

Audited Financial Statements

Midland Area Community Foundation

*Years Ended December 31, 2018 and 2017
with Report of Independent Auditors*



Midland Area Community Foundation

Audited Financial Statements

Years Ended December 31, 2018 and 2017

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Report of Independent Auditors

Board of Trustees
Midland Area Community Foundation
Midland, Michigan

We have audited the accompanying financial statements of the Midland Area Community Foundation, which comprise the statement of financial position as of December 31, 2018 and 2017, the related statement of activities for the year ended December 31, 2018, the statements of cash flows and functional expenses for the years ended December 31, 2018 and 2017, 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.

Auditors' 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 auditors' 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 Midland Area Community Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Midland Area Community Foundation implemented FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update changes terminology used for net asset classifications and additional disclosures related to liquidity, availability of resources, and expenses. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Midland Area Community Foundation's 2017 financial statements, and our report dated April 10, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Andrews Hooper Paulik PLC

Midland, Michigan
April 5, 2019

Midland Area Community Foundation

Statements of Financial Position

	December 31	
	2018	2017
Assets		
Cash and cash equivalents	\$ 3,760,979	\$ 3,123,707
Investments	89,200,979	95,884,546
Prepaid expenses and other assets	131,440	76,822
Parks and improvements	668,647	668,647
Office facility and equipment, net	570,849	602,222
Total assets	<u>\$ 94,332,894</u>	<u>\$ 100,355,944</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 299,941	\$ 207,922
Grants payable	240,600	42,117
Restricted organizational funds	2,179,388	2,300,313
Total liabilities	<u>2,719,929</u>	<u>2,550,352</u>
Net assets:		
Without donor restrictions	89,591,150	95,536,334
With donor restrictions	2,021,815	2,269,258
Total net assets	<u>91,612,965</u>	<u>97,805,592</u>
Total liabilities and net assets	<u>\$ 94,332,894</u>	<u>\$ 100,355,944</u>

Midland Area Community Foundation

Statements of Activities

	Year Ended December 31, 2018			Year Ended December 31, 2017
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Totals
Public support, revenue, and gains				
Contributions	\$ 7,275,741	\$ 1,000	\$ 7,276,741	\$ 8,809,312
Investment return, net	(5,982,921)	(150,857)	(6,133,778)	12,033,110
Miscellaneous	171,741	-	171,741	75,415
Net assets released from restrictions	97,586	(97,586)	-	-
Total public support, revenue, and gains	<u>1,562,147</u>	<u>(247,443)</u>	<u>1,314,704</u>	20,917,837
Expenses				
Program services:				
Developing our talent	1,563,437	-	1,563,437	1,732,892
Enriching our community	1,688,067	-	1,688,067	2,416,158
Caring for our people	1,844,496	-	1,844,496	2,726,831
Building our livelihood	1,581,813	-	1,581,813	4,955,112
Support services:				
Management and general	557,413	-	557,413	526,257
Fundraising	272,105	-	272,105	258,226
Total expenses	<u>7,507,331</u>	<u>-</u>	<u>7,507,331</u>	12,615,476
Change in net assets	(5,945,184)	(247,443)	(6,192,627)	8,302,361
Net assets at beginning of year	95,536,334	2,269,258	97,805,592	89,503,231
Net assets at end of year	<u>\$ 89,591,150</u>	<u>\$ 2,021,815</u>	<u>\$ 91,612,965</u>	<u>\$ 97,805,592</u>

See accompanying notes.

Midland Area Community Foundation

Statements of Cash Flows

	Year Ended December 31	
	2018	2017
Operating activities		
Change in net assets	\$ (6,192,627)	\$ 8,302,361
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	31,373	28,965
Net change in fair value of investments	8,264,244	(10,385,471)
In-kind contribution of real estate	-	(520,000)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	(54,618)	(25,217)
Accounts payable	92,019	179,347
Grants payable	198,483	(133,680)
Restricted organizational funds	(120,925)	333,157
Net cash from (used in) operating activities	<u>2,217,949</u>	<u>(2,220,538)</u>
Investing activities		
Purchases of equipment	-	(32,656)
Proceeds from sale of investments	27,850,475	15,549,800
Purchases of investments	(29,431,152)	(15,543,087)
Net cash used in investing activities	<u>(1,580,677)</u>	<u>(25,943)</u>
Net change in cash and cash equivalents	637,272	(2,246,481)
Cash and cash equivalents at beginning of year	<u>3,123,707</u>	<u>5,370,188</u>
Cash and cash equivalents at end of year	<u>\$ 3,760,979</u>	<u>\$ 3,123,707</u>

Midland Area Community Foundation

Statement of Functional Expenses

Year Ended December 31, 2018

	Developing Our Talent	Enriching Our Community	Caring for Our People	Building Our Livelihood	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 58,552	\$ 41,602	\$ 32,357	\$ 21,572	\$ 154,083	\$ 212,528	\$ 164,710	\$ 531,321
Employee benefits	8,328	5,917	4,602	3,068	21,915	30,228	23,426	75,569
Payroll taxes	4,167	2,961	2,303	1,536	10,967	15,126	11,723	37,816
Grants	596,445	1,342,002	1,342,002	447,335	3,727,784	-	-	3,727,784
Scholarships	802,253	-	-	-	802,253	-	-	802,253
Contracted services	-	-	-	-	-	39,467	-	39,467
Legal fees	66	264	-	990	1,320	10,560	1,320	13,200
Accounting	-	-	-	-	-	16,665	-	16,665
Employee relations	-	-	-	-	-	5,465	-	5,465
Life insurance	-	-	-	-	-	46,520	-	46,520
Awards and recognition	-	-	-	-	-	2,430	-	2,430
Occupancy	3,861	1,287	1,287	1,287	7,722	27,028	-	34,750
Telephone	279	198	154	102	733	5,861	733	7,327
Postage	260	185	144	96	685	5,483	685	6,853
Equipment and maintenance	-	-	-	-	-	11,778	-	11,778
Information technology	5,185	1,727	1,727	1,727	10,366	36,280	-	46,646
Conferences and meetings	1,579	1,122	873	582	4,156	12,468	-	16,624
Education and training	225	160	124	83	592	2,366	-	2,958
Dues	-	-	-	-	-	7,480	-	7,480
Meals and entertainment	-	-	-	-	-	1,442	-	1,442
Travel	604	429	334	223	1,590	6,359	-	7,949
Development	-	-	-	-	-	-	51,498	51,498
Printing	902	641	499	332	2,374	18,385	2,374	23,133
Public relations and advertising	4,311	3,063	2,383	1,589	11,346	11,762	15,636	38,744
Project expense	56,963	284,817	455,707	1,101,291	1,898,778	-	-	1,898,778
Program expense	19,457	1,692	-	-	21,149	-	-	21,149
Miscellaneous	-	-	-	-	-	359	-	359
Depreciation	-	-	-	-	-	31,373	-	31,373
	\$ 1,563,437	\$ 1,688,067	\$ 1,844,496	\$ 1,581,813	\$ 6,677,813	\$ 557,413	\$ 272,105	\$ 7,507,331

See accompanying notes.

Midland Area Community Foundation

Statement of Functional Expenses

Year Ended December 31, 2017

	Developing Our Talent	Enriching Our Community	Caring for Our People	Building Our Livelihood	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 58,921	\$ 41,865	\$ 32,562	\$ 21,708	\$ 155,056	\$ 213,870	\$ 165,750	\$ 534,676
Employee benefits	6,596	4,686	3,645	2,430	17,357	23,941	18,554	59,852
Payroll taxes	4,251	3,021	2,349	1,567	11,188	15,433	11,960	38,581
Grants	879,614	1,979,132	1,979,132	659,712	5,497,590	-	-	5,497,590
Scholarships	707,270	-	-	-	707,270	-	-	707,270
Contracted services	-	-	-	-	-	15,043	-	15,043
Legal fees	60	242	-	907	1,209	9,673	1,209	12,091
Accounting	-	-	-	-	-	17,731	-	17,731
Employee relations	-	-	-	-	-	6,849	-	6,849
Life insurance	-	-	-	-	-	46,520	-	46,520
Awards and recognition	-	-	-	-	-	6,200	-	6,200
Occupancy	3,450	1,150	1,150	1,150	6,900	24,149	-	31,049
Telephone	237	168	131	87	623	4,984	623	6,230
Postage	274	195	152	101	722	5,772	722	7,216
Equipment and maintenance	-	-	-	-	-	5,519	-	5,519
Information technology	5,024	1,675	1,675	1,675	10,049	35,172	-	45,221
Conferences and meetings	1,406	999	777	518	3,700	11,099	-	14,799
Education and training	187	133	103	68	491	1,966	-	2,457
Dues	-	-	-	-	-	7,198	-	7,198
Meals and entertainment	-	-	-	-	-	1,642	-	1,642
Travel	788	560	435	290	2,073	8,293	-	10,366
Development	-	-	-	-	-	-	39,057	39,057
Printing	823	585	455	304	2,167	14,647	2,167	18,981
Public relations and advertising	5,075	3,606	2,804	1,869	13,354	13,664	18,184	45,202
Project expense	53,959	377,710	701,461	4,262,726	5,395,856	-	-	5,395,856
Program expense	4,957	431	-	-	5,388	-	-	5,388
Miscellaneous	-	-	-	-	-	7,927	-	7,927
Depreciation	-	-	-	-	-	28,965	-	28,965
	\$ 1,732,892	\$ 2,416,158	\$ 2,726,831	\$ 4,955,112	\$ 11,830,993	\$ 526,257	\$ 258,226	\$ 12,615,476

See accompanying notes.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

1. Nature of Organization, Risks, and Uncertainties

Midland Area Community Foundation (Foundation) is organized as a not-for-profit community foundation for the purpose of promoting and enabling community-wide philanthropic giving to enrich and improve the lives of residents throughout the Michigan counties of Midland, Clare, and Gladwin. Clare County and Gladwin County Community Foundations operate as affiliates of the Foundation and all activity is included in these financial statements, as presented. In fulfilling this mission, the Foundation receives and administers gifts and bequests that are used to meet various needs.

The Foundation receives most of its contributions from numerous individuals, public and private foundations, and businesses located in Midland County. Contributions from a small number of large dollar amount donors may represent a material portion of total contribution revenue. The composition of large dollar amount donors changes each year. During the year ended December 31, 2018, contributions from the Foundation's large dollar donors represented approximately 67% of contribution revenue. During the year ended December 31, 2017, contributions from the Foundation's large dollar donors represented approximately 67% of contribution revenue as well.

The Foundation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (Code). The Foundation has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and contributions to it are tax deductible by donors within the limitations prescribed by the Code.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Foundation to report information regarding its financial position and activities according the following mutually exclusive net assets classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods, including market, income, and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the fair value standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The Foundation had a \$300,000 investment in an LLC classified as Level 3 as of December 31, 2018 and had \$520,000 in a real estate investment classified as Level 3 as of December 31, 2017. For the years ended December 31, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits held in bank demand deposit accounts and money market funds. Bank demand deposits are held by high-credit-quality financial institutions. Although such cash balances exceeded the federally insured limits at certain times during the year, they are, in the opinion of management, subject to minimal risk. Money market funds are not federally insured. Management believes these funds are subject to minimal risk since a significant portion of securities held by money market funds consist of United States Treasury bonds or notes.

Investments

The Foundation reports investments in marketable securities and real estate at their fair values in the statements of financial position. Unrealized gains and losses are included in investment income or loss in the accompanying statements of activities.

The Foundation's investment portfolio consists of long-term certificates of deposit and mutual funds including bond and equity funds. These mutual funds invest in and hold 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 such changes could materially affect the amounts reported in the statements of financial position.

Cash Surrender Value of Life Insurance

The Foundation is the owner of certain life insurance policies on the lives of various donors who have named the Foundation as the beneficiary. These policies are valued at their cash surrender value.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Parks and Improvements

Parks and improvements consist of Overlook Park and related improvements recorded at estimated fair value at the date of donation plus any improvements.

Office Facility and Equipment and Depreciation

The office facility and equipment are stated at cost, if purchased, or at the estimated fair value at date of donation. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Depreciation is computed on the straight-line method and is based on expected useful lives ranging from 3 to 39 years.

Restricted Organizational Funds

Restricted organizational funds are recorded as liabilities and consist of amounts received from other not-for-profit organizations that specify the donor organization or a related organization as the beneficiary. Investment earnings or losses allocated to the funds and distributions paid to the beneficiary organization are recorded as increases and decreases, respectively, to the liability. Distributions from restricted organizational funds are subject to the current spending policies of the Foundation.

Net Asset Classifications

The Foundation classifies net assets with donor restrictions due to perpetual time a) the original value of the gifts and grants to permanent endowments, b) the original value of subsequent gifts to the permanent endowments, and c) accumulations to the permanent endowments in accordance with the applicable donor or grantor gift instrument. The remaining portion of endowment fund investments that is not classified as net assets with donor restrictions due to perpetual time is classified as net assets with donor restrictions due to purpose until those amounts are appropriated for expenditure for the intended purpose or, when unrestricted, reported as unrestricted and designated by management for specific purposes.

Net assets with donor restrictions due to purpose consist of the earnings from donor restricted endowment funds that are not classified as with donor restrictions due to perpetual time. When a restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is fulfilled, net assets with donor restrictions due to purpose are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Net Asset Classifications (continued)

The Board, on advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of an endowment under the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation is governed subject to the Governing Documents for the Foundation and most contributions are subject to the terms of the Governing Documents and the related Fund or Gift Agreements. Certain contributions are received subject to other gift or grant instruments, or are subject to specific agreements with the Foundation, and may be recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the specific terms of the agreements.

Under the terms of the Governing Documents and the Fund or Gift Agreements, the Board has the ability to modify any restrictions or condition on the distribution of funds that becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area of service. The Board also has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

Contributions

Generally, contributions, including unconditional pledges to give, are recorded at fair value when received. Contributions of services, fixed assets, and other non-monetary contributions are recorded at the donor's estimated fair value. All current contributions are considered unrestricted.

Functional Classification of Expenses

The Foundation reports its expenses on the statements of activities in functional classifications based on direct identification, time studies and floor space. Each category is defined as follows:

Program Services

Program service expenses are broken out into the Foundation's four main areas of community focus:

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Functional Classification of Expenses (continued)

Developing Our Talent (talent, education, youth development, and engagement): The local area offers high quality education and learning opportunities throughout life, and the community nurtures a skilled workforce and places high value on post-secondary learning. The Foundation provides opportunities for children and youth to realize their hopes and dreams.

Enriching Our Community (arts, culture, entertainment, recreation, diversity, community leadership, and environment): The local area is a vibrant hub of arts, culture, entertainment and recreational opportunities. The Foundation is committed to equality and inclusion, and welcomes, embraces, and accepts all people. The local area is a sustainable community that values and protects its natural resources.

Caring for Our People (human services, social services, poverty, housing, mental and physical health, and public safety): The local community provides a coordinated and comprehensive system of supportive health and human services so that all may thrive. The Foundation encourages self-sufficiency and accepts its responsibility to collaborate to create the safest community in the country.

Building Our Livelihood (economic development and infrastructure): The local area creates and sustains competitive advantages for existing and future businesses. The Foundation is well-connected and invests in physical and technological infrastructure.

Management and General

Management and general expenses include those expenses associated with the management of the Foundation.

Fundraising

Fundraising expenses include those expenses associated with promoting and raising funds for the Foundation.

Grant Awards

Grants are recorded as expenses when approved by the Foundation's Board. Grant awards are presented in the financial statements net of grant refunds.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Comparative Financial Information

The statements of activities include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Income Tax

Generally, tax years from 2015 through the current year remain open to examination. The Foundation does not believe that the results from any examination of these open years would have a material adverse effect on the Foundation.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

Management has evaluated subsequent events through April 5, 2019, which is the date the financial statements were available to be issued.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

3. Investments

The following summarizes the cost basis and market value (carrying value) of investments.

	December 31, 2018		December 31, 2017	
	Cost	Market	Cost	Market
Fixed income mutual funds	\$19,337,450	\$19,445,224	\$ 9,690,485	\$19,510,724
Equity mutual funds	49,989,948	57,339,364	43,427,150	63,725,677
Hedge funds	6,136,333	7,527,977	6,337,916	7,516,485
Real asset funds	4,739,579	4,588,414	4,648,861	4,611,660
Investment in LLC	300,000	300,000	-	-
Real estate	-	-	520,000	520,000
	<u>\$80,503,310</u>	<u>\$89,200,979</u>	\$ 74,624,412	\$95,884,546

The components of net investment return consisted of the following for the years ended December 31:

	2018	2017
Interest, dividends, and distributions	\$ 2,192,000	\$ 2,055,191
Net (depreciation) appreciation in fair value	(8,374,969)	10,385,471
Investment management and bank fees	(115,279)	(99,815)
	(6,298,248)	12,340,847
Amounts allocated to restricted organizational funds	164,470	(307,737)
Net investment income (loss)	<u>\$ (6,133,778)</u>	<u>\$12,033,110</u>

4. Office Facility and Equipment

Office facility and equipment consisted of the following as of December 31:

	2018	2017
Land	\$ 65,000	\$ 65,000
Building and improvements	739,188	739,188
Office furniture and fixtures	114,544	114,544
Office equipment	51,306	51,306
Computer software	67,649	67,649
Total cost	<u>1,037,687</u>	<u>1,037,687</u>
Accumulated depreciation	(466,838)	(435,465)
Office facility and equipment, net	<u>\$ 570,849</u>	<u>\$ 602,222</u>

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

5. Endowments

Endowment Funds

The Foundation's endowment funds consist of 514 individual funds established for a variety of purposes. The endowment funds consist of both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with the endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted UPMIFA as requiring preservation of the fair value of the original gift, as of the gift date, of donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds and board-designated endowment funds:

- (1) Duration and preservation of the fund
- (2) Purposes of the Foundation and the donor restricted endowment fund
- (3) General economic conditions
- (4) Possible effect of inflation and deflation
- (5) Expected return from income and the appreciation or depreciation of investments
- (6) Other resources of the Foundation
- (7) Investment policies of the Foundation

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

5. Endowments (continued)

Endowment Funds and Changes Therein

The Foundation's endowment net asset composition was as follows as of December 31, 2018:

	Without Donor Restrictions- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Endowment funds	\$ 78,694,731	\$ 1,021,815	\$ 1,000,000	\$ 80,716,546

Changes in board designated and donor restricted endowment funds during the year ended December 31, 2018 follows:

	Without Donor Restrictions- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Balance, December 31, 2017	\$ 86,703,343	\$ 1,269,258	\$ 1,000,000	\$ 88,972,601
Investment income:				
Interest and dividends	2,119,649	50,134	-	2,169,783
Net depreciation of investments	(7,832,389)	(200,991)	-	(8,033,380)
Net investment loss	(5,712,740)	(150,857)	-	(5,863,597)
Contributions	4,168,640	1,000	-	4,169,640
Grants appropriated	(3,334,748)	(51,445)	-	(3,386,193)
Fees and expenses	(3,129,764)	(46,141)	-	(3,175,905)
Balance, December 31, 2018	\$ 78,694,731	\$ 1,021,815	\$ 1,000,000	\$ 80,716,546

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

5. Endowments (continued)

Endowment Funds and Changes Therein (continued)

The Foundation's endowment net asset composition was as follows as of December 31, 2017:

	Without Donor Restrictions- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Endowment funds	\$ 86,703,343	\$ 1,269,258	\$ 1,000,000	\$ 88,972,601

Changes in board designated and donor restricted endowment funds during the year ended December 31, 2017 follows:

	Without Donor Restriction- Board Designated	With Donor Restrictions		
		Purpose Restrictions	Perpetual Time Restrictions	Total
Balance, December 31, 2016	\$74,278,906	\$ 1,089,384	\$ 1,000,000	\$ 76,368,290
Investment income:				
Interest and dividends	1,837,709	48,733	-	1,886,442
Net appreciation of investments	9,286,470	260,314	-	9,546,784
Net investment income	11,124,179	309,047	-	11,433,226
Contributions	7,246,756	25	-	7,246,781
Grants appropriated	(3,586,824)	(71,925)	-	(3,658,749)
Fees and expenses	(2,359,674)	(57,273)	-	(2,416,947)
Balance, December 31, 2017	\$86,703,343	\$ 1,269,258	\$ 1,000,000	\$ 88,972,601

Funds with Deficiencies

From time to time, the fair value of investment assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. The fair value of the Foundation's investment assets at December 31, 2018 and 2017, associated with the endowment portion of its funds exceeded the level required by the donor or UPMIFA to be retained as a fund of perpetual duration.

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

5. Endowments (continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for its investment portfolio that attempt to provide a predictable stream of funding to programs supported by the investment portfolio while seeking to maintain the purchasing power of the endowment investments. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period and board designated funds. Decisions about individual funds will not be made in isolation but rather in the context of the portfolio as a whole. As approved by the Foundation's Investment Committee, the investments are invested in a manner that is intended to achieve a target rate of return that exceeds the consumer price index by at least 5.50% on a net-of-fees basis over a five-year rolling average. The portfolio is also expected to outperform a weighted benchmark index without exceeding a standard deviation of 1.2 times the weighted benchmark index on a total return basis over the full market cycle. The benchmark index is comprised of each asset class index weighted by its target allocation. Actual returns in any given year may vary from target amounts.

Strategies Employed for Achieving Objectives

The Foundation's investment portfolio is expected to endure into perpetuity. The Foundation invests a significant portion of assets in equity or equity-like securities to meet performance objectives. Management believes the long-term risk of not investing in growth securities outweighs the short-term volatility risk of such securities. As a result, fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not viewed as a strategic asset of the portfolio, but instead is used to meet short-term liquidity needs. Other asset classes are included to provide diversification (e.g., international equities) and incremental return (e.g., small cap equities).

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

6. Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's spending policy annually calculates the amount of money available for distribution from the various endowed funds for grant making and administration. The maximum spending policy is to distribute 5.00% of the average fair value over the prior 20 quarters determined as of September 30 of the year preceding the planned distributions. If the market value of an endowment fund on September 30 exceeds the fund's historic dollar value, then the maximum allowable spending from that endowment fund shall be 5.00% of the previous 20 quarter moving average of the fund's market value. However, spendable dollars may only come from accumulated earnings on the fund. If the market value of an endowment fund on September 30 is less than the fund's historic dollar value, then the maximum allowable spending from that endowment fund shall be the lesser of 1) 5.00% of the previous 20 quarter moving average of the fund's market value, or 2) the ordinary income earned on that fund during the previous four calendar quarters. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow annually. This is consistent with the Foundation's objectives to maintain the purchasing power of the endowment assets and to provide additional real growth through new gifts and investment return.

7. Fair Value Measurements

Fair value measurements for assets carried at fair value on a recurring basis were as follows as of December 31:

	2018			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 596,320	\$ 596,320	\$ -	\$ -
Investment securities	88,900,979	81,373,002	7,527,977	-
Investment in LLC	300,000	-	-	300,000
	<u>\$ 89,797,299</u>	<u>\$ 81,969,322</u>	<u>\$ 7,527,977</u>	<u>\$ 300,000</u>

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Notes to Financial Statements

December 31, 2018

7. Fair Value Measurements (continued)

Changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) were as follows:

	2018
Balance at beginning of year	\$ 520,000
Investment in LLC	300,000
Sale of real estate	<u>(520,000)</u>
Balance at end of year	<u>\$ 300,000</u>

	2017			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 229,010	\$ 229,010	\$ -	\$ -
Investment securities	95,364,546	87,848,061	7,516,485	-
Real estate	520,000	-	-	520,000
	<u>\$ 96,113,556</u>	<u>\$ 88,077,071</u>	<u>\$ 7,516,485</u>	<u>\$ 520,000</u>

Changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) were as follows:

	2017
Balance at beginning of year	\$ -
Contribution of real estate	<u>520,000</u>
Balance at end of year	<u>\$ 520,000</u>

Midland Area Community Foundation

Notes to Financial Statements

December 31, 2018

8. Liquidity and Availability of Resources

The Foundation has \$3,760,979 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$510,606 and short-term investments of \$3,250,373. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, to meet normal operating expenses, grants, scholarships, and projects expenses. The Foundation has a cash target range of 0% to 5% in its investment policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. The Foundation has \$13,564,518 of accumulated spendable funds available for distribution as of December 31, 2018. The entire amount would not be typically distributed in one year; however, the Foundation receives contributions on a regular basis and has sufficient long-term investments available to be liquidated to meet the request, if it occurred.