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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shiawassee Community Foundation, Inc.
Owosso, Michigan

We have audited the accompanying financial statements of Shiawassee Community Foundation, Inc. (a nonprofit corporation), which comprise the statements of financial position as of September 30, 2017 and 2016, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shiawassee Community Foundation, Inc. as of September 30, 2017 and 2016, 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.

CHBW & Co., P.C.

Certified Public Accountants

Hillsdale, Michigan
December 13, 2017

SHLAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
ASSETS		
Cash and equivalents	\$ 57,660	\$ 53,166
Grant receivables	4,500	
Bequest receivables	813,000	
Investments	8,026,709	6,139,543
Prepaid expense	2,091	1,991
Office equipment	3,283	3,283
Accumulated depreciation	<u>(3,283)</u>	<u>(3,283)</u>
TOTAL ASSETS	<u><u>\$ 8,903,960</u></u>	<u><u>\$ 6,194,700</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 8,700	\$
Grants payable		1,425
Payroll-related liabilities	4,590	3,578
Funds held as agency endowments	<u>194,860</u>	<u>87,503</u>
TOTAL LIABILITIES	<u><u>\$ 208,150</u></u>	<u><u>\$ 92,506</u></u>
NET ASSETS		
Unrestricted	\$ 2,985,964	\$ 2,026,127
Restricted		
Temporarily	5,631,585	3,997,806
Permanently	<u>78,261</u>	<u>78,261</u>
TOTAL NET ASSETS	<u><u>\$ 8,695,810</u></u>	<u><u>\$ 6,102,194</u></u>
	<u><u>\$ 8,903,960</u></u>	<u><u>\$ 6,194,700</u></u>

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

SHLAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>			
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 863,952	\$ 1,442,355	\$	\$ 2,306,307
Grants	4,500			4,500
Investment earnings	105,691	214,919		320,610
Net unrealized investment gains	142,475	273,186		415,661
Agency fees	1,386			1,386
Net assets released from restrictions	296,681	(296,681)		
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>\$ 1,414,685</u>	<u>\$ 1,633,779</u>	<u>\$</u>	<u>\$ 3,048,464</u>
EXPENSES AND LOSSES				
Program Services:				
Grants and scholarships	\$ 312,698	\$	\$	\$ 312,698
Other	53,897			53,897
Supporting Services:				
Management & general	67,650			67,650
Fundraising	20,603			20,603
TOTAL EXPENSES AND LOSSES	<u>\$ 454,848</u>	<u>\$</u>	<u>\$</u>	<u>\$ 454,848</u>
CHANGES IN NET ASSETS	\$ 959,837	\$ 1,633,779	\$	\$ 2,593,616
NET ASSETS, BEGINNING OF YEAR	<u>2,026,127</u>	<u>3,997,806</u>	<u>78,261</u>	<u>6,102,194</u>
NET ASSETS, END OF YEAR	<u>\$ 2,985,964</u>	<u>\$ 5,631,585</u>	<u>\$ 78,261</u>	<u>\$ 8,695,810</u>

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

	2016			
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 99,787	\$ 57,113	\$	\$ 156,900
Grants	2,500			2,500
Investment earnings	53,418	123,725		177,143
Net unrealized investment gains	145,899	286,909		432,808
Agency fees	1,009			1,009
Net assets released from restrictions	272,376	(272,376)		
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>\$ 574,989</u>	<u>\$ 195,371</u>	<u>\$</u>	<u>\$ 770,360</u>
EXPENSES AND LOSSES				
Program Services:				
Grants and scholarships	\$ 257,021	\$	\$	\$ 257,021
Other	59,935			59,935
Supporting Services:				
Management & general	54,624			54,624
Fundraising	21,278			21,278
TOTAL EXPENSES AND LOSSES	<u>\$ 392,858</u>	<u>\$</u>	<u>\$</u>	<u>\$ 392,858</u>
CHANGES IN NET ASSETS	\$ 182,131	\$ 195,371	\$	\$ 377,502
NET ASSETS, BEGINNING OF YEAR	<u>1,843,996</u>	<u>3,802,435</u>	<u>78,261</u>	<u>5,724,692</u>
NET ASSETS, END OF YEAR	<u>\$ 2,026,127</u>	<u>\$ 3,997,806</u>	<u>\$ 78,261</u>	<u>\$ 6,102,194</u>

SHIAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017			
	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL
		MANAGEMENT & GENERAL	FUNDRAISING	
Grants & scholarships	\$ 312,698	\$	\$	\$ 312,698
Salaries	38,351	17,433	13,946	69,730
Payroll taxes	3,094	1,406	1,125	5,625
Payroll service fee		1,470		1,470
Travel & mileage	284	129	104	517
Meetings, conferences & training	1,079	490	392	1,961
Equip. rental & maintenance	802	365	291	1,458
Rent	1,038	472	377	1,887
Utilities	671	305	244	1,220
Postage	276	126	100	502
Office supplies	1,242	565	451	2,258
Printing	261	119	95	475
Appeals and brochures			300	300
Telephone	1,251	569	455	2,275
Internet	330	150	120	600
Website	425	193	155	773
Dues & membership	248	113	89	450
Contract services	4,545	2,065	1,653	8,263
Consulting		7,200		7,200
Professional fees		9,600		9,600
Investment advisory fee		22,307		22,307
Insurance		2,311		2,311
Special project events			706	706
Miscellaneous		262		262
TOTAL EXPENSES	\$ 366,595	\$ 67,650	\$ 20,603	\$ 454,848

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

2016

	SUPPORTING SERVICES			TOTAL
	PROGRAM SERVICES	MANAGEMENT & GENERAL	FUNDRAISING	
Grants & scholarships	\$ 257,021	\$	\$	\$ 257,021
Salaries	42,602	15,216	14,455	72,273
Payroll taxes	2,764	1,843	1,152	5,759
Payroll service fee		540		540
Travel & mileage	977	444	355	1,776
Meetings, conferences & training	2,990	1,359	1,087	5,436
Equip. rental & maintenance	752	342	274	1,368
Rent	1,015	461	369	1,845
Utilities	725	330	264	1,319
Postage	423	192	154	769
Office supplies	953	433	346	1,732
Printing	248	113	90	451
Appeals and brochures				
Telephone	1,203	547	438	2,188
Internet	303	137	110	550
Website	439	199	160	798
Dues & membership	203	92	74	369
Contract services	4,338	1,972	1,578	7,888
Consulting				
Professional fees		7,500		7,500
Investment advisory fee		20,225		20,225
Insurance		2,311		2,311
Special project events			372	372
Miscellaneous		368		368
TOTAL EXPENSES	\$ 316,956	\$ 54,624	\$ 21,278	\$ 392,858

SHIAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,593,616	\$ 377,502
Adjustment to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Net unrealized (gains) losses on investments	(415,661)	(432,808)
Net realized (gains) losses on sale of investments	(64,146)	103,815
Increase (decrease) in current assets		
Pledge receivable	(813,000)	
Grant receivable	(4,500)	
Prepaid expense	(100)	(76)
Increase (decrease) in current liabilities		
Accounts payable	8,700	
Grants payable	(1,425)	425
Payroll-related liabilities	1,012	786
Deferred grant revenue		(2,500)
Due to other agencies	107,357	15,326
	<u>107,357</u>	<u>15,326</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 1,411,853</u>	<u>\$ 62,470</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net purchases and proceeds of investments	\$ (1,411,748)	\$ (51,556)
Principal collections on land contract receivable	4,389	4,093
	<u>4,389</u>	<u>4,093</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>\$ (1,407,359)</u>	<u>\$ (47,463)</u>
NET CHANGE IN CASH AND EQUIVALENTS	\$ 4,494	\$ 15,007
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>53,166</u>	<u>38,159</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 57,660</u>	<u>\$ 53,166</u>

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

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

NOTE 1: NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Shiawassee Community Foundation (the "Foundation") was incorporated in 1995 as a nonprofit corporation to fulfill its mission to solicit, collect, receive and administer funds exclusively for such religious, charitable, literary and educational purposes, as permitted for organizations defined in section 501(c)(3) of the Internal Revenue Service, as will best promote and enhance the well-being of Michigan residents.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis revenue/gains and expenses/losses are recognized in the period when earned or incurred, respectively.

To ensure observance of limitations and restrictions placed on the use of available resources, for internal accounting and stewardship purposes, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and internal reporting into funds established according to their nature and purpose.

Basis of Presentation

The Foundation reports information regarding its financial position and activity according to three classes of net assets:

- a) *Unrestricted Net Assets* – net assets that are not subject to donor-imposed restrictions including the carrying value of equipment. Resources that are reported in this net asset category include unrestricted gifts and the investment earnings and gains thereon, and related expenses associated with the operations of the Foundation.
- b) *Temporarily Restricted Net Assets* – net assets subject to donor-imposed restrictions that will be satisfied by actions of the Foundation and/or by the passage of time. Resources reported in this net asset category include gifts for which restrictions have not been met and the investment earnings and gains thereon. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled) are reported as reclassifications between the applicable classes of net assets.
- c) *Permanently Restricted Net Assets* – net assets subject to donor-imposed restrictions that they be maintained in perpetuity by the Foundation and not subject to the variance power and powers of modification, as noted in the by-laws of the Foundation.

Cash and Equivalents

Cash and equivalents consist of deposits in checking, savings and money market funds. From time to time during the year deposits may exceed the Federal Deposit Insurance Corporation insured limits. However, all deposits were under the insured limit of \$250,000 at September 30, 2017 and 2016.

Bequests Receivable

Bequests receivables consist of unconditional promises to give from donors who have left gifts held by their estates to be distributed to the Foundation. Bequests receivable at September 30, 2017 and 2016 totaled \$813,000 and \$-0-, comprised of one estate.

SHIAWASSEE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2017 AND 2016

NOTE 1: NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in mutual and managed funds, unit investment trusts and bonds are carried at quoted market value as determined by quoted market prices. Investment income is comprised of interest, dividends, realized and unrealized gains, net of investment fees. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily restricted net assets. Investment in land contract is accounted for based on amortized cost, which approximates fair value.

Risks and Uncertainties

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

Office Equipment

Office equipment with a cost of \$1,000 or more and having a useful life of greater than one year is capitalized. Donated office equipment is recorded at fair market value on the date of donation. Depreciation is computed using the straight-line method over the useful lives of the assets which range from 3 to 5 years. Costs of repairs and maintenance that do not add value or extend the useful life of assets are expensed when incurred.

Funds Held in Agency

The Foundation has adopted guidance to record transfers of assets to a not-for-profit organization that holds contributions for others. Accounting standards specifically require transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to the donor or another entity that is specified by the donor. The standard specifically requires that if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Functional Allocation of Expenses

Total expenses consisted of expense relating to program services, management and general, and fundraising. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

SHIAWASSEE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2017 AND 2016

NOTE 1: NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Grants and Scholarships Payable

Grants and scholarships authorized (by the Board of Trustees) but unpaid at year-end are charged to the respective donor fund as an expense and are reported as liabilities.

Fundraising Expense

Administrative expense includes costs related to fundraising in addition to fund event expense that is incurred by funds primarily to promote growth in their endowments.

Administrative Fees

The Foundation's administrative operating fund charges a management fee to each donor fund to support the cost of its administrative operating budget. This fee is 1.50% of the average fund balance, with the exception of scholarship funds that are charged 1.75% and designated / agency funds that are charged 1.25%. For the years ended September 30, 2017 and 2016, the Foundation generated \$100,472 and \$91,949 in administrative fees, respectively.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Income Tax Status

The Internal Revenue Service (IRS) has ruled that the Foundation and its supporting organization are public charities as described in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code. Consequently, the Foundation is exempt from federal income taxes and qualifies as a charitable foundation under Section 501(c)(3). The Foundation is required to operate in conformity with the IRC to maintain its charitable status. The Foundation is not aware of any course of action or series of events that have occurred that might adversely affect its charitable status. Additionally, tax years that remain subject to tax examination by the IRS and the State of Michigan are 2013-2016. The Foundation may be subject to routine audits by taxing jurisdictions; however, currently there are no audits for any tax periods that have been initiated or that are in progress.

Subsequent Events

It is management's policy to evaluate events that occur subsequent to the end of the year and determine if such events, if any, require an adjustment to the financial statements or disclosure in the notes detailing the relevant facts. In the preparation of the accompanying financial statements management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to September 30, 2017, the most recent balance sheet presented herein, through the auditor's report date, the date these financial statements were available to be issued. No such significant events or transactions were identified.

SHIAWASSEE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2017 AND 2016

NOTE 2: FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

- *Level 1* Unadjusted quoted market prices for identical assets or liabilities in an active market that the Foundation has the ability to access.
- *Level 2* Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly.
- *Level 3* Unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (the unobservable inputs should be developed based on the best information available in the circumstances and may include the Foundation's own data).

Following is a description of the valuation methodologies used for assets measured at fair value at September 30, 2017 and 2016:

- *Mutual Funds, Managed Futures Hedge Funds, Unit Investment Trusts, and Corporate Bonds: Valued at unadjusted quoted market prices of shares held by the Foundation at year end.*
- *Land contract: Valued at amortized cost, which approximates fair value.*

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value:

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 6,770,876	\$	\$	\$ 6,770,876
Managed future hedge funds	88,814	113,997		202,811
Unit investment trusts	852,410			852,410
Land contract			200,612	200,612
	<u>\$ 7,712,100</u>	<u>\$ 113,997</u>	<u>\$ 200,612</u>	<u>\$ 8,026,709</u>
	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 4,879,943	\$	\$	\$ 4,879,943
Managed future hedge funds	93,214	128,841		222,055
Unit investment trusts	832,544			832,544
Land contract			205,001	205,001
	<u>\$ 5,805,701</u>	<u>\$ 128,841</u>	<u>\$ 205,001</u>	<u>\$ 6,139,543</u>

SHLAWASSEE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 2: FAIR VALUE MEASUREMENTS (CONCLUDED)

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the land contract:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 205,001	\$ 209,094
Principal collections reinvested	<u>(4,389)</u>	<u>(4,093)</u>
Balance at end of year	<u>\$ 200,612</u>	<u>\$ 205,001</u>

All investments other than the land contract are held and managed by Wells Fargo Advisors under a single account in the Foundation's name. Following are compositions of the Hedge and Unit Investment Trust Funds.

Managed Futures Hedge Funds

Campbell Strategic Allocation Fund LP – (2017) \$113,997 / (2016) \$128,841

Capital is potentially allocated across 100 different markets around the world, which have been carefully selected based on objectives as follows: reduce overall portfolio volatility and enhance returns by adding non-correlated assets; provide global diversification within a single investment; provide the potential to profit regardless of the economic environment; generate returns independent of the stock and bond markets; achieve capital appreciation over the medium to long-term. These objectives are driven by a diversified portfolio comprised of commodities, equities, domestic and foreign treasury obligations.

Global Macro Trust – (2017) \$88,814 / (2016) \$93,214

The trust is organized to seek profit opportunities on trading of futures, forwards, and option contracts in global fixed-income instruments, currencies, stock indices and commodities.

Unit Investment Trusts

First Trust Inflation Hedge Ser #1 invests in common stocks of metals and mining companies and exchange-traded funds which are designed to track gold, silver, copper, or U.S. Treasury securities.

Land Contract

Investment in land contract received from an estate is collectible in monthly installments of \$1,550, which includes interest at 7%, payable until balance is paid in full.

Investment Earnings

Following are the components of investment earnings for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Equity and Debt Securities		
Interest and dividends	\$ 242,252	\$ 266,451
Net realized gains	64,147	(103,815)
Land contract interest	<u>14,211</u>	<u>14,507</u>
	<u>\$ 320,610</u>	<u>\$ 177,143</u>
Net unrealized gains (losses)	<u>\$ 415,661</u>	<u>\$ 432,808</u>

SHLAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2017 AND 2016

NOTE 3: ENDOWMENT

FASB ASC 958-205-50-1A and 1B provides guidance on net asset classification of donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Foundation's Board of Trustees has adopted State of Michigan's enacted UPMIFA as policy governing the accumulation and appropriation of endowment gifts. UPMIFA provides organizations the ability to distribute corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine.

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

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

Furthermore, the majority of the Foundation's agreements with donors include a variance provision, giving the Board of Trustees the power to vary the use of endowed funds if a restriction becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Foundation. Based on these provisions, most contributions received by the Foundation are reported as unrestricted support. Any gift instrument received that is not established in accordance with the aforementioned that limits the Board's authority to accumulate or appropriate for expenditures, explicitly, is classified as either temporarily or permanently restricted net assets pursuant to the provisions of UPMIFA.

Investment Policy

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets; the Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of endowment assets. The current long-term objective is to return 7.29%, net of investment fees. Actual returns in any given year may vary from this amount.

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 has developed a diversified asset allocation to achieve its long-term objectives within prudent risk parameters.

Spending Policy

The spending policy calculates the amount of money annually distributed from the Foundation's various endowment funds, for grant making, scholarships and administration. The current spending policy is based on the previous twenty-eight quarters' moving average balance of the market value of the endowment ending September 30th, with a 4.25% payout amount for granting and an average administrative fee of 1.55%. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment assets to grow at an average rate of approximately 1.49% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns. The Foundation's Board reviews and modifies the spending policy annually based on economic conditions.

SHIAWASSEE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2017 AND 2016

NOTE 3: ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 1,733,876	\$ 3,991,100	\$ 78,261	\$ 5,803,237
Contributions	\$ 818,085	\$ 1,442,355		\$ 2,260,440
Interest and dividends	73,206	172,806		246,012
Realized gains (losses)	19,723	41,770		61,493
Unrealized gains (losses)	125,179	272,726		397,905
Amounts appropriated for expenditure	(136,894)	(295,987)		(432,881)
Reclassification between restrictions	20,548	(546)		20,002
Change in Endowment Net Assets	<u>\$ 919,847</u>	<u>\$ 1,633,124</u>	<u>\$</u>	<u>\$ 2,552,971</u>
Endowment Net Assets, End of Year	<u>\$ 2,653,723</u>	<u>\$ 5,624,224</u>	<u>\$ 78,261</u>	<u>\$ 8,356,208</u>

Endowment net asset composition by type of fund as of September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Funds:				
Scholarships	\$ 1,544,202	\$ 1,469,704	\$ 78,261	\$ 3,092,167
Designated	744,545	2,305,552		3,050,097
Field of interest	364,976	1,817,787		2,182,763
Donor-advised		31,181		31,181
Endowment Net Assets, End of Year	<u>\$ 2,653,723</u>	<u>\$ 5,624,224</u>	<u>\$ 78,261</u>	<u>\$ 8,356,208</u>

Total net asset composition at September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	2,653,723	\$ 5,624,224	\$ 78,261	\$ 8,356,208
Board designated - quasi endowment	163,382			163,382
Non-endowment funds	168,859	7,361		176,220
Total Net Assets, End of Year	<u>\$ 2,985,964</u>	<u>\$ 5,631,585</u>	<u>\$ 78,261</u>	<u>\$ 8,695,810</u>

SHLAWASSEE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 3: ENDOWMENT (CONCLUDED)

Changes in endowment net assets for the year ended September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 1,588,043	\$ 3,795,162	\$ 78,261	\$ 5,461,466
Contributions	\$ 66,364	\$ 57,110		\$ 123,474
Interest and dividends	77,891	192,195		270,086
Realized gains (losses)	(30,685)	(68,674)		(99,359)
Unrealized gains (losses)	127,937	286,322		414,259
Amounts appropriated for expenditure	(95,674)	(271,015)		(366,689)
Reclassification between restrictions				
Change in Endowment Net Assets	<u>\$ 145,833</u>	<u>\$ 195,938</u>	<u>\$</u>	<u>\$ 341,771</u>
Endowment Net Assets, End of Year	<u>\$ 1,733,876</u>	<u>\$ 3,991,100</u>	<u>\$ 78,261</u>	<u>\$ 5,803,237</u>

Endowment net asset composition by type of fund as of September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Funds:				
Scholarships	\$ 1,314,936	\$ 1,385,767	\$ 78,261	\$ 2,778,964
Designated	66,653	1,538,133		1,604,786
Field of interest	352,287	1,037,851		1,390,138
Donor-advised		29,349		29,349
Endowment Net Assets, End of Year	<u>\$ 1,733,876</u>	<u>\$ 3,991,100</u>	<u>\$ 78,261</u>	<u>\$ 5,803,237</u>

Total net asset composition at September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	1,733,876	\$ 3,991,100	\$ 78,261	\$ 5,803,237
Board designated - quasi endowment	141,783			141,783
Non-endowment funds	<u>150,468</u>	<u>6,706</u>		<u>157,174</u>
Total Net Assets, End of Year	<u>\$ 2,026,127</u>	<u>\$ 3,997,806</u>	<u>\$ 78,261</u>	<u>\$ 6,102,194</u>

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2017 AND 2016

NOTE 4: AGENCY ENDOWMENT FUNDS

In accordance with accounting standards, a liability has been established for a portion of the fair value of the funds, which is generally equivalent to the present value of future payments which may be made to NPOs.

At September 30, 2017 and 2016, the Foundation holds five agency endowment funds with a fair value totaling \$194,861 and \$87,503, respectively. The following table summarizes fund activity during the year:

	2017	2016
Agency Endowment Fund balances at October 1	\$ 87,503	\$ 72,177
Contributions / interfund gifts	97,000	9,490
Investment income / loss	15,014	8,522
Grants	(2,881)	(1,362)
Operating and investment fees	(1,776)	(1,324)
Agency Endowment Fund balances at October 1	\$ 194,860	\$ 87,503

NOTE 5: CONTRIBUTED SERVICES

During the years ended September 30, 2017 and 2016 the Foundation benefited from approximately 50 to 60 volunteers contributing services to its mission. The number of hours contributed was not quantified and reflected in the financial statements because the services did not meet the criteria of accounting standards, which only permits recognition for specialized skills.

NOTE 6: OPERATING LEASES

Occupancy

Effective January 2017 the Foundation entered into an office lease agreement for its offices that is payable in monthly installments of \$158 and is renewable annually. During the years ended September 30, 2017 and 2016 the Foundation incurred lease expense totaling \$1,887 and \$1,845, respectively.

Photo Copiers

In August 2017 the Foundation concluded a twenty-one month lease for a photo copier requiring monthly installments of \$112 and a new copier lease agreement was entered into for thirty-six months requiring monthly installments of \$131 plus a per print rate. During the years ended September 30, 2017 and 2016, the Foundation incurred lease expense of \$1,363 and \$1,344, respectively. Following are the future minimum lease payments:

August	
2018	\$1,572
2019	1,572
2020	<u>1,441</u>
	<u>\$4,585</u>

SHIAWASSEE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
SEPTEMBER 30, 2017 AND 2016

NOTE 7: RESTRICTED NET ASSETS

Restricted net assets are available for the following purposes:

	2017	2016
<i><u>Temporarily Restricted</u></i>		
Scholarships	\$ 1,447,688	\$ 1,369,905
Environmental education	1,484,827	1,399,412
Education	109,623	45,192
Arts, culture and humanities	65,491	61,080
Animal-related activities	803,467	123,330
Youth development	693,954	664,715
Health	1,021,800	329,869
Recreation	4,735	4,303
	\$ 5,631,585	\$ 3,997,806
 <i><u>Permanently Restricted</u></i>		
Scholarships	\$ 78,261	\$ 78,261

NOTE 8: RELATED PARTY TRANSACTIONS

The Foundation maintains cash deposits with a local financial institution whose Vice President serves as a member of the Foundation's Board of Directors. The dollar amount of account transactions during the years ended September 30, 2017 and 2016 has not been determined.