

Ann Arbor Area Community Foundation

**Financial Report
with Additional Information
December 31, 2016 and 2015**

Ann Arbor Area Community Foundation

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Independent Auditor's Report

To the Board of Trustees
Ann Arbor Area Community Foundation

We have audited the accompanying financial statements of the Ann Arbor Area Community Foundation (the "Community Foundation"), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Trustees
Ann Arbor Area Community Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ann Arbor Area Community Foundation as of December 31, 2016 and 2015, and the changes in its net assets, its functional expenses, 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 explained in Note 12, the financial statements include investments valued at \$47,220,044 (59 percent of net assets) at December 31, 2016 and \$44,512,189 (61 percent of net assets) at December 31, 2015, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

May 18, 2017

Ann Arbor Area Community Foundation

Statement of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents (Note 1)	\$ 22,770,406	\$ 2,033,493
Investments (Note 2)	75,194,210	69,801,304
Accounts receivable	32,754	34,161
Bequests receivable	915,400	-
Pledges receivable (Note 3)	305,282	1,440,362
Receivable from trusts (Note 4)	277,693	349,127
Property and equipment - Net (Note 5)	894,143	943,479
Charitable remainder unitrust (Note 7)	1,040,389	998,561
Total assets	<u>\$ 101,430,277</u>	<u>\$ 75,600,487</u>
Liabilities and Net Assets		
Liabilities		
Grants payable (Note 6)	\$ 68,853	\$ 150,807
Assets held for others:		
Endowed	2,005,682	1,631,061
Nonendowed (Note 1)	18,330,151	314,373
Liability to life beneficiaries of planned gifts (Note 7)	448,064	445,378
Annuity payable (Note 14)	158,263	-
Other liabilities	32,515	31,432
Total liabilities	21,043,528	2,573,051
Net Assets		
Unrestricted - Board-designated (Note 11)	78,341,739	70,730,364
Temporarily restricted (Note 8)	2,045,010	2,297,072
Total net assets	80,386,749	73,027,436
Total liabilities and net assets	<u>\$ 101,430,277</u>	<u>\$ 75,600,487</u>

Ann Arbor Area Community Foundation

Statement of Activities and Changes in Net Assets

	Year Ended					
	December 31, 2016			December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support						
Gifts, grants, and pledges	\$ 6,112,333	\$ 1,080,515	\$ 7,192,848	\$ 2,226,196	\$ 1,380,033	\$ 3,606,229
In-kind donations	1,470	-	1,470	6,589	-	6,589
Interest and dividends (Note 2)	1,215,400	-	1,215,400	974,851	-	974,851
Change in value of charitable remainder unitrust (Note 7)	-	(52,614)	(52,614)	-	(10,944)	(10,944)
Net realized and unrealized gains (losses) on investments (Note 2)	4,313,610	-	4,313,610	(2,118,176)	-	(2,118,176)
Rental income	740	-	740	-	-	-
Net assets released from restrictions	1,279,963	(1,279,963)	-	359,212	(359,212)	-
Total revenue, gains, and other support	12,923,516	(252,062)	12,671,454	1,448,672	1,009,877	2,458,549
Expenses						
Program services:						
Grants (Note 6)	3,581,797	-	3,581,797	2,785,557	-	2,785,557
Programs and grants administration	507,453	-	507,453	405,090	-	405,090
Investment service fees (Note 2)	418,111	-	418,111	383,502	-	383,502
Total program services	4,507,361	-	4,507,361	3,574,149	-	3,574,149
Support services:						
Management and general	397,465	-	397,465	462,589	-	462,589
Development	407,315	-	407,315	482,954	-	482,954
Total expenses	5,312,141	-	5,312,141	4,519,692	-	4,519,692
Increase (Decrease) in Net Assets	7,611,375	(252,062)	7,359,313	(3,071,020)	1,009,877	(2,061,143)
Net Assets - Beginning of year	70,730,364	2,297,072	73,027,436	73,801,384	1,287,195	75,088,579
Net Assets - End of year	\$ 78,341,739	\$ 2,045,010	\$ 80,386,749	\$ 70,730,364	\$ 2,297,072	\$ 73,027,436

Ann Arbor Area Community Foundation

Statement of Functional Expenses Year Ended December 31, 2016

	Program Services	Support Services		Total
	Community Services	Management and General	Development	
Salaries and wages	\$ 271,806	\$ 229,231	\$ 235,176	\$ 736,213
Payroll taxes and fringe benefits	35,286	29,759	30,531	95,576
Total salaries and related expenses	307,092	258,990	265,707	831,789
Advertising	2,975	992	15,867	19,834
Annual report	454	57	625	1,136
Bad debt expense	305	257	263	825
Community leadership	90,223	-	-	90,223
Conferences and meetings	6,072	5,121	5,254	16,447
Depreciation	18,215	15,361	15,760	49,336
Donor services	8,126	6,838	17,241	32,205
Dues and subscriptions	2,774	2,340	2,401	7,515
Events	12,807	1,390	22,046	36,243
Equipment and maintenance	24,556	20,709	21,247	66,512
Insurance	2,673	2,254	2,313	7,240
Miscellaneous	(1,476)	(1,244)	(1,277)	(3,997)
Newsletters	2,915	583	8,160	11,658
Occupancy	13,597	11,467	11,765	36,829
Postage	1,249	1,053	1,081	3,383
Professional fees	3,208	64,125	9,022	76,355
Supplies	5,225	4,406	4,521	14,152
Telephone	2,289	1,931	1,981	6,201
Website	4,174	835	3,338	8,347
Subtotal	507,453	397,465	407,315	1,312,233
Grants	3,581,797	-	-	3,581,797
Investment services	418,111	-	-	418,111
Total functional expenses	\$ 4,507,361	\$ 397,465	\$ 407,315	\$ 5,312,141

Ann Arbor Area Community Foundation

Statement of Functional Expenses Year Ended December 31, 2015

	Program Services	Support Services		Total
	Community Services	Management and General	Development	
Salaries and wages	\$ 241,477	\$ 247,986	\$ 259,429	\$ 748,892
Payroll taxes and fringe benefits	32,052	35,535	34,435	102,022
Total salaries and related expenses	273,529	283,521	293,864	850,914
Advertising	2,061	687	10,991	13,739
Annual report	4,534	567	6,234	11,335
Community leadership	18,094	-	-	18,094
Conferences and meetings	3,622	3,719	3,891	11,232
Depreciation	17,145	17,607	18,419	53,171
Donor services	9,371	7,883	18,635	35,889
Dues and subscriptions	2,605	2,675	2,798	8,078
Events	7,836	899	12,476	21,211
Equipment and maintenance	22,591	23,200	24,270	70,061
Insurance	2,185	2,244	2,348	6,777
Interest	81	83	87	251
Miscellaneous	(3,238)	(3,323)	(3,476)	(10,037)
Newsletters	564	113	1,579	2,256
Occupancy	8,913	9,153	9,575	27,641
Postage	1,730	1,776	1,858	5,364
Professional fees	25,430	105,792	71,521	202,743
Supplies	3,498	3,592	3,758	10,848
Telephone	1,805	1,854	1,939	5,598
Website	2,734	547	2,187	5,468
Subtotal	405,090	462,589	482,954	1,350,633
Grants	2,785,557	-	-	2,785,557
Investment services	383,502	-	-	383,502
Total functional expenses	\$ 3,574,149	\$ 462,589	\$ 482,954	\$ 4,519,692

Ann Arbor Area Community Foundation

Statement of Cash Flows

	Year Ended	
	December 31, 2016	December 31, 2015
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 7,359,313	\$ (2,061,143)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	49,336	53,171
Noncash charitable remainder unitrust	(41,828)	61,186
Net unrealized (gain) loss on investments	(4,395,563)	2,706,879
Net realized loss (gain) on investments	81,953	(588,703)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	1,407	(3,012)
Pledges and trusts receivable	1,206,514	(1,020,822)
Bequests receivable	(915,400)	-
Accounts payable and other liabilities	1,083	3,382
Grants payable	(81,954)	40,400
Annuity payable	158,263	-
Assets held for others - Endowed	374,621	39,774
Assets held for others - Nonendowed	18,015,778	(36,221)
Liability to life beneficiaries of planned gifts	2,686	(42,043)
Net cash provided by (used in) operating activities	21,816,209	(847,152)
Cash Flows from Investing Activities		
Purchase of property and equipment	-	(20,750)
Purchases of investments	(49,321,680)	(11,142,777)
Proceeds from sales and maturities of investments	48,242,384	10,055,757
Net cash used in investing activities	(1,079,296)	(1,107,770)
Net Increase (Decrease) in Cash and Cash Equivalents	20,736,913	(1,954,922)
Cash and Cash Equivalents - Beginning of year	2,033,493	3,988,415
Cash and Cash Equivalents - End of year	\$ 22,770,406	\$ 2,033,493

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note I - Nature of Activities and Significant Accounting Policies

Mission of Organization - The Ann Arbor Area Community Foundation (the "Community Foundation") enriches the quality of life in its region through its knowledgeable leadership, engaged grantmaking, and creative partnerships with donors to make philanthropic investments and build endowment.

Financial Statement Presentation - The financial statements are prepared on the accrual basis of accounting. The Community Foundation has determined that the use of fund accounting to segregate assets, liabilities, net assets, income, and expenses, although not required by accounting standards, is a meaningful practice to continue. The Community Foundation utilizes eight fund types to segregate activities as follows:

- General unrestricted - Totally unrestricted resources
- Field of interest - Resources used to support specific areas such as community development, the performing arts, health care, environmental preservation, education, services for the elderly, or programs for youth
- Scholarship - Resources used to help area students complete their education
- Donor advised - Resources for which the donors are active participants in the giving process, sharing their insights and preferences with the Community Foundation's trustees as fund distributions are made
- Designated - Resources for which the donors specify certain charities as recipients of their gifts. Agency endowments held in the designated funds are shown as a liability.
- Special - This fund is used to account for agency transactions entered into by the Community Foundation. The agreement between the Community Foundation and the interested party allows for distributions of both income and principal. The resources received under these agreements are not considered contributions to the Community Foundation, and therefore have been classified as a liability.
- Trust - This fund is comprised of a charitable remainder unitrust gift and a charitable gift annuity.
- Administrative - Resources used to provide financial support for day-to-day programs and operations

The Community Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Due to variance power, the Community Foundation has no permanently restricted net assets.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Contributions Received - Contributions received are recorded as unrestricted or temporarily restricted, depending on the existence and nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. A transfer of assets to the Community Foundation shall be accounted for as a liability if one or more of the following conditions is present:

- a. The transfer is subject to the resource provider's unilateral right to redirect the use of the assets to another beneficiary.
- b. The transfer is accompanied by the resource provider's conditional promise to give or is otherwise revocable or repayable.
- c. The resource provider controls the recipient organization and specifies an unaffiliated beneficiary.
- d. The resource provider specifies itself or its affiliate as the beneficiary and the transfer is not an equity transaction.

It is the board of trustees' (the "Board") interpretation of accounting standards that all gifts and grants received by the Community Foundation constitute unrestricted assets other than those with time restrictions on the use of the contributions such as pledges, bequests receivable, and trusts. The bylaws of the Community Foundation, under variance power, give the Board the authority to modify any restriction or condition on distribution of resources for any charitable purposes or to specific organizations if, in its sole judgment, such restrictions or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.

Agency Transactions - The Community Foundation has adopted established standards for transactions in which the Community Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on the investment of those assets, or both to another entity that is specified by the donor. The Community Foundation refers to these types of resources as designated, agency endowment, or organizational endowment funds and has accounted for these three types of funds in its designated fund and/or special fund. The statement of financial position refers to these resources in the designated fund as "endowed" assets held for others. The statement of financial position also refers to "nonendowed" assets held for others. These assets represent temporary special funds that have an impact on the community and support the individual donors to support time-limited initiatives.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

The designated fund agreements between the Community Foundation and the organizations allow for distributions per the spending policy of the Community Foundation. The special fund agreements between the Community Foundation and the organizations or individuals allow for distribution of both income and principal. The resources received under these agreements are not considered contributions to the Community Foundation, and therefore have been classified as a liability.

In 2016 and 2015, funds of \$553,377 and \$361,535, respectively, were received under agency endowment fund agreements and were recorded directly to the "assets held for others" statement of financial position liability account.

During 2016, the Community Foundation entered into an agreement with Glacier Hills, Inc. (Glacier Hills) and Trinity Continuing Care Services (dba Trinity Senior Living Communities) (Trinity) to temporarily hold charitable assets totaling approximately \$18,000,000 generated through the acquisition of the membership interest in Glacier Hills by Trinity. Due to the conditions of the agreement, the transfer is considered an agency transaction and the assets received were recorded as nonendowed assets held for others.

Both the assets and the liability have been measured at the fair value of the assets and liability received.

Accounting Treatment for Each Type of Fund

Designated Funds - Designated funds typically are established with gifts from a donor with a request to distribute the transferred assets, the return on the investment of those assets, or both to a specified unaffiliated beneficiary. Additionally, the donor has granted the Community Foundation variance power, which allows the Community Foundation the flexibility to ensure that the donor's charitable interest will be served in perpetuity. When accounting for additions to designated funds, the Community Foundation records the assets received or promised as contributed revenue.

Agency Endowment Funds - If a not-for-profit organization (NPO) establishes, with its own funds, a fund at the Community Foundation for its own benefit, the transfer of assets to the Community Foundation is not contribution revenue and is accounted for as a liability. The Community Foundation continues to report the fund as an asset of the Community Foundation; however, a liability for the market value is also recorded, representing the present value of the future payments expected to be made to the NPO.

Cash Equivalents - The Community Foundation considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Concentration of Credit Risk Arising for Deposit Accounts - The Community Foundation maintains cash balances at two institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation in accordance with the program limit. In addition, the Community Foundation uses a cash management product through its primary depository institution to ensure any deposits over \$250,000 are insured with other banking institutions. At times, the balances held in nonprimary deposit accounts may exceed federally insured amounts. The Community Foundation evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - Money market investment funds held under the custody of fund managers represent temporarily uninvested monies and are considered short-term investments. Investments in common and preferred stocks, bonds, U.S. Treasury bills, and mutual funds are carried at quoted fair value. The Community Foundation's investments in nonmarketable limited partnerships are generally carried at fair value, which is estimated based on the net asset value per share (or its equivalent) by the investment manager. Audited information is only available annually, typically six months or more after the end of the partnership's year. Management of the Community Foundation reviews monthly and/or quarterly valuations provided by the general partner or manager of the funds and assesses the reasonableness of the fair values provided at the interim dates and included in the Community Foundation's financial statements. Because of the inherent uncertainty of valuations, the fair values used may differ from values that would have been used had a ready market existed. Realized gains and losses on sales of investments represent the difference between the net sales price and the cost of the securities sold. Unrealized gains or losses on investments represent the net change for the reported year in unrealized appreciation between the balance at the beginning and the end of the year.

Risks and Uncertainties - The Community Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Bequests Receivable - Bequests receivable consist of gifts made by means of wills and trusts for which the donor is deceased and are otherwise considered irrevocable. Payment on these receivables is expected in the next year. The bequests receivable are deemed fully collectible as of December 31, 2016. There were no bequests receivable as of December 31, 2015.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Pledges Receivable - Pledges receivable consist of contributions that donors intend to contribute over time. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

In-kind Donations - In-kind donations consist of materials and services given without remuneration. In 2016 and 2015, this consisted of catering services and newsletter printing.

Property and Equipment - Property and equipment are recorded at cost when purchased and at estimated fair value when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 40 years.

Tax Status - The Internal Revenue Service (IRS) has ruled that the Community Foundation is a public charity as described in Section 509(a)(1) of the Internal Revenue Code. Consequently, the Community Foundation is exempt from federal income tax and certain excise taxes imposed on private foundations under Section 501(c)(3) of the United States Internal Revenue Code.

Functional Allocation of Expenses - The Community Foundation allocates expenses on a functional basis to program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Certain expenses, such as administration and occupancy, are allocated based on estimates and charged to specific programs. Although allocation methods used are considered reasonable, other methods could be used that would produce different results. Management and general and development costs are shown as administrative costs under support services on the statement of activities and changes in net assets.

Grants - Grants are recorded as expense in the year they are approved for payment by the authorized Community Foundation personnel, as empowered by the Board.

Fair Value Disclosures - The estimated fair value amounts have been determined by the Community Foundation using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Community Foundation could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

The Community Foundation adopted a standard permitting the Community Foundation to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument, is irrevocable, and is applied only to entire instruments and not to a portion of instruments. The Community Foundation has elected the fair value option election with respect to the liability to life beneficiaries of planned gifts related to the charitable remainder unitrust.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 18, 2017, which is the date the financial statements were available to be issued.

Note 2 - Investments

Investments are comprised of the following at December 31:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 337,492	\$ 337,492	\$ 1,166,841	\$ 1,166,841
Fixed income	7,515,971	7,515,971	7,110,557	6,951,688
Equity securities	25,324,008	20,120,703	19,540,586	17,170,586
Alternative investments	26,024,978	47,220,044	26,347,737	44,512,189
Total	<u>\$ 59,202,449</u>	<u>\$ 75,194,210</u>	<u>\$ 54,165,721</u>	<u>\$ 69,801,304</u>

Investment income and expenses are comprised of the following at December 31:

	2016	2015
Interest and dividends	\$ 1,215,400	\$ 974,851
Capital gains dividends	-	871
Net realized (losses) gains	(81,953)	588,703
Net unrealized gains (losses)	4,395,563	(2,707,750)
Investment fees	(418,111)	(383,502)
Total	<u>\$ 5,110,899</u>	<u>\$ (1,526,827)</u>

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 3 - Pledges Receivable

Pledges are recognized as revenue in the period the pledges are received. No allowance was deemed necessary for uncollectible pledges at December 31, 2016 and 2015.

Pledges outstanding at December 31, 2016 and 2015 are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Pledges receivable in less than one year	\$ 177,592	\$ 1,145,653
Pledges receivable in one to five years	<u>139,277</u>	<u>306,296</u>
Gross unconditional promises to give	316,869	1,451,949
Less unamortized discount on pledges due in greater than one year	<u>(11,587)</u>	<u>(11,587)</u>
Unconditional promises to give	<u>\$ 305,282</u>	<u>\$ 1,440,362</u>

Pledges receivable activity for 2016 and 2015 is detailed below:

	<u>2016</u>	<u>2015</u>
Balance - January 1	\$ 1,440,362	\$ 352,732
Add new pledges	165,115	1,380,033
Less collections	(1,299,150)	(290,361)
Less uncollectible pledges written off	<u>(1,045)</u>	<u>(2,042)</u>
Balance - December 31	<u>\$ 305,282</u>	<u>\$ 1,440,362</u>

Note 4 - Receivable from Trusts

The Community Foundation is the beneficiary of two charitable lead trusts. The receivable from each of the two trusts is reduced annually by the principal portion of the distribution, and interest income is also recognized. One trust began making annual distributions in 1998. The annual distribution continues through 2018, the date of the trust termination. At the inception of the trust, a receivable from the trust and contribution revenue of \$246,654 were recognized by the Community Foundation. The receivable represents the discounted value (8 percent) of the future stream of annual distributions of \$25,000 through 2018. At December 31, 2016 and 2015, the net present value of the receivable was \$37,887 and \$58,229, respectively.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 4 - Receivable from Trusts (Continued)

The other trust began making annual distributions in 2001. The annual distribution continues through 2020, the date of the trust termination. At the inception of the trust, a receivable from the trust and contribution revenue of \$771,295 were recognized by the Community Foundation. The receivable represents the discounted value (6.25 percent) of the future stream of annual distributions of \$70,000 through 2020. At December 31, 2016 and 2015, the net present value of the receivable was \$239,806 and \$290,898, respectively.

Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 1,128,667	\$ 1,128,667
Furniture and fixtures	81,052	81,052
Computer equipment and software	<u>206,397</u>	<u>206,397</u>
Total cost	1,416,116	1,416,116
Less accumulated depreciation	<u>(521,973)</u>	<u>(472,637)</u>
Net carrying amount	<u>\$ 894,143</u>	<u>\$ 943,479</u>

Depreciation expense was \$49,336 for 2016 and \$53,171 for 2015.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 6 - Grant/Grant Payable

Grants are recognized as liabilities at the time the authorized Community Foundation personnel, as empowered by the Board, authorize the expenditures, regardless of the year in which the grant is paid. Grants are authorized subject to the spending policy limitations. A summary of grants and grants payable for 2016 and 2015 is as follows:

Type of Fund	2016			
	Commitment - Beginning of Year	Authorizations (Net of Reversals)	Payments	Commitment - End of Year
Administrative endowments	\$ -	\$ 40,863	\$ (40,863)	\$ -
Designated	8,000	660,899	(660,899)	8,000
Donor advised	-	1,263,231	(1,233,231)	30,000
Field of interest	-	467,810	(464,864)	2,946
General unrestricted	137,400	700,774	(823,174)	15,000
Special	-	506,481	(506,481)	-
Scholarship	5,407	236,400	(228,900)	12,907
Gross grants and liability	<u>\$ 150,807</u>	3,876,458	<u>\$ (3,958,412)</u>	<u>\$ 68,853</u>
Less grants made from funds held for others:				
Special - Pass-through grants		(506,481)		
Designated - Agency transaction grants		(40,863)		
Interfund grants		253,240		
Returned grants		(557)		
Total grants per statement of activities and changes in net assets		<u>\$ 3,581,797</u>		

The grant expense increase of \$796,240 from 2015 to 2016 was driven primarily by an increase in contributions during the year.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 6 - Grant/Grant Payable (Continued)

Type of Fund	2015			
	Commitment - Beginning of Year	Authorizations (Net of Reversals)	Payments	Commitment - End of Year
Administrative endowments	\$ -	\$ 39,249	\$ (39,249)	\$ -
Designated	6,000	657,797	(655,797)	8,000
Donor advised	8,500	1,070,637	(1,079,137)	-
Field of interest	17,843	405,849	(423,692)	-
General unrestricted	37,157	289,555	(189,312)	137,400
Special	-	522,898	(522,898)	-
Scholarship	40,907	152,246	(187,746)	5,407
Gross grants and liability	<u>\$ 110,407</u>	3,138,231	<u>\$ (3,097,831)</u>	<u>\$ 150,807</u>
Less grants made from funds held for others:				
Special - Pass-through grants		(522,898)		
Designated - Agency transaction grants		(39,249)		
Interfund grants		261,449		
Returned grants		<u>(51,976)</u>		
Total grants per statement of activities and changes in net assets		<u>\$ 2,785,557</u>		

Note 7 - Charitable Remainder Unitrust

During the year ended December 31, 1999, the Community Foundation began to administer a planned gift under a charitable remainder unitrust. A charitable remainder unitrust provides for the payment of a fixed percentage of the net fair value of the trust's assets as determined each year. Upon termination of the income beneficiary's interest, the assets of the trust are to be transferred in the following amounts: (1) \$50,000 to an unrelated charity and (2) the balance of the trust to the Community Foundation for donor-designated purposes.

The portion of the planned gift attributable to the present value of the future benefits to be received by the Community Foundation, \$422,107, was recorded in the statement of activities and changes in net assets as a contribution in the period the planned gift was established. The balance of the charitable remainder unitrust assets was \$1,040,389 and \$998,561 at December 31, 2016 and 2015, respectively.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 7 - Charitable Remainder Unitrust (Continued)

The present value of the estimated future payments to the beneficiary was re-determined in 2016 and 2015 using the IRS discount rate of 1.8 percent and 2 percent, respectively, and the applicable mortality tables, adjusting the liability and recognizing loss by \$52,614 and \$10,944, respectively. The liability to life beneficiaries of planned gifts was \$448,064 and \$445,378 for 2016 and 2015, respectively.

Note 8 - Net Assets

Temporarily restricted net assets are those assets resulting from contributions whose use by the Community Foundation is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Community Foundation pursuant to those stipulations.

Temporarily restricted net assets consist of the following:

	2016	2015
Pledges receivable (see Note 3)	\$ 305,282	\$ 1,440,362
Less pledges receivable under agency	<u>(45,600)</u>	<u>(45,600)</u>
Pledges receivable - Net	259,682	1,394,762
Receivable from trusts (see Note 4)	277,693	349,127
Bequests receivable	915,400	-
Charitable remainder unitrust - Net (see Note 7)	<u>592,235</u>	<u>553,183</u>
Total temporarily restricted net assets	<u>\$ 2,045,010</u>	<u>\$ 2,297,072</u>

Note 9 - Pension

The Community Foundation has a SIMPLE IRA plan under which it contributes 2 percent of eligible wages. The Community Foundation incurred expenses of \$14,835 and \$14,607 during 2016 and 2015, respectively.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 10 - Reconciliation of Revenue, Expense, and Net Assets Per Financial Statements to IRS Form 990

	<u>2016</u>	<u>2015</u>
Gifts, grants, and pledges received per IRS Form 990	\$ 7,194,318	\$ 3,612,818
Grant expenses per financial statements	\$ 3,581,797	\$ 2,785,557
Grants made from agency transfers	40,863	39,249
Total grant expenses per IRS Form 990	<u>\$ 3,622,660</u>	<u>\$ 2,824,806</u>
Net assets per financial statements	\$ 80,386,749	\$ 73,027,436
Net current year change in net assets related to agency transfers	483,961	(22,341)
Deduct unrealized gains (losses) on agency funds	109,344	(62,116)
Add cumulative prior year's assets held for others	<u>1,631,061</u>	<u>1,591,287</u>
Total net assets per IRS Form 990	<u>\$ 82,611,115</u>	<u>\$ 74,534,266</u>

Note 11 - Designated Endowments

The Community Foundation's unrestricted net assets include designated endowments that would be classified as donor-restricted endowments, except that the Community Foundation has variance power over those assets. Therefore, the Board treats these funds as designated endowments and they are classified and reported based on the existence or absences of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Community Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the designated endowment funds, absent explicit donor stipulations to the contrary. As a result of this law and variance power provision rights, the Community Foundation classifies within unrestricted net assets (a) the original value of gifts donated to the designated endowment, (b) the original value of subsequent gifts to the designated endowment, and (c) accumulations to the designated endowment. In accordance with UPMIFA, the Community Foundation considers the following factors in making a determination to appropriate or accumulate designated endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the Community Foundation and the designated endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Community Foundation
- (7) The investment policies of the Community Foundation

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 11 - Designated Endowments (Continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2016

	<u>Unrestricted</u>
Board-designated endowment net assets - Beginning of year	\$ 70,730,364
Investment return:	
Investment income	1,215,400
Net appreciation (realized and unrealized)	<u>4,313,610</u>
Total investment return	5,529,010
Contributions and other support	7,394,506
Appropriation for distributions and administrative fees	<u>(5,312,141)</u>
Endowment net assets - End of year	<u>\$ 78,341,739</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2015

	<u>Unrestricted</u>
Board-designated endowment net assets - Beginning of year	\$ 73,801,384
Investment return:	
Investment income	974,851
Net depreciation (realized and unrealized)	<u>(2,118,176)</u>
Total investment return	(1,143,325)
Contributions and other support	2,591,997
Appropriation for distributions and administrative fees	<u>(4,519,692)</u>
Endowment net assets - End of year	<u>\$ 70,730,364</u>

Return Objectives and Risk Parameters

The Community Foundation has adopted investment and spending policies for its net assets that attempt to provide a predictable stream of funding to programs supported by its net assets while seeking to maintain its purchasing power. Under this policy, as approved by the Board, the Community Foundation has four objectives: (1) to preserve and grow the assets of the Foundation, (2) balance long-term growth with appropriate risk and liquidity, (3) achieve market returns, and (4) comply with applicable laws, rules, and regulations.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 11 - Designated Endowments (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Community 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 Community Foundation targets a broadly diversified asset allocation model with performance benchmarks based on each asset class.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Community Foundation has a policy of appropriating for distributions and administrative fees each year up to 5 percent of its net asset fund's average fair value over the prior 16 quarters through September 30 of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Community Foundation considered the long-term expected return on its investment portfolio. By limiting its spending policy, over the long term, the Community Foundation expects the current spending policy to allow its net assets to grow annually. This is consistent with the Community Foundation's objective to maintain the purchasing power of the investment portfolio and net assets, as well as to provide real growth through new gifts and investment returns.

The annual spending amount, as defined above, is used for both amounts available to grant from each fund, as well as administrative fees charged to each fund. The administrative fee is calculated based on the fund fee schedule approved by the board of trustees and in effect at the time the calculation is made. Amounts available to grant are calculated by subtracting the administrative fee from the total calculated spending amount. For the years ended December 31, 2016 and 2015, there was no granting permitted for any fund managed as an endowed fund until it had been at the Community Foundation for four consecutive quarters. Pass-through and donor-advised funds do not have the one-year restriction. For the purpose of this calculation, a gift that arrives at the Community Foundation on any day within a calendar quarter will be considered to be at the Community Foundation for the entire quarter. Administrative fees will be charged to funds from the date that the fund is established, as prescribed by the fund fee schedule in effect at the time. The annual spending amount is determined and recommended by the finance committee and approved by the Board annually. In 2016 and 2015, the Community Foundation used 5 percent as the spending policy.

Note 12 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 12 - Fair Value Measurements (Continued)

The following tables present information about the Community Foundation's assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Community Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Community Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

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

The Community Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no significant transfers between levels of the fair value hierarchy during 2016 and 2015.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 12 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Balance at December 31, 2016
Assets - Investments					
Money market funds - Short-term investment	\$ 337,492	\$ -	\$ -	\$ -	\$ 337,492
Mutual funds - Fixed income	7,515,971	-	-	-	7,515,971
Mutual funds - Domestic equity	14,899,108	-	-	-	14,899,108
Mutual funds - Foreign equity	5,221,595	-	-	-	5,221,595
Alternative - Real estate REIT fund	-	-	-	2,856,805	2,856,805
Alternative - Global fixed-income fund	-	-	-	1,790,611	1,790,611
Alternative - Equity mutual funds - Foreign	-	-	-	4,006,513	4,006,513
Alternative - Commodities fund	-	-	-	960,996	960,996
Alternative - Equity mutual funds - Domestic	-	-	-	9,273,479	9,273,479
Alternative - Long only equity - Global	-	-	-	5,203,306	5,203,306
Alternative - Equity long/short hedge fund of funds	-	-	-	5,180,532	5,180,532
Alternative - Multi-strategy hedge fund of funds	-	-	-	5,388,677	5,388,677
Alternative - Distressed opportunities fund of funds	-	-	-	494,209	494,209
Alternative - Natural resources fund of funds	-	-	-	169,380	169,380
Alternative - Private equity fund of funds	-	-	-	11,895,536	11,895,536
Subtotal	27,974,166	-	-	47,220,044	75,194,210
Charitable remainder unitrust	-	-	1,040,389	-	1,040,389
Total assets	<u>\$ 27,974,166</u>	<u>\$ -</u>	<u>\$ 1,040,389</u>	<u>\$ 47,220,044</u>	<u>\$ 76,234,599</u>
Liabilities					
Liability to life beneficiaries of planned gifts	\$ -	\$ -	\$ 448,064	\$ -	\$ 448,064
Charitable gift annuity	-	-	158,263	-	158,263
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 606,327</u>	<u>\$ -</u>	<u>\$ 606,327</u>

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 12 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments measured at NAV	Balance at December 31, 2015
Assets - Investments					
Money market funds - Short-term investment	\$ 1,166,841	\$ -	\$ -	\$ -	\$ 1,166,841
Mutual funds - Fixed income	6,951,688	-	-	-	6,951,688
Mutual funds - Domestic equity	13,096,544	-	-	-	13,096,544
Mutual funds - Foreign equity	4,074,042	-	-	-	4,074,042
Alternative - Real estate REIT fund	-	-	-	2,753,051	2,753,051
Alternative - Global fixed-income fund	-	-	-	1,720,973	1,720,973
Alternative - Equity mutual funds - Foreign	-	-	-	3,566,491	3,566,491
Alternative - Commodities fund	-	-	-	864,287	864,287
Alternative - Equity mutual funds - Domestic	-	-	-	8,468,783	8,468,783
Alternative - Long only equity - Global	-	-	-	4,323,017	4,323,017
Alternative - Equity long/short hedge fund of funds	-	-	-	8,151,903	8,151,903
Alternative - Multi-strategy hedge fund of funds	-	-	-	5,240,653	5,240,653
Alternative - Absolute return hedge fund of funds	-	-	-	3,398,777	3,398,777
Alternative - Distressed opportunities fund of funds	-	-	-	655,491	655,491
Alternative - Natural resources fund of funds	-	-	-	255,122	255,122
Alternative - Private equity fund of funds	-	-	-	5,113,641	5,113,641
Subtotal	25,289,115	-	-	44,512,189	69,801,304
Charitable remainder unitrust	-	-	998,561	-	998,561
Total assets	<u>\$ 25,289,115</u>	<u>\$ -</u>	<u>\$ 998,561</u>	<u>\$ 44,512,189</u>	<u>\$ 70,799,865</u>
Liabilities - Liability to life beneficiaries of planned gifts					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 445,378</u>	<u>\$ -</u>	<u>\$ 445,378</u>

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 12 - Fair Value Measurements (Continued)

The following tables set forth a summary of the changes in the fair value of the Community Foundation's Level 3 assets and liabilities for the years ended December 31, 2016 and 2015:

	Fair Value at January 1, 2016	Purchases/ Issuances	Sales/ Distributions	Total Realized Gains	Total Unrealized Gains (Losses)	Fair Value at December 31, 2016
Charitable remainder unitrust Liability to life beneficiaries of planned gifts	\$ 998,561	\$ 16,208	\$ (77,244)	\$ 62,270	\$ 40,594	\$ 1,040,389
Charitable gift annuity	(445,378)	-	49,928	-	(52,614)	(448,064)
	-	(158,263)	-	-	-	(158,263)
Total Level 3 assets and liabilities at fair value	<u>\$ 553,183</u>	<u>\$ (142,055)</u>	<u>\$ (27,316)</u>	<u>\$ 62,270</u>	<u>\$ (12,020)</u>	<u>\$ 434,062</u>

	Fair Value at January 1, 2015	Purchases	Sales	Total Realized Gains	Total Unrealized (Losses) Gains	Fair Value at December 31, 2015
Charitable remainder unitrust Liability to life beneficiaries of planned gifts	\$ 1,059,747	\$ -	\$ (39,741)	\$ 74,262	\$ (95,707)	\$ 998,561
	(487,421)	-	-	-	42,043	(445,378)
Total Level 3 assets and liabilities at fair value	<u>\$ 572,326</u>	<u>\$ -</u>	<u>\$ (39,741)</u>	<u>\$ 74,262</u>	<u>\$ (53,664)</u>	<u>\$ 553,183</u>

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Charitable remainder unitrust assets are categorized as Level 3 assets. The Community Foundation estimates the fair value of these assets based upon the fair value of the assets in the trust, unless the facts and circumstances indicate that the fair value would be different from the present value of estimated future distributions.

The related liabilities to life beneficiaries of planned gifts and the charitable gift annuity were also classified as Level 3 and consist of amounts to be paid out under charitable gift annuity agreements. The Community Foundation estimates the fair value of these liabilities based upon the present value of the expected future cash flows using management's best estimates of key assumptions including life expectancies of annuitants, payment periods, and a discount rate commensurate with the current market and other risks involved.

The Community Foundation holds shares or interests in investments at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 12 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of alternative investments which are valued at net asset value (or its equivalent) are as follows:

Investments Held at December 31, 2016

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period	Redemption Restrictions and Lock-up Period
Real estate REIT fund	\$ 2,856,805	\$ -	Monthly	15 days	N/A
Global fixed-income fund	1,790,611	-	Monthly	10 days	N/A
Equity mutual funds - Foreign	4,006,513	-	Monthly	30 days	N/A
Commodities fund	960,996	-	Monthly	5 days	N/A
Equity mutual funds - Domestic	9,273,479	-	Quarterly	60 days	Subject to redemption gate of 20%
Equity - Long only - Global	5,203,306	-	Monthly	6 days	N/A
Equity long/short hedge fund of funds	5,180,532	-	Annual - December	90-105 days	N/A
Multi-strategy hedge fund of funds	5,388,677	-	Semiannual (6/30 and 12/31)	95 days	Subject to redemption gate of 25%
Absolute return hedge fund of funds	-	-	Semiannual (6/30 and 12/31)	90 days	N/A
Distressed opportunities fund of funds	494,209	63,750	Illiquid	N/A	N/A
Natural resources fund of funds	169,380	156,503	Illiquid	N/A	N/A
Private equity fund of funds	11,895,536	3,564,501	Illiquid	N/A	N/A
Total	<u>\$ 47,220,044</u>	<u>\$ 3,784,754</u>			

The real estate REIT funds category consists of a manager that focuses on long-only investments in publicly traded Real Estate Investment Trusts (REITs). The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The global fixed-income fund category invests in a manager that pursues investments in global sovereign debt instruments. The fair values of the investments in this category have been estimated using the net asset value per share of investments.

Equity mutual funds, foreign and domestic, are held indirectly through investments in limited partnerships. These equities are valued using quoted market prices and other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry-standard models that consider assumptions, including time value and yield curve as well as other relevant economic measures. The fair values of the investments in this category have been estimated using the net asset value per share of investments.

The commodities fund category invests in a manager that deploys a liquid and diverse commodity investment strategy including exposure to energy, industrial metals, precious metals, agriculture, livestock, and food commodities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 12 - Fair Value Measurements (Continued)

The equity long-only fund category invests in a manager that provides participants with an opportunity to obtain long-term growth primarily from a diversified portfolio of global equity securities.

The equity long/short hedge fund of funds category includes investments in fund of funds that invest with fund managers that deploy both long and short in U.S. and global common stocks. Management of the underlying hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The multi-strategy hedge fund of funds category includes investments in fund of funds that invest through a wide variety of hedge fund managers employing many different strategies, with a bias toward credit spreads and arbitrage-type styles. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The absolute return hedge fund of funds category includes investments in fund of funds that deploy a wide variety of styles that target low volatility and low correlation to traditional equity markets. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The distressed opportunities hedge fund of funds category includes investments in fund of funds that deploy a spectrum of distressed securities investment approaches. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The natural resource fund category invests in fund of funds managers that pursue investments in private natural resource enterprises, primarily in oil and gas exploration and development. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The private equity funds category includes several venture capital and private equity fund of funds that invest in both domestic and foreign private equity and venture capital firms. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The investments in the natural resources, distressed opportunities, and private equity categories above can never be redeemed from the funds' managers. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 3 to 10 years.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 12 - Fair Value Measurements (Continued)

The Community Foundation also monitors the liquidity of its investment portfolio to be certain that cash needs for any particular period of time can be met. At December 31, 2016 and 2015, respectively, the entire portfolio was invested as follows: 40 percent and 47 percent in assets with daily redemption terms, 17 percent and 16 percent monthly redemption, 14 percent and 12 percent quarterly redemption, 14 percent and 8 percent in semiannual redemption, 6 percent and 8 percent annual redemption, and 9 percent and 9 percent illiquid. These figures are measured and monitored on a quarterly basis.

The following table summarizes the valuation methods and inputs used to determine fair value at December 31, 2016 for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Charitable remainder unitrust	\$ 1,040,389	Fair value of trust investments	Underlying investments in the trust	N/A
Liabilities:				
Liability to life beneficiaries of planned gifts	(448,064)	Present value of future cash outflows	Life expectancies of beneficiary, discount rate, growth rate	1.8 percent discount rate
Charitable gift annuity	(158,263)	Present value of future cash outflows	Life expectancies of beneficiary, discount rate	1.8 percent discount rate

The Community Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes are described in Note 1.

Note 13 - Bank Line of Credit

During 2015, the Community Foundation obtained an unsecured revolving line of credit from a bank with a limit of \$500,000 and bearing interest at the prime rate (an effective rate of 3.75 and 3.50 percent at December 31, 2016 and 2015, respectively). There was no outstanding balance at December 31, 2016 and 2015. The Community Foundation is subject to meeting certain covenant requirements. The line of credit matures on July 5, 2017, with renewal of the line currently under review by the Community Foundation.

Ann Arbor Area Community Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 14 - Annuity Payable

Annuity payable is comprised of a charitable gift annuity, which is a contract between the Community Foundation and a donor in which the Community 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 or changes to the discount rate, are recorded as an increase or decrease to revenue, gains, and other support.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Trustees
Ann Arbor Area Community Foundation

We have audited the financial statements of the Ann Arbor Area Community Foundation as of and for the years ended December 31, 2016 and 2015. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of financial position by fund and activities and changes in net assets by fund are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

May 18, 2017

Ann Arbor Area Community Foundation

Statement of Financial Position by Fund December 31, 2016 (with comparative totals for December 31, 2015)

	Unrestricted	Field of	Scholarship	Donor	Designated	Special	Trust	Administrative	Totals	
	Fund	Interest Fund	Fund	Advised Fund	Fund	Fund	Fund	Fund	2016	2015
Assets										
Cash and cash equivalents	\$ 177,838	\$ 539,596	\$ 667,801	\$ 2,134,309	\$ 699,968	\$ 18,296,781	\$ 250,000	\$ 4,113	\$ 22,770,406	\$ 2,033,493
Investments	14,514,264	15,217,169	6,918,141	16,449,678	19,627,744	32,253	-	2,434,961	75,194,210	69,801,304
Receivables	-	-	-	-	-	-	-	16,441	16,441	16,441
Security sale proceeds receivable	3,147	3,390	1,547	3,308	4,391	-	-	530	16,313	17,720
Bequests receivable	915,400	-	-	-	-	-	-	-	915,400	-
Pledges receivable	77,969	212,493	12,527	11,775	983	1,120	-	(11,585)	305,282	1,440,362
Receivable from trusts	34,258	-	-	243,435	-	-	-	-	277,693	349,127
Property and equipment	-	-	-	-	-	-	-	894,143	894,143	943,479
Charitable remainder unitrust	-	-	-	-	-	-	1,034,410	5,979	1,040,389	998,561
Total assets	\$ 15,722,876	\$ 15,972,648	\$ 7,600,016	\$ 18,842,505	\$ 20,333,086	\$ 18,330,154	\$ 1,284,410	\$ 3,344,582	\$ 101,430,277	\$ 75,600,487
Liabilities and Net Assets										
Liabilities										
Grants payable	\$ 15,000	\$ 2,946	\$ 12,907	\$ 30,000	\$ 8,000	\$ -	\$ -	\$ -	\$ 68,853	\$ 150,807
Assets held for others	-	-	-	-	2,005,679	18,330,154	-	-	20,335,833	1,945,434
Liability to life beneficiaries of planned gifts	-	-	-	-	-	-	645,310	(38,983)	606,327	445,378
Other liabilities	2,544	-	-	-	-	-	-	29,971	32,515	31,432
Total liabilities	17,544	2,946	12,907	30,000	2,013,679	18,330,154	645,310	(9,012)	21,043,528	2,573,051
Net Assets										
Unrestricted - Board designated	15,534,827	15,586,048	7,620,499	18,414,003	18,485,155	-	169,317	2,531,890	78,341,739	70,730,364
Temporarily restricted	170,505	383,654	(33,390)	398,502	(165,748)	-	469,783	821,704	2,045,010	2,297,072
Total net assets	15,705,332	15,969,702	7,587,109	18,812,505	18,319,407	-	639,100	3,353,594	80,386,749	73,027,436
Total liabilities and net assets	\$ 15,722,876	\$ 15,972,648	\$ 7,600,016	\$ 18,842,505	\$ 20,333,086	\$ 18,330,154	\$ 1,284,410	\$ 3,344,582	\$ 101,430,277	\$ 75,600,487

Ann Arbor Area Community Foundation

Statement of Activities and Changes in Net Assets by Fund Year Ended December 31, 2016 (with comparative totals for year ended December 31, 2015)

	Unrestricted	Field of	Scholarship	Donor	Designated	Special	Trust	Administrative	Totals	
	Fund	Interest Fund	Fund	Advised Fund	Fund			Fund	Fund	2016
Changes in Unrestricted Net Assets										
Revenue, gains, and other support:										
Gifts, grants, and pledges	\$ 1,427,630	\$ 280,395	\$ 1,280,337	\$ 3,766,131	\$ 89,687	\$ (17,287)	\$ 91,738	\$ (806,298)	\$ 6,112,333	\$ 2,226,196
In-kind donations and rental income	-	-	-	-	-	-	-	1,470	1,470	6,589
Interest and dividends	238,460	250,281	109,444	265,250	290,554	68	18,320	43,023	1,215,400	974,851
Rental income	-	-	-	-	-	-	-	740	740	-
Net realized and unrealized gains on investments	824,977	900,944	410,802	910,255	1,037,388	-	86,683	142,561	4,313,610	(2,118,176)
Net assets released from restrictions	14,183	268,150	1,008,392	8,000	169	-	-	(18,931)	1,279,963	359,212
Total revenue, gains, and other support	2,505,250	1,699,770	2,808,975	4,949,636	1,417,798	(17,219)	196,741	(637,435)	12,923,516	1,448,672
Expenses:										
Program services:										
Grants	700,774	467,810	229,400	1,512,626	660,900	10,847	-	(560)	3,581,797	2,785,557
Program and grants administration	-	-	-	-	-	-	-	507,453	507,453	405,090
Investment service fees	81,707	87,254	39,852	97,980	100,863	-	5,978	4,477	418,111	383,502
Total program services	782,481	555,064	269,252	1,610,606	761,763	10,847	5,978	511,370	4,507,361	3,574,149
Support services - Administrative:										
Management and general	1,835	-	360	-	47	-	-	395,223	397,465	462,589
Development	-	-	-	-	-	-	-	407,315	407,315	482,954
Total expenses and losses	784,316	555,064	269,612	1,610,606	761,810	10,847	5,978	1,313,908	5,312,141	4,519,692
Interfund transfers (out) in:										
Administrative/Donor	(391,340)	125,635	40,200	(211,114)	326,756	28,066	-	81,797	-	-
Administrative fees	(328,976)	(326,788)	(54,882)	(142,246)	(101,855)	-	-	954,747	-	-
Total interfund transfers (out) in	(720,316)	(201,153)	(14,682)	(353,360)	224,901	28,066	-	1,036,544	-	-
Increase (Decrease) in Unrestricted Net Assets	1,000,618	943,553	2,524,681	2,985,670	880,889	-	190,763	(914,799)	7,611,375	(3,071,020)
Changes in Temporarily Restricted Net Assets										
Gifts, grants, and pledges	21,715	140,500	1,200	-	200	-	-	916,900	1,080,515	1,380,033
Change in value of charitable remainder unitrust	-	-	-	-	-	-	(49,929)	(2,685)	(52,614)	(10,944)
Net assets released from restrictions	(14,183)	(268,150)	(1,008,392)	(8,000)	(169)	-	-	18,931	(1,279,963)	(359,212)
Increase (Decrease) in Temporarily Restricted Net Assets	7,532	(127,650)	(1,007,192)	(8,000)	31	-	(49,929)	933,146	(252,062)	1,009,877
Increase (Decrease) in Total Net Assets	1,008,150	815,903	1,517,489	2,977,670	880,920	-	140,834	18,347	7,359,313	(2,061,143)
Net Assets - Beginning of year										
Unrestricted	14,534,209	14,642,495	5,095,818	15,428,333	17,604,266	-	(21,446)	3,446,689	70,730,364	73,801,384
Temporarily restricted	162,973	511,304	973,802	406,502	(165,779)	-	519,712	(111,442)	2,297,072	1,287,195
Total net assets - Beginning of year	14,697,182	15,153,799	6,069,620	15,834,835	17,438,487	-	498,266	3,335,247	73,027,436	75,088,579
Net Assets - End of year										
Unrestricted	15,534,827	15,586,048	7,620,499	18,414,003	18,485,155	-	169,317	2,531,890	78,341,739	70,730,364
Temporarily restricted	170,505	383,654	(33,390)	398,502	(165,748)	-	469,783	821,704	2,045,010	2,297,072
Total net assets - End of year	\$ 15,705,332	\$ 15,969,702	\$ 7,587,109	\$ 18,812,505	\$ 18,319,407	\$ -	\$ 639,100	\$ 3,353,594	\$ 80,386,749	\$ 73,027,436