Hudson-Webber Foundation

Financial Report
December 31, 2016

Hudson-Webber Foundation

Contents

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Independent Auditor's Report

To the Board of Trustees
Hudson-Webber Foundation

We have audited the accompanying financial statements of Hudson-Webber Foundation (the "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 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
Hudson-Webber Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hudson-Webber Foundation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Notes 1 and 8, the financial statements include certain investments 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 partnership general partners. These investments are valued at $75,144,673 and $66,618,400 (47 and 42 percent of net assets) at December 31, 2016 and 2015, respectively. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

June 6, 2017

Hudson-Webber Foundation

Statement of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 1,689,947	$ 10,852,115
Investments (Notes 2 and 8)	160,683,993	150,578,594
Interest and dividends receivable	178,007	169,697
Cash value of life insurance policies	74,736	74,736
Other assets:		
Prepaid expenses	54,791	38,614
Prepaid federal excise tax	22,002	-
Total assets	**$ 162,703,476**	**$ 161,713,756**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,912	$ 30,792
Grants payable (Note 3)	3,028,790	2,744,100
Accrued expenses	144,913	239,994
Accrued federal excise tax payable	-	17,137
Total liabilities	3,175,615	3,032,023
Net Assets - Unrestricted	159,527,861	158,681,733
Total liabilities and net assets	**$ 162,703,476**	**$ 161,713,756**

See Notes to Financial Statements.

Hudson-Webber Foundation

Statement of Activities and Changes in Net Assets

	Year Ended December 31, 2016	Year Ended December 31, 2015
Revenue, Gains, and Other Support		
Contributions and other	$ 100,000	$ 365,000
Interest	5,310	6,208
Dividends	2,021,404	2,133,099
Net realized and unrealized gains (losses) on investments	7,813,740	(5,106,379)
Total revenue, gains, and other support	9,940,454	(2,602,072)
Expenses		
Grants	6,987,411	7,587,354
Change in grant commitments	284,690	(1,605,400)
Net grant expense	7,272,101	5,981,954
Administrative (Note 7)	1,741,228	2,035,593
Federal excise tax (Note 4)	80,997	97,736
Total expenses	9,094,326	8,115,283
Change in Net Assets	846,128	(10,717,355)
Net Assets - Beginning of year	158,681,733	169,399,088
Net Assets - End of year	**$ 159,527,861**	**$ 158,681,733**

Statement of Cash Flows

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash Flows from Operating Activities		
Change in net assets	$ 846,128	$ (10,717,355)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized (gains) losses on investments	(7,813,740)	5,106,379
Changes in operating assets and liabilities which (used) provided cash:		
Interest and dividends receivable	(8,310)	(93,041)
Accrued federal excise tax payable	(39,139)	27,736
Prepaid expenses	(16,177)	4,898
Accounts payable	(28,880)	12,293
Accrued expenses	(95,081)	71,989
Grant payable	284,690	(1,605,400)
Net cash used in operating activities	(6,870,509)	(7,192,501)
Cash Flows from Investing Activities		
Purchases of investments	(14,351,662)	(8,454,816)
Proceeds from sales of investments	12,060,003	22,280,073
Net cash (used in) provided by investing activities	(2,291,659)	13,825,257
Net Change in Cash and Cash Equivalents	(9,162,168)	6,632,756
Cash and Cash Equivalents - Beginning of year	10,852,115	4,219,359
Cash and Cash Equivalents - End of year	**$ 1,689,947**	**$ 10,852,115**

Note 1 - Nature of Business and Significant Accounting Policies

Hudson-Webber Foundation (the "Foundation"), located in Detroit, Michigan and established in 1943, is a private foundation. The Foundation concentrates its efforts and resources in support of projects primarily within four program missions, each of which impacts upon the vitality and quality of life in the metropolitan Detroit community. The four mission areas are economic development, physical revitalization, the arts, and safe community.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting, which includes recognition of dividends, interest, and expenses as earned and incurred. Investment transactions are reported on a trade-date basis.

Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments - Investments in marketable securities are carried at quoted fair market value whenever available. Fair value is determined based on the fair value measurement principles described in Note 8. The alternative investments (see Note 8), comprised primarily of trust funds (which include domestic and foreign equities and domestic and foreign fixed income), hedge funds, and private equities, which are not readily marketable, are carried at estimated fair values. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Investments are recorded at fair value in the accompanying financial statements.

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.

Realized and unrealized gains and losses on investments represent the difference between the original cost of the investments and sales proceeds (realized) or the fair market value at the end of the year (unrealized). Cost is determined on a first-in, first-out basis.

Life Insurance Cash Surrender Value - The Foundation is the owner and beneficiary of life insurance policies originated by a donor. These policies are valued at their cash surrender value. The cash surrender value is based on the amount paid less any surrender charges and outstanding loans or interest.

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

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.

Concentration of Credit Risk Arising from Deposit Accounts - The Foundation maintains cash balances in multiple bank accounts. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to $250,000. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 6, 2017, which is the date the financial statements were available to be issued.

Note 2 - Investments

Investments consisted of the following at December 31:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Traditional asset class securities:				
Domestic equity securities	$ 30,975,613	$ 35,227,025	$ 28,361,333	$ 31,290,414
Foreign equity securities	21,438,507	21,313,378	21,488,380	21,848,636
Domestic fixed-income securities	6,372,480	7,249,230	6,841,173	7,460,792
Foreign fixed-income securities	16,026,890	15,362,775	16,090,859	15,332,014
Total traditional asset class securities	74,813,490	79,152,408	72,781,745	75,931,856
Alternative investments:				
Hedge funds and multistrategy	38,537,066	47,875,460	31,735,142	43,363,974
Private equity and venture capital	26,120,675	33,656,125	25,407,567	31,282,764
Total alternative investments	64,657,741	81,531,585	57,142,709	74,646,738
Total investments	$ 139,471,231	$ 160,683,993	$ 129,924,454	$ 150,578,594

Note 3 - Grants Payable

Unconditional grants are recognized as an expense at the time of formal approval by the trustees of the Foundation.

The following summarizes the changes in grants payable:

	2016	2015
Grants payable - Beginning of year	$ 2,744,100	$ 4,349,500
Grants approved	7,272,101	5,981,954
Payments made	(6,987,411)	(7,587,354)
Grants payable - End of year	$ 3,028,790	$ 2,744,100

Conditional grants are expensed when such conditions are substantially met. Conditional grants approved for future payment totaled $10,500,000 through December 31, 2016 and $9,447,750 through December 31, 2015. These grant awards have not been recognized as expense in the respective years.

On June 18, 2014, the board of trustees approved a $10 million grant, payable over 20 years, to the Foundation for Detroit's Future (FDF), a supporting organization of the Community Foundation of Southeast Michigan, for the purpose of funding part of the settlement of pension claims of the City of Detroit. The payment of the grant installments is conditional upon the City of Detroit Pension Funds and others being in compliance with the grant conditions, of both an initial and ongoing nature, which have been memorialized in agreements between the parties. The Foundation made annual payments of $500,000 since 2014. The remaining $8,500,000 will be payable upon fulfillment of the conditions as monitored by the FDF. These amounts are not included in grants payable consistent with the Foundation's policy for conditional grants.

Grant commitments outstanding at December 31, 2016 are scheduled for payment as shown below.

	2016	2015
Amounts due in:		
2017	$ 1,928,790	$ 1,844,100
2018	850,000	900,000
2019	250,000	-
Total	$ 3,028,790	$ 2,744,100

Note 4 - Excise Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. As a private foundation, the Foundation is subject to an excise tax on net investment income, including realized gains as defined in the Tax Reform Act of 1969.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of December 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Foundation's excise tax expense as of December 31, 2016 and 2015 is comprised of the following:

	2016	2015
Current	$ 80,997	$ 97,736

In addition, the Internal Revenue Code requires that certain minimum distributions be made in accordance with a specified formula. The Foundation will have paid or set aside approximately $600,000 and $700,000 as qualifying distributions for 2016 and 2015, respectively.

Note 5 - Defined Contribution Plan

The Foundation established a defined contribution pension plan as of January 1, 2000. The plan covers eligible employees with at least one year of service. The Foundation makes contributions to the plan based upon each eligible employee's base salary. Contributions to the plan for the years ended December 31, 2016 and 2015 totaled $42,763 and $61,619, respectively.

The Foundation had a 457(b) plan effective in 2015. Payments were approximately $9,500 for the year ended December 31, 2015. As of December 31, 2016, the plan was no longer in effect.

Note 6 - Lease Commitments

The Foundation leases its office space under a lease agreement that expires in February 2021. The lease agreement provides for a base rental and electricity amount, plus a pro-rata share of increases in property taxes and operating expenses relating to the building. Rent expense was approximately $69,790 for 2016 and $67,300 for 2015.

Note 6 - Lease Commitments (Continued)

The future minimum lease payments are as follows:

Years Ending December 31	Amount
2017	$ 71,157
2018	73,079
2019	75,005
2020	76,936
2021	12,876
Total	$ 309,053

Note 7 - Expenses

The Foundation's total expenses can be allocated into program services, investment and general expenses, and federal excise taxes. Program services consist of grants expense and the expenses in support of grant-making activities. Investment and general expenses consist of administrative expenses not related to program services and direct expenses related to the Foundation's investments. The Foundation's total expenses are summarized as follows:

	2016	2015
Grants	$ 7,272,101	$ 5,981,954
Grant support costs	1,101,407	1,362,758
Total program services	8,373,508	7,344,712
Investment and general expenses	639,821	672,835
Federal excise tax	80,997	97,736
Total	$ 9,094,326	$ 8,115,283

Note 8 - 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, 2016 and 2015 and the valuation techniques used by the Foundation to determine those fair values.

Note 8 - Fair Value Measurements (Continued)

In general, 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 whereby there is little, if any, market activity for the related asset.

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

The Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no transfers between levels during the years ended December 31, 2016 or 2015.

Disclosures concerning assets measured at fair value on a recurring basis are as follows:

Fair Value Measurements 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)	Balance at December 31, 2016
Assets				
Domestic equities	$ 9,290,173	$ 24,269,117	$ 1,667,735	$ 35,227,025
Foreign equities	-	19,979,192	1,334,186	21,313,378
Domestic fixed income	4,938,229	-	2,311,001	7,249,230
Foreign fixed income	14,997,462	-	365,313	15,362,775
Hedge funds and multistrategy	8,792,245	3,272,902	35,810,313	47,875,460
Private equity and venture capital	-	-	33,656,125	33,656,125
Total assets	$ 38,018,109	$ 47,521,211	$ 75,144,673	$ 160,683,993

Note 8 - Fair Value Measurements (Continued)

Fair Value Measurements 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)	Balance at December 31, 2015
Assets				
Domestic equities	$ 8,746,192	$ 21,358,907	$ 1,185,315	$ 31,290,414
Foreign equities	-	19,113,892	2,734,744	21,848,636
Domestic fixed income	4,695,059	-	2,765,733	7,460,792
Foreign fixed income	14,905,921	-	426,093	15,332,014
Hedge funds and multistrategy	8,053,354	7,086,869	28,223,751	43,363,974
Private equity and venture capital	-	-	31,282,764	31,282,764
Total assets	$ 36,400,526	$ 47,559,668	$ 66,618,400	$ 150,578,594

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

	Domestic Equities	Foreign Equities	Domestic Fixed Income	Foreign Fixed Income	Hedge Funds and Multistrategy	Private Equity and Venture Capital	Total
Balance at January 1, 2015	$ 2,998,904	$ 5,678,398	$ 6,405,943	$ 745,290	$ 36,190,351	$ 26,393,493	$ 78,412,379
Activity for 2015:							
Total realized and unrealized (losses) gains included in changes in net assets	(134,758)	(310,913)	(314,436)	(48,443)	(1,718,691)	1,296,752	(1,230,489)
Purchases	-	-	-	-	-	5,550,000	5,550,000
Redemptions	(1,678,831)	(2,632,741)	(3,325,774)	(270,754)	(6,247,909)	-	(14,156,009)
Contributions	-	-	-	-	-	2,945,309	2,945,309
Distributions	-	-	-	-	-	(4,902,790)	(4,902,790)
Balance at December 31, 2015	1,185,315	2,734,744	2,765,733	426,093	28,223,751	31,282,764	66,618,400
Activity for 2016:							
Total realized and unrealized gains (losses) included in income	40,919	32,734	56,700	8,963	(985,992)	3,041,164	2,194,488
Purchases	441,501	-	-	-	13,228,085	-	13,669,586
Redemptions	-	(1,433,292)	(511,432)	(69,743)	(4,655,531)	-	(6,669,998)
Contributions	-	-	-	-	-	2,201,662	2,201,662
Distributions	-	-	-	-	-	(2,869,465)	(2,869,465)
Balance at December 31, 2016	$ 1,667,735	$ 1,334,186	$ 2,311,001	$ 365,313	$ 35,810,313	$ 33,656,125	$ 75,144,673

The fair value of the domestic and foreign equities, certain hedge funds, and multi-strategy funds at December 31, 2016 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments based on its proportionate ownership interest in the fair value of the net assets of the fund, which is based on actual underlying securities using quoted market prices in active and nonactive markets or prices based on market-corroborated inputs.

Note 8 - Fair Value Measurements (Continued)

Investments categorized as Level 3 assets primarily consist of trust funds (which include domestic and foreign equities and domestic and foreign fixed income), certain hedge funds, and private equity. The Foundation estimates the fair value of these investments based on reports received by the investment's general partners and/or fund managers based on quoted market prices, where available, audited financial statements, tax reports, or other methods of reported fair value, as disclosed by the general partners and/or fund managers. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Of the Level 3 assets still held by the Foundation, the realized and unrealized gain for the years ended December 31, 2016 and 2015 was $2.2 million and $1.2 million, respectively, which is recognized in the change in net assets in the statement of activities and changes in net assets.

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

Investments in Entities that Calculate Net Asset Value per Share - The Foundation holds shares or interests in investment companies 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 company.

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

Investments Held at December 31, 2016

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity long/short hedge funds	$ 7,894,173	$ -	Monthly	30 days
Multistrategy funds	36,867,274	-	Monthly, quarterly, semiannually	0 to 95 days
Equity funds	44,248,309	-	Daily	N/A
Private equity and venture capital funds	33,656,125	5,344,097	N/A	N/A
Total	$ 122,665,881	$ 5,344,097		

Note 8 - Fair Value Measurements (Continued)

Investments Held at December 31, 2015

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity long/short hedge funds	$ 10,076,363	$ -	Monthly	30 days
Multistrategy funds	32,346,142	-	Monthly, quarterly, semiannually	0 to 95 days
Equity funds	40,472,799	-	Daily	N/A
Private equity and venture capital funds	31,282,764	7,507,324	N/A	N/A
Total	$ 114,178,068	$ 7,507,324		

The equity long/short hedge fund category includes an investment in a hedge fund that invests primarily in both long and short publicly traded domestic and international common stocks. Management of the hedge fund has the ability to shift investments between firms within the healthcare sector and to adjust the market exposure of the fund over time based on market conditions.

The multistrategy hedge funds category invests in hedge funds that range from a manager that invests only in long/short categories to managers that also invest in event-driven, relative value, and global macro strategies.

The multistrategy funds invest across multiple asset class categories to diversify risks and reduce volatility.

Equity funds invest in publicly traded domestic and international common stocks.

The private equity funds category consists of investments typically made through limited partnership structures and are illiquid in nature. Private equity encompasses a broad array of strategies and securities. Venture capital strategies purchase equity in technology, financial and business services, health care, and consumer/retail companies. Other strategies will invest in senior structured credit securities and debt and equity securities issued by banks, as well as bank portfolio assets that may be disposed. 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 fund will be liquidated over the next two to six years.

HUDSON WEBBER FOUNDATION

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Certification of Chair, President & CEO, and Vice President of Finance and Administration

In connection with the annual report of the Hudson-Webber Foundation (the "Foundation") for the year ending December 31, 2016, we, Jennifer Hudson Parke, Melanca Clark, and Julie A. Ermler, Chair of the Board, President & CEO, and Vice President of Finance and Administration, respectively, of the Foundation, certify the following:

1. To our knowledge, the information contained in the report fairly presents, in all material respects, the financial position, changes in net assets, and cash flows of the Foundation.
2. Based on our knowledge, this report does not contain any untrue statement of a material fact, or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on our knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial position, changes in net assets, and cash flows of the Foundation as of, and for, the periods presented in this report.
4. We are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Foundation and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Foundation is made known to us by others within the Foundation, particularly during the period in which this report is being prepared.
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.
5. We have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Foundation's auditors and the Audit Committee of the Foundation's Board of Trustees:
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Foundation's ability to record, process, summarize, and report financial information.
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Foundation's internal control over financial reporting.

Date: June 6, 2017

Jennifer Hudson Parke

Jennifer Hudson Parke, Board Chair

Julie A. Ermler

Julie A. Ermler, Vice President of Finance & Administration

Melanca Clark, President & CEO