
Frey Foundation

**Financial Report
December 31, 2020**

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Independent Auditor's Report

To the Board of Trustees
Frey Foundation

We have audited the accompanying financial statements of Frey Foundation (the "Foundation"), which comprise the balance sheet as of December 31, 2020 and 2019 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frey Foundation as of December 31, 2020 and 2019 and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 1, 2021

Balance Sheet

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash	\$ 233,564	\$ 243,150
Investments (Notes 4 and 10)	157,580,692	152,848,898
Accrued income	22,918	11,927
Prepaid expenses	109,020	86,558
Other assets	1,166,678	1,166,678
Furniture, equipment, and leasehold improvements - Less accumulated depreciation and amortization of \$369,975 in 2020 and \$503,912 in 2019	<u>820,605</u>	<u>51,625</u>
Total assets	<u>\$ 159,933,477</u>	<u>\$ 154,408,836</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 120,964	\$ 138,206
Grant payable (Note 5)	1,680,649	1,946,048
Note payable (Note 7)	<u>676,338</u>	<u>-</u>
Total liabilities	2,477,951	2,084,254
Net Assets - Without donor restrictions	<u>157,455,526</u>	<u>152,324,582</u>
Total liabilities and net assets	<u>\$ 159,933,477</u>	<u>\$ 154,408,836</u>

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in Net Assets without Donor Restrictions		
Investment income (Note 4)	\$ 3,185,335	\$ 3,741,823
Expenses:		
Program services:		
Building community	904,500	848,250
Children and families	1,046,880	1,136,547
Community arts	362,500	451,300
Environment	212,500	430,750
Special initiatives	1,255,759	1,220,465
Foundation-administered programs (Note 9)	575,750	315,750
Program services	<u>789,305</u>	<u>931,208</u>
Total program services	5,147,194	5,334,270
Support services:		
Management and general	893,145	936,367
Excise and unrelated business income taxes	<u>114,795</u>	<u>70,748</u>
Total expenses	<u>6,155,134</u>	<u>6,341,385</u>
Decrease in Net Assets without Donor Restrictions - Before net realized and unrealized gains on investments	(2,969,799)	(2,599,562)
Net Realized and Unrealized Gains on Investments	<u>8,100,743</u>	<u>18,692,119</u>
Increase in Net Assets	5,130,944	16,092,557
Net Assets - Beginning of year	<u>152,324,582</u>	<u>136,232,025</u>
Net Assets - End of year	<u><u>\$ 157,455,526</u></u>	<u><u>\$ 152,324,582</u></u>

Statement of Functional Expenses

Year Ended December 31, 2020

	Program Services		Support Services		Total
	Grants	Other	Management and General	Other	
Grants approved	\$ 4,357,889	\$ -	\$ -	\$ -	\$ 4,357,889
Compensation and benefits	-	340,207	558,240	-	898,447
Trustee and third generation fees	-	-	214,500	-	214,500
Occupancy	-	117,063	66,701	-	183,764
Legal, accounting, and other professional fees	-	155,736	41,883	-	197,619
Meeting and professional development	-	129,995	7,050	-	137,045
Technology	-	20,678	3,414	-	24,092
Supplies and other	-	25,626	1,357	-	26,983
Excise and unrelated business income taxes	-	-	-	114,795	114,795
Total functional expenses	\$ 4,357,889	\$ 789,305	\$ 893,145	\$ 114,795	\$ 6,155,134

Statement of Functional Expenses

Year Ended December 31, 2019

	Program Services		Support Services		Total
	Grants	Other	Management and General	Other	
Grants approved	\$ 4,403,062	\$ -	\$ -	\$ -	\$ 4,403,062
Compensation and benefits	-	374,358	624,400	-	998,758
Trustee and third generation fees	-	-	182,000	-	182,000
Occupancy	-	110,839	61,685	-	172,524
Legal, accounting, and other professional fees	-	174,236	44,931	-	219,167
Meeting and professional development	-	241,631	15,204	-	256,835
Technology	-	20,497	6,846	-	27,343
Supplies and other	-	9,647	1,301	-	10,948
Excise and unrelated business income taxes	-	-	-	70,748	70,748
Total functional expenses	\$ 4,403,062	\$ 931,208	\$ 936,367	\$ 70,748	\$ 6,341,385

Statement of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Increase in net assets	\$ 5,130,944	\$ 16,092,557
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	46,044	42,127
Net unrealized losses (gains) on investments	2,492,095	(10,207,227)
Gains recognized on partnership investments and noncash mutual fund management fees	(764,490)	(993,301)
Changes in operating assets and liabilities that (used) provided cash:		
Prepaid expenses	(22,462)	46,688
Accounts payable and accrued expenses	(17,242)	5,107
Accrued income	(10,991)	49,547
Grants payable	(265,399)	(1,268,452)
Net cash provided by operating activities	6,588,499	3,767,046
Cash Flows from Investing Activities		
Purchase of furniture, equipment, and leasehold improvements	(815,024)	(2,391)
Purchases of investments	(63,902,050)	(37,680,455)
Proceeds from sales and maturities of investments	54,989,947	30,550,379
Proceeds from partnership distribution	2,452,704	3,344,054
Net cash used in investing activities	(7,274,423)	(3,788,413)
Cash Flows from Financing Activities		
Proceeds from debt	750,000	-
Payments on debt	(73,662)	-
Net cash provided by financing activities	676,338	-
Net Decrease in Cash	(9,586)	(21,367)
Cash - Beginning of year	243,150	264,517
Cash - End of year	\$ 233,564	\$ 243,150
Supplemental Cash Flow Information - Cash paid for		
Excise taxes	\$ 75,000	\$ 55,000
Interest	14,088	-

December 31, 2020 and 2019

Note 1 - Nature of Business

Frey Foundation (the "Foundation") is a private family foundation that fosters positive change in west and northern Michigan through strong community partnerships and strategic philanthropic investments.

Note 2 - Significant Accounting Policies

Concentration of Credit Risk

The Foundation maintains its primary cash balances at one bank where deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2020 and 2019, the Foundation's deposits were fully insured.

Investments

Investments in equity securities, mutual funds, and index funds are stated at current quoted market values. Unrealized gains or losses resulting from changes in the market value of investments and realized gains and losses on the sale of investments are included in the statement of activities and changes in net assets. Investments in limited partnerships (private equity and venture capital funds, real estate, hedge funds, and other limited partnerships), which are not readily marketable, are carried at estimated fair values as provided by the various investment managers, adjusted for additional investments into the partnerships or withdrawals from the partnerships. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods used and significant assumptions used in determining fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Other Assets

Other assets are composed of pieces of art for public and private viewing and are recorded at cost.

Furniture, Equipment, and Leasehold Improvements

Expenditures for the purchase of furniture, equipment, and leasehold improvements are capitalized and depreciated over their estimated useful lives (3 to 10 years) on a straight-line basis.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's board of trustees and management.

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). However, the Foundation is subject to an excise tax imposed on private foundations, which is assessed on net investment income.

Retirement Plan

The Foundation has a 401(k) plan that covers substantially all of its employees. The plan obligates the Foundation to contribute 5 percent of base compensation paid regardless of employee participation. In addition, the Foundation matches 3.5 percent above the 5 percent base. Contributions to the plan for the years ended December 31, 2020 and 2019 were \$55,266 and \$58,375, respectively.

December 31, 2020 and 2019**Note 2 - Significant Accounting Policies (Continued)*****Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The 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 balance sheet.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs have been allocated between the various program and support services primarily based on time and effort. Indirect costs, such as occupancy, supplies, and other, are allocated based on the percentage of employees in the related department. All other costs are charged directly to the functional area based on actual purpose. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Adoption of New Accounting Pronouncement

As of January 1, 2020, the Foundation adopted *Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The Foundation adopted the new standard on a modified prospective basis, and there was no impact on the Foundation's financial statements.

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, which will supersede the current lease requirements in Accounting Standards Codification (ASC) 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending December 31, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Foundation is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Foundation's financial statements as a result of the Foundation's operating leases, as disclosed in Note 8, that will be reported on the balance sheet at adoption. Upon adoption, the Foundation will recognize a lease liability and corresponding right-of-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

December 31, 2020 and 2019

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 1, 2021, which is the date the financial statements were available to be issued.

Note 3 - Liquidity

The Foundation has \$145,717,023 and \$140,337,387 of financial assets available within one year of December 31, 2020 and 2019 to meet cash needs for general and grant expenditures, consisting of cash of \$233,564 and \$243,150 and liquid investments of \$145,483,459 and \$140,094,237, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general or grant expenditures within one year of the balance sheet date.

The Foundation has a goal to maintain financial assets, which consist of cash and liquid investments, on hand to meet its annual distribution requirements of approximately 5 percent plus general operating expenditures. The annual distributions (grants), related expenses, and general expenditures totaled approximately \$7,800,000 and \$8,300,000 at December 31, 2020 and 2019, respectively. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and grant obligations come due. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in short-term treasury instruments.

Note 4 - Investments

Investments consisted of the following at December 31:

	2020	2019
Equity securities	\$ 11,308,787	\$ 9,096,036
Mutual funds	105,819,403	110,291,111
Index funds	28,332,352	20,695,164
Limited partnerships	12,120,150	12,766,587
Total	\$ 157,580,692	\$ 152,848,898

Net realized gains on the sale of investments were \$10,592,838 and \$8,484,892 for the years ended December 31, 2020 and 2019, respectively, and are included in the statement of activities and changes in net assets.

At December 31, 2020 and 2019, total investment income consisted of the following:

	2020	2019
Investment income:		
Interest income	\$ 85,911	\$ 86,565
Dividend income	3,395,496	4,396,298
Other investment income	568,470	475,514
Investment expenses:		
Investment management fees	(658,919)	(1,039,111)
Investment consultant	(177,809)	(135,077)
Contract and professional fees	(21,000)	(24,000)
Other investment expenses	(1,773)	(13,644)
Custodial fees	(5,041)	(4,722)
Total	\$ 3,185,335	\$ 3,741,823

Note 5 - Grants Payable

As of December 31, 2020, the board of trustees has authorized certain grants to be paid in future periods. Total commitments are payable as follows:

Years Ending	Amount
2021	\$ 1,216,649
2022	359,000
2023	55,000
2024	50,000
Total	<u>\$ 1,680,649</u>

The board of trustees has also approved various grants subject to conditions to be met by the grantees. These conditional grants are excluded from grants payable and grant expense until the conditions are met. Short- and long-term conditional grants totaled \$320,000 and \$281,000, respectively, at December 31, 2020 and \$600,000 and \$250,000, respectively, at December 31, 2019.

Note 6 - Distribution Requirements

Certain Internal Revenue Service (IRS) provisions require that the Foundation make cash distributions (defined as grants and related grant-making expenses) in prescribed minimum amounts each year based upon the operations of the preceding year. The Foundation distributed amounts exceeding the minimum requirements in 2020 and 2019. The Foundation is required to distribute approximately \$6,972,000 in 2021 to meet the minimum requirements.

Note 7 - Long-term Debt

Long-term debt at December 31 is as follows:

	2020	2019
Note payable to a bank in monthly installments of \$9,750, including interest at 2.75 percent. The note is due on April 30, 2027	<u>\$ 676,338</u>	<u>\$ -</u>

The balance of the above debt matures as follows:

Years Ending	Amount
2021	\$ 99,631
2022	102,405
2023	105,257
2024	108,188
2025	111,201
Thereafter	149,656
Total	<u>\$ 676,338</u>

Interest expense for 2020 and 2019 was \$14,088 and \$0, respectively.

Note 8 - Operating Leases

The Foundation leases its office space under a lease agreement that was amended in 2020 and expires in December 2025. The lease agreement requires monthly payments exclusive of inflation adjustments, as required by the agreement. The Foundation also leases office equipment under lease agreements that expire at various dates in 2023 and 2024.

Future minimum lease payments are as follows:

Years Ending December 31	Amount
2021	\$ 87,201
2022	89,281
2023	90,667
2024	90,359
2025	91,843
Total	<u>\$ 449,351</u>

Lease expense for 2020 and 2019 was \$85,888 and \$83,420, respectively.

Note 9 - Foundation-administered Programs

From time to time, the Foundation initiates projects that are managed internally and are 100 percent charitable in nature. Through such projects, the Foundation defines grant-making focus areas, publishes reports on social issues related to grant-making areas, and supports civic problem-solving initiatives with government, business, and nonprofit sectors. Grants disbursed for these projects totaled \$575,750 and \$315,750 as of December 31, 2020 and 2019, respectively. Costs associated with the projects, including expenditures for outside consultants, as well as other related fees that are directly related to the projects, were \$81,591 and \$87,946 for 2020 and 2019, respectively, and were recorded within program services on the statement of activities and changes in net assets.

Note 10 - 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.

The following tables present information about the Foundation’s assets measured at fair value on a recurring basis at December 31, 2020 and 2019 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the 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 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. 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.

December 31, 2020 and 2019

Note 10 - Fair Value Measurements (Continued)

In instances where 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 Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2020					
	Quoted Prices in				
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	At Net Asset Value (Not Leveled)	Balance at December 31, 2020
Equity securities	\$ 11,308,787	\$ -	\$ -	\$ -	\$ 11,308,787
Mutual funds:					
Domestic small cap	8,253,422	-	-	-	8,253,422
International developed	18,749,909	-	-	-	18,749,909
International small cap	8,390,112	-	-	-	8,390,112
Emerging markets	12,103,523	-	-	-	12,103,523
Real estate composite funds	4,207,184	-	-	-	4,207,184
Low volatility/market neutral	17,966,367	-	-	-	17,966,367
Commodities	2,438,642	-	-	-	2,438,642
Core fixed income	32,013,354	-	-	-	32,013,354
Money market mutual funds	1,696,890	-	-	-	1,696,890
Index funds:					
Domestic large cap	22,757,582	-	-	-	22,757,582
Domestic mid cap	5,574,770	-	-	-	5,574,770
Limited partnerships - Private equity/venture capital	-	-	-	12,120,150	12,120,150
Total	\$ 145,460,542	\$ -	\$ -	\$ 12,120,150	\$ 157,580,692

December 31, 2020 and 2019

Note 10 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	At Net Asset Value (Not Leveled)	Balance at December 31, 2019
Equity securities	\$ 9,096,036	\$ -	\$ -	\$ -	\$ 9,096,036
Mutual funds:					
Domestic large cap	5,827,315	-	-	-	5,827,315
Domestic small cap	8,073,009	-	-	-	8,073,009
International developed	18,100,475	-	-	-	18,100,475
International small cap	9,515,439	-	-	-	9,515,439
Emerging markets	11,781,322	-	-	-	11,781,322
Real estate composite funds	4,510,145	-	-	-	4,510,145
Low volatility/market neutral	17,230,074	-	-	-	17,230,074
Commodities	2,646,009	-	-	-	2,646,009
Core fixed income	31,352,762	-	-	-	31,352,762
Money market mutual funds	1,254,561	-	-	-	1,254,561
Index funds:					
Domestic large cap	15,980,389	-	-	-	15,980,389
Domestic mid cap	4,714,775	-	-	-	4,714,775
Limited partnerships - Private equity/venture capital	-	-	-	12,766,587	12,766,587
Total	\$ 140,082,311	\$ -	\$ -	\$ 12,766,587	\$ 152,848,898

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Investments Held at December 31, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity/venture capital	\$ 12,120,150	\$ 4,727,553	Not eligible	Not eligible
	Investments Held at December 31, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity/venture capital	\$ 12,766,587	\$ 5,978,224	Not eligible	Not eligible

The private equity/venture capital category includes several funds that invest in other limited partnerships, approximately 90 percent in the U.S. and 10 percent foreign for both December 31, 2020 and 2019. The fair values of the investments in this category have been estimated using net asset value of the Foundation's ownership interest in partners' capital.