Community Foundation for Southeast Michigan and Supporting Organizations

Combined Financial Statements as of and for the
Year Ended December 31, 2018, and
Independent Auditors' Report

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

TABLE OF CONTENTS

Deloitte & Touche LLP
200 Renaissance Center
Suite 3900
Detroit, MI 48243-1313
USA

Tel: +1 313 396 3000
Fax: +1 313 396 3618
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Community Foundation for Southeast Michigan and
Supporting Organizations
Detroit, Michigan

We have audited the accompanying combined financial statements of the Community Foundation for Southeast Michigan and supporting organizations (the "Foundation"), which are under common control and common management, which comprise the combined statement of financial position as of December 31, 2018, and the related combined statements of statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the combined 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 companies' 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the combined financial statements, in 2018, the Foundation adopted new accounting guidance related to the presentation of financial statements for not-for-profit entities. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

May 16, 2019

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

ASSETS	
CASH	$ 5,810,749
INVESTMENTS	808,793,019
CONTRIBUTIONS RECEIVABLE	27,786,116
DEFERRED GIFTS RECEIVABLE	2,632,305
COMMERCIAL ANNUITIES	21,135,998
ACCRUED INVESTMENT INCOME	136,891
OTHER ASSETS	6,034,259
FIXED ASSETS—Net of accumulated depreciation of $727,101	298,188
TOTAL	$872,627,525
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Grant commitments	$ 17,759,801
Accounts payable	458,185
Charitable gift annuities	32,598,002
	50,815,988
Funds held as agency endowments	19,814,682
Total liabilities	70,630,670
NET ASSETS:	
Without donor restrictions	739,258,345
With donor restrictions	62,738,510
Total net assets	801,996,855
TOTAL	$872,627,525

See notes to combined financial statements.

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Total	Without Donor Restrictions	With Donor Restrictions
REVENUES, GAINS AND OTHER SUPPORT:			
Contributions	$ 94,263,853	$ 61,728,337	$ 32,535,516
Less amounts received from agencies	(286,371)	(286,371)	
Net assets released from restrictions		21,023,891	(21,023,891)
Change in value of deferred gifts receivable	216,557		216,557
Interest and dividends, net	23,288,460	22,930,470	357,990
Less net interest on amounts held for agencies	(595,855)	(595,855)	
Net unrealized and realized (loss) on investments	(60,401,827)	(60,401,827)	
Less loss on investments held for agencies	1,655,915	1,655,915	
Remeasurement of charitable gift annuities	(277,052)	(277,052)	
Administrative revenue from amounts held for agencies	98,729	98,729	
Miscellaneous income	305,588	305,588	
Total revenues, gains and other support	58,267,997	46,181,825	12,086,172
GRANTS AND EXPENSES:			
Grants	87,177,008	87,177,008	
Less amounts granted to agencies	(787,044)	(787,044)	
Prior-year grants canceled	(100,800)	(100,800)	
Prior-year grants returned	(88,855)	(88,855)	
Direct charitable activities	3,716,789	3,716,789	
General and administrative	6,899,696	6,899,696	
Total grants and expenses	96,816,794	96,816,794	
(DECREASE) INCREASE IN NET ASSETS	(38,548,797)	(50,634,969)	12,086,172
NET ASSETS—Beginning of year	840,545,652	789,893,314	50,652,338
NET ASSETS—End of year	$ 801,996,855	$ 739,258,345	$ 62,738,510

See notes to combined financial statements.

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets	$ (38,548,797)
Depreciation	71,999
Net unrealized and realized loss on investments	55,834,362
Remeasurement of charitable gift annuities	277,052
Noncash contributions	(24,489,646)
Changes in assets and liabilities:	
Contributions and deferred gifts receivable	(7,652,216)
Commercial annuities	1,246,545
Accrued investment income	185,715
Other assets	815,764
Grant commitments	1,964,276
Accounts payable	(198,261)
Charitable gift annuities	(2,177,890)
Funds held as agency endowments	(1,659,461)
Net cash used in operating activities	(14,330,558)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(436,617,025)
Proceeds from sale of investments	437,095,353
Purchases of fixed assets	(281,174)
Net cash provided by investing activities	197,154
NET DECREASE IN CASH	(14,133,404)
CASH—Beginning of year	19,944,153
CASH—End of year	$ 5,810,749

See notes to combined financial statements.

1. ORGANIZATION

The Community Foundation for Southeast Michigan, founded in 1984, creates permanent, positive change in southeast Michigan through thoughtful philanthropy. With generous support from thousands of donors, the Community Foundation for Southeast Michigan builds resources that will serve community needs in perpetuity and helps individuals, families and businesses fulfill their charitable goals. Other gifts are made to funds that may have a shorter duration; however, in all cases, these funds help connect those who care with causes that matter.

As described in Section 509 (a)(3) of the Internal Revenue Code, Type I supporting organizations are operated, supervised, or controlled by the supported organization. At December 31, 2018 the Community Foundation for Southeast Michigan had seven active Type I supporting organizations. The Gilmour-Jirgens Fund was established in 1995, and the Robert H. Tannahill Foundation was established in 2001. In 2012, the DMC Foundation became a supporting organization to the Community Foundation for Southeast Michigan. The Foundation for Detroit's Future (FDF) was established in 2014 as a supporting organization of the Community Foundation. The Southeast Michigan Opportunity Trust, established to facilitate gifts to support charitable activities that benefit southeast Michigan, received an initial gift in 2017. The Russell Family Foundation and the Matthew and Karen Cullen Family Foundation were established in 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying combined financial statements have been prepared on a combined basis to include the Community Foundation for Southeast Michigan and its affiliated supporting organizations (the "Foundation"). All material interorganization transactions and balances are eliminated in the combined financial statements.

Basis of Presentation—The Foundation's combined financial statements have been prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net Asset Classifications—The Foundation is governed subject to its articles of incorporation and bylaws and further by its adopted investment policy, as well as individual gift instruments and agreements. The bylaws of the Foundation include a variance provision and powers of modification, giving the Board of Trustees the power to vary the use of funds if a restriction expressed by a donor would result in use contrary to the intent presumed. As further stated in its articles of incorporation, the Foundation has the ability to distribute all or any part of its net income, principal or property in accordance with the determination made by the Board of Trustees for the purposes set forth in its restated articles of incorporation. Although the Foundation's mission includes building endowed assets based on the provisions noted, the Foundation classifies all contributions, except as noted below, as Without Donor Restrictions for combined financial statement purposes.

Net Assets With Donor Restrictions consist of contributions unconditionally promised, including irrevocable charitable remainder trusts, lead trusts, unconditional pledges and other time-restricted contributions. The Foundation also received grants and contributions from charitable foundations and other donors for direct charitable activities—philanthropic activities that the Foundation engages in directly, rather than by making grants to grantees. Such grants and contributions for which purpose restrictions apply are recorded as With Donor Restrictions until the purpose restrictions are met. When the time or purpose restrictions are met, With Donor Restrictions net assets are reclassified to Without Donor Restrictions net assets and reported as net assets released from restrictions.

The Foundation further classifies its net assets Without Donor Restrictions as of December 31, 2018, as follows:

Unrestricted	$ 93,938,754
Field of interest	111,527,362
Designated	186,371,132
Scholarship	6,161,588
Advised endowment	83,733,905
Charitable gift annuities	15,873,412
Donor advised	112,543,515
Operating and reserves	14,112,743
Funds held as agency endowments	(19,814,682)
Total net assets without donor restrictions, excluding supporting organizations	604,447,729
Net assets of supporting organizations	134,810,616
Total net assets without donor restrictions	$ 739,258,345

A reconciliation of net assets is included in the combined statement of activities.

Endowment Assets—The Foundation's Board of Trustees, with the advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of endowment under the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). While not an UPMIFA-defined endowment, the Foundation intends many of its funds to be permanent and manages them accordingly. Further references to "endowment" or "endowed assets" in these notes relate to those intentions of the Foundation.

Endowment Investment and Spending Policies—The Foundation has adopted investment and spending policies for endowment assets with the intent to preserve the purchasing power of those assets and provide a predictable stream of funding to programs supported by its endowment. The Foundation's spending and investment policies work together to achieve this objective. Diversification by asset class, investment style, and investment manager is employed to avoid undue risk concentration and to enhance total return. The long-term return objective is expressed as a range from 6% to 8%, net of investment fees. Actual returns in any year may vary from this amount. To satisfy its long-term rate of return objective, 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 spending policy calculates the amount of money annually available for distribution from the Foundation's various endowed funds for grantmaking and administration. The spending policy is reviewed and determined annually by the Board of Trustees. The 2018 spending policy is up to 5% of the average market value over the previous 12 quarters. Accordingly, over the long term, the Foundation intends the current spending policy to allow its endowment assets to grow at the rate of inflation. 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 return.

Cash—Cash principally consists of cash contributions received at year-end and not yet invested, as well as checking accounts.

Commercial Annuities—Commercial annuities were purchased to provide a guaranteed source of funds and to reduce investment risk of certain charitable gift annuities. The commercial annuities are valued at the present value of the estimated future payments to be received.

Other Assets—In 2018, other assets included a gift of business interests, gifts of life insurance and accounts receivable. The gift of business interests is recorded at a fair value of $3,700,000. The Foundation board has adopted gift acceptance policies and guidelines applicable to these and other specific types of gifts.

Fixed Assets—Fixed assets are recorded at cost. Depreciation of computer hardware and software is computed using the straight-line method over an estimated useful life of three years. Depreciation of all other fixed assets is computed using the straight-line method over an estimated useful life of five years.

Charitable Gift Annuities—Charitable gift annuities are contracts between the Foundation and a donor in which the Foundation agrees to pay the donor (or other person named by the donor) a lifetime annuity in return for a gift of cash or marketable securities. A liability is recorded for the amount due to an income beneficiary of a charitable gift annuity based on the present value of the estimated future payments to be distributed during the income beneficiary's expected life. Each year, the liability is remeasured and changes in the liability due to factors other than cash payments, such as changing life expectancies, are recorded as an increase or decrease to revenue and support. The discount rate ranges from 1% to 8% depending on the discount rate in effect at the time of the gift. The Foundation purchased commercial annuities to fund certain of these arrangements.

Grant Commitments—Grant commitments are recognized as liabilities at the time unconditional grants are authorized and expensed by the Foundation, regardless of the year in which they are paid.

Investments—The Foundation's investments are classified as available for sale as defined by accounting standards. Marketable securities, including mutual fund, equity, and debt securities, are reported at fair value based upon quoted market prices, or, when quotes are not available, are valued based on comparable financial instruments.

FASB ASC 820, *Fair Value Measurements and Disclosures*, allows the Foundation, as a practical expedient, to measure the value of certain investments using the net asset value (NAV) per share of the investment. The NAV of the Foundation's collective funds (or common trust funds), private placement funds, and other fund-of-funds investments are calculated by the fund administrators, and market values as of December 31, 2018, are based on valuations provided by the managers of the funds. Management reviews and assesses reasonableness of the fair values, including an evaluation of whether the investment returns are in line with expectations. Audited financial statements and other financial information were received from the fund managers and fair values were confirmed as part of management's evaluation. Because of the inherent uncertainty of valuations, values may differ materially from values had a ready market existed.

Investments structured as limited partnerships, include fixed income, equity, asset allocation, hedge funds, and private market investments and are accounted for using the equity method (which approximates market value). Limited partnerships are valued based on information provided by the general partner and audited financials when available.

Realized gains or losses on investments represent the difference between the original cost of investments and the sales proceeds. Unrealized gains or losses represent the difference between the beginning-of-year value or purchase date during the year and the end-of-year value. Cost is determined on the average-cost basis.

Investment Risks—Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying combined statements of financial position and combined statements of activities.

Funds Held as Agency Endowments—The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, reports the funds as assets of the Foundation. A liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organizations that are the ultimate recipients and established the funds. All asset transfers of this type and the activity associated with those assets are recognized as agency transactions in the combined financial statements. In order to present the full scope of the Foundation's operations, the Foundation includes the activity (i.e., contributions, net investment income, net investment gains (losses) and grants) related to such transactions in its combined statements of activities and then separately presents the respective agency activity as a reduction thereof. In the combined statements of financial position, the assets held on behalf of the agency are included in investments, and the related liability to the agency is classified as funds held as agency endowments. These assets are managed in accordance with the same investment and spending policies as the Foundation's other endowment funds.

Use of Estimates—The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and the accompanying notes to combined financial statements. Actual results could differ from those estimates.

Retirement Plan—The Foundation has a defined contribution retirement plan covering substantially all of its employees. The Foundation contributes a specified percentage of the annual compensation of participants. Retirement plan expense for 2018 was $286,869.

Grants—Unconditional grants are recorded as expenses in the year they are authorized.

New Accounting Pronouncements—The December 31, 2018 combined financial statements reflect adoption of FASB Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Although the adoption of ASU 2016-14 affected the presentation of net assets on the statements of financial position and statement of activities, it had no impact on the total amount of net assets or changes in net assets shown in the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The standard is scheduled to take effect for reporting periods beginning January 1, 2020, for nonpublic companies. The Foundation is evaluating the impact this topic will have on the combined financial statements.

In August 2016, the FASB also issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to reduce the diversity in current practice in how certain cash receipts and cash payments are presented and classified. For entities that are not public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Foundation is evaluating the impact this topic will have on the combined financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, to reduce the diversity in current practice in the classification and presentation of changes in restricted cash in the statement of cash flows. For entities that are not public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Foundation is evaluating the impact this topic will have on the combined financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the accounting guidance on whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. In addition, it provides a more robust framework for determining whether a contribution is conditional which affects the timing of contribution revenue and expense recognition. It does not apply to transfers of assets from governments. The guidance is applicable for transactions where the entity serves as the resource recipient for fiscal years beginning after December 15, 2018 and for transactions in which the entity serves as the resource provider for fiscal years beginning after December 15, 2019. The Foundation is evaluating the impact this topic will have on the combined financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. This guidance is effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is evaluating the impact this topic will have on the combined financial statements.

3. INVESTMENTS

Cost and market value of investments held as of December 31, 2018, were as follows:

	Cost	Market
Mutual funds:		
Money market	$111,699,396	$111,699,396
Fixed income	127,369,241	125,311,437
Equity	134,807,638	113,984,837
Asset allocation	27,149,171	24,139,622
Total mutual funds	401,025,446	375,135,292
Equity securities	17,616,889	18,190,670
Collective funds:		
Equity	168,159,735	159,237,929
Fixed income	23,999,940	23,719,571
Total collective funds	192,159,675	182,957,500
U.S. government debt securities	11,184,896	11,186,773
Corporate debt securities	4,892,300	4,737,940
Total marketable securities	626,879,205	592,208,175
Hybrid fund of funds	489,028	1,153,608
Limited partnerships:		
Fixed income	29,524,119	28,770,472
Equity	63,784,370	61,763,545
Private markets	114,623,762	123,897,291
Hedge funds	999,928	999,928
Total limited partnerships	208,932,180	215,431,236
Total	$836,300,413	$808,793,019

Investment activity in 2018 included change in unrealized loss of $(97,416,271) and realized gain of $37,014,444.

A portion of the limited partnerships (with carrying value of $61,763,545 at December 31, 2018) consist primarily of underlying investments that are marketable and have a readily determinable fair market value.

4. CONTRIBUTIONS RECEIVABLE AND DEFERRED GIFTS RECEIVABLE

Contributions represent current-year contributions as well as unconditional pledges. Contributions are recorded at fair market value on the date of donation. Unconditional pledges and deferred gifts are recorded at the present value of expected net proceeds.

Contributions receivable are recorded at the estimated value on the date of the gift and an allowance for uncollectible amounts is reviewed annually and adjusted, as necessary. Contributions due in more than one year are discounted at rates between 1.93% and 4.8% using the discount rate in effect at the time of gift.

Contributions receivable represent unconditional pledges, which are expected to be received as of December 31, 2018, as follows:

Within one year	$ 21,829,908
One to five years	5,484,667
More than five years	1,384,783
Total	28,699,358
Less present value factor at varying rates	(503,242)
Less allowance for uncollectible accounts	(410,000)
Total contributions receivable	$ 27,786,116

Deferred gifts receivable consist primarily of charitable remainder trusts. Contribution revenue is recorded when the Foundation has the unconditional and irrevocable right to receive benefits under the agreements. Deferred gifts are recorded at the present value of the revenue to be received using discount rates between 1.65% and 7.60% based on the year the trust was established. An allowance for uncollectible amounts is reviewed annually and adjusted, as necessary.

Deferred gifts receivable expected to be received as of December 31, 2018, are as follows:

Within one year	$ 4,773
One to five years	721,537
More than five years	3,177,651
Total	3,903,961
Less present value factor at varying rates	(1,191,656)
Less allowance for uncollectible amounts	(80,000)
Total deferred gifts receivable	$ 2,632,305

Contributions receivable and deferred gifts receivable are classified as net assets with donor restriction until received and are adjusted to fair market value at each combined statement of financial position date. Once received, the gift is reclassified to net assets without donor restriction.

The Foundation's contributions and deferred gifts receivable released from restrictions during the year ended December 31, 2018, amounted to $10,293,841.

5. COMMITMENTS AND CONTINGENCIES

Future minimum rental payments required under building operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2018, are as follows:

Years Ending December 31	
2019	$ 369,615
2020	381,875
2021	405,677
2022	425,438
2023	464,196
Thereafter	1,397,690
Total	$ 3,444,491

Total rental expense under operating leases aggregated $358,841 in 2018.

6. TAX STATUS

The Foundation and its supporting organizations have been recognized by the Internal Revenue Service as organizations described in Internal Revenue Code (IRC) 501(c)(3) and 509(a) as public charities and are exempt from federal income taxes under IRC 501(a) and, accordingly, no provision has been made for such taxes. The Foundation has evaluated FASB ASC 740, *Income Taxes*, and has concluded it has no uncertain tax positions.

7. GRANTS

The Foundation's grants, excluding supporting organizations and including those to agencies, totaling $62,189,360 were approved and recognized in the 2018 combined statement of activities. Actual Community Foundation for Southeast Michigan grants paid, including those to agencies, in 2018 were $67,196,182. Supporting organization grants totaling $24,987,648 were approved and recognized in the 2018 combined statement of activities. Actual supporting organization grants paid in 2018 were $24,662,972. Grants between supporting organizations and the Foundation in 2018 were $6,747,222.

Grant commitments represent unconditional payments, which are scheduled to be paid as of December 31, 2018:

Less than one year	$ 16,652,851
One to five years	1,106,950
Total grant commitments	$ 17,759,801

8. FAIR VALUE MEASUREMENTS

The Foundation utilizes the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, in the preparation of its combined financial statements and related disclosures. This guidance establishes a framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs used in valuation techniques into the following three levels:

Level 1—inputs are quoted prices for identical assets in active markets at the measurement date.

Level 2—inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, such as quoted prices for similar assets.

Level 3—inputs are unobservable inputs that cannot be corroborated by observable market data.

Assets measured at fair value on a recurring basis, as listed in the tables below, use the following valuation methodologies:

Mutual funds are valued at the closing price reported on the active market on which the individual securities are traded and are classified as Level 1 within the fair value hierarchy.

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded and are classified as Level 1 within the fair value hierarchy.

U.S. government debt securities are valued using quoted market prices and/or other market data for the same or similar securities in establishing prices and are classified as Level 2 within the fair value hierarchy.

Corporate debt securities are valued using quoted market prices for similar assets in active markets and are classified as Level 2 within the fair value hierarchy.

The Foundation uses NAV when available to determine the fair value of investments in funds that do not have a readily determinable market value. The Foundation's investments in funds that calculate NAV per share consist of investments in private placement mutual funds, collective funds, and hybrid fund of funds.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgement, including consideration of inputs specific to the investment.

Limited partnerships are accounted for under the equity method; however, the transparency of the holdings is such that equity approximates fair value. Values are based on information provided by the general partner; management also takes into account the audited financial information to determine overall reasonableness of the recorded value.

The following table presents information about the Foundation's assets recorded at fair value on a recurring basis as of December 31, 2018, according to the valuation techniques used by the Foundation to determine those fair values (there were no assets measured on a nonrecurring basis as of December 31, 2018):

	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Fair Value**
Recurring fair value measurements:				
Mutual funds:				
Money market	$ 111,699,396	$ -	$ -	$ 111,699,396
Fixed income	125,311,437			125,311,437
Equity	113,984,837			113,984,837
Asset allocation	24,139,622			24,139,622
	375,135,292	-	-	375,135,292
Equity securities	18,190,670			18,190,670
U.S. government debt securities		11,186,773		11,186,773
Corporate debt securities		4,737,940		4,737,940
Total assets recorded at fair value	393,325,962	15,924,713	-	409,250,675
Investments measured at net asset value:				
Private placement funds				67,694,716
Collective funds:				
Equity				159,237,929
Fixed income				23,719,571
	-	-	-	182,957,500
Hybrid fund of funds				1,153,608
Total assets measured at net asset value	-	-	-	251,805,824
Limited partnerships (under equity method):				
Fixed income				28,770,472
Equity				61,763,545
Private markets				56,202,575
Hedge funds				999,928
Total assets under equity method	-	-	-	147,736,520
Total assets	$ 393,325,962	$ 15,924,713	$ -	$ 808,793,019

Additional information related to investments recorded at fair value using NAV is as follows:

	2018 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private placement fund	$ 17,841,600	$ -	Monthly	90 days
Private placement fund	24,305,795		Quarterly	60 days
Private placement fund	11,969,024		Monthly	3 days
Private placement fund	13,578,297		Quarterly	45 days
Equity collective fund	60,459,608		Daily	2 days
Equity collective fund	3,669,600		Daily	N/A
Hybrid fund of funds	1,153,608		12/31/2019	N/A
Equity collective fund	58,340,548		Daily	3 days
Equity collective fund	33,089,386		Daily	3 days
Fixed income collective fund	23,719,571		Daily	3 days

As of December 31, 2018, the Foundation had commitments to contribute $59,822,060, in additional capital under the terms of various limited partnership agreements over the next three to five years.

9. ENDOWMENT BY NET ASSET CLASS

As of December 31, 2018, the composition of endowment by type of fund is as follows:

Endowment by Net Asset Class	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Donor restricted endowment funds	$ -	$10,080,000	$ 10,080,000
Other endowment funds:			
Unrestricted	93,938,754		93,938,754
Field of interest	111,527,362		111,527,362
Designated	186,371,132		186,371,132
Scholarship	6,161,588		6,161,588
Advised endowment	83,733,905		83,733,905
Supporting organization	91,399,968		91,399,968
Total endowment funds	$573,132,709	$10,080,000	$583,212,709

Other endowment funds include funds that are subject to the Foundation's spending policy under governing documents, but are not endowment funds as defined by UPMIFA.

The summary of changes in endowment net assets as of December 31, 2018, is as follows:

Changes in Endowment Net Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
Endowment net assets—beginning of year	$607,498,309	$10,080,000	$617,578,309
Contributions	23,902,401		23,902,401
Investment earnings—net of investment expenses	(30,368,588)		(30,368,588)
Grants or scholarships	(23,317,116)		(23,317,116)
Administrative expenses	(4,744,132)		(4,744,132)
Other changes	161,835		161,835
Endowment net assets—end of year	$573,132,709	$10,080,000	$583,212,709

10. ASSET TRANSFER TO DMC FOUNDATION

In 2010, Vanguard Health Systems, an investor-owned corporation, that is now owned by Tenet Healthcare, purchased the noncharitable assets of the nonprofit Detroit Medical Center. The Detroit Medical Center retained the charitable funds and was renamed Legacy DMC. Pursuant to an agreement with the Office of the Michigan Attorney General, certain of those charitable funds were to be transferred to the Detroit Community Health Foundation (now, DMC Foundation).

Pursuant to the charitable asset transfer agreement approved by the office of the Michigan Attorney General, DMC Foundation provided $2.5 million in funding for the operation of Legacy DMC for monitoring compliance by Vanguard Health Systems with charitable covenants. Under the agreement, any portion of the $2.5 million that is not spent after 10 years shall be returned to the DMC Foundation. Similarly, if Legacy DMC justifies the need for additional funds, the DMC Foundation may have to make an additional contribution to Legacy DMC for operating reserves. This contingent receivable or liability has not been included in these combined financial statements.

11. LIQUIDITY AND FUNDS AVAILABLE

Financial assets available for general expenditures within one year as of December 31, 2018 are as follows:

Cash and mutual funds	$	49,807,198
Other mutual funds		111,454,536
Contributions receivable		7,938,331
Other assets		1,634,744
Financial assets available to meet cash needs for general expenditure within one year	$	170,834,809

The Foundation structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

Mutual funds listed above consist of non-endowed donor advised investments. The Foundation generally uses these assets for grantmaking based on donor recommendations.

In addition to the financial assets listed above, as described in Note 2, the Foundation's endowments are subject to an annual spending policy. For the year ended December 31, 2018, this rate is up to 5.0% of the average market value over the previous 12 quarters. Approximately $29 million from the endowment will be available within one year of December 31, 2018.

12. EXPENSE ANALYSIS

The Foundation's expenses have been allocated between program and supporting activities. Program includes the grants authorized by the Foundation to support a wide range of projects and organizations as well as the grantmaking activities of the Foundation. Program also includes direct charitable activities which are philanthropic initiatives the Foundation engages in directly, rather than by making grants to grantees. All other administrative expenses have been allocated to supporting activities.

Salaries and benefits are allocated based on time spent on activities as recorded by employees. Expenses which apply to more than one functional category have been allocated based on estimates of time and effort. All other costs are charged directly to the appropriate functional category. The Foundation's functional expenses, displayed by natural expense classification, for the year ended December 31, 2018 were as follows:

	Program Activities				Supporting Activities			Total
	Grants	Direct Charitable Activities	Program Administration	Subtotal Program	General Administration	Fundraising	Subtotal Supporting	Total Grants and Expenses
Grants	$ 87,177,008	$ -	$ -	$ 87,177,008	$ -	$ -	$ -	$ 87,177,008
less, prior year returns and cancellations	(189,655)			(189,655)				(189,655)
less, amount granted to agencies	(787,044)			(787,044)				(787,044)
Salaries and benefits		916,458	1,312,273	2,228,731	2,203,400	775,149	2,978,549	5,207,280
Payroll taxes		54,682	60,902	115,584	119,276	49,641	168,917	284,501
Legal			75,534	75,534	42,515	109,343	151,858	227,392
Consultants/professional services		2,150,269	77,333	2,227,602	546,305	281	546,586	2,774,188
Meetings and events		84,764	17,981	102,745	39,601	31,030	70,631	173,376
Travel		52,918	17,902	70,820	49,413	6,494	55,907	126,727
Information technology		108,422	163,323	271,745	291,201	36,564	327,765	599,510
Publications and promotion		265,769	142,650	408,419	66,953	65,432	132,385	540,804
Occupancy		36,691	93,941	130,632	183,982	76,571	260,553	391,185
Office expense		46,816	8,353	55,169	76,628	1,589	78,217	133,386
Other			19,080	19,080	118,584	20,472	139,056	158,136
Total	$ 86,200,309	$ 3,716,789	$ 1,989,272	$ 91,906,370	$ 3,737,859	$ 1,172,566	$ 4,910,425	$ 96,816,794

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 16, 2019, the date these combined financial statements were available to be issued.