Livonia Community Foundation, Inc.

Financial Statements
December 31, 2018

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Audited Financial Statements

CND Cole, Newton & Duran
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Livonia Community Foundation, Inc.
Livonia, Michigan

We have audited the accompanying financial statements of Livonia Community Foundation, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 of 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 auditors consider 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 Livonia Community Foundation, Inc., as of December 31, 2018, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cole Newton & Duran

Cole, Newton & Duran
Livonia, Michigan
December 3, 2019

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Livonia Community Foundation, Inc.
Statement of Financial Position
December 31, 2018

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$ 92,478	
Investments	212,516	
Prepaid expenses	1,805	
Total Current Assets		$ 306,799
FIXED ASSETS		
Computer equipment	795	
Less accumulated depreciation	(795)	
Total fixed assets		-
OTHER ASSETS		
Long-term investments		1,002,515
TOTAL ASSETS		$ 1,309,314

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and other accrued expenses	$ 5,839	
Grants payable	46,600	
Grant reserve	20,293	
Total current liabilities		$ 72,732
NET ASSETS		
Net assets without donor restrictions	149,047	
Net assets with donor restrictions	1,087,535	
Total net assets		1,236,582
TOTAL LIABILITIES AND NET ASSETS		$ 1,309,314

Livonia Community Foundation, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE AND SUPPORT			
Support	$ 17,765	$ 23,387	$ 41,152
Special events	6,798	-	6,798
Investment income	-	(81,301)	(81,301)
Total revenue and support, before release of restrictions	24,563	(57,914)	(33,351)
Assets released from restrictions	59,147	(59,147)	-
Total Revenue and Support	83,710	(117,061)	(33,351)
OPERATING EXPENSES			
Program	59,225	-	59,225
Management	10,606	-	10,606
Fundraising	3,735	-	3,735
Total Operating Expenses	73,566	-	73,566
Increase (Decrease) in Net Assets	10,144	(117,061)	(106,917)
Net Assets at Beginning of Year	138,903	1,204,596	1,343,499
Net Assets at End of Year	$ 149,047	$ 1,087,535	$ 1,236,582

Livonia Community Foundation, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program	Management	Fundraising	Totals
Grants	$ 57,100	$ -	$ -	$ 57,100
Postage	-	196	150	346
Printing and supplies	-	-	3,585	3,585
Bank charges	-	83	-	83
Audit and tax fees	-	5,800	-	5,800
Insurance	-	969	-	969
Events expense	2,125	-	-	2,125
Marketing	-	2,000	-	2,000
Other expense	-	75	-	75
Wages	-	990	-	990
Payroll expenses	-	387	-	387
Payroll tax expense	-	106	-	106
Total Expenses	$ 59,225	$ 10,606	$ 3,735	$ 73,566

See Notes to the Financial Statements

Livonia Community Foundation, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ (106,917)	
Adjustments to reconcile net assets to net cash from operating activities:		
(Gains) losses on investments	161,180	
Increase (decrease) in liabilities:		
Payables and accrued expenses	18,228	
Net Cash Provided By (Used In) Operating Activities		$ 72,491
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	223,053	
Purchases of investments	(276,910)	
Net Cash Provided By (Used In) Investing Activities		(53,857)
Net Increase (Decrease) in Cash and Cash Equivalents		18,634
Cash and Cash Equivalents at Beginning of Year		73,844
Cash and Cash Equivalents at End of Year		$ 92,478
Supplemental disclosure:		
Cash paid for interest	$ -	
Cash paid for income taxes	$ -	

NOTE 1 – Organization and Nature of Activities

The purpose of the Livonia Community Foundation, Inc. (the Foundation) is to benefit the Livonia, Michigan, community by promoting and developing community resources, properties, and civic treasures. Additionally, the Foundation promotes and supports public interest in the arts and programs for the welfare of the community and its citizens. The Foundation is qualified with the State of Michigan as a certified community foundation. Revenue is derived primarily from contributions and investment income.

NOTE 2 – Summary of Significant Accounting Policies

<u>Basis of accounting</u> – The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

<u>Basis of presentation</u> – Financial statement presentation follows requirements of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Foundation is required to report information regarding its financial position and activities according to two classes of net assets as follows:

> Net assets without donor restrictions consist of resources that have no donor-imposed stipulations and are generally available for use by the Foundation.
>
> Net assets with donor restrictions consist of resources of which the use by the Foundation is limited by donor-imposed time or purpose stipulations

<u>Use of estimates</u> – The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

<u>Fair value of financial instruments</u> – FASB guidance on fair value measurement defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements. The guidance applies to all assets and liabilities that are measured and reported on a fair value basis. The carrying amounts of financial instruments, including cash, cash equivalents, receivables, prepaids, accounts payable, and accrued liabilities approximate fair value due to the short-term maturity of these instruments.

<u>Cash and cash equivalents</u> – Cash and cash equivalents include all monies in banks and highly liquid investments, including money market funds, with original maturity dates of three months or less.

<u>Property and equipment</u> – Property and equipment, with an estimated useful life greater than one year, are recorded at cost or, if donated, at the approximate fair value at the date of donation. Property and equipment is depreciated using the straight-line method over the estimated useful life of the asset.

<u>Revenue recognition</u> – Contributions of cash and other assets are measured at fair value and recorded as revenue in the year received from the donor. Contributions with donor restrictions are recorded as net assets with donor restrictions. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the contribution are both reported as unrestricted revenue. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are classified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

<u>Contributed services</u> – Individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services, as required by the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification. Accordingly, no amounts have been recognized in the financial statements.

NOTE 2 – Summary of Significant Accounting Policies (continued)

Allocation of functional expenses – The Foundation presents their expenses by functional classification, which shows the amount spent for program-related activities. Expenses that can be identified with a specific program are charged directly to that program. Program expenses that cannot be identified with a specific program require allocation on a reasonable basis that is consistently applied. Expenses that are allocated are postage, printing, and supplies, which are allocated on the basis of estimates of time and effort. Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Tax status – The Foundation is a non-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified the Foundation as an organization that is not a private foundation. The Foundation is no longer subject to U.S. Federal tax examinations for years before 2015. Management has evaluated FASB ASC 740, *Income Taxes*, and has concluded there are no uncertain positions.

Events occurring after reporting date – Management has evaluated events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued.

Adoption of new accounting pronouncement – As of January 1, 2018, the Foundation adopted Accounting Standards Update No. 2016-14, Not-for-Profit Entities. The standard changes the net asset classification from three categories, unrestricted, temporarily restricted, and permanently restricted, to two categories, net assets without donor restrictions and net assets with donor restrictions. The standard also changes how information is presented in the financial statements and notes, including information about liquidity and availability of resources and the presentation of expenses by both function and natural classification.

NOTE 3 – Concentration of Credit Risk

Cash and cash equivalents – The Foundation maintains its cash balances in bank and brokerate accounts. Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 in any one bank. At times during the year, balances on deposit in any one bank may exceed the insured amount. There were no uninsured bank balances at December 31, 2018. Cash equivalents in brokerage accounts are not insured by FDIC. The uninsured cash equivalents at December 31, 2018, totaled $51,016. The Foundation has not experienced any losses with respect to uninsured cash balances.

Investments – The Foundation maintains cash, cash equivalents, mutual funds, and equity securities in brokerage accounts. Certain cash and securities in broker accounts are guaranteed by the Security Investor Protection Corporation (SIPC) up to $500,000, which includes a $250,000 limit for cash. Market losses are not covered by SIPC. The balances in brokerage accounts at times may exceed insured limits. Uninsured balances in brokerage accounts at December 31, 2018 were $715,031.

NOTE 4 – Administrative Allocation

The tobacco grant agreement allows for two percent of the Health and Education Endowment revenue to be allocated to administrative expenses. In addition, management has allocated two percent of the general endowment fund to administrative expenses, per recommendation of the Michigan Council of Foundations.

NOTE 5 – Investments

As of December 31, 2018, the Foundation's investments consisted of the following:

	Cost	Fair Value
Equity funds	$ 800,631	$ 761,665
Fixed income funds	480,394	453,366
	$ 1,281,025	$ 1,215,031
Short-term investments		$ 212,516
Long-term investments		1,002,515
		$ 1,215,031

As of December 31, 2018, investment income consisted of the following:

Dividend and interest income	$ 28,479
Capital gain distributions	60,922
Realized gains (losses)	14,643
Unrealized gains (losses)	(175,823)
Investment fees	(9,522)
	$ (81,301)

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 the values in the near term could materially affect the amounts reported in the accompanying financial statements.

NOTE 6 – Fair Value Measurements

The Foundation's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes it's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 Fair Value Measurement inputs consist of unadjusted quoted prices in active markets for identical, actual assets and have the highest priority. Management considers cash, cash equivalents, publicly traded equities, U.S. Treasury securities, corporate bonds, and mutual funds to be Level 1 inputs.

Level 2 Fair Value Measurement inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets in active markets. Quoted prices for identical or similar assets or liabilities in markets that are quoted at prices that are not immediately current, or when price quotations vary substantially either over time or among market markers, for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates.

NOTE 6 – Fair Value Measurements (continued)

Level 3 Fair Value Measurement inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

As of December 31, 2018, all investments were classified as Level 1. During the year ended December 31, 2018, there were no transfers between levels.

NOTE 7 – Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date:

Financial assets at year-end		$ 1,309,314
Less those unavailable for general expenditures within one year		
Net assets with donor time or purpose restrictions	$ 85,020	
Net assets held in perpetuity	1,002,515	
		(1,087,535)
Financial assets available to meet cash needs for general expenditure within one year		$ 221,779

As part of the Foundation's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically equity, mutual funds, and cash equivalents.

NOTE 8 – Donor Restrictions on Net Assets

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

Restricted for health and education	$ 28,922
Restricted for future programs	56,098
Donor-restricted endowment supporting the community	1,002,515
Total	$ 1,087,535

During the year ended December 31, 2018, net assets were released from donor time or purpose restrictions as follows:

Health and Education Fund	$ 2,047
General programs	57,100
Total	$ 59,147

NOTE 9 – Endowment Fund

The Foundation's endowment fund was established to support the local community. Contributions to the endowment fund are subject to donor restriction that stipulate the original principal of the gift is to be held and invested by the Foundation indefinitely, and income from the fund is to be expended for community support. As required by GAAP, net asets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions.

The endowment fund at December 31, 2018, consisted of the following:

Amounts required to be held in perpetuity:	
General Fund	$ 870,548
Greenmead Endowment	15,600
Health and Education Endowment	102,367
First Step Endowment	7,000
Livonia Y Kid Camp Endowment	7,000
Total amounts to be held in perpetuity	1,002,515
Amount restricted for future programs	56,098
Total endowment fund	$ 1,058,613

The change in endowment net assets for the year ended December 31, 2018, is as follows:

	Net Assets to be Held in Perpetuity	Restricted Until Appropriated for Expenditure
Net Assets at beginning of year	$ 979,129	$ 185,999
Investment income (loss)	-	(72,801)
Contributions	23,386	-
Amounts appropriated for expenditure	-	(57,100)
Net Assets at end of year	$ 1,002,515	$ 56,098

Interpretation of relevant law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the original gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation would consider the fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of gifts donated to the endowment fund, (2) the original value of subsequent gifts to the endowment fund, and (3) any accumulations to the endowment fund that are required to be maintained in perpetuity in accordance with the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. The fund in not currently underwater. The remaining portion of the donor-restricted endowment fund that is not classified in net assets held in perpetuity is classified as net assets restricted with time or purpose restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Accounting standards require investment earnings on net assets held in perpetuity subject to UPMIFA to be classified as donor restricted net assets until they are appropriated for expenditure by the Foundation.

NOTE 9 – Endowment Fund (continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- The investment policies of the Foundation.

Return objectives and risk parameters
The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that maximize the total return on the investments, subject to prudent management and preservation of capital.

Strategies employed for achieving objectives
The Foundation has adopted the following categories in which the Foundation funds may be held, and the cash or dollar range that may be placed in each:

Short-term asset allocation
Twelve to eighteen months of the expected grants and expense allocations to be held in the money market investments. In keeping with the current spending policy, the amounts in these accounts should not exceed 5% of the net assets of the previous year-end net asset balance.

Long-term asset allocation
The portfolio shall be subject to the allocation restrictions as follows:

Equities: Portfolio allocation with a target of 70%.
Fixed Income: Portfolio allocation with a target of 30%.

Spending policy and how the investment objectives relate to the spending policy
To allow for regular annual grants, and to allow for investment diversification and potential growth of the value of the funds invested, the Foundation may use up to 5% of the total value of the net assets as of December 31 of the previous year to provide for administrative costs and distribute grants. The Foundation is not required to distribute 5% of the fund in years that there are not adequate requests or fund performance and earnings are low or negative. However, the Foundation may distribute up to 5% even in years of low performance. To distribute grant requests or pay expenses greater than 5% of the net asset balance on December 31 of the previous year requires a three-quarters vote of the Board of Directors at a properly called meeting.

NOTE 10 – Special Events

During the year ended December 31, 2018, the Foundation received revenue from special events as follows:

Revenue	$ 6,798
Expenses	(2,125)
Net Revenue	$ 4,673