

Holland Historical
Trust (A Component
Unit of the City of
Holland, Michigan)



Holland Museum

Year Ended
June 30, 2022

Financial Statements

Rehmann

HOLLAND HISTORICAL TRUST

(A Component Unit of the City of Holland, Michigan)

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INDEPENDENT AUDITORS' REPORT

Month xx, 2022

Board of Trustees
Holland Historical Trust
Holland, Michigan

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the ***Holland Historical Trust*** ("HHT") (a Michigan not-for-profit corporation and a component unit of the City of Holland, Michigan), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements (the "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HHT as of June 30, 2022, and the changes in their net assets and their 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the organization 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.

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 HHT's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated **Month xx, 2022**, on our consideration of the HHT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HHT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HHT's internal control over financial reporting and compliance.

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Financial Position

June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	\$ (14,162)	\$ 41,729	\$ 27,567
Employee Retention Credit	81,860	-	81,860
Gift shop inventory	5,064	-	5,064
Prepaid expenses	7,336	-	7,336
Investments	110,598	297,180	407,778
Beneficial interest in assets held by community foundation	-	110,208	110,208
Property and equipment, net	841,532	-	841,532
Total assets	<u>\$ 1,032,228</u>	<u>\$ 449,117</u>	<u>\$ 1,481,345</u>
Liabilities			
Accounts payable	\$ 15,250	\$ -	\$ 15,250
Other accrued liabilities	30,323	-	30,323
Deferred revenue	11,229	-	11,229
Line of credit	105,000	-	105,000
Total liabilities	<u>161,802</u>	<u>-</u>	<u>161,802</u>
Net assets			
Without donor restrictions	870,426	-	870,426
With donor restrictions	-	449,117	449,117
Total net assets	<u>870,426</u>	<u>449,117</u>	<u>1,319,543</u>
Total liabilities and net assets	<u>\$ 1,032,228</u>	<u>\$ 449,117</u>	<u>\$ 1,481,345</u>

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

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Activities

For Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues and gains (losses)			
Support and revenues:			
City of Holland appropriation	\$ 100,000	\$ -	\$ 100,000
Contributions:			
Cash and promises to give cash	271,900	16,907	288,807
Grants	53,595	-	53,595
Facilities	49,980	-	49,980
Special events (net of expenses of \$30,013)	16,933	-	16,933
Memberships	26,100	-	26,100
Admissions	32,825	-	32,825
Merchandise - gift shop sales	7,317	-	7,317
Rental income - events	18,545	-	18,545
Employee Retention Credit (Note 1)	181,791	-	181,791
Other income	10,765	-	10,765
Total support and revenues	<u>769,751</u>	<u>16,907</u>	<u>786,658</u>
Gains (losses):			
Net investment return	<u>(28,600)</u>	<u>(25,203)</u>	<u>(53,803)</u>
Total support, revenue and gains (losses)	741,151	(8,296)	732,855
Net assets released from restrictions	<u>51,698</u>	<u>(51,698)</u>	<u>-</u>
Total support, revenues, gains (losses) and net assets released from restrictions	<u>792,849</u>	<u>(59,994)</u>	<u>732,855</u>

continued...

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Activities

For Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses			
Personnel services	\$ 452,211	\$ -	\$ 452,211
Repairs and maintenance	57,917	-	57,917
Museum shop merchandise	5,820	-	5,820
Exhibits and curatorial	10,394	-	10,394
Education programs	11,438	-	11,438
Utilities and telephone	60,114	-	60,114
Office supplies	18,883	-	18,883
Professional and contractual	48,838	-	48,838
Property and liability insurance	20,113	-	20,113
Small equipment	3,458	-	3,458
Membership	9,405	-	9,405
Depreciation	114,257	-	114,257
Donated facilities rental	49,980	-	49,980
Professional development and travel	3,430	-	3,430
Other	28,847	-	28,847
Total expenses	<u>895,105</u>	<u>-</u>	<u>895,105</u>
Change in net assets	(102,256)	(59,994)	(162,250)
Net assets, beginning of year	<u>972,682</u>	<u>509,111</u>	<u>1,481,793</u>
Net assets, end of year	<u>\$ 870,426</u>	<u>\$ 449,117</u>	<u>\$ 1,319,543</u>

concluded

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

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Cash Flows

For Year Ended June 30, 2022

Cash flows from operating activities

Change in net assets	\$ (162,250)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	114,257
Net unrealized and realized losses	60,487
Change in beneficial interest in assets held by the community foundation	23,927
Changes in operating assets and liabilities that provided (used) cash:	
Pledges receivable, net	10,000
Employee Retention Credit receivable	(81,860)
Gift shop inventory	(1,440)
Prepaid expenses	(388)
Accounts payable	(3,445)
Other accrued liabilities	(2,572)
Deferred revenue	(15,634)

Net cash used in operating activities (58,918)

Cash flows from investing activities

Proceeds from sales of investments	69,299
Purchases of investments	(68,156)
Purchases of property and equipment	(72,741)

Net cash used in investing activities (71,598)

Cash flows from financing activities

Net draws on line of credit	105,000
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Net decrease in cash and cash equivalents (25,516)

Cash and cash equivalents, beginning of year 53,083

Cash and cash equivalents, end of year \$ 27,567

Supplemental disclosure of cash flow information

Cash paid for interest	<u><u>\$ 3,093</u></u>
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The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

1. NATURE OF TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Holland Historical Trust (“HHT”) is a component unit of the City of Holland, Michigan, (the “City”) and is a not-for-profit corporation exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. It was organized to provide historical, preservation and educational services for the City and for the Holland community in general. In particular, it administers and maintains City-owned properties that have historical significance and operates them as museums (Holland Museum, Cappon House, and Settlers House). HHT is also charged with caring for certain City-owned historical papers and personal property.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the valuation of donated facilities, calculation of useful lives of depreciable property and equipment and the fair value of investments.

Net Asset Classification

Net assets, support, and revenues and gains (losses) are classified based on the existence or absence of donor or grantor-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 not subject to donor (or certain grantor) restrictions. The Board of Trustees has designated \$104,304 from capital campaigns and collections/archives.

Net Assets With Donor Restrictions – Net assets subject to donor-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. 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.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Fair Value Measurements

Generally accepted accounting principles (GAAP) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2 to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, and money market accounts. HHT considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. HHT maintains demand deposits in banks that are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year ended June 30, 2022 the bank balance on these accounts exceeded the insured limit. Management believes HHT is not exposed to any significant interest rate or other risk on these deposits.

Investments

Investments are carried at fair value as determined by quoted market prices. Realized and unrealized gains and losses, if any, are included within net investment return in the accompanying statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law. Investment return is reported net of external investment expenses.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Beneficial Interest in Assets Held by Community Foundation

HHT has a fund, the Holland Museum Reserve Fund, that is perpetual in nature with the Holland/Zeeland Area Community Foundation ("Community Foundation") and named HHT as beneficiary. HHT granted variance power to the Community Foundation, which allows the Community Foundation to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the Community Foundation's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by the Community Foundation for HHT's benefit and is reported at fair value in the statement of financial position, with distributions and changes in fair value recognized in the statement of activities as net investment return in the with donor restrictions net asset class.

Inventory

Inventory consisting of gift shop merchandise is carried at the lower of cost, on a first-in, first-out basis, or net realizable value, and is charged to expense when sold.

Property and Equipment and Depreciation

Property and equipment consists of land, buildings, leasehold improvements, furniture, and equipment which are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management reviews these assets to determine whether carrying values have been impaired. Depreciation is provided over the estimated useful lives of the respective assets, or the lease term if shorter, on the straight-line basis, which range generally from 3 to 40 years.

Collections

HHT's permanent collections, which were acquired since HHT inception through purchases and contributions from benefactors, are not recognized as assets on the statement of net position. Purchases of collections items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as decreases in net assets with donor restricts in the year in which the items are acquired or as decreases in net assets with donor restrictions if the assets used to purchase the items were restricted by donors. The collections are subject to HHT's policy that requires proceeds from their sales be used for direct care of existing artifacts or acquire other items for collections. Direct care is defined as investing in existing collections by enhancing their life, usefulness or quality and thereby ensuring they will continue to benefit the public.

Compensated Absences

A compensated absences liability is recorded for unused vacation as of June 30, 2022. Vacation time vests when earned. Amounts for unvested sick pay were not accrued because the amount of the potential liability is not reasonably estimable.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Deferred Revenue

HHT is responsible for the collection of museum membership fees. In exchange for these fees, members receive free admission into the museum. Membership fees are received in advance and recognized as revenue over the applicable membership period.

Revenue Recognition

Appropriations

HHT receives appropriations from the City of Holland that are recorded as invoiced to the funding source in accordance with the terms of the award and Accounting Standards Update ("ASC") 958-605, *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

Promises to Give and Public Support

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are received. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction has been satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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 met. Contributions of assets other than cash are recorded at their estimated fair value.

Grant Awards

Grant awards are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

Grant awards that are contributions - Grants that qualify as contributions are recorded as invoiced to the funding sources in accordance with the terms of the award and ASC Topic 958-605. 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 met. Revenue is recognized in the accounting period when the related allowable expenses or asset acquisition costs are incurred. Amounts received in excess of expenses or asset acquisitions are reflected as grant funds received in advance.

Grant awards that are exchange transactions - Exchange transactions typically reimburse based on a predetermined rate for services performed in accordance with the terms of the award and ASC Topic 606. The revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There were no grant awards that were considered exchange transactions during the year ended June 30, 2022.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Membership

HHT is responsible for the collection of membership fees for various levels of memberships. In exchange for these fees members are provided a wide variety of benefits, including museum emails and newsletters. The member pays for and begins receiving membership benefits upfront, and the performance obligation of the exchange element is satisfied over time as the benefits are consumed. Memberships are purchased throughout the year. A portion of membership fees are deferred at year end and will be recognized as membership benefits are consumed. As of June 30, 2022 and 2021, the balance of deferred membership was \$11,229 and \$26,863, respectively.

Admissions and Merchandise Sales

HHT recognizes guest revenue from ticket sales at the time of admission. Sales from the gift shop are recognized at the time of sale, point of sale. The sales are reported at the amount that reflects the consideration to which HHT expects to be entitled in exchange for providing goods or services to the customer. Customers pay for goods sold on a stand-alone selling price basis at the point of sale which occurs at a point in time. Control is transferred immediately to the customer at the point of sale.

Income Taxes

HHT is a not-for-profit organization, exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is exempt from similar state and local taxes. Accordingly, no provision has been made for income taxes in the accompanying financial statements. Although HHT was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from program fees.

HHT analyzes its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions to identify potential uncertain tax positions. HHT treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its expenses. HHT has concluded that there are no significant uncertain tax positions requiring recognition in the financial statements. HHT 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. HHT does not have any amounts accrued for interest and penalties related to UTBs at June 30, 2022, 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 June 30, 2022, the most recent statement of financial position presented herein, through **Month xx, 2022**, the date these financial statements were available to be issued. No significant such events or transactions were identified.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

New Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosures of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions and valuation techniques. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021. HHT adopted the standard on July 1, 2021. The standard did not have a material impact on the financial statements. HHT has updated disclosures as necessary (See Note 7).

Risks and Economic Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of America and the globe. Many State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibit in-person work activities for most businesses and industries including nonprofit entities, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak is disrupting and affecting HHT's normal activities. The extent of the ultimate impact of the pandemic on HHT's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on funders, program recipients, employees, vendors, and other constituents, all of which cannot be reasonably predicted at this time. While management reasonably expects the COVID-19 outbreak to negatively impact HHT's financial position, changes in net assets, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

A provision of the Coronavirus Aid, Relief, and Economic Security (CARES) Act offered the Employee Retention Credit ("ERC") which is a credit against certain employment taxes. HHT received credits against employment taxes in the amount of \$181,791 in 2022, which is included in the accompanying statement of activities and a related receivable of \$81,860 for the portion not yet received at June 30, 2022 on the accompanying statement of financial position.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

HHT utilizes fair value measurements to record fair value adjustments to its investment securities and beneficial interest in assets held by community foundation and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Following is a description of the valuation methodology and key inputs used to measure assets recorded at fair value.

Investments. Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Level 1 securities include mutual funds and corporate equities traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds. All such investments are deemed to be actively traded and classified as Level 1 investments.

Beneficial interest in assets held by community foundation. The fair value of the beneficial interest in assets held by the community foundation is based on the fair value of fund investments as reported by the community foundation. The underlying trust assets cannot be liquidated or redeemed by HHT. As such, no quoted process of active markets are available for these assets. These are considered to be Level 3 investments.

The preceding methods described may produce a fair value calculation that may not be reflective of future fair values. Furthermore, although HHT 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.

Assets Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, HHT's assets measured at fair value on a recurring basis as of June 30, 2022:

	Total	Level 1	Level 2	Level 3
Investments				
Bond mutual funds - income	\$ 118,760	\$ 118,760	\$ -	\$ -
Equity mutual funds:				
Income	91,031	91,031	-	-
Growth	86,769	86,769	-	-
Value	6,340	6,340	-	-
Blended	6,947	6,947	-	-
International	34,499	34,499	-	-
Corporate equities, domestic	50,403	50,403	-	-
Real estate mutual funds	13,029	13,029	-	-
	407,778	407,778	-	-
Beneficial interest in assets held by community foundation	110,208	-	-	110,208
Total	\$ 517,986	\$ 407,778	\$ -	\$ 110,208

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

The following table sets forth a summary of changes in the fair value of HHT's Level 3 assets:

Balance at June 30, 2021	\$ 134,135
Distributions	(12,889)
Investment return, net	<u>(11,038)</u>
Balance at June 30, 2022	<u><u>\$ 110,208</u></u>

3. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at June 30, 2022:

Land	\$ 20,000
Settlers House leasehold improvements	51,069
Cappon House leasehold improvements	971,727
Holland Armory	1,488,294
Dutch Galleries leasehold improvements	367,114
Spark Lab	126,559
Office furniture and equipment	<u>56,105</u>
Total	3,080,868
Less: accumulated depreciation and amortization	<u>(2,239,336)</u>
Property and equipment, net	<u><u>\$ 841,532</u></u>

Depreciation expense amounted to \$114,257 during the year ended June 30, 2022.

4. LINES OF CREDIT

HHT has available two \$100,000 lines of credit. One of the lines of credit has variable interest based on 0.50% plus lender's prime commercial rate (effective rate of 5.25% at June 30, 2022). The line expires on December 2, 2022 and is secured by HHT's assets. For the year ended June 30, 2022, interest expense on borrowings was \$2,485.

The other line of credit also has variable interest based on lender's prime commercial rate (effective rate of 4.75% at June 30, 2022). The line expires on June 17, 2023 and is guaranteed by the Community Foundation of the Holland/Zeeland Area. For the year ended June 30, 2022, interest expense on borrowings was \$608.

	Beginning Balance	Additions	Deductions	Ending Balance
Total line of credit	\$ -	\$ 150,000	\$ (45,000)	\$ 105,000

**HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)**

Notes to Financial Statements

5. NET ASSETS WITH DONOR RESTRICTIONS

Purpose restrictions	
Education	\$ 9,926
Wichers	81,666
Furniture	11,000
Medal of Honor exhibit	4,550
Public outreach	5,035
Development and planning	60,000
Other small projects	2,864
Donor-restricted endowment funds	53,868
Beneficial interest in assets held by community foundation	10,208
Perpetual in nature	
Donor-restricted endowment funds	110,000
Beneficial interest in assets held by community foundation	<u>100,000</u>
Total net assets with donor restrictions	<u><u>\$ 449,117</u></u>

6. ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors of HHT has interpreted the State of Michigan Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the historic dollar value of the contribution as of the gift date for donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HHT classifies as net assets with donor restrictions (a) the historical dollar value of gifts donated to the permanent endowment, (b) the historical dollar 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. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA.

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Donor-Restricted Endowment Funds:

	Padnos	Kimberly	Buhler	Total
Original donor-restricted gift	\$ 50,000	\$ 10,000	\$ 50,000	\$ 110,000
Accumulated investment gains	30,841	13,559	9,468	53,868
Endowment net assets (all with donor restrictions)	\$ 80,841	\$ 23,559	\$ 59,468	\$ 163,868

Changes in Donor-Restricted Endowment Net Assets:

Endowment net assets, July 1, 2021	\$ 178,131
Investment return, net	(6,860)
Appropriated for expenditure	(7,403)
Endowment net assets, June 30, 2022	\$ 163,868

A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than either the original gift amount or the amount required to be maintained by the donor or by law. At times, HHT may have individual donor-restricted endowment funds that are underwater. HHT has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations.

Return Objectives and Risk Parameters

HHT has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide for total net return to exceed, at a minimum, the Consumer Price Index plus 5% on an annual basis. Also per the policy the total net return shall exceed a target balanced index composed of 70% of the S&P 500 for the equity component and 30% of the Barclay's Interest in Government/Credit for the fixed income component. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Spending Policy and How the Investment Objectives Relate to Spending Policy

HHT has a policy of appropriating for distribution each year no more than 5 percent of its endowment fund's average fair value over the prior four quarters through the calendar year end proceeding the fiscal year in which the distribution is planned. In establishing this policy, HHT considered the long-term expected return on its endowment. Accordingly, over the long term, HHT expects the current spending policy to allow its endowment to grow at an average rate equal to or greater than the consumer price index. This is consistent with HHT's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

7. LEASE AND IN-KIND USE OF FACILITIES

HHT leases the Holland Museum Building, the Cappon House, and the Settlers House from the City for \$10 per year for a period of 50 years, to expire in July 2039, August 2046, and November 2046, respectively. The City has title to these buildings and all improvements, fixtures or other types of fixed property appurtenant to the buildings and property located thereon. HHT is responsible for insurance on the property and buildings, but is not required to pay real estate taxes. The difference between the estimated fair rental value of the leased property and the actual lease payments are recorded as an in-kind facilities contribution revenue and donated facilities rental expense of \$49,980 in the statement of activities. Donated facilities rental expense is valued at the cost to operate the leased space as this would be a fairly reasonable estimate of the amount that the City of Holland would charge HHT to rent the building.

8. RISK MANAGEMENT

HHT is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. HHT has purchased commercial insurance for all claims related to the previously stated risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

9. RETIREMENT PLAN

HHT offers its employees a tax sheltered annuity plan created in accordance with Section 403(b) of the Internal Revenue Code. The plan is available to all full-time employees and permits them to defer a portion of their salary to future years. HHT policy allows contributions to the plan of an amount up to 20% of the employee's contribution at the discretion of the Board of Trustees. HHT made no contributions to the plan during the year ended June 30, 2022.

10. FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various program services and supporting activities has been presented on a natural basis in the statement of activities. Expenses are generally charged to functional departments as incurred for the various activities except for payroll costs, which have been allocated based on estimated time and effort.

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

The following is a schedule of expenses by nature and function for the year ended June 30, 2022:

	Program Services	Supporting Services		
	Museum operations	Administration	Fundraising	Total
Personnel services	\$ 267,535	\$ 93,131	\$ 91,545	\$ 452,211
Repairs and maintenance	19,306	19,306	19,305	57,917
Museum shop merchandise	5,820	-	-	5,820
Exhibits and curatorial	10,394	-	-	10,394
Education programs	11,438	-	-	11,438
Utilities and telephone	60,114	-	-	60,114
Office supplies	-	18,883	-	18,883
Professional and contractual	37,338	11,500	-	48,838
Property and liability insurance	16,090	4,023	-	20,113
Small equipment	-	3,458	-	3,458
Membership	-	9,405	-	9,405
Depreciation	114,257	-	-	114,257
Donated facilities rental	49,980	-	-	49,980
Professional development and travel	65	195	3,170	3,430
Other	24,712	4,135	-	28,847
	<u>\$ 617,049</u>	<u>\$ 164,036</u>	<u>\$ 114,020</u>	<u>\$ 895,105</u>

11. CONCENTRATIONS

HHT reports contribution revenues from the City to support its daily operations. Contributions from the City represent 13.6% of HHT's total revenues during the 2022 fiscal year.

12. RELATED-PARTY TRANSACTIONS

A member of HHT's executive committee is employed by a local bank, with which HHT has cash holdings of \$14,699 and an outstanding line of credit balance of \$75,000 at June 30, 2022.

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

13. LIQUIDITY AND AVAILABILITY OF RESOURCES

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 as of June 30, 2022:

Cash and cash equivalents	\$	(14,162)
Employee Retention Credit receivable		81,860
Investments		110,598
Less cash and investments designated by board for:		
Capital campaign		(101,045)
Collection/archive		<u>(3,259)</u>
Financial assets available to meet cash needs		
for general expenditures within one year	\$	<u><u>73,992</u></u>

In addition to available financial assets, HHT receives contributions to help support annual expenditures and its mission. HHT also has available two \$100,000 lines of credit. HHT has board-designated net assets without donor restrictions that, while HHT does not intend to spend those for purposes other than those identified, the amounts could be made available for current operations, if necessary.



INTERNAL CONTROL AND COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Month xx, 2022

Board of Trustees
Holland Historical Trust
Holland, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Holland Historical Trust** ("HHT") (a Michigan not-for-profit corporation and a component unit of the City of Holland, Michigan), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated **Month xx, 2022**.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HHT's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HHT's internal control. Accordingly, we do not express an opinion on the effectiveness of HHT's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether HHT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HHT's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HHT's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.