	-	4,502,979	2,824,812	2,824,812
Administration	287,276	-	287,276	225,676	225,676
Fundraising	333,549	-	333,549	263,232	263,232
TOTAL EXPENSES	5,123,804	-	5,123,804	3,313,720	3,313,720
INCREASE (DECREASE) IN NET ASSETS	92,852	(6,296,067)	(6,203,215)	388,054	4,097,922
Net assets, beginning of year	3,639,480	41,951,112	45,590,592	3,188,590	28,813,744
Keweenaw Community Foundation net assets transferred	-	-	-	62,836	9,427,500
NET ASSETS, END OF YEAR	\$ 3,732,332	\$ 35,655,045	\$ 39,387,377	\$ 3,639,480	\$ 41,951,112
					\$ 45,590,592

See notes to financial statements.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2022

2022

	Program Activities											Supporting Activities			Total
	Community Benefit & Improvement, Arts, Health Environment	Donor Advised Funds-Multiple	Education/Scholarship	Event/Entertainment, Sports, Recreation, Animal Related	Foundation Administration	Religion	Senior Citizens or Youth	Total Program Services	Administrative	Fundraising	Supporting	Total			
FUNCTIONAL EXPENSES															
Salaries	\$ 23,333	\$ 3,065	\$ 7,885	\$ 431	\$ 298,610	\$ 85	\$ 114,965	\$ 448,374	\$ 79,254	\$ 75,028	\$ 154,282	\$ 602,656			
Payroll taxes and benefits	1,806	237	610	33	35,466	7	8,947	47,106	9,471	9,148	18,619	65,725			
Grants	819,028	79,976	354,429	58,402	225,681	31,904	198,342	1,767,762	-	-	-	1,767,762			
Interfund grants	987,576	6,500	21,716	82,200	295,787	35,000	73,487	1,502,266	-	-	-	1,502,266			
Management fees	46,082	7,591	28,937	1,335	2,603	1,006	11,232	98,786	26,597	26,597	53,194	151,980			
Administration fees	116,805	25,339	87,878	10,517	77,304	7,070	71,806	396,719	106,808	106,808	213,616	610,335			
Professional fees	-	-	-	-	83,215	-	5,850	89,065	23,979	23,979	47,958	137,023			
Rent	-	-	-	-	7,442	-	497	7,939	2,138	2,138	4,276	12,215			
Occupancy expense	-	-	-	-	468	-	-	468	126	126	252	720			
Repairs and maintenance	-	-	-	-	12,735	-	1,326	14,061	3,785	3,785	7,570	21,631			
Computer expense	-	-	-	-	21,334	-	-	21,334	5,744	5,744	11,488	32,822			
Office supplies and postage	-	60	-	-	7,548	-	1,130	8,738	2,353	2,353	4,706	13,444			
Operating expenses	-	-	4,406	-	3,423	-	1,436	9,265	2,495	2,495	4,990	14,255			
Printing and copying	-	-	-	-	9,641	-	1,664	11,305	3,043	3,043	6,086	17,391			
Marketing and advertising	-	-	-	-	11,637	-	121	11,758	3,166	3,166	6,332	18,090			
Telephone and utilities	-	-	-	-	7,619	-	795	8,414	2,265	2,265	4,530	12,944			
Insurance	-	-	-	-	5,477	-	1,695	7,172	1,931	1,931	3,862	11,034			
Dues and subscriptions	-	-	-	-	6,167	-	585	6,752	1,818	1,818	3,636	10,388			
Travel and meetings	-	-	-	-	6,462	-	4,129	10,591	2,852	2,852	5,704	16,295			
Youth advisory	-	-	392	-	861	-	8,208	9,461	2,547	2,547	5,094	14,555			
Depreciation	-	-	-	-	6,485	-	-	6,485	1,746	1,746	3,492	9,977			
Fundraising	-	-	-	-	-	-	-	-	50,822	50,822	50,822	50,822			
Education and training	-	-	-	-	6,627	-	4,210	10,837	2,918	2,918	5,836	16,673			
Miscellaneous	334	-	71	147	2,506	4	5,259	8,321	2,240	2,240	4,480	12,801			
TOTAL EXPENSES	\$ 1,994,964	\$ 122,768	\$ 506,324	\$ 153,065	\$ 1,135,098	\$ 75,076	\$ 515,684	\$ 4,502,979	\$ 287,276	\$ 333,549	\$ 620,825	\$ 5,123,804			

See notes to the financial statements.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2021

2021

	Program Activities											Supporting Activities			Total						
	Community Benefit & Improvement, Arts, Health Environment	Event/										Administrative	Fundraising	Supporting							
		Donor Advised Funds-Multiple	Education/Scholarship	Entertainment, Sports, Recreation, Animal Related	Foundation Administration	Religion	Senior Citizens or Youth	Total Program Services	Administrative	Fundraising	Supporting										
FUNCTIONAL EXPENSES																					
Salaries	\$ 97,177	\$ 11,601	\$ 29,848	\$ 1,630	\$ 58,003	\$ 322	\$ 60,086	\$ 258,667	\$ 78,915	\$ 71,353	\$ 150,268	\$ 408,935									
Payroll taxes and benefits	11,740	1,453	3,739	204	7,265	40	5,801	30,242	8,723	8,083	16,806	47,048									
Grants	709,096	120,659	241,544	38,919	194,718	5,330	161,799	1,472,065	-	-	-	1,472,065									
Interfund grants	143,860	18,020	52,670	1,146	244,893	-	43,515	504,104	-	-	-	504,104									
Management fees	47,777	5,556	23,865	906	747	579	11,951	93,381	22,195	22,195	44,390	137,771									
Administration fees	112,107	13,996	81,849	6,719	17,878	3,842	64,164	300,555	71,436	71,436	142,872	443,427									
Professional fees	7,517	987	2,340	139	4,935	27	4,474	20,619	4,901	4,901	9,802	30,421									
Rent	586	77	198	11	385	2	1,279	2,538	603	603	1,206	3,744									
Occupancy expense	721	95	244	13	474	3	202	1,752	416	416	832	2,584									
Repairs and maintenance	4,848	637	1,639	89	3,188	18	1,534	11,953	2,841	2,841	5,682	17,635									
Computer expense	8,924	1,172	3,015	165	5,859	32	2,495	21,662	5,149	5,149	10,298	31,960									
Office supplies and postage	5,367	361	928	51	1,803	10	1,894	10,414	2,475	2,475	4,950	15,364									
Operating expenses	3,232	111	411	20	556	10	1,571	5,911	1,405	1,405	2,810	8,721									
Printing and copying	1,316	143	368	20	714	4	2,199	4,764	1,132	1,132	2,264	7,028									
Marketing and advertising	3,323	437	1,123	61	2,183	12	1,385	8,524	2,026	2,026	4,052	12,576									
Telephone and utilities	3,202	421	1,082	59	2,103	12	1,038	7,917	1,882	1,882	3,764	11,681									
Insurance	-	-	-	-	6,130	-	441	6,571	1,562	1,562	3,124	9,695									
Dues and subscriptions	2,034	-	-	-	4,608	-	2,508	9,150	2,175	2,175	4,350	13,500									
Travel and meetings	2,322	-	-	-	3,665	-	1,979	7,966	1,893	1,893	3,786	11,752									
Youth advisory	14,207	1,112	2,862	156	5,923	31	2,368	26,659	6,336	6,336	12,672	39,331									
Depreciation	-	-	-	-	12,490	-	-	12,490	2,969	2,969	5,938	18,428									
Fundraising	-	-	-	-	-	-	-	-	-	-	50,758	50,758									
Education and training	1,068	-	-	-	23	-	3,202	4,293	1,021	1,021	2,042	6,335									
Gift refunds	-	-	-	-	2,291	-	19	2,310	621	621	1,242	3,552									
Pass-through	-	-	-	-	-	-	-	-	5,000	-	5,000	5,000									
Miscellaneous	305	-	-	-	-	-	-	305	-	-	-	305									
TOTAL EXPENSES	\$ 1,180,729	\$ 176,838	\$ 449,925	\$ 50,308	\$ 580,834	\$ 10,274	\$ 375,904	\$ 2,824,812	\$ 225,676	\$ 263,232	\$ 488,908	\$ 3,313,720									

See notes to the financial statements.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (6,203,215)	\$ 4,097,922
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,977	18,428
PPP loan forgiveness	-	(160,870)
Donated investment securities included in contributions	(6,907)	(37,067)
Non-cash contributions	-	(1,621)
(Gain) loss in beneficial interest in perpetual trust	83,635	(39,739)
Realized (gain) loss on investments	(1,199,507)	(1,981,037)
Unrealized (gain) loss on investments	8,180,769	(269,367)
(Increase) decrease in:		
Accounts receivable	32,352	(32,832)
Pledges receivable	86,388	6,997
Prepaid expenses	229	2,961
Charitable remainder unitrusts, net change	30,605	1,950
Other assets	(2,014)	(3,277)
Increase (decrease) in:		
Accounts payable	(259)	(2,448)
Grants payable	15,462	(15,600)
Deferred revenue	(37,100)	37,100
Payroll and payroll taxes payable	9,990	3,056
Funds held on behalf of agency endowments	(387,380)	204,348
	<u>613,025</u>	<u>1,828,904</u>
NET CASH FROM OPERATING ACTIVITIES		
Cash Flows from Investing Activities:		
Proceeds from sale/maturity of investments	7,022,493	8,244,342
Purchases of investments	(7,905,477)	(9,187,512)
Cash transferred from beneficial interest in perpetual trust	17,092	21,605
Purchases of fixed assets	-	(1,258)
	<u>(865,892)</u>	<u>(922,823)</u>
NET CASH FROM INVESTING ACTIVITIES		
Cash Flows from Financing Activities:		
Proceeds from short-term debt	-	79,750
	<u>-</u>	<u>79,750</u>
NET CASH FROM FINANCING ACTIVITIES		
Net increase (decrease) in cash	(252,867)	985,831
Cash at beginning of year	<u>3,573,509</u>	<u>2,587,678</u>
Cash at end of year	\$ <u><u>3,320,642</u></u>	\$ <u><u>3,573,509</u></u>

See notes to financial statements.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Community Foundation of the Upper Peninsula (Foundation) conform to generally accepted accounting principles as applicable to not-for-profit organizations. The following is a summary of the significant policies:

Nature of Operations - The Foundation is a nonprofit organization which encourages philanthropic investment in the Upper Peninsula of Michigan (U.P.) by building and managing endowment funds in various fields of interest and utilizing the income from those investments to support charitable activities. The Foundation consists of U.P. – wide funds as well as the following communities’ funds: Alger, Delta County, Gogebic County, Keweenaw area, Les Cheneaux, Rudyard, Tahquamenon and Paradise area, Schoolcraft County, and St. Ignace. These communities seek to enhance the quality of life in the Upper Peninsula of Michigan by improving the educational, cultural, recreational, environmental, and social welfare resources of the area and developing youth for community leadership in their respective communities.

Fund Accounting - To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. Fund accounting requires that separate accounts be established to maintain accountability over gifts and contributions that are subject to use restrictions or stipulations by the donor. Fund balances are classified on the statement of financial position as net assets without donor restrictions and net assets with donor restrictions based on the absence or existence and type of donor-imposed restrictions.

Basis of Presentation - The Foundation reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors; net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its organizational documents and its application for tax-exempt status.

The governing board has designated, from net assets without donor restrictions, net assets for specified purposes and board-designated endowments.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor to be maintained in perpetuity.

Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

The Foundation's donor-restricted endowment funds, including the unspent appreciation of the endowment fund and the portion of the Foundation's donor-restricted endowment funds that the Foundation is committed to maintaining in perpetuity are classified in net assets with donor restrictions, as is the Foundation's beneficial interest in charitable trusts.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting.

Use of Estimates - 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 disclosures 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 results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of six months or less to be cash equivalents. Temporary cash and money market fund investments, which are part of the Foundation's investment pools, as further described in Note 2, are not included in cash for the purposes of the Statement of Cash Flows, since these funds have been set aside by either the Foundation's Board of Trustees or by agreements with donors for long-term investment purposes.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses - Payments to vendors for services that will benefit periods beyond the Foundation's fiscal year-end are recorded as prepaid expenses.

Investments - Investments in marketable securities with readily determinable market values and all investments in debt securities are reported at their fair value in the Statement of Financial Position. Fair value is determined by reference to quoted market prices and other relevant information generated by market transactions. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. The realized gain or loss on the sale of investments is the difference between the proceeds received and the cost of specific investments sold. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying Statement of Financial Position and Statement of Activities.

Investment Policy - To achieve their purpose, the Foundation has adopted an investment policy that requires assets to be invested in a manner consistent with statutory fiduciary responsibilities. The policy is to be carried out by means of investment strategies that reflect continuous evaluation of changing investment environments, judgment regarding the allocation of the assets among different kinds of investment opportunities, identification of appropriate investment vehicles, and the making of specific investment decisions. The primary objective of the investments is to provide for long-term growth of principal and income without undue exposure to risk, while enabling the Foundation to make grants on a continuing and reasonably consistent basis. The focus is on consistent long-term capital appreciation with income generation as a secondary consideration.

Contract revenue - Contract revenue is primarily for providing accounting and other services to small community foundations in the Upper Peninsula of Michigan and Northern Wisconsin. Revenue is recognized when the services are provided to the foundations, in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those services. All of the Foundation's revenue from contracts with customers are from performance obligations satisfied over a period of time and provided to the aforementioned foundations. Revenue is recognized as services are rendered over the contract period.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Spending Policy - The Foundation has a spending policy which determines the amount available for granting once each year. The spending policy formula is applied against the market value of all endowed funds as of the previous calendar year's third quarter. The amount available for spending is calculated on a rolling average of the market value, based on the number of quarters each fund has been in existence, up to twelve quarters. Four to five percent of the average fund balance (as determined by either fund or affiliate agreement) plus the current administrative fee rate will be available for distribution and administration expenditures. The funds' endowed principal will not be invaded for distribution except as allowed by the fund agreement.

Property and Equipment - Property and equipment, consisting of furniture, fixtures, and office equipment, is recorded at cost for purchased assets or at fair market value on the date received for donated assets, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years. It is the Foundation's policy to expense assets with a value under \$5,000 or short lives. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities

Remainder Interest in Life Estate - A remainder interest in a life estate is an arrangement in which a donor establishes a gift plan that allows the individual to donate their home to a nonprofit beneficiary while retaining the right to live in the home for the remainder of their life, or until a pre-established condition occurs. Under the terms of the arrangement, the donor is responsible for executory costs. In addition, the Foundation has the irrevocable remainder interest in the property when the established conditions occur. At such time, the Foundation is directed to sell the property with 85% of the proceeds to be used to establish an endowment fund and the remaining 15% of the proceeds to be unrestricted. The fair value of this remainder interest is determined by taking the latest appraised value of the property.

Split-interest Agreement - Beneficial Interest in Perpetual Trust - A beneficial interest in perpetual trust is an arrangement in which a donor establishes and funds a perpetual trust for the benefit of one or more nonprofit beneficiaries. The assets are administered and managed by an independent third party. Under the terms of the arrangement, the Foundation has the irrevocable right to receive its proportionate share of the investment income earned on the trust assets in perpetuity. The fair value of this perpetual trust is based on the Foundation's proportional share of the underlying trust assets.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split-interest Agreement - Charitable Remainder Unitrusts - A charitable remainder unitrust is a split-interest agreement in which a nonprofit organization receives its beneficial interest in the donated assets after the noncharitable beneficiary has received benefits for a specified time period. The donor establishes and funds the trust and specifies beneficiaries to receive distributions over the life of the split-interest agreement. The beneficiary receives a stated percentage of the fair market value of the trust, which is determined annually. The assets themselves are administered and managed by the Foundation. The assets are all investments in securities in which the value is determined by taking the fair market value of the securities at the end of the period. The liabilities are valued by taking the present value of future cash payments to the noncharitable beneficiaries.

Grants Payable - Grants payable are recognized as a liability and an expense when approved by the advisory boards of the Foundation. Grants payable consists of amounts awarded but not paid to other local nonprofit entities according to individual fund agreement requirements. Once awarded, most amounts are payable upon request and are expected to be paid within one year from the grant date.

Net Assets - The net asset groups used for reporting purposes in the accompanying financial statements are as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor or certain grantor restrictions. Within this class, the board has designated net assets for specified purposes.

Net assets with donor restrictions - net assets that result from contributions whose use by the Foundation is limited by donor-imposed stipulations. The donor-imposed stipulations may (1) expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations (unendowed funds) or (2) neither expire by passage of time nor can be fulfilled and removed by actions of the Foundation (Endowments).

Many fund agreements grant variance power to the governing body which allows the Board of Trustees to modify any restrictions or condition on the distribution of funds or any specified charitable purposes or to specified organizations, if in their sole judgment (without the approval of any trustee, custodian, or agent), such restrictions or conditions become in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs. Even though such power exists, they would intend to exercise this authority only if the stated purpose of a contribution becomes no longer applicable and incapable of fulfillment.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions - Contributions are recognized at fair value when an unconditional commitment is received from the donor. Conditional contributions are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions that are restricted by donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue and computed using an effective yield method over the collection period of the receivables.

The Foundation uses the direct write-off method of accounting for uncollectible pledges. A bad debt expense is recorded when a pledge is deemed to be not collectible.

Functional Expenses/Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Program expenses that benefit all programs are allocated to all programs based on the ratio of each program's total expenses to the total expenses. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Donated Services, Materials, and Facility Use - No amounts have been reflected in the financial statements for donated services because the criteria for recognition have not been satisfied. The Foundation pays for most services requiring specific expertise. However, a number of unpaid individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific programs, fund raising activities, and various committee assignments. Donated materials or equipment, when received, are reflected as contributions in the accompanying statements at their estimated fair market values upon receipt. Various meetings are held on property not owned or leased by the Foundation. The usage is without cost to the Foundation.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes - The Foundation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and is also exempt from similar state taxes. Accordingly, no provision has been made for income taxes in the accompanying financial statements. Additionally, there were no income tax related penalties and interest incurred or recognized for the years ended December 31, 2022 and 2021. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified by the Internal Revenue Service as an organization that is not a private foundation under Section 509(a)(2).

NOTE 2 - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification 820, Fair Value Measurements, establishes a framework for measuring fair value. Included in the accompanying financial statements are certain financial instruments carried at fair value. Fair value of an asset is the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, using current market inputs for similar financial instruments with comparable terms and credit quality. Inputs used to determine fair value refers broadly to the assumptions that market participants would use in pricing the asset. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in accessible active markets for identical assets at the measurement date.

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Certain inputs are unobservable. In these situations, inputs are developed using the best information available in the circumstances.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets at fair value.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

A significant portion of investments are classified within Level 1 because they comprise common stocks traded daily or open-ended mutual funds with readily determinable fair values based on daily redemption values. Municipal and corporate obligations are valued using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2. Within Level 3, the foundations remainder interest in the life estate is valued based on prices of similar assets determined by independent appraisal. The beneficial interest in the perpetual trust is valued based on the net present value of future cash flows.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2022.

	<u>Assets at Fair Value as of December 31, 2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$ 1,202,507	\$ -	\$ -	\$ 1,202,507
Mutual funds	30,262,698	-	-	30,262,698
Municipal bonds	-	447,576	-	447,576
Corporate obligations	-	4,526,555	-	4,526,555
Real estate investment trusts	273,388	-	-	273,388
Remainder interest in life estate	-	-	790,000	790,000
Beneficial interest in perpetual trust	-	-	279,073	279,073
Beneficial interest in charitable remainder unitrusts	<u>716,678</u>	<u>-</u>	<u>-</u>	<u>716,678</u>
TOTAL INVESTMENTS	\$ <u>32,455,271</u>	\$ <u>4,974,131</u>	\$ <u>1,069,073</u>	\$ <u>38,498,475</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2021.

	<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>
Cash and equivalents	\$ 1,453,251	\$ -	\$ -	\$ 1,453,251
Mutual funds	36,318,320	-	-	36,318,320
Municipal bonds	-	532,646	-	532,646
Corporate obligations	-	4,499,878	-	4,499,878
Remainder interest in life estate	-	-	790,000	790,000
Beneficial interest in perpetual trust	-	-	379,800	379,800
Beneficial interest in charitable remainder unitrusts	<u>901,270</u>	<u>-</u>	<u>-</u>	<u>901,270</u>
TOTAL INVESTMENTS	\$ <u>38,672,841</u>	\$ <u>5,032,524</u>	\$ <u>1,169,800</u>	\$ <u>44,875,165</u>

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2022:

	<u>Remainder Interest in Life Estate</u>	<u>Beneficial Interest in Perpetual Trust</u>
Fair value at beginning of year	\$ 790,000	\$ 379,800
Gains (losses) from beneficial interests	-	(83,635)
Income distributed	<u>-</u>	<u>(17,092)</u>
Fair value at end of year	<u>\$ 790,000</u>	<u>\$ 279,073</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2021:

	<u>Remainder Interest in Life Estate</u>	<u>Beneficial Interest in Perpetual Trust</u>
Fair value at beginning of year	\$ 790,000	\$ 361,666
Gains (losses) from beneficial interests	-	39,739
Income distributed	<u>-</u>	<u>(21,605)</u>
Fair value at end of year	<u>\$ 790,000</u>	<u>\$ 379,800</u>

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 3 - PLEDGES RECEIVABLE

The unconditional pledge receivable balance of \$68,915, as of December 31, 2022 is attributable to one donor. The receivable is due as follows:

Due in one to five years	\$	65,500
Due after five years		<u>15,000</u>
Pledges receivable		80,500
Less present value of future cash flows adjustment	(<u>11,585)</u>
Pledges receivable, net	\$	<u>68,915</u>

An interest rate of four and one-half percent was used in 2022 to determine the present value of unconditional promises to give.

NOTE 4 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER UNITRUSTS

The Foundation is the trustee for two charitable remainder unitrusts. The Foundation took over as trustee over the two charitable remainder unitrusts after the Foundation acquired the Keweenaw Area Community Foundation in 2022.

The Paul R. and Robertine A. Freshwater Charitable Remainder Unitrust names the Foundation partial beneficiary of a remainder interest in a trust maintained with Edward Jones. Using a January 1st fund balance, a fixed percentage is to be paid in equal quarterly amounts to the donor's beneficiary. Upon the death of the donor's beneficiary, the Foundation will receive one-third of any assets which remain in the trust.

The trust agreement allows the grantors to revoke or terminate the interest of any of the remainder beneficiaries. Therefore, the Foundation has recorded a liability equal to the fair market value of the unitrust assets. The Foundation has elected to invest the assets of the unitrust in various financial assets which are carried at fair market value. The value of the trust at December 31, 2022 and 2021 was \$231,259 and \$302,413, respectively. Accordingly, no income or expense related to the receipt of the unitrust assets and/or any other unitrust activity has been reflected in the Foundation's statement of activities.

The Scott Family Trust is an irrevocable trust which names the Foundation partial beneficiary of a remainder interest in a trust maintained with Charles Schwab. Using a January 1st fund balance, a fixed-percentage is to be paid in equal quarterly amounts to the donor's two beneficiaries. Upon the death of the donor's beneficiaries, the Foundation will receive two-thirds of any assets which remain in the trust.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 4 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER UNITRUSTS
(Continued)

The trust assets are held in an investment account which is valued at the fair market value of the assets. The value of that account at December 31, 2022 and 2021 was \$485,419 and \$598,857, respectively. The liability of the trust is computed by using the present value of future cash flows which refers to IRS Publication 1458: Actuarial Valuations for Unitrust Remainders. The value of the liability at December 31, 2022 and 2021 was \$335,571 and \$418,404, respectively. Each year the liability is adjusted for the amortization of the discount, any revised return on the assets, and the revised life ages of the beneficiaries. The offset to the liability adjustment each year goes on the statements of activities as a change in the value of split-interest agreements in the with donor restrictions net asset class. The change in the value of split interest agreements recognized on the Foundation's statement of activities as of December 31, 2022 and 2021 is \$14,146 and (\$1,950), respectively.

NOTE 5 - FUND RAISING ACTIVITIES

The following are total fundraising activities for the year ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Direct fundraising expenses incurred	\$ 50,822	\$ 50,758
Net contribution revenue after fund raising expenses	67,099	9,123

There was \$37,100 of fundraising income as of December 31, 2021 related to the Big Brothers Big Sisters hunting raffle. The raffle was not held until after year-end. Therefore, \$37,100 was reclassified as deferred revenue.

NOTE 6 - LEGACY FUNDRAISER

The Legacy Fund, (formerly referred to as MASH -Managing Administrative Service Hurdles) is a separate fund within the Community Foundation of the Upper Peninsula. Each year, the Delta County affiliate group associated with the Legacy Fund has an annual fundraising dinner, called the Legacy Dinner, to raise funds to help sustain their internal programs as well as help grant to the community as needs arise. If anyone donates to an endowment that night, their donation is put, in full, directly to the endowment. The Legacy Dinner in 2022 generated revenue of \$24,981 while incurring expenses of \$24,322. The Legacy Dinner was not held during 2021 due to the Covid 19 pandemic.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 7- AFFILIATION WITH NEW FOUNDATION

On September 1, 2021, the Foundation gained a new affiliate with the Keweenaw Area Community Foundation. Per the affiliation agreement, the Keweenaw Area Community Foundation (Affiliate) shall operate under the auspices of the Foundation and the Affiliate Fund shall be held by the Foundation in its corporate capacity. The net assets of the Affiliate were then transferred over to the Foundation. The fund balances of the Affiliate transferred over to the Foundation at that time was \$62,836 of net assets with donor restrictions and \$9,427,500 of net assets without donor restrictions.

NOTE 8 - AGENCY ENDOWMENT FUNDS

The Foundation holds agency endowment funds, maintaining variance power and legal ownership of such funds, and reporting the funds as assets of the Foundation. These funds are established when a not-for-profit organization transfers its own funds to the Foundation and specifies itself as the beneficiary of that fund. The Foundation establishes a liability to the not-for-profit organization equal to the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organization.

The Foundation is the owner of twenty-three agency endowment funds and ten agency endowment funds as of the years ended December 31, 2022 and 2021, respectively. The following schedule summarizes activity in those funds:

Agency endowment funds balances, 12/31/2020	\$ 2,035,524
Transfer to agency from Keweenaw	324,976
Interest and dividend income	93,583
Realized and unrealized gain (loss) on investments	185,770
Grants	(34,294)
Management fees	(7,128)
Administrative fees	(33,583)
Agency endowment funds balances, 12/31/2021	<u>\$ 2,564,848</u>
Contributions and gifts	115,086
Interest and dividend income	67,391
Realized and unrealized gain (loss) on investments	(441,398)
Grants	(89,582)
Management fees	(5,380)
Administrative fees	(33,497)
Agency endowment fund balances, 12/31/2022	<u><u>\$ 2,177,468</u></u>

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 9 - CONCENTRATION OF CREDIT RISK

Foundation cash balances maintained at financial institutions occasionally exceed federally insured deposit limits. Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of temporary cash investments. The Foundation maintains operating cash balances in excess of federally insured amounts; virtually all temporary excess cash balances are promptly invested in the Foundation's investment pools. Therefore, the Foundation has limited exposure to credit risk relating to cash investments. Actual deposit balances as of December 31, 2022 and 2021 were \$3,314,713 and \$3,730,595, respectively. Uninsured deposits as of December 31, 2022 and 2021 were \$2,238,552 and \$2,226,541 respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

Various members of the Foundation's Board of Trustees serve as officers or board members of other nonprofit organizations which receive grants from the Foundation. These grants are given in accordance with the applicable fund agreements and the Foundation's spending policy.

NOTE 11 - COMMITMENTS

Compensated Absences – Depending on their length of service, employees of the Foundation are entitled to paid vacation and sick days. The amount is deemed to be immaterial by management, and accordingly, no liability has been recorded in the accompanying financial statements. The policy of the organization is to recognize the cost of compensated absences when actually paid to employees.

Leases – The Foundation leases its administrative offices according to each affiliate's rental agreement. Because all leases are either short-term or are donated to the Foundation, future minimum lease payments cannot be determined and there are no leases to capitalize.

The Alger County affiliate has a month-to-month lease arrangement for \$150 per month, which has been in place since September 1, 2012. The Les Cheneaux affiliate has a month-to-month lease arrangement for \$50 per month. The Keweenaw area has a year lease agreement where the monthly payment is \$650.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES

Inter-fund grants are approved and recorded by the Foundation in the same manner as grants to an unrelated organization. These inter-fund grants are both a revenue and an expense on the Foundation's Statement of Activities. The total for grant revenue and expenditure for the year ended December 31, 2022 was \$1,461,353 and \$1,502,266, respectively. The interfund revenue that increased the liability to the agency endowment funds for the year ended December 31, 2022 was \$45,053 while the interfund expense that decreased the liability to the agency endowment funds for the year ended December 31, 2022 was \$4,140. The total for grant revenue and expenditure for the year ended December 31, 2021 was \$504,104.

NOTE 13 - PAYROLL PROTECTION PROGRAM (PPP)

On April 16, 2020 and April 12, 2021, the Foundation received loan proceeds from First Bank, Upper Michigan in the amount of \$81,120 and \$79,750, respectively under the first and second rounds of the Payroll Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) which was established on March 27, 2020, provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying entity. Up to 100% of the loan, including accrued interest, may be forgiven if used for qualifying expenses as defined in the CARES Act, during the 8-week or 24-week period following loan disbursement. The amount of loan forgiveness is determined by the U.S. Small Business Administration.

The forgiveness of round one of the PPP loans for \$81,120 was received on January 7, 2021. The forgiveness of round two of the PPP loans for \$79,750 was received on November 19, 2021. The liability has been removed and a gain on extinguishment has been recognized.

NOTE 14 - ADMINISTRATIVE FEES

Administrative fees are charged to individual funds in accordance with fund agreements, including the agency endowment funds. The administrative fees expensed to the individual funds for the years ended December 31, 2022 and 2021 were \$610,335 and \$443,427, respectively. The administrative expense that reduced the liability to the agency endowment funds were \$33,497 and \$33,583 for the years ended December 31, 2022 and 2021, respectively. The related revenue of \$654,023 and \$476,605 for the years ended December 31, 2022 and 2021, respectively, were recorded within the Foundation's operating fund.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 15 - ENDOWMENT FUNDS

Fund agreements have been established by donors for a variety of purposes. Whether these donations are endowed or unendowed is determined by the fund agreements. The endowed principal is defined as the fund's opening contribution plus all subsequent contributions. The Foundation's endowments include both donor-restricted endowment funds and funds designated by the Community Foundation of the Upper Peninsula Board to function as endowments. The Foundation's endowment funds consist of 366 individual funds, of which 351 funds are donor-restricted endowments and 15 funds are Board Designated endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Community Foundation of the Upper Peninsula Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions.

The Foundation follows the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and its own governing documents. The Board of Trustees of the Foundation has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The following shows the fair value of endowment funds as originally donated and as of December 31, 2022 and 2021:

<u>Type of Endowment Fund</u>	<u>Original Donation</u>	<u>2022</u>	<u>2021</u>
Donor-designated endowment funds	\$ 28,514,996	\$ 31,563,293	\$ 38,114,162
Board-designated endowment funds	<u>1,059,947</u>	<u>2,074,631</u>	<u>2,375,148</u>
Total endowment funds	<u>\$ 29,574,943</u>	<u>\$ 33,637,924</u>	<u>\$ 40,489,310</u>

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 15 - ENDOWMENT FUNDS (Continued)

The composition of and changes in endowment net assets for the year ended December 31, 2022 were as follows:

	Without Donor Restrictions	With Donor Restrictions			Total Funds
		Original Gift Amount	Accumulated Gains (Losses) and Other	Total with Donor Restrictions	
Endowment net assets, beginning of year	\$2,375,148	\$27,855,524	\$10,258,638	\$38,114,162	\$40,489,310
Contributions	19,356	659,472	643,593	1,303,065	1,322,421
Investment income (loss)	(222,038)	-	(5,260,261)	(5,260,261)	(5,482,299)
Adjustment to fund balances	-	-	2,295	2,295	2,295
Transfers and amounts appropriated for expenditure	(97,835)	-	(2,595,968)	(2,595,968)	(2,693,803)
Endowment net assets, end of year	<u>\$2,074,631</u>	<u>\$28,514,996</u>	<u>\$3,048,297</u>	<u>\$31,563,293</u>	<u>\$33,637,924</u>

The composition of and changes in endowment net assets for the year ended December 31, 2021 were as follows:

	Without Donor Restrictions	With Donor Restrictions			Total Funds
		Original Gift Amount	Accumulated Gains (Losses) and Other	Total with Donor Restrictions	
Endowment net assets, beginning of year	\$2,209,136	\$20,437,391	\$ 5,281,398	\$25,718,789	\$27,927,925
Contributions	53,655	1,464,049	186,856	1,650,905	1,704,560
Investment income	186,664	-	3,224,760	3,224,760	3,411,424
Amounts transferred from Keweenaw	-	5,954,084	3,019,826	8,973,910	8,973,910
Transfers and amounts appropriated for expenditure	(4,307)	-	(1,454,202)	(1,454,202)	(1,528,509)
Endowment net assets, end of year	<u>\$2,375,148</u>	<u>\$27,855,524</u>	<u>\$10,258,638</u>	<u>\$38,114,162</u>	<u>\$40,489,310</u>

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 16 - UNDERWATER ENDOWMENT FUNDS

From time to time, the fair value of assets associated with 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. These deficiencies generally result from declines in the fair values of the associated investments assets and/or appropriations out of the fund that exceed the investment returns. Endowment funds are classified as underwater when the fair value of the fund at the reporting date 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 donor restrictions.

The detail of underwater endowment totals are as follows:

Underwater Endowments at December 31, 2022

Fair value of underwater endowments	\$ 14,108,423
Corpus of underwater endowments	(14,459,936)
Total amount underwater	(\$ <u>351,513</u>)

Underwater Endowments at December 31, 2021

Fair value of underwater endowments	\$ 41,206
Corpus of underwater endowments	(<u>43,130</u>)
Total amount underwater	(\$ <u>1,924</u>)

The Foundation distribution of endowment income is determined annually based on the spending policy. It is the policy of the Foundation that if the endowment fund is above water before the available to spend calculation, but the available to spend amount would cause the fund to go underwater that the Foundation will recommend to its affiliates not to spend into the corpus. If the endowment fund is underwater before the available to spend calculation, the Foundation does not allow spending from the fund. The fund deficits will be eliminated through subsequent investment earnings.

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 17 - LIQUIDITY AND AVAILABLE RESOURCES

The Foundation's goal is to maintain financial assets, which consist of cash on hand to meet at least 90 days of normal operating expenses. As part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and money markets. The Foundation has a liquidity reserve fund established in which its purpose and intention is to be available, if needed, for foundation expenses, overhead and granting. This fund is held in certificates of deposit and money market accounts. In addition, the Foundation and all affiliate foundations have unrestricted endowments. Using the Board's variance power, the endowed portion can be accessed for foundation needs. These funds are held within securities that can normally be converted to cash within three business days. The Foundation's financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the statement of financial position, are comprised of the following:

Cash	\$ 766,945
Accounts Receivable	1,564
Pledges Receivable	21,667
Distributions of beneficial interest in trusts	22,100
Investments	1,069,513
Endowment fund appropriations for the year	<u>103,732</u>
	\$ <u>1,985,521</u>

NOTE 18 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Board Designated:		
Liquidity Reserve	\$ 134,603	\$ 44,364
Board designated for grants	890,755	343,770
Board designated for endowment	<u>2,074,631</u>	<u>2,375,148</u>
Total Designated	3,099,989	2,763,282
Undesignated	<u>632,343</u>	<u>876,198</u>
Total Net Assets Without Donor Restrictions	\$ <u>3,732,332</u>	\$ <u>3,639,480</u>

COMMUNITY FOUNDATION OF THE UPPER PENINSULA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 19 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for specified purposes:	2022	2021
Community Benefit, Improvement, Arts, Health		
Environment	\$ 1,309,416	\$ 654,662
Multiple Purpose - Donor Advised	118,203	154,399
Education and Scholarships	690,650	799,177
Event, Entertainment, Sports, Recreation,		
Animal Related	149,617	159,805
Foundation Administration	743,552	913,202
Senior Citizens or Youth	1,080,314	1,155,705
	4,091,752	3,836,950

Endowments:

Subject to spending policy and appropriation:

Investment in perpetuity the income from which is expendable to support:

Community Benefit, Improvement, Arts, Health		
Environment	15,811,670	19,983,390
Multiple Purpose - Donor Advised	2,433,930	2,937,285
Education and Scholarships	7,660,811	8,332,970
Event, Entertainment, Sports, Recreation,		
Animal Related	846,055	1,004,712
Religion	118,383	766,535
Foundation Administration	604,831	146,719
Senior Citizens or Youth	3,636,703	4,368,014
	31,112,383	37,539,625

Subject to appropriation and expendable when
a specific event occurs:

Paid up beneficial life insurance policy	21,989	21,088
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Not subject to spending policy or appropriation:

Beneficial interest in perpetual trust	279,073	379,800
Net interest in charitable remainder unitrusts	149,848	173,649

Total Endowments	31,563,293	38,114,162
Total Net Assets with Donor Restrictions	\$ 35,655,045	\$ 41,951,112

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NOTE 20 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended December 31, 2022 and 2021, respectively, were as follows:

	<u>2022</u>	<u>2021</u>
Release of appropriated endowment amounts with purpose restrictions	\$ 2,164,408	\$ 1,335,590
Purpose restrictions accomplished	<u>1,479,698</u>	<u>992,467</u>
Total Restrictions Released	<u>\$ 3,644,106</u>	<u>\$ 2,328,057</u>

NOTE 21 - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, January 26, 2024, which is the date the financial statements were available to be issued.

The Keweenaw Community Foundation was no longer an affiliate as of December 31, 2023.