

---

**SHIAWASSEE COMMUNITY FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**SHIAWASSEE COMMUNITY FOUNDATION, INC.**

**TABLE OF CONTENTS**

|                                   | PAGE   |
|-----------------------------------|--------|
| INDEPENDENT AUDITOR'S REPORT      | 1 - 2  |
| FINANCIAL STATEMENTS              |        |
| Statements of Financial Position  | 3      |
| Statements of Activities          | 4      |
| Statements of Functional Expenses | 5      |
| Statements of Cash Flows          | 6      |
| Notes to Financial Statements     | 7 - 17 |

## 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, 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 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, 2019 and 2018, 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.

**Adoption of New Accounting Standard**

As described in Note 1 to the financial statements, Shiawassee Community Foundation, Inc. changed its method of accounting for net assets and functional expenses in 2019 as required by the provisions of FASB Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

CHBW & Co., P.C.

Certified Public Accountants

Hillsdale, Michigan  
January 8, 2020

**SHIAWASSEE COMMUNITY FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**SEPTEMBER 30, 2019 AND 2018**

|                                   | 2019                       | 2018                       |
|-----------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                     |                            |                            |
| <b>ASSETS</b>                     |                            |                            |
| Cash and equivalents              | \$ 59,520                  | \$ 37,158                  |
| Investments                       | 9,729,527                  | 9,571,452                  |
| Prepaid expense                   | 7,325                      | 7,353                      |
| Office equipment                  | 3,283                      | 3,283                      |
| Accumulated depreciation          | <u>(3,283)</u>             | <u>(3,283)</u>             |
| <b>TOTAL ASSETS</b>               | <b><u>\$ 9,796,372</u></b> | <b><u>\$ 9,615,963</u></b> |
| <b>LIABILITIES AND NET ASSETS</b> |                            |                            |
| <b>LIABILITIES</b>                |                            |                            |
| Grants payable                    | \$                         | \$ 1,000                   |
| Payroll-related liabilities       | 3,336                      | 5,281                      |
| Funds held as agency endowments   | <u>267,334</u>             | <u>228,272</u>             |
| <b>TOTAL LIABILITIES</b>          | <b><u>270,670</u></b>      | <b><u>234,553</u></b>      |
| <b>NET ASSETS</b>                 |                            |                            |
| Without donor restrictions        | 3,444,784                  | 3,277,225                  |
| With donor restrictions           | <u>6,080,918</u>           | <u>6,104,185</u>           |
| <b>TOTAL NET ASSETS</b>           | <b><u>9,525,702</u></b>    | <b><u>9,381,410</u></b>    |
|                                   | <b><u>\$ 9,796,372</u></b> | <b><u>\$ 9,615,963</u></b> |

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

SHLA WASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

|   | 2019                          |                            | 2018                          |                            |
|---|-------------------------------|----------------------------|-------------------------------|----------------------------|
|   | WITHOUT DONOR<br>RESTRICTIONS | WITH DONOR<br>RESTRICTIONS | WITHOUT DONOR<br>RESTRICTIONS | WITH DONOR<br>RESTRICTIONS |
| <b>REVENUES, GAINS (LOSSES) AND<br/>OTHER SUPPORT</b>       |                               |                            |                               |                            |
| Contributions   | \$ 275,808                    | \$ 22,804                  | \$ 239,781                    | \$ 235,153                 |
| Grants & other income                                       |                               |                            | 200                           | 200                        |
| Net investment returns                                      | 131,820                       | 222,379                    | 207,794                       | 395,147                    |
| Agency fees   | 3,088                         | 3,088                      | 2,656                         | 2,656                      |
| <b>TOTAL REVENUES, GAINS (LOSSES)<br/>AND OTHER SUPPORT</b> | <b>410,716</b>                | <b>245,183</b>             | <b>450,431</b>                | <b>630,300</b>             |
| <b>NET ASSETS RELEASED FROM RESTRICTIONS</b>                |                               |                            |                               |                            |
| Restrictions satisfied by payments for purpose              | 268,450                       | (268,450)                  | 235,961                       | (235,961)                  |
| <b>EXPENSES</b>   |                               |                            |                               |                            |
| Program Services:   |                               |                            |                               |                            |
| Grants and scholarships                                     | 341,079                       |                            | 261,158                       | 261,158                    |
| Other   | 87,020                        |                            | 62,508                        | 62,508                     |
| Supporting Services:  |                               |                            |                               |                            |
| Management & general  | 47,836                        |                            | 41,231                        | 41,231                     |
| Fundraising   | 35,672                        |                            | 30,234                        | 30,234                     |
| <b>TOTAL EXPENSES</b>                                       | <b>511,607</b>                |                            | <b>395,131</b>                | <b>395,131</b>             |
| <b>CHANGES IN NET ASSETS</b>                                |                               |                            |                               |                            |
|   | 167,559                       | (23,267)                   | 291,261                       | 394,339                    |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                        | <b>3,277,225</b>              | <b>6,104,185</b>           | <b>2,985,964</b>              | <b>5,709,846</b>           |
| <b>NET ASSETS, END OF YEAR</b>                              | <b>\$ 3,444,784</b>           | <b>\$ 6,080,918</b>        | <b>\$ 3,277,225</b>           | <b>\$ 6,104,185</b>        |
|   |                               |                            |                               | <b>\$ 9,381,410</b>        |

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

SHAWASSEE COMMUNITY FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

|                                      | 2019              |                      |                   | 2018              |                      |                   |
|--------------------------------------|-------------------|----------------------|-------------------|-------------------|----------------------|-------------------|
|                                      | PROGRAM SERVICES  | SUPPORTING SERVICES  |                   | PROGRAM SERVICES  | SUPPORTING SERVICES  |                   |
|                                      |                   | MANAGEMENT & GENERAL | FUNDRAISING       |                   | MANAGEMENT & GENERAL | FUNDRAISING       |
| <b>GRANTS &amp; SCHOLARSHIPS</b>     | \$ 341,079        | \$                   | \$ 341,079        | \$ 261,158        | \$                   | \$ 261,158        |
| <b>PAYROLL</b>                       |                   |                      |                   |                   |                      |                   |
| Salaries                             | 53,412            | 24,278               | 97,113            | 42,343            | 19,247               | 76,987            |
| Payroll taxes                        | 4,349             | 1,977                | 7,907             | 3,193             | 1,451                | 5,805             |
| <b>TOTAL PAYROLL</b>                 | <b>57,761</b>     | <b>26,255</b>        | <b>105,020</b>    | <b>45,536</b>     | <b>20,698</b>        | <b>82,792</b>     |
| <b>OFFICE-RELATED EXPENSES</b>       |                   |                      |                   |                   |                      |                   |
| Equip. rental & maintenance          | 864               | 393                  | 1,571             | 864               | 393                  | 1,571             |
| Rent                                 | 2,524             | 1,148                | 4,590             | 1,765             | 803                  | 3,210             |
| Utilities                            | 893               | 405                  | 1,623             | 864               | 393                  | 1,571             |
| Telephone                            | 1,397             | 635                  | 2,540             | 1,365             | 620                  | 2,481             |
| Internet                             | 359               | 163                  | 653               | 330               | 150                  | 600               |
| Website                              | 446               | 203                  | 811               | 1,800             | 818                  | 3,272             |
| Software platform fees               | 9,890             | 2,132                | 13,728            | 5,033             | 2,288                | 9,151             |
| Insurance                            | 840               | 2,509                | 2,809             | 572               | 2,316                | 2,316             |
| Postage                              | 1,534             | 382                  | 1,527             | 1,450             | 260                  | 1,040             |
| Office supplies                      |                   | 697                  | 2,789             |                   | 659                  | 2,636             |
| <b>TOTAL OFFICE-RELATED EXPENSES</b> | <b>18,747</b>     | <b>8,667</b>         | <b>32,341</b>     | <b>14,043</b>     | <b>8,700</b>         | <b>27,848</b>     |
| <b>OTHER EXPENSES</b>                |                   |                      |                   |                   |                      |                   |
| Printing                             | 517               | 235                  | 940               | 414               | 189                  | 754               |
| Appeals and brochures                |                   | 188                  | 188               |                   |                      |                   |
| Travel & mileage                     | 195               | 2,151                | 2,151             | 585               | 3,036                | 3,036             |
| Meetings, conferences & training     | 2,627             | 71                   | 354               | 1,682             | 265                  | 1,063             |
| Consulting                           |                   | 955                  | 4,776             |                   | 765                  | 3,059             |
| Professional fees                    |                   | 583                  | 583               |                   |                      |                   |
| Payroll service fee                  |                   | 7,750                | 7,750             |                   | 8,475                | 8,475             |
| Special project events               |                   | 1,810                | 1,810             |                   | 1,615                | 1,615             |
| Contracted services                  | 7,000             | 6,313                | 6,313             | 248               | 4,469                | 4,469             |
| Dues & membership                    | 173               | 63                   | 315               |                   | 90                   | 450               |
| Miscellaneous                        |                   | 1,175                | 1,175             |                   | 412                  | 412               |
| <b>TOTAL OTHER EXPENSES</b>          | <b>10,512</b>     | <b>12,914</b>        | <b>33,167</b>     | <b>2,929</b>      | <b>11,833</b>        | <b>23,333</b>     |
| <b>TOTAL EXPENSES</b>                | <b>\$ 428,099</b> | <b>\$ 47,836</b>     | <b>\$ 511,607</b> | <b>\$ 323,666</b> | <b>\$ 41,231</b>     | <b>\$ 395,131</b> |

The accompanying notes are an integral part of these financial statements

**SHIAWASSEE COMMUNITY FOUNDATION, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

|   | <b>2019</b>      | <b>2018</b>        |
|---|------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                  |                    |
| Changes in net assets   | \$ 144,292       | \$ 685,600         |
| Adjustment to reconcile the change in net assets<br>to net cash provided by (used in) operating activities: |                  |                    |
| Net unrealized (gains) losses on investments  | 159,833          | (113,248)          |
| Net realized (gains) losses on sale of investments  | 58,113           | (61,068)           |
| (Increase) decrease in current assets   |                  |                    |
| Pledge receivable   |                  | 813,000            |
| Grant receivable  |                  | 4,500              |
| Prepaid expense   | 28               | (5,263)            |
| Increase (decrease) in current liabilities  |                  |                    |
| Accounts payable  |                  | (8,700)            |
| Grants payable  | (1,000)          | 1,000              |
| Payroll-related liabilities   | (1,945)          | 691                |
| Due to other agencies   | 39,062           | 33,412             |
|   | <u>398,383</u>   | <u>1,349,924</u>   |
| <b>NET CASH PROVIDED BY (USED IN)<br/>OPERATING ACTIVITIES</b>  | <u>398,383</u>   | <u>1,349,924</u>   |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>  |                  |                    |
| Net purchases and proceeds of investments   | (381,067)        | (1,375,132)        |
| Principal collections on land contract receivable   | 5,046            | 4,706              |
|   | <u>(376,021)</u> | <u>(1,370,426)</u> |
| <b>NET CASH PROVIDED BY (USED IN)<br/>INVESTING ACTIVITIES</b>  | <u>(376,021)</u> | <u>(1,370,426)</u> |
| <b>NET CHANGE IN CASH AND EQUIVALENTS</b>   | 22,362           | (20,502)           |
| <b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>  | <u>37,158</u>    | <u>57,660</u>      |
| <b>CASH AND EQUIVALENTS, END OF YEAR</b>  | <u>\$ 59,520</u> | <u>\$ 37,158</u>   |

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



SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

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.

Change in Accounting Principles

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP) liquidity and availability of resources, information provided about expenses and investment returns, and cash flows. The organization has adjusted the presentation of these statements accordingly. The ASU includes disclosure of functional expenses. The organization elects to continue presenting the statement of cash flows using the indirect method. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

Basis of Presentation

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

*Net assets without donor restrictions* – Net assets not subject to donor-imposed restrictions comprised of resources that are available for general operations and fulfilling the purpose of donor established funds subject to agreements that grant variance power to the Foundation. Furthermore, the governing board has designated resources from these net assets establishing a board-designated (quasi) endowment.

*Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions that are temporary in nature will be satisfied by the passage of time or other events specified by the donor. These net assets also comprise resources subject to donor-imposed restrictions that require the original gift be maintained in perpetuity and are not subject to variance power.

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, 2019 and 2018.

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

**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 returns is comprised of interest, dividends, realized and unrealized gains that are netted against investment fees. Investment earnings available for distribution are recorded in net assets without donor restrictions. Investment earnings with donor restrictions are recorded in net assets with donor restrictions. 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 in net assets without donor restrictions whereas restricted gifts are reported as in net assets with donor restrictions.

**Functional Allocation of Expenses**

Total expenses are comprised of 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

SEPTEMBER 30, 2019 AND 2018

**Grants and Scholarships Payable**

Grants and scholarships authorized (by the Board of Trustees) and agreement signed by recipient that are 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 2.0% and designated / agency funds are charged 1.25%. For the years ended September 30, 2019 and 2018, the Foundation generated \$149,596 and \$142,113 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 2015-2017. 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, 2019, 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.

**Financial Statement Reclassifications**

Certain amounts have been reclassified in the 2018 financial statements to conform with the current year presentation. The most significant change occurred in reclassifying unrestricted as without donor restriction and temporarily and permanently restricted net assets as with donor restrictions. Investment fees are netted with investment returns with the composition of such reported in Note 9. Other reclassifications occurred in the presentation of functional expense that are trivial in nature.

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

NOTE 2: LIQUIDITY AND AVAILABILITY

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

|   |                    |
|---|--------------------|
| Cash and equivalents  | \$ 59,520          |
| Investments   | <u>9,729,527</u>   |
| Total financial assets – end of year  | \$9,789,047        |
| Less: Financial assets unavailable for general expenditures, grants and scholarships within one year, due to:   |                    |
| Donor-imposed restrictions for specified Purposes   | (6,080,918)        |
| Board designated endowment  | (163,947)          |
| Assets held for others (agency)   | <u>(267,334)</u>   |
| Financial assets available to meet cash needs for General expenditures, grants and scholarships Within one year | <u>\$3,276,848</u> |

Historically the Foundation has maintained approximately three to four months of liquid assets to support general operating expenditures that averages \$12,800 per month and periodically liquidates investments to support payout of grants and scholarships during those cycles that occur primarily during the months of May thru July. Donor contributions are collected sporadically throughout the year and are not relied upon to support operations but rather increase the value of the Foundation's endowment to the extent such monies are directed to endowed funds.

The Foundation's investment policy provides for a target of 60% allocation to equities with a range between 30% minimum and 70% maximum. As such there is a minimum of 30% of investments that have same day liquidity, if needed. However, the board of directors would have to approve any expenditures in excess of the approved operating budget and spendable amounts allotted endowed funds pursuant to the spendable policy.

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

NOTE 3: 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, 2019 and 2018:

- *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, 2019  |                   |                   |                     |
|----------------------------|---------------------|-------------------|-------------------|---------------------|
|                            | Level 1             | Level 2           | Level 3           | Total               |
| Investments:               |                     |                   |                   |                     |
| Mutual funds               | \$ 8,597,055        | \$                | \$                | \$ 8,597,055        |
| Managed future hedge funds | 88,294              | 122,905           |                   | 211,199             |
| Unit investment trusts     | 730,414             |                   |                   | 730,414             |
| Land contract              |                     |                   | 190,859           | 190,859             |
|                            | <u>\$ 9,415,763</u> | <u>\$ 122,905</u> | <u>\$ 190,859</u> | <u>\$ 9,729,527</u> |

|                            | 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> |

**SHIAWASSEE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019 AND 2018**

***Level 3 Gains and Losses***

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

|                                  | 2019       | 2018       |
|----------------------------------|------------|------------|
| Balance at beginning of year     | \$ 195,906 | \$ 200,612 |
| Principal collections reinvested | (5,047)    | (4,706)    |
| Balance at end of year           | \$ 190,859 | \$ 195,906 |

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 – (2019) \$122,905 / (2018) \$111,034*

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 – (2019) \$88,294 / (2018) \$86,023*

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, 2019 and 2018:

|                             | 2019       | 2018       |
|-----------------------------|------------|------------|
| Equity and Debt Securities  |            |            |
| Interest and dividends      | \$ 532,631 | \$ 446,548 |
| Net realized gains (losses) | (57,268)   | 60,980     |
| Unrealized gains (losses)   | (102,565)  | 113,248    |
| Investment advisory fees    | (32,152)   | (31,729)   |
| Land contract interest      | 13,553     | 13,894     |
|                             | \$ 354,199 | \$ 602,941 |

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

NOTE 4: ENDOWMENT

FASB ASC 958-205-50 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

*Return Objectives and Risk Parameters* – 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.

*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 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 1.50%. 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 1.50% 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**

**SEPTEMBER 30, 2019 AND 2018**

Changes in endowment net assets for the year ended September 30, 2019:

|   | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>Total</u>        |
|---|--------------------------------------|-----------------------------------|---------------------|
| Endowment Net Assets, Beginning of Year | <u>\$ 3,116,452</u>                  | <u>\$ 6,097,645</u>               | <u>\$ 9,214,097</u> |
| Contributions                           | \$ 142,673                           | \$ 22,804                         | \$ 165,477          |
| Net investment returns                  | 119,383                              | 222,155                           | 341,538             |
| Amounts appropriated for expenditure    | (175,739)                            | (267,131)                         | (442,870)           |
| Reclassification from non-endowed       | <u>17,293</u>                        |                                   | <u>17,293</u>       |
| Change in Endowment Net Assets          | <u>\$ 103,610</u>                    | <u>\$ (22,172)</u>                | <u>\$ 81,438</u>    |
| Endowment Net Assets, End of Year       | <u>\$ 3,220,062</u>                  | <u>\$ 6,075,473</u>               | <u>\$ 9,295,535</u> |

Endowment net asset composition by type of fund as of September 30, 2019:

|                                   | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>Total</u>        |
|-----------------------------------|--------------------------------------|-----------------------------------|---------------------|
| Endowment Funds:                  |                                      |                                   |                     |
| Scholarships                      | \$ 1,426,072                         | \$ 1,566,761                      | \$ 2,992,833        |
| Designated                        | 904,091                              | 2,485,724                         | 3,389,815           |
| Field of interest                 | 124,620                              | 1,991,539                         | 2,116,159           |
| Agency                            | 267,334                              |                                   | 267,334             |
| Multi-purpose                     | 497,945                              |                                   | 497,945             |
| Donor-advised                     |                                      | <u>31,449</u>                     | <u>31,449</u>       |
| Endowment Net Assets, End of Year | <u>\$ 3,220,062</u>                  | <u>\$ 6,075,473</u>               | <u>\$ 9,295,535</u> |

Total net asset composition at September 30, 2019:

|                                    | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>Total</u>        |
|------------------------------------|--------------------------------------|-----------------------------------|---------------------|
| Endowment funds                    | \$ 3,220,062                         | \$ 6,075,473                      | \$ 9,295,535        |
| Board designated - quasi endowment | 163,947                              |                                   | 163,947             |
| Non-endowment funds                | 328,109                              | 5,445                             | 333,554             |
| Less: agency endowment payable     | <u>(267,334)</u>                     |                                   | <u>(267,334)</u>    |
| Total Net Assets, End of Year      | <u>\$ 3,444,784</u>                  | <u>\$ 6,080,918</u>               | <u>\$ 9,525,702</u> |



**SHIAWASSEE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019 AND 2018**

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

|   | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>Total</u>        |
|---|--------------------------------------|-----------------------------------|---------------------|
| Endowment Net Assets, Beginning of Year | \$ 2,848,583                         | \$ 5,702,485                      | \$ 8,551,068        |
| Contributions                           | \$ 209,046                           | \$ 235,154                        | \$ 444,200          |
| Net investment returns                  | 199,463                              | 394,632                           | 594,095             |
| Amounts appropriated for expenditure    | (140,640)                            | (234,626)                         | (375,266)           |
| Reclassification from non-endowed       |                                      |                                   |                     |
| Change in Endowment Net Assets          | <u>\$ 267,869</u>                    | <u>\$ 395,160</u>                 | <u>\$ 663,029</u>   |
| Endowment Net Assets, End of Year       | <u>\$ 3,116,452</u>                  | <u>\$ 6,097,645</u>               | <u>\$ 9,214,097</u> |

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

|                                   | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>Total</u>        |
|-----------------------------------|--------------------------------------|-----------------------------------|---------------------|
| Endowment Funds:                  |                                      |                                   |                     |
| Scholarships                      | \$ 1,364,417                         | \$ 1,578,473                      | \$ 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 | <u>\$ 3,116,452</u>                  | <u>\$ 6,097,645</u>               | <u>\$ 9,214,097</u> |

Total net asset composition at September 30, 2018:

|                                    | <u>Without Donor<br/>Restriction</u> | <u>With Donor<br/>Restriction</u> | <u>Total</u>        |
|------------------------------------|--------------------------------------|-----------------------------------|---------------------|
| Endowment funds                    | \$ 3,116,452                         | \$ 6,097,645                      | \$ 9,214,097        |
| Board designated - quasi endowment | 165,145                              |                                   | 165,145             |
| Non-endowment funds                | 223,900                              | 6,540                             | 230,440             |
| Less: agency endowment payable     | <u>(228,272)</u>                     |                                   | <u>(228,272)</u>    |
| Total Net Assets, End of Year      | <u>\$ 3,277,225</u>                  | <u>\$ 6,104,185</u>               | <u>\$ 9,381,410</u> |

**SHIAWASSEE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019 AND 2018**

**NOTE 5: 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, 2019 and 2018, the Foundation holds five agency endowment funds with a fair value totaling \$267,334 and \$228,272, respectively. The following table summarizes fund activity during the year:

|  | 2019       | 2018       |
|--|------------|------------|
| Agency Endowment Fund balances at October 1    | \$ 228,272 | \$ 194,860 |
| Contributions / interfund gifts                | 38,700     | 24,000     |
| Investment income / loss                       | 11,276     | 26,648     |
| Grants   | (6,949)    | (13,816)   |
| Operating and investment fees                  | (3,965)    | (3,420)    |
| Agency Endowment Fund balances at September 30 | \$ 267,334 | \$ 228,272 |

**NOTE 6: BOARD DESIGNATED ENDOWMENT FUNDS**

The Foundation's net assets without donor restrictions include amounts that have been designated by the board of directors as endowment funds. These endowments totaling \$163,947 and \$165,145 for years ended September 30, 2019 and 2018, respectively, are available for disbursement at the discretion of the board and are subject to the Foundation's spending policy. Disbursements generally made are philanthropic grants that support the key objectives of the Foundation's mission.

**NOTE 7: RESTRICTED NET ASSETS**

Net assets with donor restrictions are available for the following purposes:

|                                       | 2019         | 2018         |
|---------------------------------------|--------------|--------------|
| <b><u>With Donor Restrictions</u></b> |              |              |
| Scholarships                          | \$ 1,566,760 | \$ 1,578,474 |
| Environmental education               | 1,507,530    | 1,519,779    |
| Education                             | 87,594       | 92,076       |
| Arts, culture and humanities          | 64,225       | 66,201       |
| Animal-related activities             | 960,365      | 948,542      |
| Youth development                     | 715,550      | 726,712      |
| Health                                | 1,173,785    | 1,167,402    |
| Recreation                            | 5,109        | 4,999        |
|                                       | \$ 6,080,918 | \$ 6,104,185 |

SHIAWASSEE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

**NOTE 8: CONTRIBUTED SERVICES**

During the years ended September 30, 2019 and 2018 the Foundation benefited from approximately 45 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 9: OPERATING LEASES & SUBSCRIPTIONS**

Operating Leases

*Occupancy* – The Foundation leases its office in monthly installments of \$385, and incurred lease expense totaling \$4,590 and \$3,210 for the years ended September 30, 2019 and 2018, respectively. The lease is renewable annually.

*Photo Copiers* – The Foundation leases a photocopier pursuant to an agreement, over thirty-six months requiring monthly installments of \$131 plus a per print rate through August 2020. During the years ended September 30, 2019 and 2018, the Foundation incurred lease expense of \$1,571 and \$1,571, respectively.

Subscriptions

During 2018 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 with a \$1,300 discount in the first two years. Expense incurred totaled \$13,728 and \$9,151 for years ended September 30, 2019 and 2018, respectively.

Following are the future minimum lease and subscription payments:

| <u>Year</u> | <u>Photo copiers</u> | <u>Subscriptions</u> |
|-------------|----------------------|----------------------|
| 2020        | \$ 1,441             | \$ 13,700            |
| 2021        |                      | 15,000               |
| 2022        |                      | 6,500                |
| 2023        |                      | 6,500                |
|             | <u>\$ 1,441</u>      | <u>\$ 41,700</u>     |