

Grand Traverse Regional Community Foundation

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
 Grand Traverse Regional Community Foundation

We have audited the accompanying financial statements of the *Grand Traverse Regional Community Foundation* (the "Foundation"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Board of Directors
Grand Traverse Regional Community Foundation

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Traverse Regional Community Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dennis, Gartland & Niergarth

April 24, 2020

Grand Traverse Regional Community Foundation

STATEMENTS OF FINANCIAL POSITION

December 31,

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,536,101 | \$ 1,192,290 |
| Investments | 65,800,791 | 56,166,571 |
| Pledges receivable, current portion | 9,400 | 12,267 |
| Prepaid expenses and other | <u>3,800</u> | <u>2,948</u> |
| Total current assets | 67,350,092 | 57,374,076 |
| OTHER ASSETS | | |
| Beneficial interest in charitable remainder trust | <u>734,000</u> | <u>555,000</u> |
| Total assets | <u>\$ 68,084,092</u> | <u>\$ 57,929,076</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Grants payable | \$ 86,604 | \$ 80,596 |
| Accounts payable | 10,288 | 13,943 |
| Accrued liabilities | <u>19,699</u> | <u>7,115</u> |
| Total current liabilities | <u>116,591</u> | <u>101,654</u> |
| NET ASSETS | | |
| Without donor restrictions | 375,577 | 403,424 |
| With donor restrictions (Note J) | | |
| Purpose and time restrictions | 10,698,241 | 2,989,472 |
| Perpetual in nature | <u>56,893,683</u> | <u>54,434,526</u> |
| Total net assets | <u>67,967,501</u> | <u>57,827,422</u> |
| Total liabilities and net assets | <u>\$ 68,084,092</u> | <u>\$ 57,929,076</u> |

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

Grand Traverse Regional Community Foundation

STATEMENTS OF ACTIVITIES

For the years ended December 31,

| | 2019 | | | 2018 | | |
|--|-------------------------------|----------------------------|----------------------|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| REVENUE AND SUPPORT | | | | | | |
| Donations | \$ 14,981 | \$ 3,461,856 | \$ 3,476,837 | \$ 5,897 | \$ 4,496,793 | \$ 4,502,690 |
| Investment return, net of investment fees of \$62,901 and \$63,686, respectively | 11,457 | 11,040,316 | 11,051,773 | 5,635 | (3,916,351) | (3,910,716) |
| Change in value of beneficial interest in charitable remainder trust | - | 179,000 | 179,000 | - | (113,000) | (113,000) |
| Miscellaneous income | 206 | - | 206 | 15,471 | - | 15,471 |
| Net assets released due to satisfaction of restrictions | 3,518,778 | (3,518,778) | - | 3,556,676 | (3,556,676) | - |
| Net assets transferred by Board action pursuant to fund advisor request | <u>994,468</u> | <u>(994,468)</u> | <u>-</u> | <u>85,700</u> | <u>(85,700)</u> | <u>-</u> |
| Total revenue and support | <u>4,539,890</u> | <u>10,167,926</u> | <u>14,707,816</u> | <u>3,669,379</u> | <u>(3,174,934)</u> | <u>494,445</u> |
| EXPENSES | | | | | | |
| Program services | 3,881,321 | - | 3,881,321 | 3,047,619 | - | 3,047,619 |
| Management and general | 393,817 | - | 393,817 | 340,773 | - | 340,773 |
| Fundraising | <u>292,599</u> | <u>-</u> | <u>292,599</u> | <u>290,333</u> | <u>-</u> | <u>290,333</u> |
| Total expenses | <u>4,567,737</u> | <u>-</u> | <u>4,567,737</u> | <u>3,678,725</u> | <u>-</u> | <u>3,678,725</u> |
| CHANGES IN NET ASSETS | (27,847) | 10,167,926 | 10,140,079 | (9,346) | (3,174,934) | (3,184,280) |
| NET ASSETS, beginning of year | <u>403,424</u> | <u>57,423,998</u> | <u>57,827,422</u> | <u>412,770</u> | <u>60,598,932</u> | <u>61,011,702</u> |
| NET ASSETS, end of year | <u>\$ 375,577</u> | <u>\$ 67,591,924</u> | <u>\$ 67,967,501</u> | <u>\$ 403,424</u> | <u>\$ 57,423,998</u> | <u>\$ 57,827,422</u> |

Grand Traverse Regional Community Foundation

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

| | Program Services | Management & General | Fundraising | Total Expenses |
|---------------------------|---------------------|-------------------------|-------------|-------------------|
| Salaries and wages | \$ 234,236 | \$ 228,228 | \$ 133,837 | \$ 596,301 |
| Employee benefits | 11,620 | 23,365 | 5,012 | 39,997 |
| Retirement | 17,699 | 17,328 | 11,029 | 46,056 |
| Payroll taxes | 17,205 | 16,764 | 9,831 | 43,800 |
| Total payroll expenses | 280,760 | 285,685 | 159,709 | 726,154 |
| Grants | 3,297,351 | - | - | 3,297,351 |
| Consulting | 139,563 | 3,500 | 3,700 | 146,763 |
| Legal fees | - | 4,075 | - | 4,075 |
| Accounting | - | 18,293 | - | 18,293 |
| Advertising and promotion | 17,577 | - | 68,743 | 86,320 |
| Office expenses | 10,133 | 16,547 | 10,192 | 36,872 |
| Information technology | 21,299 | 19,434 | 12,569 | 53,302 |
| Charitable gift annuity | 4,400 | - | - | 4,400 |
| Occupancy | 24,747 | 24,111 | 14,139 | 62,997 |
| Travel | 4,407 | 721 | 582 | 5,710 |
| Conferences and meetings | 15,830 | 4,034 | 7,516 | 27,380 |
| Insurance | - | 5,304 | - | 5,304 |
| Component fund costs | 65,234 | - | 15,299 | 80,533 |
| Memberships | 20 | 12,113 | 150 | 12,283 |
| Total expenses | \$ 3,881,321 | \$ 393,817 | \$ 292,599 | \$ 4,567,737 |

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

Grand Traverse Regional Community Foundation

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

| | Program Services | Management & General | Fundraising | Total Expenses |
|---------------------------|---------------------|-------------------------|-------------|-------------------|
| Salaries and wages | \$ 182,264 | \$ 202,351 | \$ 159,136 | \$ 543,751 |
| Employee benefits | 6,898 | 27,331 | 890 | 35,119 |
| Retirement | 12,865 | 16,517 | 12,951 | 42,333 |
| Payroll taxes | 13,565 | 15,060 | 11,844 | 40,469 |
| Total payroll expenses | 215,592 | 261,259 | 184,821 | 661,672 |
| Grants | 2,713,559 | - | - | 2,713,559 |
| Consulting | 14,256 | - | - | 14,256 |
| Legal fees | - | 2,673 | - | 2,673 |
| Accounting | - | 19,298 | - | 19,298 |
| Advertising and promotion | - | - | 63,171 | 63,171 |
| Office expenses | 6,018 | 10,473 | 8,673 | 25,164 |
| Information technology | 14,524 | 14,886 | 13,690 | 43,100 |
| Charitable gift annuity | 4,400 | - | - | 4,400 |
| Occupancy | 11,642 | 12,925 | 10,164 | 34,731 |
| Travel | 3,405 | 869 | 1,528 | 5,802 |
| Conferences and meetings | 6,787 | 3,063 | 6,536 | 16,386 |
| Insurance | - | 2,759 | - | 2,759 |
| Component fund costs | 57,436 | - | 1,675 | 59,111 |
| Memberships | - | 12,568 | 75 | 12,643 |
| Total expenses | \$ 3,047,619 | \$ 340,773 | \$ 290,333 | \$ 3,678,725 |

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

Grand Traverse Regional Community Foundation

STATEMENTS OF CASH FLOWS

For the years ended December 31,

| | 2019 | 2018 |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 10,140,079 | \$ (3,184,280) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Endowment gifts | (2,465,713) | (3,259,103) |
| Net realized (gain) loss on sales of investments | 232,456 | (662,085) |
| Net unrealized (gain) loss on investments | (9,663,252) | 6,058,797 |
| Noncash contribution of investments | (1,250,284) | (1,690,235) |
| Change in value of beneficial interest in charitable remainder trust | (179,000) | 113,000 |
| Changes in operating assets and liabilities | | |
| Pledges receivable | 2,867 | 2,599 |
| Accounts receivable | (852) | - |
| Prepaid expenses | - | 16,732 |
| Grants payable | 6,008 | 13,951 |
| Accounts payable | (3,655) | 7,693 |
| Accrued liabilities | <u>12,584</u> | <u>(124)</u> |
| Net cash flows from operating activities | <u>(3,168,762)</u> | <u>(2,583,055)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (3,301,191) | (348,454) |
| Proceeds from sales of investments | <u>4,348,051</u> | <u>136,960</u> |
| Net cash flows from investing activities | <u>1,046,860</u> | <u>(211,494)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash donations restricted for endowment | <u>2,465,713</u> | <u>3,259,103</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 343,811 | 464,554 |
| Cash and cash equivalents, beginning of year | <u>1,192,290</u> | <u>727,736</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 1,536,101</u></u> | <u><u>\$ 1,192,290</u></u> |

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

Grand Traverse Regional Community Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Grand Traverse Regional Community Foundation (the "Foundation") was formed in January 1992 to accept, administer and distribute property for educational, scientific, literary, cultural and charitable purposes in accordance with the terms of gifts, bequests or devises. The Foundation primarily serves the residents of Antrim, Benzie, Grand Traverse, Kalkaska and Leelanau counties in northern Michigan.

Description of Funds

The Foundation administers approximately 300 funds under fund agreements established between original donors and the Foundation. Fund distributions are approved by the Board of Directors of the Foundation according to the purpose of the fund. Interfund grants and administrative charges are eliminated in the basic financial statements of the Foundation.

Basis of Accounting and Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

The Foundation reports information regarding its financial position and activities according to two classes of net assets depending on the existence or absence of donor-imposed restrictions and are as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits in a bank, money market funds and all unendowed temporary investments with an original maturity of three months or less.

Investments

Investment securities purchased are initially recorded at cost and investment securities received by gift are recorded at fair value at the date of donation. Thereafter, the carrying value of such investments are adjusted to fair value, which is determined using published exchange market quotations where applicable or estimated fair values provided by external investment managers or other sources. Realized and unrealized gains and losses are reflected as investment return, net in the accompanying statements of activities.

Pledges

Pledges are recognized as revenue when the donor makes a promise to give to the Foundation that is, in substance, unconditional and collection is reasonably assured. Pledges are reported at the face value which approximates present value. Pledges are periodically offset against revenue when management has deemed collection unlikely.

Beneficial Interest in Charitable Remainder Trust

The Foundation is the beneficiary of irrevocable charitable remainder trust in connection with split-interest agreements with donors. Contribution revenue is recognized at the date the trusts are established based on the expected present value of the Foundation's interest in the assets of the trusts. Subsequent changes in the value of the assets and other changes in the estimates of future receipts are recognized in the accompanying statements of activities.

Grants Payable

The Foundation approves assets for distribution and reduces grants payable upon payment to local nonprofit organizations or individual scholarship recipients.

Fair Value Measurements

The Foundation follows FASB ASC 820, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. FASB ASC 820, applies whenever other financial reporting standards require or permit assets or liabilities to be measured at fair value on a recurring basis and, therefore, does not expand the use of fair value in any new circumstances. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or more advantageous market for the asset or liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. FASB ASC 820, clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. For assets and liabilities recorded at fair value, it is the Foundation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market.

NOTES TO FINANCIAL STATEMENTS - Continued

Donations

Donations, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Foundation records donations of non-cash assets at their appraised or fair value at the date of gift.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and benefits are allocated based on estimates of time and effort and certain other costs are allocated based on specific benefits received.

Tax Status

The Internal Revenue Service has determined that the Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Also, the Foundation has been certified as a community foundation by the State of Michigan and has received determination as an "other than private foundation" under section 170(b)(1)(A)(vi) of the Internal Revenue Code. The Foundation is subject to income tax only on the business income not related to its exempt purpose. Such taxes are generally insignificant. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Foundation files information returns in the U.S. Federal jurisdiction. With few exceptions, the Foundation is no longer subject to U.S. Federal examinations by tax authorities for years before December 31, 2016.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. The Foundation used estimates, which could change by material amounts in the near-term, in the valuation of a charitable remainder trust.

Subsequent Events

The Foundation has evaluated subsequent events and transactions for potential recognition and disclosure through April 24, 2020, the date the financial statements were available to be issued.

Market Losses

The economy has experienced a significant downturn subsequent to year-end, resulting in market losses on investments. Management is not currently able to determine if these market losses will be other than temporary. Investment fair values could change by significant amounts in the near-term.

COVID-19

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 American 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 the Foundation's normal activities. The extent of the ultimate impact of the pandemic on the Foundation'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. In addition, the current environment may place additional demands on the Foundation for providing immediate financial support and/or services to its program recipients. While management reasonably expects the COVID-19 outbreak to negatively impact the Foundation'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.

Charitable Remainder Trust

The Foundation is the beneficiary of a charitable remainder trust as described in Note G. The donor of the trust passed away in April 2020. The assets will be distributed as soon as administratively feasible as determined by the Trustee.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following at December 31, 2019:

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 1,536,101 | \$ 1,192,290 |
| Investments | 65,800,791 | 56,166,571 |
| Pledges receivable, current | 9,400 | 12,267 |
| Less endowment assets | (64,291,070) | (54,077,539) |
| Less donor restricted temporary funds | <u>(2,566,854)</u> | <u>(2,791,459)</u> |
| Total current assets available for general operations | <u>\$ 488,368</u> | <u>\$ 502,130</u> |

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure.

NOTE C - DEPOSITS

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances periodically exceed the Federal insurance limit for deposits. At December 31, 2019 and 2018, \$294,174 and \$225,097 were uninsured, respectively. Management evaluates the financial institutions in which the Foundation deposits its funds and assesses the level of risk associated with those institutions.

NOTE D - INVESTMENTS

The Foundation's investments are held by financial institutions and consisted of the following at December 31:

| | <u>2019</u> | | <u>2018</u> | |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Endowment Funds: | | | | |
| Fixed income | \$12,447,058 | \$12,362,364 | \$11,815,825 | \$12,429,879 |
| Domestic equity | 17,836,723 | 16,258,173 | 20,340,243 | 15,221,265 |
| International equity | 26,326,894 | 15,512,411 | 13,093,624 | 14,231,556 |
| Alternative investments | 7,077,468 | 6,836,152 | 7,978,693 | 8,271,291 |
| Temporary Funds: | | | | |
| Fixed income | <u>2,112,648</u> | <u>2,106,663</u> | <u>2,938,186</u> | <u>2,943,548</u> |
| Total investments | <u>\$65,800,791</u> | <u>\$53,075,763</u> | <u>\$56,166,571</u> | <u>\$53,097,539</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

Investment returns consisted of the following for the year ended December 31:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|----------------------|-----------------------|
| Interest and dividends | \$ 1,683,881 | \$ 1,549,682 |
| Net realized gains (losses) | (232,459) | 662,085 |
| Unrealized gains (losses) | 9,663,252 | (6,058,797) |
| Investment fees | <u>(62,901)</u> | <u>(63,686)</u> |
| Net investment returns | <u>\$ 11,051,773</u> | <u>\$ (3,910,716)</u> |

Concentration of Credit Risk - Investments

Brokerage accounts have insurance of \$500,000 per broker, provided by the Securities Investor Protection Corporation. The balance of investments exceeded insured limits by \$65.2 million and \$55.2 million at December 31, 2019 and 2018, respectively.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2019 and 2018 consist of unconditional promises to give to endowment funds. The carrying value of these pledges approximates present value. No allowance for uncollectible pledges is recorded as of December 31, 2019 and 2018 because such amounts are expected to be insignificant. Amounts are to be received as follows:

| | <u>2019</u> | <u>2018</u> |
|------|-----------------|------------------|
| 2019 | \$ - | \$ 12,267 |
| 2020 | <u>9,400</u> | <u>-</u> |
| | <u>\$ 9,400</u> | <u>\$ 12,267</u> |

NOTE F - FAIR VALUE

The Foundation utilizes fair value measurements to record fair value adjustments to investments and beneficial interest in charitable remainder trusts and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

Fair Value Hierarchy

Under FASB ASC 820, the Foundation groups its investments and beneficial interest in charitable remainder trust at fair value into three levels, based on the markets in which the investments are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds valued at net asset value of shares held by the Foundation at year-end.

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 estimates that market participants would use in pricing the asset or liability.

Fair value measurement for the Foundation's investments is based upon quoted prices. Level 1 investments include equity securities (primarily mutual funds) and debt securities (principally corporate bonds). Level 3 investments include beneficial interest in charitable remainder trust.

Fair value measurement for the beneficial interest in charitable remainder trust is based upon an estimated rate of return, anticipated future payments to be made to the donor during the donor's life, donor's life expectancy and an assumed discount rate as discussed further in Note G.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets and liabilities at fair value:

| <u>Assets at Fair Value as of December 31, 2019</u> | | | | |
|---|----------------------|----------------|-------------------|----------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets | | | | |
| Fixed income | \$ 14,559,706 | \$ - | \$ - | \$ 14,559,706 |
| Domestic equity | 17,836,723 | - | - | 17,836,723 |
| International equity | 26,326,894 | - | - | 26,326,894 |
| Alternative investments | 7,077,468 | - | - | 7,077,468 |
| Charitable remainder trust | <u>-</u> | <u>-</u> | <u>734,000</u> | <u>734,000</u> |
| | <u>\$ 65,800,791</u> | <u>\$ -</u> | <u>\$ 734,000</u> | <u>\$ 66,534,791</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

Assets at Fair Value as of December 31, 2018

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|----------------------|----------------|-------------------|----------------------|
| Assets | | | | |
| Fixed income | \$ 14,754,009 | \$ - | \$ - | \$ 14,754,009 |
| Domestic equity | 20,340,245 | - | - | 20,340,245 |
| International equity | 13,093,624 | - | - | 13,093,624 |
| Alternative investments | 7,978,693 | - | - | 7,978,693 |
| Charitable remainder trust | <u>-</u> | <u>-</u> | <u>555,000</u> | <u>555,000</u> |
| | <u>\$ 56,166,571</u> | <u>\$ -</u> | <u>\$ 555,000</u> | <u>\$ 56,721,571</u> |

Alternative investments consist of commodities, long/short equities, emerging market equities, nontraditional bonds, real estate investment trusts and hedge funds.

The table below presents a reconciliation for the Foundation's beneficial interest in charitable remainder trust measured at fair value using significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018:

| | <u>Beneficial Interest in Charitable Remainder Trust</u> |
|---|--|
| Balance, January 1, 2018 | \$ 668,000 |
| Change in value of beneficial interest in charitable remainder trust | <u>(113,000)</u> |
| Balance, December 31, 2018 | 555,000 |
| Change in value of beneficial interest in charitable remainder trust | <u>179,000</u> |
| Balance, December 31, 2019 | <u>\$ 734,000</u> |

NOTE G - CHARITABLE REMAINDER TRUST

As of January 1, 2014, a donor having a charitable remainder unitrust managed by a third party named the Foundation as the remainder beneficiary. Under the terms of this split-interest agreement, the third party trustee must pay the donor 4.5% - 5% of the net fair value of the assets of the trust as valued on the first day of each taxable year of the trust. Such payments continue throughout the donor's life; at the time of the donor's death, the trust will terminate, and the remaining trust assets will be distributed to the Foundation.

At December 31, 2019, based on the donors' life expectancies and an assumed IRS 2.0% discount rate, the fair value of the beneficial interest to be received by the Foundation was estimated at \$734,000.

NOTES TO FINANCIAL STATEMENTS - Continued

At December 31, 2018, based on the donors' life expectancies and an assumed IRS 3.6% discount rate, the fair value of the beneficial interest to be received by the Foundation was estimated at \$555,000.

NOTE H - GRANTS PAYABLE

The Foundation has an annual spending policy to distribute 4% of the fund's average fair values over the prior 12 quarters beginning on the previous year-end. Grants payable consist of grants approved for distribution under this spending policy but not paid to local non-profit organizations or individual scholarship recipients. At December 31, amounts scheduled to be paid are as follows:

| | <u>2019</u> | <u>2018</u> |
|------|------------------|------------------|
| 2019 | \$ - | \$ 80,596 |
| 2020 | <u>86,604</u> | <u>-</u> |
| | <u>\$ 86,604</u> | <u>\$ 80,596</u> |

NOTE I - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consists of the following amounts at December 31:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Subject to expenditure for specific purpose | | |
| Charitable remainder trust | \$ 734,000 | \$ 555,000 |
| Endowments | 64,291,070 | 54,077,539 |
| Grant making | <u>2,566,854</u> | <u>2,791,459</u> |
| Total net assets with donor restrictions | <u>\$67,591,924</u> | <u>\$57,423,998</u> |

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NOTE J - ENDOWMENT

The Foundation's endowment consists of individual funds that are donor restricted or Board designated, and have been established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Act 87 of 2009), and, thus, classifies amounts in its donor restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Foundation appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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NOTES TO FINANCIAL STATEMENTS - Continued

Following is a summary of the changes in the endowment net assets:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---|------------------------------------|---------------|
| Endowment net assets as of January 1, 2018 | \$ - | \$ 57,455,984 | \$ 57,455,984 |
| Investment return: | | | |
| Investment income | - | 1,453,959 | 1,453,959 |
| Net realized and unrealized gain (loss) | - | (5,409,030) | (5,409,030) |
| Net investment loss | - | (3,955,071) | (3,955,071) |
| Contributions and other revenue | - | 3,406,869 | 3,406,869 |
| Transfers from temporary funds requested by fund advisors | - | (8,812) | (8,812) |
| Change in deficit in endowments | - | - | - |
| Appropriation of endowment assets for expenditure | 2,821,431 | (2,821,431) | - |
| Expenditure of endowment assets or approval of distribution | (2,821,431) | - | (2,821,431) |
| Changes to endowment net assets | - | (3,378,445) | (3,378,445) |
| Endowment net assets as of December 31, 2018 | - | 54,077,539 | 54,077,539 |
| Investment return: | | | |
| Investment income | - | 1,555,814 | 1,555,814 |
| Net realized and unrealized gain (loss) | - | 9,403,070 | 9,403,070 |
| Net investment gain | - | 10,958,884 | 10,958,884 |
| Contributions and other revenue | - | 2,465,713 | 2,465,713 |
| Transfers from temporary funds requested by fund advisors | - | (993,943) | (993,943) |
| Net assets released due to satisfaction of restrictions | 2,217,123 | (2,217,123) | - |
| Expenditure of endowment assets or approval of distribution | (2,217,123) | - | (2,217,123) |
| Changes to endowment net assets | - | 10,213,531 | 10,213,531 |
| Endowment net assets as of December 31, 2019 | \$ - | \$ 64,291,070 | \$ 64,291,070 |

NOTES TO FINANCIAL STATEMENTS - Continued

Underwater Endowment Funds

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 to retain as a fund of perpetual duration.

Donor Restricted Underwater Endowments consist of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|--------------------|-----------------------|
| Number of underwater endowments | <u>9</u> | <u>97</u> |
| Current fair value | \$ 3,547,444 | \$ 34,631,821 |
| Original value | <u>3,623,157</u> | <u>37,000,646</u> |
| Deficiencies | <u>\$ (75,713)</u> | <u>\$ (2,368,825)</u> |

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Foundation. The governing board appropriated for expenditure \$129,520 and \$86,826 from underwater endowment funds during the years ending December 31, 2019 and 2018, respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that attempt to maximize total return over the long-term, recognizing there will be some volatility over the short-term, to provide a stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted funds that must be held in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 7.5% annually. Actual returns in any given year may vary from this range.

Strategies Employed for Achieving Objectives

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

NOTE K - ADMINISTRATIVE FEES

The Foundation charges a fee for management of each fund. The fees are assessed at the end of each quarter based upon the ending quarterly average balances for net assets on a trailing twelve quarter rolling period. Fees vary by the fund agreement for each fund. Fees charged to most funds have been established at 1%. For the more recently established funds, the fee has been established at 1.5%. Any endowed fund that has been established for three full calendar years will be charged a minimum fee of \$250 annually. In the case of sponsored temporary funds, policy calls for a 2% fee. Exceptions to these fees may be made by the President/Chief Executive Officer of the Foundation.

Administrative fees charged by the Foundation to temporarily and permanently restricted funds amounted to \$896,219 and \$823,258 during the years ended December 31, 2019 and 2018, respectively.

NOTE L - RETIREMENT PLAN

The Foundation participates in a Group Retirement Annuities 403(b) Plan and contributes 8% of each employee's wages. The Foundation contributed \$46,056 and \$42,333 during the years ended December 31, 2019 and 2018, respectively.

NOTE M - OPERATING LEASE

On November 1, 2015, the Foundation entered into a five-year operating lease for office space. The lease requires monthly rental payments of \$3,500 to \$2,168 over the five-year period. Property taxes, maintenance and insurance are paid by the landlord. This lease was terminated by the Foundation in April of 2019.

On March 1, 2019, the Foundation entered into a three-year operating lease for its current office space. The lease requires monthly rental payments of \$3,500 to \$4,500 over the three-year period. Property taxes, maintenance and insurance are paid by the landlord.

Total rent expense for these leases amounted to \$46,501 and \$25,367 during the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments as of December 31, 2019 are as follows:

| | |
|------|-------------------|
| 2020 | \$ 52,000 |
| 2021 | 54,000 |
| 2022 | <u>9,000</u> |
| | <u>\$ 115,000</u> |