

**Community Foundation for Northeast Michigan
and Affiliates**



Financial Statements for the Years Ended
September 30, 2021, and 2020

**Community Foundation for Northeast Michigan
and Affiliates**



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Independent Auditor's Report

Board of Trustees
Community Foundation for Northeast Michigan and Affiliates
Alpena, Michigan

We have audited the accompanying financial statements of the **Community Foundation for Northeast Michigan and Affiliates** (a nonprofit organization), which comprise the statements of financial position as of September 30, 2021 and 2020, and the related combined statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation for Northeast Michigan and Affiliates as of September 30, 2021 and 2020, 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.

Report on Summarized Comparative Information

We have previously audited the Community Foundation for Northeast Michigan and Affiliates 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 26, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Straley Kamp & Kraenzlein P.C.

March 11, 2022

Community Foundation for Northeast Michigan and Affiliates

Combined Statements of Financial Position

	Years Ended September 30,	
	2021	2020
Assets		
Cash and cash equivalents	\$ 1,160,859	\$ 2,434,502
Prepaid expenses and other	6,955	8,363
Pledges receivable, net (Note 4)	109,109	71,396
Investments (Note 3)	65,038,383	48,493,944
Property and equipment, net (Note 5)	19,473	23,953
Total assets	<u>\$ 66,334,779</u>	<u>\$ 51,032,158</u>
Liabilities and Net Assets		
Liabilities		
Accounts and salaries payable	\$ 5,329	\$ 3,987
Grants payable (Note 6)	847,791	773,606
Split-interest agreement obligations (Note 7)	1,090,495	861,486
Funds held for agencies (Note 9)	10,033,888	8,059,373
Total liabilities	<u>11,977,503</u>	<u>9,698,452</u>
Net assets		
Without donor restrictions	7,052,654	4,385,355
With donor restrictions	47,304,622	36,948,351
Total net assets	<u>54,357,276</u>	<u>41,333,706</u>
Total liabilities and net assets	<u>\$ 66,334,779</u>	<u>\$ 51,032,158</u>

Community Foundation for Northeast Michigan and Affiliates

Combined Statement of Activities

(With summarized comparative totals for the year ended September 30, 2020)

	For the Year Ended September 30, 2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Total
Revenues, Gains, and Other Support				
Contributions	\$2,382,929	\$ 4,633,013	\$ 7,015,942	\$ 1,357,581
Net investment return	877,754	7,481,338	8,359,092	2,837,953
Administrative fees revenue	87,953	-	87,953	79,991
Other income	18,295	-	18,295	150,735
Change in value of split-interest agreements	-	100,073	100,073	42,519
Net assets released from restrictions	1,858,153	(1,858,153)	-	-
Total Revenues, Gains, and Other Support	5,225,084	10,356,271	15,581,355	4,468,779
Expenses				
Program services	2,125,990		2,125,990	2,192,833
Support services				
Management and general	368,834	-	368,834	380,397
Fundraising and development	62,961	-	62,961	66,453
Total Expenses	2,557,785	-	2,557,785	2,639,683
Increase in net assets	2,667,299	10,356,271	13,023,570	1,829,096
Net Assets - beginning of year	4,385,355	36,948,351	41,333,706	39,504,610
Net Assets - end of year	\$7,052,654	\$47,304,622	\$54,357,276	\$41,333,706

Community Foundation for Northeast Michigan and Affiliates

Combined Statement of Functional Expenses (With summarized comparative totals for the year ended September 30, 2020)

	For the Year Ended September 30, 2021				2020 Comparative Total
	Program Services	Supporting Services		Total	
		Management & General	Fundraising & Development		
Grants and scholarships	\$ 1,850,913	\$ -	\$ -	\$ 1,850,913	\$ 1,910,648
Salaries and wages	180,487	168,341	39,417	388,245	396,896
Employee benefits	3,650	29,640	6,453	39,743	36,356
Payroll taxes	13,808	12,878	3,015	29,701	30,362
Professional fees	-	27,726	-	27,726	31,800
Office expenses	1,393	8,374	813	10,580	16,107
Information technology	1,756	29,635	3,106	34,497	32,314
Telephone and internet	971	2,073	-	3,044	3,983
Occupancy	33,000	33,000	-	66,000	66,000
Travel	504	396	-	900	2,943
Meetings	444	513	-	957	2,096
Conferences and conventions	686	873	-	1,559	2,173
Depreciation	-	5,952	-	5,952	12,164
Insurance	-	5,739	-	5,739	4,263
Development and training	1,457	97	-	1,554	2,897
Memberships and dues	-	14,275	-	14,275	13,949
Marketing, outreach, and special events	21,685	-	-	21,685	23,214
Postage and printing	15,236	23,453	10,157	48,846	46,145
Other expenses	-	5,869	-	5,869	5,373
Total functional expenses	\$ 2,125,990	\$ 368,834	\$ 62,961	\$ 2,557,785	\$ 2,639,683

Community Foundation for Northeast Michigan and Affiliates

Combined Statements of Cash Flows

	For the Years Ended September 30,	
	2021	2020
Cash Flows From Operating Activities		
Increase in net assets	\$ 13,023,570	\$ 1,829,096
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	5,952	12,164
Realized and unrealized gains on investments	(8,938,212)	(2,436,108)
Contributions received restricted for endowments	(4,326,306)	(538,414)
Donated stock	(147,370)	(225,036)
Changes in operating assets and liabilities:		
Change in value of split interest agreements	388,926	155,541
Uncollectible pledge expense	-	15,250
Increase in prepaid expenses and other	1,408	(972)
Decrease in pledges receivable	(37,713)	20,425
Increase (decrease) in accounts and salaries payable	1,342	(2,775)
Increase in grants payable	74,185	145,710
Increase in funds held for agencies, net of transfers	1,974,515	767,302
Net cash used in operating activities	<u>2,020,297</u>	<u>(257,817)</u>
Cash Flows From Investing Activities		
Purchase of investments	(28,320,005)	(17,532,473)
Proceeds from sale of investments	20,861,149	17,669,163
Purchase of equipment	(1,473)	(11,256)
Net cash used in investing activities	<u>(7,460,329)</u>	<u>125,434</u>
Cash Flows From Financing Activities		
Payments to beneficiaries under split interest agreements	(159,917)	(144,093)
Contributions received restricted for endowments	4,326,306	538,414
Net cash provided by financing activities	<u>4,166,389</u>	<u>394,321</u>
Net Increase in Cash and Cash Equivalents	(1,273,643)	261,938
Cash and cash equivalents - beginning of year	<u>2,434,502</u>	<u>2,172,564</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,160,859</u></u>	<u><u>\$ 2,434,502</u></u>

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 1. Nature of Activities

The Community Foundation for Northeast Michigan and Affiliates (“the Foundation”) is a non-profit corporation, governed by an independent board consisting of twenty-one trustees. The purpose of the Foundation is to receive, invest, and disburse funds for various charitable purposes that benefit the inhabitants of the Northeast Michigan region. The Foundation administers approximately 500 individual funds, established with an instrument of gift describing either the general or specific purposes for which grants are to be made. The Foundation’s governing instruments allow for it to exercise its variance power in grant making.

The North Central Michigan Community Foundation, the Straits Area Community Foundation, and the Iosco County Community Foundation are affiliates and included as part of the Community Foundation for Northeast Michigan.

Note 2. Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation. Financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205 on “*Not-for-Profit Entities, Presentation of Financial Statements*”. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions (undesignated and designated) and net assets without donor restrictions. In addition, the Organization is required to present a statement of cash flows, which the Organization has selected to present the indirect method. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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 Foundation. These net assets may be used at the discretion of the Foundation’s management and the Board of Trustees.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions and not available for general use. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or passage of time. Other donor restrictions are perpetual in nature whereby the donor has stipulated that the funds be maintained in perpetuity. When the restriction expires or has been satisfied, the net assets are reclassified to net assets without donor restrictions to reflect that the net assets are no longer restricted. These reclassifications are reported in the statement of activities as “net assets released from restrictions.”

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Foundation uses estimates, which could change by material amounts in the near term, in the valuation of alternative investments, split-interest agreements, and pledges receivable.

Cash and Cash Equivalents. Cash and cash equivalents consist of checking and money market accounts. The Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 2. Significant Accounting Policies (Continued)

Investments. Investments are stated at fair value. Fair value is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market availability of the investment.

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position.

The Foundation's alternative investments consist of investments which are not valued based upon a quoted market price and include non-marketable hedge funds and private equity assets. These funds invest in various partnership interests, managed accounts, and other vehicles to generate investment return. These funds are reported at the estimated fair value measured by their net asset value per share (or its equivalent) as reported by fund managers. Audited information is only available annually, typically six months or more after the year-end of the alternative investment vehicles. Management of the Foundation reviews monthly and/or quarterly valuations provided by the partner or fund managers to assess the reasonableness of the fair values provided at the interim dates and included in the Foundation's financial statements. Because of the inherent uncertainty of valuations, the fair values used may differ from values that would have been used had a ready market existed.

Realized gains and losses on sales of investments represent the difference between the net sales price and the cost of the securities sold. Unrealized gains and losses represent the gains or losses on investments held throughout the year and are included in the statement of activities. Investment income and gains restricted by a donor are reported as increases in net assets without donor-restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Donated investments are sold as soon as reasonably possible and are reported as operating cash flows in the Statement of Cash Flows unless the donor restricted the use of the gift to financing a long-term purpose.

Risks and Uncertainties. The Foundation invests in various types of investment securities. Investment securities are exposed to several risks, such as interest rates, and 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 that those changes could materially affect the amounts reported in the Foundation's financial statements.

Amounts Held on Behalf of Others. Funds established by an unrelated not-for-profit organization using its own funds and for its own benefit are classified by the Foundation as a liability, rather than as a net asset, in accordance with FASB ASC 958-605-20. The Foundation refers to such funds as agency funds. The Foundation maintains variance power and legal ownership of agency funds and as such continues to report the funds as assets and related liabilities on the Foundations' financial statements. 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 are subject to the current spending policies of the Foundation. The changes in such agency funds are summarized in Note 9 "Transactions in Funds Held for Agencies."

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 2. Significant Accounting Policies (Continued)

Contributions. Contributions, including promises to give, are recorded at fair value when they are received or unconditionally pledged. Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. When restrictions expire (that is, when a stipulated time restriction or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Pledges Receivable. Unconditional pledges to give are recognized as contributions in the period the pledge is made. Unconditional pledges receivable that are expected to be collected within one year are recorded at the net realizable value; those that are expected to be collected in future years are recorded at the present value of the expected future cash flows using management's best estimate of key assumptions including collectability, payment period, and a discount rate commensurate with current market and other risks involved.

Grant Distributions. Grant distributions are recorded as expenses when approved by the Foundation's Board of Trustees. Payments to grantees are processed only after terms of the grant are met.

Tax Status. The Foundation is a not-for-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these financial statements. The Foundation qualifies for deductible contributions as provided in the Internal Revenue Code and is not a private foundation within the meaning of Section 509 (a).

The Foundation follows the guidance of ASC 740, *Accounting for Income Taxes*, related to uncertainties in income taxes, which prescribes a threshold of more likely than not for recognition of tax positions taken or expected to be taken in a tax return. There are no such uncertain tax positions for the Foundation for the years ended September 30, 2020 and 2019.

The Foundation's tax returns are subject to possible examination by taxing authorities. For federal income tax purposes, the tax returns remain open for possible examination for a period of three years after the respective filing deadlines of those returns. Open years include the tax returns for the years ended September 30, 2018 through 2021.

Revenue Recognition. Effective October 1, 2020, the Foundation adopted a new revenue recognition policy in accordance with ASC 606, *Revenue from Contracts with Customers*. Prior to fiscal year ending September 30, 2021, the revenue recognition policy was in accordance with ASC 605, *Revenue Recognition*. The Foundation determines revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, the Foundation satisfies a performance obligation.

The Foundation did not enter into any contracts with customers during year ending September 30, 2021 or 2020.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 2. Significant Accounting Policies (Continued)

Functional Allocation of Expenses. The Foundation reports its expenses on the combined statement of activities and changes in net assets into functional classifications based on direct identification, time (for salaries), floor space allocations, and management-determined allocations. The functional classifications include the following categories:

Program Expenses – Program expenses include grants as well as administrative expenses for awarding and monitoring grants, and for other charitable purposes that are not classified as grant awards.

Management & General – Management & General expenses include those expenses associated with the administration and management of the Foundation.

Fundraising – Fundraising expenses include those expenses for the promotion and development activities of the Foundation.

Comparative Totals. The financial statements include certain prior-year comparative summarized total amounts with regard to the statement of activities and statement of functional expenses. Such total amounts do not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such amounts should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2020, from which the summarized comparative total amounts were derived.

Note 3. Investments

The fair value of the Foundation's investments at September 30, 2021 and 2020 is as follows:

	2021		2020	
	At Cost	At Market	At Cost	At Market
Balanced funds	\$ 3,278,862	\$ 4,818,614	\$ 2,955,526	\$ 4,047,775
Bond funds	16,616,127	11,162,101	7,868,345	7,988,880
Market linked notes	-	-	2,136,930	2,417,831
International stock funds	7,620,078	8,658,996	4,121,363	4,476,928
US stock funds	23,285,594	30,239,378	16,357,032	20,787,525
Alternative investments	5,562,360	10,159,294	8,065,102	8,775,005
Total	<u>\$ 56,363,021</u>	<u>\$ 65,038,383</u>	<u>\$ 41,504,298</u>	<u>\$ 48,493,944</u>

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 3. Investments (Continued)

Investment return on these investments consists of the following for the years ended September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 1,748,289	\$ 1,329,502
Realized gains (losses), net	4,723,249	1,847,401
Unrealized gains (losses), net	4,122,899	582,650
Investment advisory and placement fees	<u>(235,504)</u>	<u>(217,755)</u>
	10,358,933	3,541,798
Less activity attributable to:		
Split interest agreements	(505,043)	(213,628)
Funds held for agencies	<u>(1,494,798)</u>	<u>(490,217)</u>
Investment returns	<u>\$ 8,359,092</u>	<u>\$ 2,837,953</u>

Note 4. Pledges Receivable

Pledges receivable consist of unconditional gifts and pledges made as of September 30, 2021 and 2020, that are expected to be collected in future years. All pledges are considered to be available for unrestricted use unless specifically restricted by the donor. Management reviews the pledges receivable and estimates the amount of pledges that are uncollectible.

Pledges receivable, net, are summarized as follows at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 61,427	\$ 35,417
One year to five years	<u>49,057</u>	<u>37,354</u>
	110,484	72,771
Less allowance for uncollectible pledges	<u>(1,375)</u>	<u>(1,375)</u>
	<u>\$ 109,109</u>	<u>\$ 71,396</u>

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 5. Property and Equipment

Property and equipment are carried at cost, if purchased, and appraisal value if donated. Purchased assets with a cost exceeding \$500 are generally capitalized. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, generally 5-7 years. Property and equipment consist of the following at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Office equipment and furniture	\$ 131,947	\$ 130,474
Less: accumulated depreciation	<u>(112,474)</u>	<u>(106,521)</u>
Property and equipment, net	<u>\$ 19,473</u>	<u>\$ 23,953</u>

Note 6. Grants Payable

The Foundation has committed to various grants to recipients through its grant-making process, including multi-year scholarships. Grants are expensed to operations and recognized as liabilities at the time the Board authorizes the expenditures, regardless of the year in which the grant is intended to be paid.

Grant commitments are expected to be paid as follows at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Less than one year	\$ 736,291	\$ 663,706
One to three years	<u>111,500</u>	<u>109,900</u>
	<u>\$ 847,791</u>	<u>\$ 773,606</u>

Note 7. Split Interest Agreements

The Foundation is named the beneficiary of three split-interest agreements; one charitable remainder trust and two charitable gift annuities. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term or designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are available for the Foundation's use. A charitable gift annuity is an arrangement between a donor and the Foundation in which the donor transfers assets to the Foundation in exchange for a contractual commitment by the Foundation to pay a fixed amount to the donor until the donor's death.

In the year a trust is established with the Foundation named as the charitable remainder beneficiary, the contribution revenue is reflected in the combined statement of activities and changes in net assets as an increase in net assets with donor restrictions. However, if the donor gives the Foundation the immediate right to use the assets received without restrictions, the contribution would be classified as an increase in net assets without donor restrictions. The contribution is recognized at the present value of the estimated future distributions the Foundation expects to receive upon termination of the agreement. There were no new agreements established during the years ended September 30, 2021 and 2020.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 7. Split Interest Agreements (Continued)

Assets held in the charitable remainder trusts totaled \$1,923,746 and \$1,597,640 and charitable gift annuities totaled \$29,854 and \$26,878 at September 30, 2021 and 2020, respectively, and are reported at their fair market value in the Foundation's statement of financial position. The Foundation revalues the split-interest agreement liabilities annually using discount rates based on life expectancy (4.0% and 3.5% at September 30, 2021 and 2020, respectively) and the applicable mortality tables. The present value of estimated future payments reflected on the statement of financial position as "split-interest agreement obligations" totaled \$1,060,641 and \$834,608 for the charitable remainder trust and \$29,854 and \$26,878 for the charitable gift annuities as of September 30, 2021 and 2020, respectively.

Note 8. Concentration of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk include cash, pledges receivable, and investments. The Foundation has significant amounts of cash equivalents that are not federally insured. However, the Foundation places cash and cash equivalents with high credit quality financial institutions. Likewise, those donors making pledges are generally credit-worthy individuals. Of the Foundation's balance in cash and cash equivalents at September 30, 2021 and 2020, \$74,385 and \$1,183,280, respectively, was not federally insured. The amount federally insured will fluctuate throughout the fiscal year. The Foundation's investments are managed by a financial advisory firm that follows the investment policy of the Foundation and whose performance is reviewed by the Investment Committee of the Board of Trustees on a periodic basis. Of the Foundation's market value of investments of \$65,038,383 and \$48,493,944 at September 30, 2021 and 2020, respectively, \$7,220,162 and \$6,079,972 was uninsured. The Foundation's financial advisory firm has obtained additional insurance for the investments held over and above federally insured limits which would have been otherwise uninsured, not including the uninsured portions previously noted.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 9. Transactions in Funds Held for Agencies

The financial effects of transactions related to agency funds are recorded as changes in the funds held for agencies liability and are not included in the combined statements of activities and changes in net assets. The changes in the liability are as follows for the fiscal years ended September 30, 2021 and 2020:

	2021			2020		
	Endowed	Nonendowed	Total	Endowed	Nonendowed	Total
Balance in agency fund, beginning of year	\$ 2,063,724	\$ 5,995,649	\$ 8,059,373	\$ 1,977,193	\$ 5,314,878	\$ 7,292,071
Additions						
Contributions	202,774	1,086,186	1,288,960	86,531	929,704	1,016,235
Investment gains	-	1,494,798	1,494,798	-	490,217	490,217
Total additions	202,774	2,580,984	2,783,758	86,531	1,419,921	1,506,452
Deductions						
Distributions - grants	-	(721,290)	(721,290)	-	659,579	659,579
Expenses and transfers	-	(87,953)	-87,953	-	79,571	79,571
Total deductions	-	(809,243)	(809,243)	-	739,150	739,150
Change in balance	202,774	1,771,741	1,974,515	86,531	680,771	767,302
Balance in agency fund, end of year	<u>\$ 2,266,498</u>	<u>\$ 7,767,390</u>	<u>\$ 10,033,888</u>	<u>\$ 2,063,724</u>	<u>\$ 5,995,649</u>	<u>\$ 8,059,373</u>

Note 10. Leases

The Foundation leases office space at a rate of \$5,000 per month through 2033. The Foundation paid \$60,000 related to this lease during the fiscal years ended September 30, 2021 and 2020. The Foundation is also liable for normal maintenance and cleaning. There is no provision for renewal.

Future rental payments required under this operating lease are as follows:

<u>Year Due September 30,</u>	<u>Amount</u>
2022	\$ 60,000
2023	60,000
2024	60,000
2025	60,000
2026	60,000
Thereafter	<u>420,000</u>
Total	<u>\$ 720,000</u>

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 11. Net Assets

Net assets are comprised as follows at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Designated for grants (donor-advised or discretionary)	\$ 4,906,821	\$ 2,479,981
Designated for operating reserve	731,649	650,035
Designated for endowment	1,388,557	1,223,137
Invested in property and equipment	19,473	23,953
Undesignated	<u>6,154</u>	<u>8,249</u>
Total without donor restrictions	<u>7,052,654</u>	<u>4,385,355</u>
With donor restrictions:		
Restricted for specified purpose	4,041,255	3,606,528
Restricted for endowments	42,400,263	32,580,324
Foundation's share of split-interest agreements restricted for endowments	<u>863,104</u>	<u>761,499</u>
Total with donor restrictions	<u>47,304,622</u>	<u>36,948,351</u>
Total net assets	<u>\$ 54,357,276</u>	<u>\$ 41,333,706</u>

The Foundation's endowment funds consist of approximately 543 individual funds that were established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees as quasi-endowment funds. As required by GAAP, net assets associated with endowment funds 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.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 11. Net Assets (continued)

Changes in endowment net assets for the year ended September 30, 2021 and 2020 are as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - beginning of year	\$ 1,348,329	\$ 36,624,844	\$ 37,973,173
Contributions	85,742	4,462,767	4,548,509
Investment return:			
Interest and dividends	36,017	1,368,847	1,404,864
Net appreciation (realized and unrealized)	199,517	6,589,896	6,789,413
Total investment return	235,534	7,958,743	8,194,277
Appropriation of endowment assets for expenditure	(165,732)	(1,959,102)	(2,124,834)
Revalue future distributions	-	(229,009)	(229,009)
Endowment net assets - end of year	<u>\$ 1,503,873</u>	<u>\$ 46,858,243</u>	<u>\$ 48,362,116</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - beginning of year	\$ 1,237,266	\$ 34,952,806	\$ 36,190,072
Contributions	103,559	801,369	904,928
Investment return:			
Interest and dividends	31,123	1,034,931	1,066,054
Net appreciation (realized and unrealized)	52,915	1,723,365	1,776,280
Total investment return	84,038	2,758,296	2,842,334
Appropriation of endowment assets for expenditure	(76,534)	(1,876,179)	(1,952,713)
Revalue future distributions	-	(11,448)	(11,448)
Endowment net assets - end of year	<u>\$ 1,348,329</u>	<u>\$ 36,624,844</u>	<u>\$ 37,973,173</u>

Included in endowment net assets without donor restrictions at September 30, 2021 and 2020, was \$1,114,503 and \$1,114,503, respectively, of board-designated endowments. Included in endowment net assets with donor restrictions is the Foundation's share of split-agreements valued at \$863,105 and \$761,499 as of September 30, 2021 and 2020, respectively.

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was enacted by the State of Michigan in 2009. As a result of this law, the corpus of endowment funds subject to UPMIFA is classified as net assets with donor restrictions. The corpus represents the fair value of the original gifts as of the gift date and all subsequent gifts where the donor has indicated the gift be retained in perpetuity. The Board of Trustees has determined that its donor-restricted endowment funds are subject to UPMIFA, while the quasi-endowment funds are not subject to UPMIFA because they were created by an action of the Board of Trustees from net assets free of donor restrictions.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 11. Net Assets (continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The Board of Trustees considers the same factors when deciding whether to spend from its quasi-endowment funds.

Strategies for Achieving Objectives

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The investment and spending policies work together to achieve this objective.

Investment Objectives

The current long-term return objective is a return of 6.40%, net of investment fees. Actual returns in any given year may vary from this amount. The expected return utilizes reasonable investment assumptions; however, a different set of assumptions could also be considered reasonable and result in varying expectations.

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

Spending Policy

The spending policy determines the amount of money annually appropriated from the Foundation's various endowed funds, for grant making and administration. The current spending policy makes available for disbursement 5% of the endowment principal market value from all endowed funds plus administrative fees which are not to exceed 2%. The distributable amount for each fund is determined using a twelve-quarter rolling average. This determination is based on each fund's market value as of September 30 of the preceding year for all funds, and is subject to the terms of each particular fund.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 11. Net Assets (continued)

Underwater Funds

From time to time, certain donor-restricted endowment funds may have fair values below historic gift value. In accordance with generally accepted accounting principles, deficiencies of this nature are reflected as net assets with donor restrictions on the accompanying statement of financial position. At September 30, 2021 and 2020, the Foundation had 6 and 13 endowment funds with deficiencies having an original fair value of \$762,312 and \$1,121,705 at the date of the gift, a current fair value of \$745,857 and \$1,001,057, and an underwater amount of \$16,455 and \$120,648, respectively.

Note 12. Fair Value Measurement

The Foundation's financial instruments consist primarily of cash and cash equivalents, investments, pledges receivable, and grants payable. The carrying amount of cash and cash equivalents, pledges receivable, and grants payable approximate their fair value due to the short-term nature of such instruments.

The carrying amount of investments, with the exception of the alternative investments, approximate fair values at September 30, 2021 and 2020 since the values are based on marketplace inputs at or near the date being valued.

The Foundation uses the following hierarchical disclosure framework:

Fair values determined by Level 1 inputs use quoted market prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In addition, under ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. There were no transfers between levels of the fair value hierarchy during the year ended September 30, 2021 or 2020.

The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at September 30, 2021 and 2020 and the valuation techniques used by the Foundation to determine those values.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 12. Fair Value Measurement (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2021

Assets	Balance at September 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Measured at Net Asset Value
Investments:					
Balanced funds	\$ 4,818,614	\$ 4,818,614	\$ -	\$ -	\$ -
Bond funds	11,162,101	11,162,101	-	-	-
International stock funds	8,658,996	8,658,996	-	-	-
US stock funds	30,239,378	30,239,378	-	-	-
Alternative investments:					
Hedge funds	6,674,392	-	-	-	6,674,392
Private equity	2,941,896	-	-	-	2,941,896
Private credit	543,006	-	-	-	543,006
Total investments at fair value	<u>\$ 65,038,383</u>	<u>\$ 54,879,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,159,294</u>
Liabilities					
Split interest agreements	<u>\$ 1,090,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,090,495</u>	<u>\$ -</u>

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2020

Assets	Balance at September 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Measured at Net Asset Value
Investments:					
Balanced funds	\$ 4,047,775	\$ 4,047,775	\$ -	\$ -	\$ -
Bond funds	7,988,880	7,988,880	-	-	-
International stock funds	4,476,928	4,476,928	-	-	-
Market linked notes	2,417,831	2,417,831	-	-	-
US stock funds	20,787,525	20,787,525	-	-	-
Alternative investments:					
Hedge funds	5,554,959	-	-	-	5,554,959
Private equity	2,615,511	-	-	-	2,615,511
Private credit	604,535	-	-	-	604,535
Total investments at fair value	<u>\$ 48,493,944</u>	<u>\$ 39,718,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,775,005</u>
Liabilities					
Split interest agreements	<u>\$ 861,486</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 861,486</u>	<u>\$ -</u>

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 12. Fair Value Measurement (continued)

Liabilities related to split interest agreements are categorized as Level 3 liabilities and consist of estimates of the fair values of amounts to be paid out under the agreements. The Foundation estimates the fair value of these liabilities, on a recurring basis, based upon unobservable inputs such as the present value of the expected future cash flows using management's best estimates of key assumptions including life expectancies of annuitants, payment periods, and a discount rate commensurate with the current market and other risks involved.

Alternative Investments

The Foundation is invested in alternative investments, which invest through fund managers and funds of fund managers. ASC 820 permits the Foundation to measure the fair value of these investments based on the net asset value per share as provided by the fund managers.

At September 30, 2021 and 2020, the fair value, unfunded commitments, and redemption rules of alternative investments are as follows:

	2021		2020		Redemption Frequency (If Eligible)	Redemption Notice Period
	Fair Value September 30, 2021	Unfunded Commitments	Fair Value September 30, 2020	Unfunded Commitments		
Hedge	\$ 6,674,392	\$ -	\$ 5,554,959	\$ -	Quarterly	45 days
Private Equity	2,941,896	947,100	2,615,511	1,090,600	N/A	N/A
Private Credit	543,006	287,125	604,535	287,125	Quarterly	65 - 95 days
Total	<u>\$ 10,159,294</u>	<u>\$ 1,234,225</u>	<u>\$ 8,775,005</u>	<u>\$ 1,377,725</u>		

The distributions period of non-redeemable investments from the liquidation of underlying assets is estimated to be between three and ten years, depending on the close of the open investment period and actual holding periods.

The hedge category includes investments in fund of funds that invest with fund managers that deploy both long- and short-term strategies in U.S. and global common stocks. Management of the underlying hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments provided by the fund managers.

The private equity and private credit categories include venture capital and private equity funds that invest in both domestic and foreign private equity and venture capital firms. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. The fair values of the investments in this category have been estimated using the net asset value per share of the investments as provided by the fund managers.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 13. Liquidity and Availability of Resources

The Foundation has a goal to maintain financial assets, which consist of cash, cash equivalents, and short-term investments, to meet normal operating expenses, grants, scholarships and projects expenses. The Foundation has a cash target range of 0% to 10% in its investment policy statement, with a target of 5%, to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due.

The Foundation's financial assets available for general use expenditures within one year of September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Total assets at year-end	\$ 66,334,779	\$ 51,032,158
Less amounts not available for general expenditures within one year:		
Pledges receivable to be collected after one year	49,057	37,354
Property and equipment	19,473	23,953
Grants payable to be paid after one year	(111,500)	(109,900)
Funds held for other agencies	10,033,888	8,059,373
Split-interest agreement obligations	1,090,495	861,486
Board-designated endowments	1,114,503	1,114,503
Assets with donor restrictions	<u>47,304,622</u>	<u>36,948,351</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,834,241</u>	<u>\$ 4,097,038</u>

Note 14. Pension Plan

The Foundation has a SIMPLE retirement plan and contributes up to 3% of a participating employee's gross wage. For the years ended September 30, 2021 and 2020, pension expense was \$10,522 and \$9,405, respectively.

Note 15. Intentions to Give

The Foundation has received indications of gifts in the form of bequests, which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, the Foundation has not recognized an asset or contribution revenue for these gifts. The Foundation is unable to estimate the amount of future gifts at this time.

Note 16. Subsequent Events

The Foundation evaluated its September 30, 2021 combined financial statements for subsequent events through March 11, 2022, which represents the date which the financial statements were available to be issued.

Community Foundation for Northeast Michigan and Affiliates

Notes to Combined Financial Statements

Note 16. Subsequent Events (continued)

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a “Public Health Emergency of International Concern.” The pandemic continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The financial market volatility is of special concern to the Foundation, due to the large percentage of assets that are invested in the market. In Michigan, the coronavirus outbreak and government responses are creating disruption in employment and adversely impacting many industries, adding uncertainty to the community’s capacity for charitable giving while increasing basic community needs. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Foundation, its investment performance, and its overall financial results.

AUDIT COMMUNICATIONS

Board of Trustees, Finance and Audit Committee, and Management
Community Foundation of Northeast Michigan
100 N. Ripley, Suite F
Alpena, MI 49707

We have audited the financial statements of the Community Foundation of Northeast Michigan (the “Foundation”) for the year ended December 31, 2021, and have issued our report thereon dated March 11, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 12, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 2 to the financial statements. As described in Note 2, the Foundation changed accounting policies related to revenue from contracts with customers by adopting FASB Accounting Standard Update (ASU) No. 606 *Revenue from Contracts with Customers* in 2021. The impact from the adoption of ASU No. 606 had minimal impact on the Foundation. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management’s estimate of inputs used to calculate the fair value of alternative investments and split-interest agreements.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 3 – investments and Note 7 – split-interest agreements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has approved the adjusting journal entries and they are reflected in the audited financial statements for the year ended September 30, 2021.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 11, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters - New Accounting Pronouncements

ASU No. 2016-02 Leases (issued February, 2016). Effective for the Foundation's fiscal year end September 30, 2023.

The FASB issued this Standard to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. This will require organizations to recognize the rights and obligations resulting from leases as assets and liabilities directly on their financial statements.

Statement on Auditing Standards (SAS) No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements. (issued May, 2019). Effective for the Foundation's fiscal year end September 30, 2022.

The standard will significantly alter the content and layout of the auditor's report. SAS No. 134 will place the auditor's opinion at the front of the report to highlight the auditor's opinion and the responsibilities of both entity management and auditors. Additionally, the standard addresses the auditor's responsibility to communicate key audit matters (KAMs) in the auditor's report, when the auditor is engaged to do so. However, the communication of KAMs is not mandated.

This information is intended solely for the use of the Board of Trustees, Finance and Audit Committee and Management of the Community Foundation of Northeast Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the opportunity to serve the Community Foundation of Northeast Michigan. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley Kamp & Kraenzlein P.C.

March 11, 2022