

Community Foundation for Southeast Michigan and Supporting Organizations

Combined Financial Statements as of and for the
Years Ended December 31, 2019 and 2018, and
Independent Auditors' Report

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Combined Financial Statements	6-25

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 statements of financial position as of December 31, 2019 and 2018, and the related combined statements of activities and cash flows for the years 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 Foundation'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 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, 2019 and 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.

Deloitte & Touche LLP

May 14, 2020

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CASH	\$ 11,192,681	\$ 5,810,749
INVESTMENTS	955,160,134	808,793,019
CONTRIBUTIONS RECEIVABLE	11,885,611	27,786,116
DEFERRED GIFTS RECEIVABLE	2,706,261	2,632,305
COMMERCIAL ANNUITIES	20,737,810	21,135,998
ACCRUED INVESTMENT INCOME	585,034	136,891
OTHER ASSETS	6,202,393	6,034,259
FIXED ASSETS—Net of accumulated depreciation of \$833,065 and \$727,101, in 2019 and 2018, respectively	236,399	298,188
TOTAL	\$1,008,706,323	\$872,627,525
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Grant commitments	\$ 19,857,919	\$ 17,759,801
Accounts payable	386,013	458,185
Charitable gift annuities	31,536,664	32,598,002
	51,780,596	50,815,988
Funds held as agency endowments	26,063,634	19,814,682
Total liabilities	77,844,230	70,630,670
NET ASSETS:		
Without donor restrictions	899,200,967	739,258,345
With donor restrictions	31,661,126	62,738,510
Total net assets	930,862,093	801,996,855
TOTAL	\$1,008,706,323	\$872,627,525

See notes to combined financial statements.

**COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND
SUPPORTING ORGANIZATIONS**

**COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019			2018		
	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
REVENUES, GAINS AND OTHER SUPPORT:						
Contributions	\$ 96,625,269	\$ 81,115,866	\$ 15,509,403	\$ 94,263,853	\$ 61,728,337	\$ 32,535,516
Less amounts received from agencies	(3,439,172)	(3,439,172)		(286,371)	(286,371)	
Net assets released from restrictions	-	47,505,297	(47,505,297)	-	21,023,891	(21,023,891)
Change in value of deferred gifts receivable	425,493		425,493	216,557		216,557
Interest and dividends—net	18,961,549	18,468,532	493,017	23,288,460	22,930,470	357,990
Less net interest on amounts held for agencies	(376,569)	(376,569)		(595,855)	(595,855)	
Net unrealized and realized gain (loss) on investments	117,594,098	117,594,098		(60,401,827)	(60,401,827)	
Less (gain) loss on investments held for agencies	(3,331,145)	(3,331,145)		1,655,915	1,655,915	
Remeasurement of charitable gift annuities	(273,962)	(273,962)		(277,052)	(277,052)	
Administrative revenue from amounts held for agencies	101,735	101,735		98,729	98,729	
Miscellaneous income	369,986	369,986		305,588	305,588	
Total revenues, gains and other support	<u>226,657,282</u>	<u>257,734,666</u>	<u>(31,077,384)</u>	<u>58,267,997</u>	<u>46,181,825</u>	<u>12,086,172</u>
GRANTS AND EXPENSES:						
Grants	86,965,501	86,965,501		87,177,008	87,177,008	
Less amounts granted to agencies	(796,198)	(796,198)		(787,044)	(787,044)	
Prior-year grants canceled	(112,467)	(112,467)		(100,800)	(100,800)	
Prior-year grants returned	(161,507)	(161,507)		(88,855)	(88,855)	
Direct charitable activities	4,610,900	4,610,900		3,716,789	3,716,789	
General and administrative	7,285,815	7,285,815		6,899,696	6,899,696	
Total grants and expenses	<u>97,792,044</u>	<u>97,792,044</u>	<u>-</u>	<u>96,816,794</u>	<u>96,816,794</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	128,865,238	159,942,622	(31,077,384)	(38,548,797)	(50,634,969)	12,086,172
NET ASSETS—Beginning of year	<u>801,996,855</u>	<u>739,258,345</u>	<u>62,738,510</u>	<u>840,545,652</u>	<u>789,893,314</u>	<u>50,652,338</u>
NET ASSETS—End of year	<u>\$930,862,093</u>	<u>\$899,200,967</u>	<u>\$ 31,661,126</u>	<u>\$801,996,855</u>	<u>\$739,258,345</u>	<u>\$ 62,738,510</u>

See notes to combined financial statements.

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in net assets	\$ 128,865,238	\$ (38,548,797)
Depreciation	105,964	71,999
Net unrealized and realized (gain) loss on investments	(114,510,185)	55,834,362
Remeasurement of charitable gift annuities	273,962	277,052
Noncash contributions	(11,117,803)	(24,489,646)
Changes in assets and liabilities:		
Contributions and deferred gifts receivable	15,826,549	(7,652,216)
Commercial annuities	1,246,545	1,246,545
Accrued investment income	(448,143)	185,715
Other assets	(168,134)	815,764
Grant commitments	2,098,118	1,964,276
Accounts payable	(72,172)	(198,261)
Charitable gift annuities	(2,183,657)	(2,177,890)
Funds held as agency endowments	<u>6,248,952</u>	<u>(1,659,461)</u>
Net cash provided by (used in) operating activities	<u>26,165,234</u>	<u>(14,330,558)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(224,693,844)	(436,617,025)
Proceeds from sale of investments	203,954,717	437,095,353
Purchases of fixed assets	<u>(44,175)</u>	<u>(281,174)</u>
Net cash (used in) provided by investing activities	<u>(20,783,302)</u>	<u>197,154</u>
NET INCREASE (DECREASE) IN CASH	5,381,932	(14,133,404)
CASH—Beginning of year	<u>5,810,749</u>	<u>19,944,153</u>
CASH—End of year	<u>\$ 11,192,681</u>	<u>\$ 5,810,749</u>

See notes to combined financial statements.

COMMUNITY FOUNDATION FOR SOUTHEAST MICHIGAN AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019, 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 was established in 2014 as a supporting organization of the Community Foundation for Southeast Michigan. 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 statements 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, 2019 and 2018, as follows:

	2019	2018
Unrestricted	\$109,511,047	\$ 93,938,754
Field of interest	129,588,388	111,527,362
Designated	233,006,631	186,371,132
Scholarship	7,234,336	6,161,588
Advised endowment	93,610,817	83,733,905
Charitable gift annuities	21,971,408	15,873,412
Donor advised	151,378,914	112,543,515
Operating and reserves	15,178,968	14,112,743
Funds held as agency endowments	<u>(26,063,634)</u>	<u>(19,814,682)</u>
Total net assets without donor restrictions, excluding supporting organizations	735,416,875	604,447,729
Net assets of supporting organizations	<u>163,784,092</u>	<u>134,810,616</u>
Total net assets without donor restrictions	<u>\$899,200,967</u>	<u>\$739,258,345</u>

A reconciliation of net assets is included in the combined statements 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 2019 and 2018 spending policy is up to 5% of the average market value over the previous 12 quarters, respectively. 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 2019 and 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 at both December 31, 2019 and 2018. 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, 2019 and 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, 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 2019 and 2018 was \$344,842 and \$286,869, respectively.

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

New Accounting Pronouncements—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 effective for fiscal years beginning after December 15, 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. The Foundation adopted this standard effective January 1, 2019. The Foundation evaluated the impact of this topic on the combined financial statements and concluded there was no impact.

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 statements 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. The Foundation adopted this standard effective January 1, 2019. The Foundation evaluated the impact of this topic on the combined financial statements and concluded there was no impact.

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 adopted this guidance in circumstances where it is the resource recipient effective January 1, 2019, and concluded there was no material impact. The Foundation is evaluating the impact in circumstances where it is the resource provider.

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 adoption of this guidance is limited to the annual disclosures and is not expected to have a material impact on the Foundation's combined financial statements at December 31, 2020.

3. INVESTMENTS

Cost and market value of investments held as of December 31, 2019 and 2018, were as follows:

	2019		2018	
	Cost	Market	Cost	Market
Mutual funds:				
Money market	\$ 94,666,100	\$ 94,666,100	\$ 111,699,396	\$ 111,699,396
Fixed income	135,862,587	138,946,265	127,369,241	125,311,437
Equity	141,259,618	139,527,071	134,807,638	113,984,837
Asset allocation	<u>27,691,578</u>	<u>26,714,652</u>	<u>27,149,171</u>	<u>24,139,622</u>
Total mutual funds	<u>399,479,883</u>	<u>399,854,088</u>	<u>401,025,446</u>	<u>375,135,292</u>
Equity securities	<u>10,187,814</u>	<u>12,948,357</u>	<u>17,616,889</u>	<u>18,190,670</u>
Collective funds:				
Equity	164,480,148	200,798,217	168,159,735	159,237,929
Fixed income	<u>23,992,928</u>	<u>25,734,558</u>	<u>23,999,940</u>	<u>23,719,571</u>
Total collective funds	<u>188,473,076</u>	<u>226,532,775</u>	<u>192,159,675</u>	<u>182,957,500</u>
U.S. government debt securities	<u>10,618,794</u>	<u>10,632,853</u>	<u>11,184,896</u>	<u>11,186,773</u>
Corporate debt securities	<u>3,128,653</u>	<u>3,170,473</u>	<u>4,892,300</u>	<u>4,737,940</u>
Total marketable securities	<u>611,888,220</u>	<u>653,138,546</u>	<u>626,879,205</u>	<u>592,208,175</u>
Hybrid fund of funds	<u>271,761</u>	<u>664,134</u>	<u>489,028</u>	<u>1,153,608</u>
Limited partnerships:				
Fixed income	39,896,329	37,825,725	29,524,119	28,770,472
Equity	102,492,242	120,972,485	63,784,370	61,763,545
Private markets	122,289,231	142,559,244	114,623,762	123,897,291
Hedge funds	<u> </u>	<u> </u>	<u>999,928</u>	<u>999,928</u>
Total limited partnerships	<u>264,677,802</u>	<u>301,357,454</u>	<u>208,932,180</u>	<u>215,431,236</u>
Total	<u>\$876,837,783</u>	<u>\$955,160,134</u>	<u>\$836,300,413</u>	<u>\$808,793,019</u>

Investment activity in 2019 and 2018, included change in unrealized gain (loss) of \$106,092,679 and \$(97,416,271), and realized gain of \$11,501,419 and \$37,014,444, respectively.

Equity-invested limited partnerships (with carrying value of \$120,972,485 and \$61,763,545 at December 31, 2019 and 2018, respectively) 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, 2019 and 2018, as follows:

	2019	2018
Within one year	\$ 8,187,627	\$21,829,908
One to five years	3,165,694	5,484,667
More than five years	<u>1,105,413</u>	<u>1,384,783</u>
Total	12,458,734	28,699,358
Less present value factor at varying rates	(280,123)	(503,242)
Less allowance for uncollectible accounts	<u>(293,000)</u>	<u>(410,000)</u>
Total contributions receivable	<u>\$11,885,611</u>	<u>\$27,786,116</u>

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, 2019 and 2018, are as follows:

	2019	2018
Within one year	\$ -	\$ 4,773
One to five years	2,026,612	721,537
More than five years	<u>1,854,788</u>	<u>3,177,651</u>
Total	3,881,400	3,903,961
Less present value factor at varying rates	(1,097,139)	(1,191,656)
Less allowance for uncollectible amounts	<u>(78,000)</u>	<u>(80,000)</u>
Total deferred gifts receivable	<u>\$ 2,706,261</u>	<u>\$ 2,632,305</u>

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 years ended December 31, 2019 and 2018, amounted to \$19,067,042 and \$10,293,841, respectively.

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, 2019, are as follows:

Years Ending December 31	
2020	\$ 393,507
2021	417,331
2022	437,658
2023	477,529
2024	478,386
Thereafter	<u>959,446</u>
Total	<u>\$3,163,857</u>

Total rental expense under operating leases aggregated \$375,047 and \$358,841 in 2019 and 2018, respectively.

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 \$62,740,021 and \$62,139,360 were approved and recognized in the 2019 and 2018 combined statements of activities. Actual Community Foundation for Southeast Michigan grants paid, including those to agencies, in 2019 and 2018 were \$61,601,769 and \$67,196,182, respectively. Supporting organization grants totaling \$24,225,480 and \$24,987,648 were approved and recognized in the 2019 and 2018, combined statements of activities. Actual supporting organization grants paid in 2019 and 2018 were \$25,556,273 and \$24,662,972, respectively. Grants between supporting organizations and the Foundation in 2019 and 2018 were \$2,338,969 and \$6,747,222, respectively.

Grant commitments represent unconditional payments, which are scheduled to be paid as of December 31, 2019 and 2018:

	2019	2018
Less than one year	\$18,709,060	\$16,652,851
One to five years	<u>1,148,859</u>	<u>1,106,950</u>
Total grant commitments	<u>\$19,857,919</u>	<u>\$17,759,801</u>

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, 2019, 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, 2019):

	2019			
	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	\$ 94,666,100	\$ -	\$ -	\$ 94,666,100
Fixed income	138,946,265			138,946,265
Equity	139,527,071			139,527,071
Asset allocation	<u>26,714,652</u>			<u>26,714,652</u>
	399,854,088	-	-	399,854,088
Equity securities	12,948,357			12,948,357
U.S. government debt securities		10,632,853		10,632,853
Corporate debt securities		<u>3,170,473</u>		<u>3,170,473</u>
Total fair value measurements	<u>412,802,445</u>	<u>13,803,326</u>	<u>-</u>	<u>426,605,771</u>
Investments measured at net asset value:				
Private placement funds				<u>76,782,136</u>
Collective funds:				
Equity				200,798,217
Fixed income				<u>25,734,558</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>226,532,775</u>
Hybrid fund of funds				<u>664,134</u>
Total assets measured at net asset value	<u>-</u>	<u>-</u>	<u>-</u>	<u>303,979,045</u>
Limited partnerships (under equity method):				
Fixed income				37,825,725
Equity				120,972,485
Private markets				<u>65,777,108</u>
Total assets under equity method	<u>-</u>	<u>-</u>	<u>-</u>	<u>224,575,318</u>
Total assets	<u>\$412,802,445</u>	<u>\$13,803,326</u>	<u>\$ -</u>	<u>\$955,160,134</u>

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

	<u>Net Asset Value</u> 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private placement fund	\$20,693,808	\$ -	Monthly	90 days
Private placement fund	25,953,171		Quarterly	60 days
Private placement fund	14,634,023		Monthly	3 days
Private placement fund	15,501,134		Quarterly	45 days
Equity collective fund	73,430,165		Daily	2 days
Equity collective fund	5,355,639		Daily	N/A
Hybrid fund of funds	664,134		43916	N/A
Equity collective fund	74,654,770		Daily	3 days
Equity collective fund	42,363,679		Daily	3 days
Fixed income collective fund	25,734,558		Daily	3 days
Equity collective fund	4,993,964		Daily	N/A

As of December 31, 2019 and 2018, the Foundation had commitments to contribute \$50,527,621 and \$59,822,060, respectively, in additional capital under the terms of various limited partnership agreements over the next three to five years.

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):

	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	<u>24,139,622</u>			<u>24,139,622</u>
	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		<u>4,737,940</u>		<u>4,737,940</u>
Total assets recorded at fair value	<u>393,325,962</u>	<u>15,924,713</u>		<u>409,250,675</u>
Investments measured at net asset value:				
Private placement funds				<u>67,694,716</u>
Collective funds:				
Equity				159,237,929
Fixed income				<u>23,719,571</u>
	-	-	-	<u>182,957,500</u>
Hybrid fund of funds				<u>1,153,608</u>
Total assets measured at net asset value	<u>-</u>	<u>-</u>	<u>-</u>	<u>251,805,824</u>
Limited partnerships (under equity method):				
Fixed income				28,770,472
Equity				61,763,545
Private markets				56,202,575
Hedge funds				<u>999,928</u>
Total assets under equity method	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,736,520</u>
Total assets	<u>\$ 393,325,962</u>	<u>\$ 15,924,713</u>	<u>\$ -</u>	<u>\$ 808,793,019</u>

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

	<u>Net Asset Value</u> 2018	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		43830	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

9. ENDOWMENT BY NET ASSET CLASS

As of December 31, 2019, the composition of endowment by type of fund is as follows:

Endowment by Net Asset Class	<u>2019</u>		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment funds:			
Unrestricted	\$ 109,511,047	\$ -	\$ 109,511,047
Field of interest	129,588,388		129,588,388
Designated	233,006,631		233,006,631
Scholarship	7,234,336		7,234,336
Advised endowment	93,610,817		93,610,817
Supporting organization	<u>122,453,970</u>	<u> </u>	<u>122,453,970</u>
Total endowment funds	<u>\$ 695,405,189</u>	<u>\$ -</u>	<u>\$ 695,405,189</u>

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, 2019 and 2018, is as follows:

Changes in Endowment Net Assets	2019		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Endowment net assets—beginning of year	\$ 573,132,709	\$ 10,080,000	\$ 583,212,709
Contributions	27,315,236		27,315,236
Investment earnings—net of investment expenses	109,803,218		109,803,218
Grants or scholarships	(24,786,299)		(24,786,299)
Administrative expenses	(4,958,533)		(4,958,533)
Other changes	<u>14,898,858</u>	<u>(10,080,000)</u>	<u>4,818,858</u>
Endowment net assets—end of year	<u>\$ 695,405,189</u>	<u>\$ -</u>	<u>\$ 695,405,189</u>

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

Endowment by Net Asset Class	2018		
	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	<u>91,399,968</u>		<u>91,399,968</u>
Total endowment funds	<u>\$ 573,132,709</u>	<u>\$ 10,080,000</u>	<u>\$ 583,212,709</u>

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	2018		Total Net Assets
	Without Donor Restrictions	With Donor Restrictions	
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	<u>161,835</u>		<u>161,835</u>
Endowment net assets—end of year	<u>\$ 573,132,709</u>	<u>\$ 10,080,000</u>	<u>\$ 583,212,709</u>

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, 2019 and 2018 are as follows:

	2019	2018
Cash and mutual funds	\$ 43,515,429	\$ 49,807,198
Other mutual funds	152,914,220	111,454,536
Contributions receivable	6,099,792	7,938,331
Other assets	<u>981,738</u>	<u>1,634,744</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$203,511,179</u>	<u>\$170,834,809</u>

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 both years ended December 31, 2019 and 2018, this rate is up to 5.0% of the average market value over the previous 12 quarters. Approximately \$31 million and \$29 million from the endowment will be available within one years of December 31, 2019 and 2018, respectively.

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 years ended December 31, 2019 and 2018 were as follows:

	2019							Total Grants and Expenses
	Program Activities			Supporting Activities				
	Grants	Direct Charitable Activities	Program Administration	Subtotal Program	General Administration	Fundraising		
Grants	\$86,965,501	\$ -	\$ -	\$86,965,501	\$ -	\$ -	\$ -	\$86,965,501
less, prior year returns and cancellations	(273,974)			(273,974)				(273,974)
less, amount granted to agencies	(796,198)			(796,198)				(796,198)
Salaries and benefits		965,070	1,310,437	2,275,507	2,416,976	655,696	3,072,672	5,348,179
Payroll taxes		55,769	71,072	126,841	124,376	35,305	159,681	286,522
Legal		23,544	126,013	149,557	61,441	39,385	100,826	250,383
Consultants/professional services		3,121,902	57,447	3,179,349	720,521		720,521	3,899,870
Meetings and events		98,045	34,985	133,030	41,768	9,748	51,516	184,546
Travel		66,213	20,172	86,385	49,881	2,711	52,592	138,977
Information technology		112,554	163,967	276,521	387,939	29,609	417,548	694,069
Publications and promotion		86,783	43,172	129,955	132,874	58,439	191,313	321,268
Occupancy		50,728	119,109	169,837	208,442	59,168	267,610	437,447
Office expense		30,292	5,206	35,498	72,158	611	72,769	108,267
Other			32,637	32,637	169,180	25,370	194,550	227,187
Total	<u>\$85,895,329</u>	<u>\$4,610,900</u>	<u>\$1,984,217</u>	<u>\$92,490,446</u>	<u>\$4,385,556</u>	<u>\$916,042</u>	<u>\$5,301,598</u>	<u>\$97,792,044</u>

	2018							
	Program Activities				Supporting Activities			Total
	Grants	Direct Charitable Activities	Program Administration	Subtotal Program	General Administration	Fundraising	Subtotal Supporting	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	<u>\$86,200,309</u>	<u>\$3,716,789</u>	<u>\$1,989,272</u>	<u>\$91,906,370</u>	<u>\$3,737,859</u>	<u>\$1,172,566</u>	<u>\$4,910,425</u>	<u>\$96,816,794</u>

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 14, 2020, the date these combined financial statements were available to be issued, and has determined that there are no events that require disclosure, except the following:

The Foundation is monitoring the current COVID-19 pandemic. Due to market volatility and economic measures taken to contain the virus, there may be impact to our operations and financial position, however as the situation continues to evolve we are unable to estimate those impacts, if any, at this time. The Foundation has sufficient cash and liquid investments to meet grant payments and other obligations. The Foundation is taking proactive steps during this time of uncertainty and applying its grantmaking resources and raising new funds to support the community in addressing the impact of COVID-19.

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