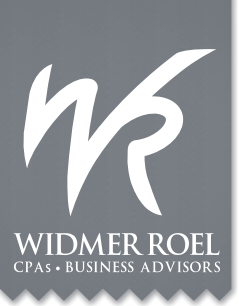


**FARGO-MOORHEAD AREA  
FOUNDATION CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**WITH INDEPENDENT AUDITOR'S REPORT**



4220 31st Avenue S.  
Fargo, ND 58104-8725

Phone: 701.237.6022  
Toll Free: 888.237.6022  
Fax: 701.280.1495

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
**Fargo-Moorhead Area Foundation Corporation**  
Fargo, North Dakota

### *Opinion*

We have audited the consolidated financial statements of **Fargo-Moorhead Area Foundation Corporation** (a North Dakota non-profit organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Fargo-Moorhead Area Foundation Corporation** as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Fargo-Moorhead Area Foundation Corporation**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Fargo-Moorhead Area Foundation Corporation's** ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

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



Fargo, North Dakota  
August 31, 2023

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****DECEMBER 31, 2022 AND 2021**

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,525,684	\$ 1,592,930
Current portion of unconditional promises to give	213,298	213,298
Interest, contributions, and grants receivable	74,548	72,733
Current portion of notes receivable	77,522	35,526
Prepaid expenses	30,157	-
Other receivables	6,798	-
	1,928,007	1,914,487
Total current assets		
	1,928,007	1,914,487
<b>PROPERTY AND EQUIPMENT, net</b>	515,998	546,703
	515,998	546,703
<b>OTHER ASSETS</b>		
Unconditional promises to give, net	754,478	956,238
Notes receivable, net of current portion	557,271	349,755
Assets held in charitable remainder trusts	1,054,301	1,377,258
Investments	93,014,406	117,558,883
Cash surrender value of life insurance	895,983	936,396
Assets held for sale	-	355,000
	96,276,439	121,533,530
Total other assets		
	96,276,439	121,533,530
Total assets	\$ <u>98,720,444</u>	\$ <u>123,994,720</u>

<b>LIABILITIES AND NET ASSETS</b>	<b>2022</b>	<b>2021</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ -	\$ 11,624
Accrued payroll	11,511	9,513
Grants payable	31,180	1,000
Current portion of liabilities under charitable remainder trusts	73,917	102,887
Funds held as agency endowments	1,297,689	1,558,545
Scholarship payable	-	5,243
	<u>1,414,297</u>	<u>1,688,812</u>
<b>LIABILITIES UNDER CHARITABLE REMAINDER TRUSTS, net of current portion</b>		
	<u>360,517</u>	<u>564,226</u>
Total liabilities	<u>1,774,814</u>	<u>2,253,038</u>
<b>NET ASSETS</b>		
Without donor restrictions		
Discretionary	4,823,040	5,889,027
Designated	21,084,769	25,489,457
Donor advised	38,929,215	54,234,179
Organizational	1,287,140	1,904,062
Field of interest	5,782,500	7,705,722
Scholarship	8,026,624	10,303,074
With donor restrictions	<u>17,012,342</u>	<u>16,216,161</u>
Total net assets	<u>96,945,630</u>	<u>121,741,682</u>
Total liabilities and net assets	<u>\$ 98,720,444</u>	<u>\$ 123,994,720</u>

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 2,117,131	\$ 1,431,096	\$ 3,548,227
Net investment return	(17,877,020)	(361,091)	(18,238,111)
Royalty income	320,933	-	320,933
Change in cash surrender value of life insurance, net of premiums paid	-	(40,413)	(40,413)
Net assets released from restrictions	<u>233,411</u>	<u>(233,411)</u>	<u>-</u>
 Total support and revenue	 <u>(15,205,545)</u>	 <u>796,181</u>	 <u>(14,409,364)</u>
<b>EXPENSES</b>			
Program services expense			
Grants and scholarships	9,237,095	-	9,237,095
Community programs	<u>453,490</u>	<u>-</u>	<u>453,490</u>
 Total program services expenses	 <u>9,690,585</u>	 <u>-</u>	 <u>9,690,585</u>
Supporting services expense			
Management and general	526,653	-	526,653
Fundraising and development	<u>169,450</u>	<u>-</u>	<u>169,450</u>
 Total supporting services expenses	 <u>696,103</u>	 <u>-</u>	 <u>696,103</u>
 Total expenses	 <u>10,386,688</u>	 <u>-</u>	 <u>10,386,688</u>
 <b>CHANGE IN NET ASSETS</b>	 <u>(25,592,233)</u>	 <u>796,181</u>	 <u>(24,796,052)</u>
 <b>TOTAL NET ASSETS, Beginning of year</b>	 <u>105,525,521</u>	 <u>16,216,161</u>	 <u>121,741,682</u>
 <b>TOTAL NET ASSETS, End of year</b>	 <u>\$ 79,933,288</u>	 <u>\$ 17,012,342</u>	 <u>\$ 96,945,630</u>

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 17,049,005	\$ 647,797	\$ 17,696,802
Net investment return	10,996,427	277,926	11,274,353
Royalty income	183,190	-	183,190
Change in cash surrender value of life insurance, net of premiums paid	-	(27,379)	(27,379)
Net assets released from restrictions	1,618,869	(1,618,869)	-
Net assets reclassified as restricted - Note 1	<u>(12,683,590)</u>	<u>12,683,590</u>	<u>-</u>
 Total support and revenue	 <u>17,163,901</u>	 <u>11,963,065</u>	 <u>29,126,966</u>
<b>EXPENSES</b>			
Program services expense			
Grants and scholarships	11,347,625	-	11,347,625
Community programs	<u>566,074</u>	<u>-</u>	<u>566,074</u>
 Total program expenses	 <u>11,913,699</u>	 <u>-</u>	 <u>11,913,699</u>
Supporting services expense			
Management and general	525,416	-	525,416
Fundraising and development	<u>176,131</u>	<u>-</u>	<u>176,131</u>
 Total supporting services expenses	 <u>701,547</u>	 <u>-</u>	 <u>701,547</u>
 Total expenses	 <u>12,615,246</u>	 <u>-</u>	 <u>12,615,246</u>
 <b>CHANGE IN NET ASSETS</b>	 4,548,655	 11,963,065	 16,511,720
 <b>TOTAL NET ASSETS, Beginning of year</b>	 <u>100,976,866</u>	 <u>4,253,096</u>	 <u>105,229,962</u>
 <b>TOTAL NET ASSETS, End of year</b>	 <u>\$ 105,525,521</u>	 <u>\$ 16,216,161</u>	 <u>\$ 121,741,682</u>

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Grants and Scholarships</u>	<u>Community Programs</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	
Salaries	\$ -	\$ 136,698	\$ 333,697	\$ 82,816	\$ 553,211
Employee benefits	-	37,722	92,085	22,853	152,660
Payroll tax	-	9,036	22,059	5,475	36,570
Advertising	-	-	3,085	10,318	13,403
Bank fees	-	585	195	-	780
Board expenses	-	4,472	2,236	2,236	8,944
Caring catalog expense	-	-	-	18,370	18,370
Community sponsorships	-	12,594	-	-	12,594
Credit card fees	-	3,152	-	-	3,152
Depreciation	-	31,865	10,622	-	42,487
Development events	-	-	-	9,321	9,321
Dues and memberships	-	11,055	3,685	-	14,740
Equipment lease	-	678	226	-	904
Equipment maintenance	-	1,173	391	-	1,564
Fiscal sponsorship expense	-	66,364	-	-	66,364
Foundation event expense	-	2,280	-	6,841	9,121
Grants	8,931,264	-	-	-	8,931,264
Grounds maintenance	-	8,472	2,824	-	11,296
Insurance	-	5,892	1,964	-	7,856
Janitorial service	-	4,634	1,545	-	6,179
Local meeting	-	2,794	1,397	1,397	5,588
Maintenance expense	-	43,442	14,481	-	57,923
Nonprofit activities	-	3,565	-	-	3,565
Office equipment	-	3,024	1,008	-	4,032
Postage	-	2,006	669	-	2,675
Printing	-	1,996	-	2,842	4,838
Professional fees	-	12,862	16,716	800	30,378
Scholarships	305,831	-	-	-	305,831
Subscriptions	-	2,245	748	-	2,993
Supplies	-	4,282	1,427	-	5,709
Telephone	-	7,132	2,377	-	9,509
Travel expense	-	12,363	6,181	6,181	24,725
Utilities	-	4,117	1,372	-	5,489
Website expenses	-	16,990	5,663	-	22,653
Total expenses by function	\$ <u>9,237,095</u>	\$ <u>453,490</u>	\$ <u>526,653</u>	\$ <u>169,450</u>	\$ <u>10,386,688</u>



**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Program Services		Supporting Services		Total
	Grants and Scholarships	Community Programs	Management and General	Fundraising and Development	
Salaries	\$ -	\$ 151,367	\$ 338,725	\$ 93,212	\$ 583,304
Employee benefits	-	43,450	97,231	26,756	167,437
Payroll tax	-	10,286	23,021	6,336	39,643
Advertising	-	-	2,564	7,304	9,868
Bank fees	-	674	225	-	899
Board expenses	-	12,294	6,148	6,148	24,590
Caring catalog expense	-	-	-	18,336	18,336
Community sponsorships	-	13,802	-	-	13,802
Credit card fees	-	4,397	-	-	4,397
Depreciation	-	34,336	11,446	-	45,782
Development events	-	-	-	2,757	2,757
Dues and memberships	-	10,744	3,582	-	14,326
Equipment lease	-	532	178	-	710
Equipment maintenance	-	2,772	924	-	3,696
Fiscal sponsorship expense	-	192,401	-	-	192,401
Foundation event expense	-	2,720	-	8,162	10,882
Grants	11,068,453	-	-	-	11,068,453
Grounds maintenance	-	5,220	1,740	-	6,960
Insurance	-	7,636	2,545	-	10,181
Janitorial service	-	5,577	1,859	-	7,436
Local meeting	-	3,088	1,543	1,543	6,174
Maintenance expense	-	23,159	7,720	-	30,879
Nonprofit activities	-	339	-	-	339
Office equipment	-	4,860	1,620	-	6,480
Postage	-	1,359	453	-	1,812
Printing	-	1,751	-	2,542	4,293
Professional fees	-	12,110	16,081	800	28,991
Scholarships	279,172	-	-	-	279,172
Subscriptions	-	1,258	419	-	1,677
Supplies	-	3,853	1,284	-	5,137
Telephone	-	7,286	2,428	-	9,714
Travel expense	-	4,471	2,235	2,235	8,941
Utilities	-	3,388	1,130	-	4,518
Website expenses	-	944	315	-	1,259
Total expenses by function	\$ <u>11,347,625</u>	\$ <u>566,074</u>	\$ <u>525,416</u>	\$ <u>176,131</u>	\$ <u>12,615,246</u>

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (24,796,052)	\$ 16,511,720
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	42,488	45,782
Realized/unrealized (gain) loss on investments	20,351,652	(9,823,311)
Contribution of membership interest	-	(355,000)
Sale of membership interest	355,000	-
Contribution of stock	-	91,249
Contribution of land	-	321,000
Change in value of charitable remainder trusts	202,085	335,455
Change in cash surrender value of life insurance	40,413	27,379
Changes in assets and liabilities		
Unconditional promises to give	201,760	366,584
Interest, contributions, and grants receivable	(1,815)	(14,402)
Prepaid expenses	(30,157)	-
Other receivables	(6,798)	4,000
Accounts payable	(11,624)	10,744
Accrued payroll	1,998	(282)
Grants payable	30,180	(20,966)
Funds held as agency endowments	(260,856)	141,580
Scholarship payable	(5,243)	5,243
Net cash provided by (used in) operating activities	<u>(3,886,969)</u>	<u>7,646,775</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Issuance of notes receivable	(314,182)	(400,000)
Payments received on notes receivable	64,670	287,874
Purchase of property and equipment	(11,783)	-
Purchases of investments	(55,889,621)	(84,794,701)
Proceeds from sale of investments	<u>60,082,446</u>	<u>76,407,204</u>
Net cash provided by (used in) investing activities	<u>3,931,530</u>	<u>(8,499,623)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on liabilities under charitable remainder trusts	<u>(111,807)</u>	<u>(167,405)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(67,246)	(1,020,253)
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<u>1,592,930</u>	<u>2,613,183</u>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	\$ <u><u>1,525,684</u></u>	\$ <u><u>1,592,930</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES</b>		
Contributed membership interest	\$ <u><u>-</u></u>	\$ <u><u>355,000</u></u>

# FARGO-MOORHEAD AREA FOUNDATION CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Operations*

Fargo-Moorhead Area Foundation Corporation (“Foundation”), is a publicly supported philanthropic organization that administers donations for charitable purposes. Historically, it has administered numerous individual trust funds contributed to it by individuals, non-profit agencies, governments, corporations, and other sources primarily for the benefit of residents of the Fargo, Moorhead, Cass County, and Clay County areas.

The Foundation completed a corporate restructuring from a sole trust structure to a corporate structure, effective July 21, 2011, in order to enable greater flexibility in achieving the goals of the Foundation. The primary purpose of the Foundation is to receive, manage, and distribute such gifts as may be made to the Foundation to serve its charitable purposes.

The majority of the Foundation’s assets when operated as a Trust had been held by multiple trustee institutions. Under the new corporate structure, all funds received under documents executed before the effective operational date of the Foundation are allocated to the Trust. All funds received accompanied by documents executed after that date are allocated to the Foundation.

The mission of the Foundation is to help donors maximize their philanthropy to create a vibrant community full of opportunity for everyone.

The Foundation has been in compliance with the National Standards for U.S. Community Foundations administered by the Council of Foundations since 2007. Compliance with the National Standards means that the Foundation has met certain standards in philanthropy and has demonstrated a commitment to financial security, transparency, and accountability.

#### *Basis of Presentation*

The financial statements of Fargo-Moorhead Area Foundation Corporation have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require Fargo-Moorhead Area Foundation Corporation to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of Fargo-Moorhead Area Foundation Corporation’s management and the board of directors. The Foundation maintains variance power over non-endowed funds. The Foundation will continue its stewardship responsibilities by attempting to honor all donor’s original intent.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Fargo-Moorhead Area Foundation Corporation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

## FARGO-MOORHEAD AREA FOUNDATION CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

#### *Net Asset Fund Types*

The Foundation maintains the following types of funds within its net assets:

*Discretionary Funds* are established to provide broad charitable support for community needs in various areas of interest. This provides the most flexibility in meeting the evolving needs in our community with support that will have the greatest impact.

*Designated Funds* are established by donor(s) to support the work of a specifically named nonprofit organization(s). If the selected nonprofit organization ceases to exist, the Foundation's Board of Directors will identify another nonprofit whose purpose most closely match the original charitable intent of the donor.

*Donor Advised Funds* are a flexible and convenient vehicle for individual and family philanthropy. Advised funds enable donors to recommend grants to qualified nonprofit organizations in their area of interest and are not limited by the Foundation's service area. Donor advisors work with Foundation staff to facilitate their grantmaking throughout the year.

*Organizational Funds* are funds that are set up by action of a nonprofit's Board of Directors to support the program and operations of that specific nonprofit organization. This is a way that a nonprofit can benefit from the Foundation's overall investment benefits such as discounted fee scales by being part of a larger pool of funds.

*Field of Interest Funds* connect charitable investments with specific areas of interest or concern, such as a geographical location, area of interest, or any area that enhances the well-being of a community. The donor identifies interests, and the Foundation awards grants to organizations and programs that are making a difference in those fields through a competitive grant process reviewed by a committee of community volunteers. Gifts to these funds provide the Foundation to respond to future challenges and opportunities as they are identified.

*Scholarship Funds* are established to award scholarships that help students achieve their educational aspirations. They provide access to educational opportunities for a wide variety of students. A scholarship fund may award scholarships to recipients in a specific community, educational institution, or field of study. Scholarship fund holders have the option of naming their own selection committee or utilize the educational institution or the Foundation's selection committees.

#### *Basis of Consolidation*

The accompanying consolidated financial statements of the Foundation are prepared including the financial activity of three entities: the Fargo-Moorhead Area Foundation Corporation, the William C. and Jane B. Marcil Family Foundation, and the Pancratz Family Foundation.

During 1996, the William C. and Jane B. Marcil Family Foundation was established as a supporting organization of Fargo-Moorhead Area Foundation Corporation within the meaning of Section 509(a)(3) of the Internal Revenue Code. A supporting organization is defined as an organization which is organized and is at all times operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more specific publicly supported organizations. All of the assets, liabilities, revenues, and expenses of the William C. and Jane B. Marcil Family Foundation are included in the consolidated financial statements of the Fargo-Moorhead Area Foundation Corporation.

## **FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

During 2002, the Pancratz Family Foundation was established as a supporting organization of the Fargo-Moorhead Area Foundation Corporation. All of the assets, liabilities, revenues, and expenses of the Pancratz Family Foundation are included in the consolidated financial statements of the Fargo-Moorhead Area Foundation Corporation.

All intercompany transactions and accounts have been eliminated in the consolidated financial statements.

#### ***Cash and Cash Equivalents***

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Excluded from the definition of cash equivalents are such amounts that have been designated by the Board for investments.

#### ***Concentration of Credit Risk***

The Foundation maintains cash balances at a financial institution. The majority of these balances are held in interest bearing accounts subject to FDIC limits. At times, the Foundation's bank balances exceed the federally insured limits. At December 31, 2022 and 2021, the Foundation's uninsured cash balances totaled \$1,588,413 and \$707,397, respectively.

#### ***Promises to Give***

Contributions receivable (unconditional promises to give), net of an allowance for uncollectible contributions, are recorded as receivables and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions are recorded after being discounted to the anticipated net present value of the future cash flows.

The Foundation provides for losses on contributions receivable using the allowance method. The allowance is based on historical collection experience and other circumstances. It is the Foundation's policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected. Management believes that all contributions receivable are collectible; thus, no allowance for contributions receivable has been established. Unconditional promises to give are presented net of the discount and current portion within the other assets section on the statement of financial position.

#### ***Notes Receivable***

Notes receivable represent funds advanced to local not-for-profit organizations for the purpose of furthering the tax-exempt objectives of their organizations. The notes receivable are stated at unpaid principal balance. Interest on the notes are recognized over the term of the note and is calculated using the effective interest method. Management considers the notes to be collectible, and, as a result, no allowance for loan losses have been established.

#### ***Investments***

Investments are carried at market or appraised value. Realized and unrealized gains and losses are included in the consolidated statements of activities and changes in net assets.

The Foundation's investments are exposed to various risks, such as fluctuation in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

## **FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

The Foundation has mineral interests held in a third-party trust. The mineral interests are valued annually by the Bank of the West by applying a multiple of using net income for the estimated value of the interests.

#### ***Property and Equipment***

Purchases of property and equipment are recorded at cost at the time of purchase. Donated property and equipment are recorded at fair value at the date of the gift. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts and the resulting gain or loss is reflected in the consolidated statements of activities.

Depreciation is computed on a straight-line basis over the estimated useful lives of assets, currently at 5 years for furniture and equipment, 15 years for building improvements and landscaping, and 25 years for buildings. Expenditures for maintenance and repairs are charged to expense as incurred.

#### ***Assets Held for Sale***

Assets held for sale consist of contributions of non-financial assets received within the year. These assets are expected to be liquidated within one year of the statement of financial position date.

#### ***Donated Services***

Donated services are recorded at fair value when received.

#### ***Income Taxes***

The Foundation is exempt from payment of federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Pancratz Family Foundation and the William C. and Jane B. Marcil Family Foundation also are exempt from payment of federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation is required to record a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonable estimated. As of December 31, 2022 and 2021, no such liability existed. Management will continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

#### ***Revenue Recognition***

The Foundation recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

#### ***Functional Allocation of Expenses***

The consolidated statements of functional expenses presents expenses by function and natural classification of programs, management and general, fundraising and development.

## FARGO-MOORHEAD AREA FOUNDATION CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

The cost of providing program services to the Foundation's community partners lies in the core of the Foundation's principles and have been summarized on a functional basis with the cost allocated based on relative efforts expended on that function, a time study of staff resources or directly identifiable costs. Along with Grant and Scholarship support that are provided, Community Program services include the following expenses:

*Direct Service:* Encompasses a range of services to support the nonprofit sector in the community that the Foundation serves and the areas that the donors designate with grant and scholarship support.

*Human Resources:* Encompasses expenses related to training, maintaining, and continued skill development of competent professionals to ensure the best quality of service.

*Communications and Marketing:* Expenses that heighten awareness and understanding of the services that the Foundation provides and the recipients of the support.

#### *Use of Estimates*

The preparation of financial statements 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 revenue expenses during the reporting period. Actual results could differ from those estimates.

#### *Reclassification of Net Assets*

Management and the board of directors' understanding of the North Dakota Century Code 59-21 "Uniform Prudent Management of Institutional Funds Act," requires contributions received toward qualified endowment funds for which the donors are eligible for a North Dakota tax credit are required to be held in perpetuity. As a result, principal contributions received toward such qualified endowments have been reclassified as with donor restrictions in the 2021 consolidated financial statements. The endowments have been maintained separately on the internal records of the foundation and monitored.

#### *Subsequent Events*

Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. The Foundation believes that there have been no events subsequent to year end where disclosure is necessary.

#### **NOTE 2 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,525,684	\$ 1,592,930
Long-term investments made available for current use	<u>3,829,100</u>	<u>4,004,892</u>
Total	<u>\$ 5,354,784</u>	<u>\$ 5,597,822</u>

## **FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

The Foundation manages its cash available to meet general expenditures, grants, and scholarships following two guiding principles:

- Operating within a prudent budget, and
- Maintaining adequate liquid assets.

#### ***Cash and Cash Equivalents***

As part of the Foundation's liquidity management, financial assets are structured to be available as general expenditures, liabilities, and other obligations become due. The Foundation invests in short term investments and money market funds to make sure cash is available for current cash flow needs.

The amounts reflected above in cash and cash equivalents are available for the Foundation's general expenditures, liabilities and other obligations, as well as grants and scholarship available but not yet awarded at the end of the year from non-endowed grant-making funds as well as the Foundation's endowed funds.

#### ***Grants, Scholarships, and Program Expenses***

Grant and scholarship awards as well as program related expenses from the non-endowed funds are made available from the long-term investments at the beginning of each year based on the board approved spending policy at the end of the previous year.

In December 2021 and 2020, the Foundation's Board of Directors approved a distribution policy of 4.50% for 2022 and 2021, respectively. A spendable amount of \$2,792,580 and \$3,214,113 was made available for grant making from these endowed funds during 2022 and 2021, respectively.

#### ***Administrative Fees***

The Board of Directors has approved an administrative fee charge to all funds assessed quarterly based on the average daily fund balance for that quarter. These fees are assessed based on the fund type and taking into consideration the level of administration involved in administering the fund. Since administrative fees are part of the overall amount allowed to be spent out of the fund under the Unified Prudent Management of Institutional Funds Act (UPMIFA), we monitor investment performance closely to ensure that the overall return is sufficient to cover the administrative fees, investment fees, and the amount available to grant to ensure that the principal is preserved and that the funds have growth for the future.

Following is the 2022 annual administrative fee structure:

- Endowed Donor Advised and Endowed Donor Designated Funds
  - 1.125% first \$2,000,000
  - 0.5% next \$3,000,000
  - 0.375% over \$5,000,000
- Nonprofit Funds
  - 20% discount from above fee schedule
- Scholarship and Non-Endowed Funds
  - 2.125%

(Continued)



# FARGO-MOORHEAD AREA FOUNDATION CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

The administrative fees fund 95% of the operations of the Foundation. The Foundation does not fundraise for operational expenses as to not conflict with the mission to support local nonprofit organizations, not compete with them. This ensures that the Foundation will always have the resources to fund the administrative operations while fulfilling the commitment to the community. In addition, an operating reserve is part of the Cash and Cash Equivalents balance and is equal to one quarter of the operational needs at any given time. The approved operations budget for 2023 is \$1,160,086.

### *Endowed Funds*

Endowed funds consist of board designated endowments and contributions received toward qualified endowments under North Dakota Century Code 57-38-01.21.

Endowed funds are invested in the Foundation's long-term pools. When the amount available for granting and fees (administrative and trustee) are transferred to the Foundation, they are held in our short-term pool where they are readily available.

### **NOTE 3 – UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consisted of the following outstanding pledges as of December 31:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 213,298	\$ 213,298
One to five years	<u>853,192</u>	<u>1,066,490</u>
	1,066,490	1,279,788
Unamortized discount	<u>(98,714)</u>	<u>(110,252)</u>
	<u>\$ 967,776</u>	<u>\$ 1,169,536</u>

Unconditional promises to give due in one year are reflected at the net realizable value. Unconditional promises to give with due dates extending beyond one year are discounted at a rate of 1.40%. Amortization of the discount is included in contributions in the consolidated statements of activities and changes in net assets.

### **NOTE 4 – NOTES RECEIVABLE**

The Foundation issued two note receivables to a local not-for-profit organization during the year ended December 31, 2021. The notes carry a 3.0% fixed interest rate. The notes require monthly payments of \$5,825 until their maturities in August 2031 and October 2031.

The Foundation issued a note receivable to a local not-for-profit organization during the year ended December 31, 2021. The note carries a 2.65% fixed interest rate. The note requires \$1,899 monthly payments until its maturity in February 2031.

The Foundation issued a note receivable to an individual for assets held for sale as of December 31, 2021 during the year ended December 31, 2022. The note carries a 4.0% fixed interest rate. The note requires \$12,944 quarterly payments until its maturity in January 2029.

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Notes receivable are due to the Foundation as follows:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 77,522	\$ 35,526
One to five years	409,318	193,403
More than five years	<u>147,953</u>	<u>156,352</u>
	\$ <u>634,793</u>	\$ <u>385,281</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 92,406	\$ 80,624
Land	108,241	108,241
Building	481,486	481,486
Furniture and fixtures	80,007	80,007
Landscaping	171,380	171,380
Intangibles	<u>22,425</u>	<u>22,425</u>
	955,945	944,163
Accumulated depreciation	<u>(439,947)</u>	<u>(397,460)</u>
Total	\$ <u>515,998</u>	\$ <u>546,703</u>

**NOTE 6 – INVESTMENTS**

Investments consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and money market funds	\$ 3,475,668	\$ 3,938,114
Fixed income	29,044,543	35,643,193
Equities	54,446,827	70,997,685
Other		
Alternative investments funds	1,419,034	2,176,807
Commodities	576,571	474,981
Common trust funds	1,078,192	1,292,058
Real asset funds	1,844,303	2,210,067
Mineral interests	<u>1,129,268</u>	<u>825,978</u>
Total	\$ <u>93,014,406</u>	\$ <u>117,558,883</u>

*(Continued)*

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

The following schedule summarizes the investment return and its classification in the consolidated statements of activities and changes in net assets for the year ended December 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Investment income	\$ 2,443,680	\$ 25,049	\$ 2,468,729
Unrealized depreciation of investments	(18,361,400)	(369,701)	(18,731,101)
Realized gain (loss) on sale of investments	(1,322,354)	500	(1,321,854)
Trustee management fees	<u>(636,946)</u>	<u>(16,939)</u>	<u>(653,885)</u>
Net investment return	\$ <u>(17,877,020)</u>	\$ <u>(361,091)</u>	\$ <u>(18,238,111)</u>

The following schedule summarizes the investment return and its classification in the consolidated statement of activities and changes in net assets for the year ended December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Investment income	\$ 2,056,401	\$ 27,672	\$ 2,084,073
Unrealized appreciation (depreciation) of investments	(400,397)	155,339	(245,058)
Realized gains on sale of investments	9,945,568	114,102	10,059,670
Trustee management fees	<u>(605,145)</u>	<u>(19,187)</u>	<u>(624,332)</u>
Net investment return	\$ <u>10,996,427</u>	\$ <u>277,926</u>	\$ <u>11,274,353</u>

**NOTE 7 – FAIR VALUE MEASUREMENTS**

The three levels of the fair value hierarchy in accordance with ASC 820 *Fair Value Measurements* are described below:

**Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets.

**Level 2** – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for the asset or liability.

**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

**Mutual Funds, Exchange-Traded Funds, Hedged Equity Funds, Alternative Investments Funds, Commodities Funds, and Real Asset Funds** – Valued at the net asset value (“NAV”) of shares held by the Foundation at year-end. Funds held by the Foundation are open-ended funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The funds held by the Foundation are deemed to be actively traded.

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

*U.S. Treasury and Agency Obligations* – Valued at published prices.

*Common Stocks* – Valued at the closing price reported on the active market, on which the individual securities are traded.

*Corporate Bonds* – Valued at the most recent traded prices reported on the active market, on which the individual securities are traded.

*Municipal Bonds and Mortgage-Backed Securities* – Valued using pricing models maximizing the use of observable inputs for similar securities.

*Common Trust Funds, Pooled Investment Trust Funds, and Private Equity Investment Funds* – Valued based on the NAV of shares held by the Foundation at year-end. The NAV value is based on the audited financial statements of the funds or determined by independent valuation specialists.

*Assets and Liabilities Related to Charitable Remainder Trusts* – Valued based the present value of expected future cash flows based on donor or beneficiaries’ life expectancies and various discount rates.

*Cash Surrender Value of Life Insurance* – Valued the estimated amounts of payout from the insurance companies in the event the policies are voluntarily terminated before their maturities, net of surrender charges.

*Mineral Rights* – Valued by applying a multiple of net income for the period of 12 months preceding the date of valuation.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

***Level 3 Valuation Techniques***

The following table describes the valuation techniques used for the other recurring fair value measurements for assets in Level 3 of the fair value hierarchy:

<b>Quantitative Information about Level 3 Fair Value Measurements</b>						
	<b>Fair Value as of 12/31/22</b>	<b>Fair Value as of 12/31/21</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>	
Assets held under charitable remainder trusts	\$ 1,054,301	\$ 1,377,258	Present value	Life expectancy Discount rate	6 - 16 years 3.8% - 7.0%	
Liabilities held under charitable remainder trusts	\$ (434,434)	\$ (667,113)	Present value	Life expectancy Discount rate	6 - 16 years 3.8% - 7.0%	
Mineral interests	\$ 1,129,268	\$ 825,978	Net income	Industry income Multiple	1 - 4 (4) Multiples	

The Foundation’s fair value measurement policies and procedures are reviewed annually to determine if the valuation techniques are still appropriate.

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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 as of December 31, 2022:

<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market	\$ 3,475,668	\$ 3,475,668	\$ -	\$ -
Fixed income				
U.S. Treasury and agency securities	10,320,857	10,320,857	-	-
Domestic bond mutual funds	167,659	167,659	-	-
Long term	2,122,234	2,122,234	-	-
Intermediate term	5,535,251	5,535,251	-	-
Short-term	1,900,916	1,900,916	-	-
High yield bonds	659,000	659,000	-	-
Corporate bonds	2,549,850	2,549,850	-	-
Multisector bonds	291,589	291,589	-	-
Total return bonds	1,015,543	1,015,543	-	-
Preferred stocks	226,207	226,207	-	-
Inflation protected	8,835	8,835	-	-
Foreign bond mutual funds	849,414	849,414	-	-
Taxable reinsurance funds	621,493	621,493	-	-
Mortgage backed securities	759,190	-	759,190	-
Corporate bonds	1,496,559	1,496,559	-	-
Municipal bonds	519,946	-	519,946	-
Equities				
Domestic common stocks	12,104,496	12,104,496	-	-
Foreign common stocks	956,673	956,673	-	-
Domestic equity mutual funds				
Large cap	16,702,120	16,702,120	-	-
Mid cap	4,914,948	4,914,948	-	-
Small cap	2,884,738	2,884,738	-	-
Foreign equity mutual funds	13,880,743	13,880,743	-	-
Other equity	1,808,825	1,808,825	-	-
Other				
Alternative investments funds	1,419,034	1,419,034	-	-
Commodities	576,571	576,571	-	-
Real estate funds	1,844,303	1,844,303	-	-
Mineral interests	1,129,268	-	-	1,129,268
Life insurance	895,983	-	895,983	-
Assets held in charitable remainder trusts	1,054,301	-	-	1,054,301
Total assets in the fair value hierarchy	92,692,214	88,333,526	2,175,119	2,183,569
Assets measured at net asset value*	2,272,476	-	-	-
Total assets	\$ <u>94,964,690</u>	\$ <u>88,333,526</u>	\$ <u>2,175,119</u>	\$ <u>2,183,569</u>

(Continued)

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

<u>Liabilities</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liabilities under charitable remainder trusts	\$ <u>434,434</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

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 as of December 31, 2021:

<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market	\$ 3,938,114	\$ 3,938,114	\$ -	\$ -
Fixed income				
U.S. Treasury and agency securities	8,265,582	8,265,582	-	-
Domestic corporate bonds	5,524,073	5,524,073	-	-
Foreign corporate bonds	686,379	686,379	-	-
Mortgage-backed securities	2,225,061	-	2,225,061	-
Municipal bonds	656,010	-	656,010	-
Domestic bond mutual funds				
Corporate bond fund	4,286,348	4,286,348	-	-
High yield bonds	1,892,506	1,892,506	-	-
Inflation protected	282,638	282,638	-	-
Intermediate-term bonds	4,926,604	4,926,604	-	-
Long-term bonds	531,488	531,488	-	-
Multisector bonds	1,758,958	1,758,958	-	-
Nontraditional	269,459	269,459	-	-
Preferred stocks	612,003	612,003	-	-
Short-term bonds	1,755,356	1,755,356	-	-
Total return bonds	402,764	402,764	-	-
Exchange-traded funds	573,120	573,120	-	-
Foreign bond mutual funds	994,844	994,844	-	-
Equities				
Domestic common stocks	24,253,540	24,253,540	-	-
Foreign common stocks	696,620	696,620	-	-
Domestic equity mutual funds				
Large cap	13,034,090	13,034,090	-	-
Mid cap	6,940,348	6,940,348	-	-
Small cap	3,766,993	3,766,993	-	-
Foreign equity mutual funds	15,805,585	15,805,585	-	-
Exchange-traded funds	5,355,553	5,355,553	-	-
Other equity	35,833	35,833	-	-
Hedged equity funds	114,719	114,719	-	-
Other				
Alternative investments funds	2,176,807	2,176,807	-	-
Commodities	474,981	474,981	-	-
Real asset funds	2,210,067	2,210,067	-	-
Mineral interests	825,978	-	-	825,978
Cash surrender value of life insurance	936,396	-	936,396	-
Assets held in charitable remainder trusts	<u>1,377,258</u>	<u>-</u>	<u>-</u>	<u>1,377,258</u>

(Continued)

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

<u>Assets</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Total assets in the fair value hierarchy	117,586,075	111,565,372	3,817,467	2,203,236
Assets measured at net asset value*	<u>2,286,462</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	\$ <u>119,872,537</u>	\$ <u>111,565,372</u>	\$ <u>3,817,467</u>	\$ <u>2,203,236</u>
<u>Liabilities</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liabilities under charitable remainder trusts	\$ <u>667,113</u>	<u>-</u>	<u>-</u>	\$ <u>667,113</u>

\*In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net assets value per share (or its equivalent) using the 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 consolidated statements of financial position at December 31, 2022 and 2021.

The following table summarizes investments measured at fair values based in NAV per share that do not have a readily determinable fair value and are in investment companies or similar entities as of December 31:

	<u>Fair Value 2022</u>	<u>Fair Value 2021</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
(A)	\$ 1,078,192	\$ 1,292,058	-	Semi-monthly	5 business days
(B)	\$ 1,194,284	\$ 994,404	-	Quarterly	90 days

(A) - Common trust funds

(B) - Private equity fund investments

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

The table below presents information about recurring fair value measurements that use significant unobservable inputs (Level 3 measurements) for the years ended December 31, 2022 and 2021:

	<b>Assets Held in Charitable Remainder Trusts</b>	<b>Liabilities Held in Charitable Remainder Trusts</b>	<b>Mineral Interests</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, December 31, 2020	\$ 1,461,275	\$ (583,080)	\$ 509,076
Total gains (losses)	176,737	(251,438)	316,902
Total payments	<u>(260,754)</u>	<u>167,405</u>	<u>-</u>
Balance, December 31, 2021	<u>1,377,258</u>	<u>(667,113)</u>	<u>825,978</u>
Total gains (losses)	(211,318)	120,872	303,290
Total additions	168	-	-
Total payments	<u>(111,807)</u>	<u>111,807</u>	<u>-</u>
Balance, December 31, 2022	\$ <u><u>1,054,301</u></u>	\$ <u><u>(434,434)</u></u>	\$ <u><u>1,129,268</u></u>

Gains and losses (level 3 measurements) included in the change in net assets for the years ended December 31, 2022 and 2021 are presented in the consolidated statements of activities and changes in net assets as follows:

	<u>2022</u>	<u>2021</u>
Change in unrealized depreciation of level 3 investments included in the net investment return	\$ (212,844)	\$ (242,201)

**NOTE 8 – ENDOWMENTS**

The Foundation’s endowment funds include funds with and without donor restrictions. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions. Donor restricted endowed funds consist of corpus contributions received toward qualified endowment funds under the North Dakota Century Code, eligible for the North Dakota tax credit.

The changes in the Foundation’s endowment funds are presented on the consolidated statements of activities and changes in net assets as changes in net assets with or without donor restrictions, depending on the nature of the contribution and the stipulations made by donors.

***Interpretation of Relevant Law***

As of December 31, 2022, the Foundation’s endowment funds consist of six groups: discretionary, designated, donor advised, organizational, field of interest, and scholarship funds. All of the funds in these six groups, with the exception of qualified endowment contributions, have been designated by the Board of Directors to function as endowments.



## FARGO-MOORHEAD AREA FOUNDATION CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

The Foundation has interpreted state law as requiring it preserve 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 as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in with donor restricted net assets (in perpetuity) is classified as donor restricted net assets (as to time or purpose) until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by state law. In accordance with state law, 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 various funds,
- (2) the purposes of the donor-restricted endowment funds,
- (3) general economic conditions,
- (4) the possible effects of inflation and deflation,
- (5) the expected total return from income and the appreciation of investments
- (6) other resources of the Foundation, and
- (7) the Foundation's investment policies.

#### ***Board of Directors – Variance Power***

The Board of Directors have determined that the Foundation's endowment funds are subject to the terms of its governing documents. The bylaws of the Foundation include a variance power provision giving the Board of Directors the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board of Directors, without the necessity of approval of the donor, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Foundation will continue its stewardship responsibilities by internally accounting for and reporting on all net assets in accordance with each donor's original intent, except as previously indicated. Therefore, consistent with applicable professional standards and regulations, endowment funds are reported as both with and without donor restrictions. The Board of Directors make every effort to fulfill the donor's original intent and only in rare circumstances where the fulfillment of the donor's original intent becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community has variance power been exercised.

#### ***Spending Policy***

In establishing its spending policy, the Foundation's Board of Directors considered the long-term expected return on its endowment funds. Accordingly, over the long-term period, the Board of Directors expects the current spending policy to allow its endowments to grow at average annual rate equal to, and preferably greater than, the market aggregate of investment grade securities. As a result, the spending policy specifies that up to 4.50% of principal may be expended in one year to maintain the integrity of existing programs or to establish new programs that are within the mission of the Foundation.

Donations received for the purpose of the North Dakota State tax credit qualified endowments are with donor restrictions in perpetuity, and may not be spent. Any earnings on these funds may be spent and are recorded as without donor restrictions until the board appropriates for expenditure.

# FARGO-MOORHEAD AREA FOUNDATION CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. When there are deficient donor-restricted endowment funds, the policy of the Foundation is not to distribute any monies until the funds have regained the original corpus. These deficiencies result from unfavorable market fluctuations that may occur shortly after the investment of new contributions for donor-restricted endowment funds. There were no such deficiencies as of December 31, 2022 and 2021.

### *Return Objectives and Risk Parameters*

The Foundation has adopted an investment policy that attempts to maximize total return without exposure to undue risk. The Board of Directors expects the endowment funds to endure into perpetuity. Therefore, as approved by the Board of Directors, the Foundation's endowment funds are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a long-term appreciation of the assets over a ten-year moving time period to achieve an average annual total return at a rate equal to, and preferably greater than, the market aggregate of investment grade securities. Actual returns in any given year may vary from this objective.

### *Investment Strategies*

To satisfy its long-term return objectives, the investment policy specifies that the long-term risk of not investing in growth securities outweighs the short-term volatility risk. The Board targets a diversified asset allocation mix of equity and fixed income securities with minimal investment in cash equivalents, real estate, and alternative investments.

Changes in the endowment fund are as follows during the year ended December 31, 2022:

	<b><u>Without Donor Restriction</u></b>	<b><u>With Donor Restriction - ND Tax Credit</u></b>
Balance December 31, 2021	\$ 105,525,521	\$ 12,683,590
Investment loss	(17,877,020)	-
Contributions	2,671,475	1,431,096
Appropriations	<u>(10,386,688)</u>	<u>-</u>
Balance December 31, 2022	<u>\$ 79,933,288</u>	<u>\$ 14,114,686</u>

### **NOTE 9 – SPLIT-INTEREST AGREEMENTS**

The Foundation is a beneficiary under several charitable remainder unitrusts. Each of the charitable remainder trusts provides for the payment of distributions based on the value of trust assets to the grantor or other designated beneficiaries over the trust's term. Under the terms of the agreements, the Foundation will receive a portion of the income and principal after the death of the parties. The assets and liabilities held under the charitable remainder trusts presented on the consolidated statements of financial position are recorded based on the present value of its expected future cash flows based on donors' or beneficiary life expectancy and the use of various discount rates.

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

**NOTE 10 – AGENCY TRANSACTIONS**

The liability account "Funds held as agency endowments" represent the value of funds held by the Foundation on behalf of various local charitable organizations. The Foundation's policy is to recognize the fair value of the funds received and an offsetting liability until the funds are distributed to the ultimate beneficiaries, at which time the asset and liability are removed from the Foundation's books. The corresponding agency funds asset is included in the Foundation's investments.

Changes in the funds held as agency endowments for the years ended December 31, 2022 and 2021, are as follows:

Balance, December 31, 2020	\$ 1,416,965
Contributions	29,354
Investment income allocated	157,917
Grants	(25,515)
Administrative fees	<u>(20,176)</u>
Balance, December 31, 2021	1,558,545
Contributions	63,716
Investment loss allocated	(252,692)
Grants	(49,981)
Administrative fees	<u>(21,899)</u>
Balance, December 31, 2022	\$ <u><u>1,297,689</u></u>

**NOTE 11 – RETIREMENT PLAN**

The Foundation has a 401(k)-retirement plan that covers all employees who have attained age 21 and have completed one year of employment. The Foundation makes a matching contribution equal to each participant's salary reduction, not to exceed 5% of the participant's compensation. The contribution expense totaled \$26,000 and \$24,664 for the years ended 2022 and 2021, respectively.

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

**NOTE 12 – DONOR RESTRICTED NET ASSETS**

The Foundation’s donor restricted net assets consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
<b>Subject to expenditure for a specific purpose - supporting organizations</b>		
Pancratz Family Foundation	\$ 261,316	\$ 322,999
William C. & Jane B. Marcil Family Foundation	<u>54,000</u>	<u>69,888</u>
Total purpose restrictions	<u>315,316</u>	<u>392,887</u>
<b>Subject to the passage of time - pledges receivable</b>		
Beverly & Lloyd W. Paulson Family Advised Fund	966,506	1,353,109
Beverly & Lloyd W. Paulson Evergreen Memorial Cemetery Fund	99,983	139,977
<b>Subject to the passage of time - charitable remainder trusts</b>		
Dale R. and Marilyn D. Larson Fund	102,981	126,675
Duane and Judy Lee Fund	36,218	46,397
Rufer Fund	133,272	153,293
The Gilbertson Charitable Remainder Trust	52,605	64,713
William B. Richardson Charitable Remainder Unitrust	294,792	319,066
<b>Subject to the passage of time - life insurance</b>		
Bushell Family Charitable Fund	153,547	166,883
Ronald and Marlene Hoffart	<u>742,436</u>	<u>769,571</u>
Total time restrictions	<u>2,582,340</u>	<u>3,139,684</u>
<b>Subject to endowment policy - restricted in perpetuity</b>		
North Dakota Tax Credit endowed funds	<u>14,114,686</u>	<u>12,683,590</u>
Total net assets with donor restrictions	\$ <u><u>17,012,342</u></u>	\$ <u><u>16,216,161</u></u>

**NOTE 13 – SUPPORTING ORGANIZATIONS**

Summarized financial information for the Foundation’s supporting organizations as of and for the year ended December 31, 2022 is as follows:

	<u>Pancratz Family Foundation</u>	<u>Marcil Family Foundation</u>	<u>Total</u>
Total assets	\$ <u><u>261,316</u></u>	\$ <u><u>54,000</u></u>	\$ <u><u>315,316</u></u>
Total revenues	\$ 6,942	\$ 1,230	\$ 8,172
Total expenses	\$ (11,498)	\$ (631)	\$ (12,129)

(Continued)

**FARGO-MOORHEAD AREA FOUNDATION CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Summarized financial information for the Foundation's supporting organizations as of and for the year ended December 31, 2021 is as follows:

	<b><u>Pancratz Family Foundation</u></b>	<b><u>Marcil Family Foundation</u></b>	<b><u>Total</u></b>
Total assets	\$ <u>322,999</u>	\$ <u>69,888</u>	\$ <u>392,887</u>
Total revenues	\$ 39,561	\$ 92,188	\$ 131,749
Total expenses	\$ (15,511)	\$ (300,640)	\$ (316,151)