

Petoskey-Harbor
Springs Area
Community
Foundation



Petoskey-Harbor Springs Area
community foundation

Year Ended
March 31,
2026

Financial
Statements

Rehmann

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements for the Year Ended March 31, 2026	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITORS' REPORT

July 22, 2026

Board of Directors
Petoskey-Harbor Springs Area Community Foundation
Petoskey, Michigan

Opinion

We have audited the financial statements of ***Petoskey-Harbor Springs Area Community Foundation*** (the "Foundation"), which comprise the statement of financial position as of March 31, 2026, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Petoskey-Harbor Springs Area Community Foundation as of March 31, 2026, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Restatement

As described in Note 10 to the financial statements, net assets as of April 1, 2025 have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Responsibilities 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 the Foundation's ability to continue as a going concern for 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Statement of Financial Position

March 31, 2026

ASSETS

Assets

Cash and cash equivalents	\$ 7,710,895
Certificates of deposit	477,748
Investments	61,256,935
Loans receivable, net	473,539
Prepaid expenses	27,030
Net operating lease right-of-use asset	249,500
Furniture and equipment, net	12,892
Total assets	\$ 70,208,539

LIABILITIES AND NET ASSETS

Liabilities

Grants payable	\$ 8,191
Operating lease obligation	251,326
Charitable gift annuities	128,438
Funds held as agency endowments	11,627,648
Total liabilities	12,015,603

Net assets

Without donor restrictions	
Undesignated	257,902
Board designated, other	2,418,737
Board designated, endowment	7,724,532
Total without donor restrictions	10,401,171
With donor restrictions	47,791,765
Total net assets	58,192,936
Total liabilities and net assets	\$ 70,208,539

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

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Statement of Activities

Year Ended March 31, 2026

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues and gains (losses)			
Contributions	\$ 1,634,976	\$ 6,324,261	\$ 7,959,237
Less contributions received for agency endowments	(945,672)	-	(945,672)
Interest income	7,435	-	7,435
Investment return, net	1,917,922	6,629,654	8,547,576
Less investment return, net, for agency endowments	(865,469)	-	(865,469)
Change in value of charitable gift annuities	(24,061)	-	(24,061)
Agency endowments administration fees	63,102	-	63,102
Net assets released from restrictions	5,168,366	(5,168,366)	-
Total support, revenues and gains (losses)	6,956,599	7,785,549	14,742,148
Expenses			
Program services	5,584,438	-	5,584,438
Less grants related to agency endowments	(59,480)	-	(59,480)
Total program services	5,524,958	-	5,524,958
Supporting services			
General and administrative	548,876	-	548,876
Fundraising	137,657	-	137,657
Total supporting services	686,533	-	686,533
Total expenses	6,211,491	-	6,211,491
Change in net assets	745,108	7,785,549	8,530,657
Net assets, beginning of year, as restated (Note 10)	9,656,063	40,006,216	49,662,279
Net assets, end of year	\$ 10,401,171	\$ 47,791,765	\$ 58,192,936

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

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Statement of Functional Expenses

Year Ended March 31, 2026

	Program Services	Supporting Services			Combined Total
		General and Administrative	Fundraising	Total Supporting Services	
Grants and scholarships	\$ 5,294,420	\$ -	\$ -	\$ -	\$ 5,294,420
Salaries and wages	131,087	252,087	86,625	338,712	469,799
Training	86,735	-	-	-	86,735
Employee benefits	51,055	30,722	4,760	35,482	86,537
Computer and website	-	83,027	-	83,027	83,027
Occupancy	-	72,451	-	72,451	72,451
Office	4,608	28,664	8,787	37,451	42,059
Payroll taxes	10,580	20,346	6,992	27,338	37,918
Meetings and education	4,533	15,258	11,568	26,826	31,359
Professional fees	-	18,612	-	18,612	18,612
Travel	1,420	3,964	6,300	10,264	11,684
Insurance	-	8,495	-	8,495	8,495
Printing and publishing	-	-	6,582	6,582	6,582
Public relations	-	-	4,654	4,654	4,654
Bank service fees	-	4,217	-	4,217	4,217
Property taxes	-	2,100	1,389	3,489	3,489
Architectural costs	-	2,866	-	2,866	2,866
Telephone	-	2,629	-	2,629	2,629
Interest	-	2,105	-	2,105	2,105
Depreciation	-	1,333	-	1,333	1,333
Total	5,584,438	548,876	137,657	686,533	6,270,971
Less grant expenses for agency endowments	(59,480)	-	-	-	(59,480)
Total expenses	\$ 5,524,958	\$ 548,876	\$ 137,657	\$ 686,533	\$ 6,211,491

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

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Statement of Cash Flows

Year Ended March 31, 2026

Cash flows from operating activities

Change in net assets	\$ 8,530,657
Adjustments to reconcile change in net assets to net cash from operating activities	
Contributions restricted for permanent endowments	(437,678)
Depreciation	1,333
Non-cash lease expense	39,405
Change in present value discount of loans receivable	(5,810)
Change in value of charitable gift annuities	24,061
Net of unrealized and realized gain on investments	(3,991,274)
Changes in operating assets and liabilities which provided (used) cash	
Promises to give	253,779
Grants payable	(2,175,573)
Refundable advances on conditional contributions	(86,735)
Operating lease obligation	(38,707)
Funds held as agency endowments	1,875,026

Net change in cash from operating activities **3,988,484**

Cash flows from investing activities

Purchase of furniture and equipment	(3,500)
Redemption of certificates of deposit	132,044
Issuance of loans receivable	(40,000)
Purchases of investments	(71,405,312)
Proceeds from sale of investments	68,234,771

Net change in cash from investing activities **(3,081,997)**

Cash flows from financing activities

Collection of contributions restricted for permanent endowments	437,678
Payments to annuitants	(25,355)

Net change in cash from financing activities **412,323**

Net change in cash and cash equivalents **1,318,810**

Cash and cash equivalents, beginning of year 6,392,085

Cash and cash equivalents, end of year **\$ 7,710,895**

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

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

1. NATURE OF ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Petoskey-Harbor Springs Area Community Foundation (the "Foundation"), a Michigan not-for-profit corporation, was incorporated December 20, 1991. The purpose of the Foundation is to operate a collection of funds, including endowment funds, to support charitable organizations and activities in the Petoskey-Harbor Springs and the northwestern Michigan area.

Basis of Presentation

Net assets, support, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and are not subject to donor (or certain grantor) restrictions. The Foundation has board-designated net assets, which are net assets without donor restrictions that have been set aside for specific purposes by the Board as described in Note 6.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both (See Note 7).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting year. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, and deposits in money market funds with original maturities when purchased of less than three months. The Foundation maintains its deposits in amounts which, at times, may exceed federally insured limits, in one local financial institution. Management does not believe the Foundation is exposed to any significant interest rate, credit or other financial risk as a result of these deposits.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Investment return, including realized and unrealized gains and losses on investments, are reflected in the statement of activities and are reported net of external investment expenses.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in these financial statements.

Certificates of deposit are carried at amortized cost and had maturity dates of greater than three months when purchased. Certificates of deposit are maintained with financial institutions with high credit ratings and may from time exceed FDIC insurance limits. The Foundation has not experienced any credit losses and does not believe it is exposed to any significant credit loss on these certificates of deposit.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: This level is defined as observable inputs, such as quoted prices in active markets for identical assets and liabilities.
- Level 2: This level is defined as observable inputs other than Level 1 prices for similar assets or liabilities, such as quoted prices in active markets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: This level is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own valuation methodology and assumptions.

See Note 3 for additional information regarding fair value measurements.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

Loans Receivable

Loans receivable are reported at their outstanding principal balance, and consists of amounts loaned to other organizations for community projects and community developments. The Foundation has an application process where credit quality information is collected and receives information as to how the borrower intends to repay the loan. Management estimates an allowance for expected credit losses based on its assessment of the current status of individual accounts, current market conditions and forecasted economic and business environments. Amounts that are deemed to be uncollectible after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to loans receivable. At March 31, 2026, management has evaluated the credit risk related to these loans, and has determined an allowance is not necessary.

Furniture and Equipment and Depreciation

Furniture and equipment are carried at cost, less accumulated depreciation. Donated property and equipment is recorded at fair value at the date of donation. Donations are reported as support without donor restriction unless the donor has restricted the use of the donated asset to a specific purpose. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 15 years. Accumulated depreciation was \$41,824 as of March 31, 2026.

Concentrations

A donation from one donor approximated 24% of total contributions in 2026. There were no promises to give relating to this donor as of March 31, 2026.

Funds Held as Agency Endowments

The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, reports the funds as assets of the Foundation. A liability has been established for 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 organizations that are the ultimate recipients and establishes the funds. All asset transfers of this type and the activity associated with those assets are recognized as agency transactions in the financial statements. In order to present the full scope of the Foundation's operations, the Foundation includes the activity (i.e., contributions, net investment income, and grants related to such transactions) in its statement of activities and then separately presents the respective agency activity as a reduction thereof. In the statement of financial position, the assets held on behalf of the nonprofit organization are included in investments, and the related liability to the nonprofit organization is classified as funds held as agency endowments. These assets are managed in accordance with the same investment and spending policies as the Foundation's other endowment funds.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

Contributions and Unconditional Promises to Give

Contributions are recognized as support in the period the unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and right of return or right of release - are not recognized until the conditions on which they depend on have been met. Contributions of nonfinancial assets are recognized at their estimated fair value. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose 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.

The Foundation records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Allowance for uncollectible promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible.

Conditional contributions are not recognized as support until the barriers are overcome by the Foundation. As of March 31, 2026, there were no conditional contributions to the Foundation.

Charitable Gift Annuities

A charitable gift annuity is a contract between the Foundation and a donor in which the Foundation agrees to pay the donor (or other person named by the donor) a lifetime annuity in return for the gift. Contribution revenue is recorded upon execution of an annuity contract at an amount less the present value of estimated future payments to the annuity's beneficiary. The present value of these future payments is recorded as a liability. Each year, the liability is re-measured, and changes in the liability due to factors other than cash payments, such as changing life expectancies and interest rates, are recorded as an increase or a decrease to net support, revenues and gains (losses). The discount factor ranged from 2.5 to 8.7 percent interest rate as of March 31, 2026.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on the functional basis in the statement of activities. The statement of functional expenses presents expenses by function and nature classification. Expenses directly attributable to a specific program of the Foundation are reported as expenses in those functional areas. Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Salaries and wages, payroll taxes, employee benefits, printing and publishing, office expenses, meetings and education, travel, and public relations, all of which are allocated on the basis of estimates of time and effort. Other expenses are allocated based on estimates of usage. Although the methods of allocation are considered reasonable, other methods could be used that would produce different amounts.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

Grants

Unconditional grants and scholarships are recorded as an expense when they are awarded. Grant and scholarship awards that are conditional in nature are not recorded as expenses until the condition has been satisfied. Payments made in advance to charitable organizations or students for which conditions have not yet been satisfied are classified as refundable advances from grant and scholarship recipients in the statement of financial position. There are no conditional grants payable as of March 31, 2026.

Leases

The Foundation determines if an arrangement is a lease at inception and considers classification of leases as operating or finance. Operating leases are included in net operating lease right-of-use ("ROU") asset and operating lease obligation on the Foundation's statement of financial position. The Foundation does not have any finance leases.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Foundation's leases do not provide an implicit rate, the Foundation uses the risk free rate based on the information available at commencement date in determining the present value of future payments. The Foundation's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

The Foundation has elected to exclude short-term leases from the recognition requirements of Accounting Standards Codification ("ASC") 842, *Leases*. A lease is short-term if, at the commencement date, it has a term of less than or equal to one year. Lease expense related to short-term leases is recognized on a straight-line basis over the lease term.

Management reviews these ROU assets for impairment whenever events or circumstances indicate that their carrying values may not be fully recoverable.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Foundation was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." The Foundation has been classified as not a private foundation.

Management has analyzed the Foundation's income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, for all open tax years in these jurisdictions, to identify potential uncertain tax positions.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

The Foundation has evaluated its income tax filing positions for fiscal years 2023 through 2026, the years which remain subject to examination as of March 31, 2026. The Foundation concluded that there are no significant uncertain tax positions requiring recognition in the financial statements. The Foundation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at March 31, 2026, and is not aware of any claims for such amounts by federal or state income tax authorities.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to the most recent statement of financial position presented herein, through the date these financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for grants and other expenses, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position as of March 31, 2026 comprise the following:

Financial assets

Cash and cash equivalents	\$ 7,710,895
Certificates of deposit	477,748
Investments	61,256,935
Current portion of loans receivable	<u>340,000</u>

Subtotal	69,785,578
-----------------	-------------------

Less amounts not available for general expenditures within one year

Net assets with donor restrictions	\$ (47,791,765)
Board designated, endowment less \$583,598 approved for appropriation in 2027	(7,140,934)
Board designated, other	<u>(2,418,737)</u>

Total financial assets available for general use within one year

\$ 12,434,142

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of weekly requirements in lower risk liquid short-term investments. The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Foundation's investments are subject to an investment policy to manage risk and maximize return on funds not required for operations.

The board-designated endowment less amounts approved for appropriation of \$7,140,934 at March 31, 2026 is subject to an annual spending rate as described in Note 8. Although the Foundation does not intend to spend from board-designated funds (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

3. INVESTMENTS AND FAIR VALUE MEASUREMENT

The Foundation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments and charitable gift annuity obligations held by the Foundation are recorded at fair value on a recurring basis.

Following is a description of the valuation methodologies and key inputs used to measure assets and liabilities recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets and liabilities are classified.

Money market mutual funds and mutual funds: valued at quoted market prices that represent the net asset value ("NAV") of shares held by the fund at year end and are classified as Level 1. These funds are required to publish their daily NAV and to transact at that price. The money market mutual funds and mutual funds held by the Foundation are deemed to be actively traded, and are classified as Level 1.

Exchange traded funds: fair value measurement is based upon the closing price reported on the active market in which the securities are traded, and are classified as Level 1.

Charitable gift annuities: held at NAV, which represents the value of underlying assets in the annuity's investment portfolio, minus any liabilities, and is calculated daily. The NAV is used as a practical expedient to estimate fair value, and are classified as Level 3. The liability is re-measured, and changes in the liability due to factors other than cash payments, such as changing life expectancies and interest rates, are recorded as an increase or a decrease to net support, revenues and gains (losses). The discount factor ranged from 2.5 to 8.7 percent interest rate as of March 31, 2026.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets and liabilities measured at fair value on a recurring basis:

March 31, 2026	Level 1	Level 2	Level 3	Total
Investments and cash equivalents at fair value				
Investments				
Mutual funds	\$ 59,448,342	\$ -	\$ -	\$ 59,448,342
Exchange traded funds	<u>1,808,593</u>	<u>-</u>	<u>-</u>	<u>1,808,593</u>
Total investments	61,256,935	-	-	61,256,935
Cash equivalents				
Money market mutual funds	<u>110,752</u>	<u>-</u>	<u>-</u>	<u>110,752</u>
Total investments and cash equivalents at fair value	<u>\$ 61,367,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,367,687</u>
Liabilities				
Charitable gift annuities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,438</u>	<u>\$ 128,438</u>

The activity of the Level 3 liabilities were as follows for the year ended March 31, 2026:

Beginning balance	\$ 129,732
Payments to beneficiaries	(25,355)
Change in valuation of obligations under gift annuities	<u>24,061</u>
Total charitable gift annuities	<u>\$ 128,438</u>

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

4. LOANS RECEIVABLE

Loans receivable, net, consist of the following at March 31, 2026:

Program related investment loan of \$150,000 to a not-for-profit organization, at an annual interest rate of 1%, repayable by January 2029.	\$ 133,539
Program related investment loan of \$300,000 to a not-for-profit organization, only subject to a 0.5% administrative fee, repayable by August 2026.	300,000
Program related investment loan of \$40,000 to a not-for-profit organization, at an annual interest rate of 1%, repayable by December 2026.	<u>40,000</u>
Total loans receivable, net	<u>\$ 473,539</u>

Scheduled maturities of loans receivable for each of the future years succeeding March 31, 2026:

Year	Amount
2027	\$ 340,000
2028	-
2029	<u>133,539</u>
Total	<u>\$ 473,539</u>

5. LEASES

The Foundation has an operating lease agreement for office space. The lease expires at the end of March 2032. Net lease costs were composed entirely of operating lease costs totaling \$45,702 for the year ended March 31, 2026 and are included in occupancy expenses on the schedule of functional expenses.

The following table summarizes other information related to the Foundation's lease during the year ended March 31, 2026:

Cash paid for amounts included in the measurement of lease obligation	
Operating cash flows from operating lease	\$ 45,000
Operating lease modification	\$ 119,454
Remaining lease term	
operating lease (in years)	6.01
Discount rate	
operating lease	3.73%

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

The following table presents a maturity analysis summary of the Foundation's lease obligation recorded on the statement of financial position at March 31, 2026:

Year	Operating Lease
2027	\$ 34,594
2028	46,125
2029	46,125
2030	46,990
2031	47,278
Thereafter	<u>59,097</u>
Total lease payments	280,209
Less discount to present value	<u>(28,883)</u>
Total lease obligation	<u>\$ 251,326</u>

6. BOARD DESIGNATED NET ASSETS

Board designated net assets are designated for the following purpose at March 31, 2026:

Board designated other	
Emergency response	\$ 84,000
Emmet housing solutions	306,266
Impact investing	704,061
Grants	843,705
Operating	<u>480,705</u>
Total board designated other	<u>\$ 2,418,737</u>
Board designated endowments	
Administrative	\$ 2,588,193
Essential needs	436,882
Funds for the community	2,378,371
Funds for youth	1,918,488
Healthy community fund	57,510
Shoreline fund	54,127
United Way Health and Human Service Fund	143,095
Other	<u>147,866</u>
Board designated endowments	<u>\$ 7,724,532</u>

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purpose at March 31, 2026:

Endowments - subject to endowment spending policy and appropriation	\$ 32,037,160
Restricted for specified purposes - grants	<u>15,754,605</u>
Total net assets with donor restrictions	<u>\$ 47,791,765</u>

Net assets were released from donor restrictions in the amount of \$5,168,366 based on funds appropriated for expenditure in accordance with donor intent and from accumulated earnings on endowments in accordance with the Foundation's spending policy for the year ended March 31, 2026.

8. ENDOWMENTS

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. 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.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("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. As a result of this interpretation, the Foundation classifies within net assets with donor restrictions in perpetuity (a) the historical dollar value of gifts donated to the endowment, (b) the historical dollar value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. Management has determined that the Foundation's net assets meet the definition of endowment funds under UPMIFA.

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

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- Current investment policies

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

Return Objective and Risk Parameters

It is the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return. To achieve that objective, the Foundation has adopted an investment policy that attempts to maximize total return, without an undue exposure to risk. Endowments are invested in a well- diversified asset mix, which includes equity, fixed income, and cash assets. The Foundation expects its endowment assets, over time, to produce an average rate of return that exceeds the Consumer Price Index by at least 6 percentage points. Actual return in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund: investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

Distributions from the endowment are determined annually for the subsequent calendar year by the Board of Directors of the Foundation. The Foundation has a policy of appropriating for expenditure each year up to 5 percent of its endowment fund's average fair value over the trailing 12 previous calendar quarters for the current fiscal year. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation's policy is to not spend from underwater endowments. The Foundation has no underwater endowment funds at March 31, 2026.

The summary of changes in endowment net assets for the year ended March 31, 2026 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year (as restated)	\$ 6,720,007	\$ 28,439,618	\$ 35,159,625
Investment return, net	1,105,307	4,805,825	5,911,132
Contributions	163,823	437,678	601,501
Amounts appropriated for expenditure	(264,605)	(1,645,961)	(1,910,566)
Endowment net assets, end of year	\$ 7,724,532	\$ 32,037,160	\$ 39,761,692

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

Endowment net assets composition by type of fund as of March 31, 2026:

Board designated endowment funds	\$ 5,640,268
Accumulated investment earnings	<u>2,084,264</u>
Total board designated endowment funds	<u>7,724,532</u>
Endowment funds with donor restrictions	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	21,078,344
Accumulated investment earnings	<u>10,958,816</u>
Total endowment funds with donor restrictions	<u>32,037,160</u>
Total endowment funds	<u>\$ 39,761,692</u>

The Foundation maintains separate accounting records for each of the individual established endowment funds. These funds have been combined for presentation purposes. These net assets are classified as net assets with donor restrictions and without donor restrictions and the Board of Directors makes every effort to comply with the donors' instructions. The funds are of various types reflecting the wishes of the donors who have established or contributed to them and consist of the following:

Discretionary Funds – These funds have no suggested distribution restrictions. The Board allocates these funds in making distributions for charitable purposes to meet community needs.

Field-of-Interest Funds – These funds establish support in a particular area of interest including short-term special project funds.

Advised Funds – These funds provide the donor with the ability to recommend grants for distribution and are approved by the Board.

Scholarship Funds – These funds provide scholarship awards to benefit a certain type of student, a specific institution, or a particular field of study.

Operating Funds – Operating funds are used to support the operational expenses of the Foundation.

9. RETIREMENT PLAN

The Foundation participates in a 403(b) tax sheltered annuity plan for the benefit of qualifying employees. The Foundation contributes an amount established by the Board of Directors annually. Employees receive immediate vesting rights upon entry into the plan. Retirement expense for this plan was \$34,765 in 2026.

PETOSKEY-HARBOR SPRINGS AREA COMMUNITY FOUNDATION

Notes to Financial Statements

10. RESTATEMENT

In 2026, the Foundation restated its April 1, 2025 net assets from previously issued 2025 financial statements to reclassify net assets due to a revised interpretation of donor restrictions. The following is a summary of the effects of the above restatement on the 2026 financial statements:

	As Originally Reported	Corrective Effect of Restatement	As Restated
Statement of Activities			
Net assets without donor restrictions at April 1, 2025	\$ 28,359,347	\$ (18,703,284)	\$ 9,656,063
Net assets with donor restrictions at April 1, 2025	\$ 21,302,932	\$ 18,703,284	\$ 40,006,216

There was no impact to total net assets as of April 1, 2025.

■ ■ ■ ■ ■