



184 West Carleton Road
Hillsdale, Michigan 49242
Phone: 517.439.9331
Fax: 517.439.1894
chbwcpa.com

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, 2018 and 2017, 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, 2018 and 2017, 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
November 14, 2018

SHIAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
ASSETS		
Cash and equivalents	\$ 37,158	\$ 57,660
Grant receivables		4,500
Bequest receivables		813,000
Investments	9,571,452	8,026,709
Prepaid expense	7,353	2,091
Office equipment	3,283	3,283
Accumulated depreciation	(3,283)	(3,283)
	<hr/>	<hr/>
TOTAL ASSETS	\$ 9,615,963	\$ 8,903,960
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$	\$ 8,700
Grants payable	1,000	
Payroll-related liabilities	5,281	4,590
Funds held as agency endowments	228,272	194,860
	<hr/>	<hr/>
TOTAL LIABILITIES	234,553	208,150
	<hr/>	<hr/>
NET ASSETS		
Unrestricted	3,277,225	2,985,964
Restricted		
Temporarily	6,025,924	5,631,585
Permanently	78,261	78,261
	<hr/>	<hr/>
TOTAL NET ASSETS	9,381,410	8,695,810
	<hr/>	<hr/>
	\$ 9,615,963	\$ 8,903,960
	<hr/> <hr/>	<hr/> <hr/>

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

SHIAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018			TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 239,781	\$ 235,153	\$	\$ 474,934
Grants & other income	200			200
Investment earnings	179,109	342,313		521,422
Net unrealized investment gains	39,900	73,348		113,248
Agency fees	2,656			2,656
Net assets released from restrictions	256,475	(256,475)		
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>718,121</u>	<u>394,339</u>		<u>1,112,460</u>
EXPENSES AND LOSSES				
Program Services:				
Grants and scholarships	261,158			261,158
Other	62,508			62,508
Supporting Services:				
Management & general	72,960			72,960
Fundraising	30,234			30,234
TOTAL EXPENSES AND LOSSES	<u>426,860</u>			<u>426,860</u>
CHANGES IN NET ASSETS	291,261	394,339		685,600
NET ASSETS, BEGINNING OF YEAR	<u>2,985,964</u>	<u>5,631,585</u>	<u>78,261</u>	<u>8,695,810</u>
NET ASSETS, END OF YEAR	<u>\$ 3,277,225</u>	<u>\$ 6,025,924</u>	<u>\$ 78,261</u>	<u>\$ 9,381,410</u>

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

	2017			
	<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>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>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>

SHIAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018			
	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL
		MANAGEMENT & GENERAL	FUNDRAISING	
Grants & scholarships	\$ 261,158	\$	\$	\$ 261,158
Salaries	42,343	19,247	15,397	76,987
Payroll taxes	3,193	1,451	1,161	5,805
Payroll service fee		1,615		1,615
Travel & mileage	585	265	213	1,063
Meetings, conferences & training	1,682	765	612	3,059
Equip. rental & maintenance	864	393	314	1,571
Rent	1,765	803	642	3,210
Utilities	864	393	314	1,571
Postage	572	260	208	1,040
Office supplies	1,450	659	527	2,636
Printing	414	189	151	754
Appeals and brochures			3,036	3,036
Telephone	1,365	620	496	2,481
Internet	330	150	120	600
Website	1,800	818	654	3,272
Dues & membership	248	112	90	450
Contract services	5,033	2,288	1,830	9,151
Consulting				
Professional fees		8,475		8,475
Investment advisory fee		31,729		31,729
Insurance		2,316		2,316
Special project events			4,469	4,469
Miscellaneous		412		412
TOTAL EXPENSES	\$ 323,666	\$ 72,960	\$ 30,234	\$ 426,860

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

2017

	SUPPORTING SERVICES			TOTAL
	PROGRAM SERVICES	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

SHIAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 685,600	\$ 2,593,616
Adjustment to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Net unrealized (gains) losses on investments	(113,248)	(415,661)
Net realized (gains) losses on sale of investments	(61,068)	(64,146)
(Increase) decrease in current assets		
Pledge receivable	813,000	(813,000)
Grant receivable	4,500	(4,500)
Prepaid expense	(5,263)	(100)
Increase (decrease) in current liabilities		
Accounts payable	(8,700)	8,700
Grants payable	1,000	(1,425)
Payroll-related liabilities	691	1,012
Due to other agencies	33,412	107,357
	<u>1,349,924</u>	<u>1,411,853</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,349,924</u>	<u>1,411,853</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net purchases and proceeds of investments	(1,375,132)	(1,411,748)
Principal collections on land contract receivable	4,706	4,389
	<u>(1,370,426)</u>	<u>(1,407,359)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(1,370,426)</u>	<u>(1,407,359)</u>
NET CHANGE IN CASH AND EQUIVALENTS	(20,502)	4,494
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>57,660</u>	<u>53,166</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 37,158</u>	<u>\$ 57,660</u>

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

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

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, 2018 and 2017.

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, 2018 and 2017 totaled \$-0- and \$813,000 comprised of one estate.

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2018 AND 2017

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, 2018 AND 2017

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, 2018 and 2017, the Foundation generated \$142,113 and \$100,472 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 2014-2017. 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, 2018, 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, 2018 AND 2017

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, 2018 and 2017:

- *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, 2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 8,332,347	\$	\$	\$ 8,332,347
Managed future hedge funds	86,023	111,034		197,057
Unit investment trusts	846,142			846,142
Land contract			195,906	195,906
	<u>\$ 9,264,512</u>	<u>\$ 111,034</u>	<u>\$ 195,906</u>	<u>\$ 9,571,452</u>
	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>

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2018 AND 2017

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:

	2018	2017
Balance at beginning of year	\$ 200,612	\$ 205,001
Principal collections reinvested	(4,706)	(4,389)
Balance at end of year	<u>\$ 195,906</u>	<u>\$ 200,612</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 – (2018) \$111,034 / (2017) \$113,997

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 – (2018) \$86,023 / (2017) \$88,814

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, 2018 and 2017:

	2018	2017
Equity and Debt Securities		
Interest and dividends	\$ 446,548	\$ 242,252
Net realized gains	60,980	64,147
Land contract interest	13,894	14,211
	<u>\$ 521,422</u>	<u>\$ 320,610</u>
Net unrealized gains (losses)	<u>\$ 113,248</u>	<u>\$ 415,661</u>

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2018 AND 2017

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 7.50%, 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 4.5% 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 1.45% 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, 2018 AND 2017

NOTE 3: ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 2,848,583	\$ 5,624,224	\$ 78,261	\$ 8,551,068
Contributions	\$ 209,046	\$ 235,154		\$ 444,200
Interest and dividends	151,926	302,443		454,369
Realized gains (losses)	20,378	39,437		59,815
Unrealized gains (losses)	37,846	73,239		111,085
Amounts appropriated for expenditure	(151,327)	(255,113)		(406,440)
Reclassification between restrictions				
Change in Endowment Net Assets	\$ 267,869	\$ 395,160	\$	\$ 663,029
Endowment Net Assets, End of Year	\$ 3,116,452	\$ 6,019,384	\$ 78,261	\$ 9,214,097

Endowment net asset composition by type of fund as of September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds:				
Scholarships	\$ 1,364,417	\$ 1,500,212	\$ 78,261	\$ 2,942,890
Designated	889,439	2,486,144		3,375,583
Field of interest	125,584	2,000,943		2,126,527
Agency	228,272			228,272
Multi-purpose	508,740			508,740
Donor-advised		32,085		32,085
Endowment Net Assets, End of Year	\$ 3,116,452	\$ 6,019,384	\$ 78,261	\$ 9,214,097

Total net asset composition at September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds	\$ 3,116,452	\$ 6,019,384	\$ 78,261	\$ 9,214,097
Board designated - quasi endowment	165,145			165,145
Non-endowment funds	223,900	6,540		230,440
Less: agency endowment payable	(228,272)			(228,272)
Total Net Assets, End of Year	\$ 3,277,225	\$ 6,025,924	\$ 78,261	\$ 9,381,410

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2018 AND 2017

NOTE 3: ENDOWMENT (CONCLUDED)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 1,821,380	\$ 3,991,100	\$ 78,261	\$ 5,890,741
Contributions	\$ 915,085	\$ 1,442,355	\$	\$ 2,357,440
Interest and dividends	77,759	172,806		250,565
Realized gains (losses)	21,006	41,770		62,776
Unrealized gains (losses)	133,061	272,726		405,787
Amounts appropriated for expenditure	(140,256)	(295,987)		(436,243)
Reclassification between restrictions	20,548	(546)		20,002
Change in Endowment Net Assets	\$ 1,027,203	\$ 1,633,124	\$	\$ 2,660,327
Endowment Net Assets, End of Year	\$ 2,848,583	\$ 5,624,224	\$ 78,261	\$ 8,551,068

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
Agency	194,860			194,860
Multi-purpose				
Donor-advised		31,181		31,181
Endowment Net Assets, End of Year	\$ 2,848,583	\$ 5,624,224	\$ 78,261	\$ 8,551,068

Total net asset composition at September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds	\$ 2,848,583	\$ 5,624,224	\$ 78,261	\$ 8,551,068
Board designated - quasi endowment	163,382			163,382
Non-endowment funds	168,859	7,361		176,220
Less: agency endowment payable	(194,860)			(194,860)
Total Net Assets, End of Year	\$ 2,985,964	\$ 5,631,585	\$ 78,261	\$ 8,695,810

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2018 AND 2017

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, 2018 and 2017, the Foundation holds five agency endowment funds with a fair value totaling \$228,272 and \$194,860, respectively. The following table summarizes fund activity during the year:

	2018	2017
Agency Endowment Fund balances at October 1	\$ 194,860	\$ 87,503
Contributions / interfund gifts	24,000	97,000
Investment income / loss	26,648	15,014
Grants	(13,816)	(2,881)
Operating and investment fees	(3,420)	(1,776)
Agency Endowment Fund balances at October 1	\$ 228,272	\$ 194,860

NOTE 5: CONTRIBUTED SERVICES

During the years ended September 30, 2018 and 2017 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 & SUBSCRIPTIONS

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, 2018 and 2017 the Foundation incurred lease expense totaling \$3,210 and \$1,887, 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, 2018 and 2017, the Foundation incurred lease expense of \$1,571 and \$1,363, respectively. Following are the future minimum lease payments:

Subscriptions

During the year the Foundation entered into subscription agreements for cloud based software for accounting/donor data base and online scholarship applications.

Accounting/donor data base subscription is effective 1/1/19, payable in annual installments of \$8,500 for three years. Online scholarship applications subscription is effective 10/1/18, payable in annual installments of \$6,500 for five years.

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

SEPTEMBER 30, 2018 AND 2017

NOTE 6: OPERATING LEASES & SUBSCRIPTIONS (CONCLUDED)

Following are the future minimum lease payments:

<u>Year</u>	<u>Operating Leases</u>	<u>Subscription</u>
2019	\$ 1,572	\$ 15,000
2020	1,441	15,000
2021		15,000
2022		6,500
2023		6,500
	<u>\$ 3,013</u>	<u>\$ 58,000</u>

NOTE 7: RESTRICTED NET ASSETS

Restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
<u>Temporarily Restricted</u>		
Scholarships	\$ 1,500,212	\$ 1,447,688
Environmental education	1,519,779	1,484,827
Education	114,320	109,623
Arts, culture and humanities	66,202	65,491
Animal-related activities	948,542	803,467
Youth development	726,712	693,954
Health	1,167,402	1,021,800
Recreation	4,999	4,735
	<u>\$ 6,048,168</u>	<u>\$ 5,631,585</u>
<u>Permanently Restricted</u>		
Scholarships	<u>\$ 78,261</u>	<u>\$ 78,261</u>

NOTE 8: RELATED PARTY TRANSACTIONS

The Foundation maintained cash deposits with a local financial institution during the year ended September 30, 2017, whose Vice President served as a member of the Foundation's Board of Directors. The dollar amount of account transactions has not been determined. The related party activity ceased in year ended September 30, 2018.