Hudson-Webber Foundation

Financial Report

December 31, 2017

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, 2017 and 2016 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 opinions.

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, 2017 and 2016 and the results of its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Hudson-Webber Foundation

Emphasis of Matter

As explained in Note 3 and Note 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 $158,225,237 and $122,665,884 (89 and 76 percent of net assets) at December 31, 2017 and 2016, respectively. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

June 6, 2018

Statement of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 1,347,334	$ 1,689,947
Investments (Notes 3 and 8)	177,132,153	160,683,993
Unsettled trade receivables	3,989,517	-
Interest and dividend receivable	130,797	178,007
Cash value of life insurance policies	74,736	74,736
Other assets:		
Prepaid expenses	60,000	54,791
Prepaid federal excise tax	-	22,002
Total assets	**$ 182,734,537**	**$ 162,703,476**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,159	$ 1,912
Grants payable (Note 4)	3,071,290	3,028,790
Accrued expenses	197,010	144,913
Accrued federal excise tax payable	341,681	-
Total liabilities	3,611,140	3,175,615
Net Assets - Unrestricted	179,123,397	159,527,861
Total liabilities and net assets	**$ 182,734,537**	**$ 162,703,476**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2017 and 2016

	2017	2016
Changes in Unrestricted Net Assets		
Revenue, gains, and other support:		
Contributions	$ 150,000	$ 100,000
Interest	22,854	5,310
Dividends	1,660,496	2,021,404
Net realized and unrealized gains and losses on investments	24,721,968	7,813,740
Total revenue, gains, and other support	26,555,318	9,940,454
Expenses		
Program expenses - Grants	4,640,882	7,272,101
Support services:		
Administrative (Note 7)	1,810,017	1,741,228
Federal excise tax (Note 2)	508,883	80,997
Total support services	2,318,900	1,822,225
Total expenses	6,959,782	9,094,326
Change in Unrestricted Net Assets	19,595,536	846,128
Net Assets - Unrestricted - Beginning of year	159,527,861	158,681,733
Net Assets - Unrestricted - End of year	**$ 179,123,397**	**$ 159,527,861**

Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 19,595,536	$ 846,128
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized gains on investments	(24,721,968)	(7,813,740)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Accounts receivable from sale of investments	(3,989,517)	-
Interest and dividends receivable	47,210	(8,310)
Prepaid expenses	(5,209)	(16,177)
Accrued federal excise tax payable	363,683	(39,139)
Accounts payable	(753)	(28,880)
Grants payable	42,500	284,690
Accrued expenses	52,097	(95,081)
Net cash and cash equivalents used in operating activities	(8,616,421)	(6,870,509)
Cash Flows from Investing Activities		
Purchases of investments	(76,336,571)	(14,351,662)
Proceeds from sales of investments	84,610,379	12,060,003
Net cash and cash equivalents provided by (used in) investing activities	8,273,808	(2,291,659)
Net Decrease in Cash and Cash Equivalents	(342,613)	(9,162,168)
Cash and Cash Equivalents - Beginning of year	1,689,947	10,852,115
Cash and Cash Equivalents - End of year	**$ 1,347,334**	**$ 1,689,947**

See notes to financial statements.

Note 1 - Nature of Business

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 Built Environment, Arts & Culture, Community & Economic Development, and Safe & Just Communities.

Note 2 - Significant Accounting Policies

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

For the purpose of the accompanying financial statements, the Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of these investments.

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), composed 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 measured 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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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, 2017 and 2016, 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, 2017 and 2016 was $508,883 and $80,997, respectively.

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 $300,000 and $600,000 as qualifying distributions for 2017 and 2016, respectively.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 6, 2018, which is the date the financial statements were available to be issued.

Note 3 - Investments

Investments consisted of the following at December 31:

	2017	
	Cost	Fair Value
Traditional asset class securities:		
Domestic equity securities	$ 24,141,192	$ 30,325,233
Foreign equity securities	53,911,387	60,463,940
Domestic fixed-income securities	7,000,000	7,065,109
Foreign fixed-income securities	17,248,686	16,566,379
Total traditional asset class securities	102,301,265	114,420,661
Alternative investments:		
Hedge funds and multistrategy	25,024,600	26,186,112
Private equity and venture capital	27,931,926	36,525,380
Total alternative investments	52,956,526	62,711,492
Total investments	$ 155,257,791	$ 177,132,153

Note 3 - Investments (Continued)

	2016	
	Cost	Fair Value
Traditional asset class securities:		
Domestic equity securities	$ 30,975,613	$ 35,227,025
Foreign equity securities	21,438,507	21,313,378
Domestic fixed-income securities	6,372,480	7,249,230
Foreign fixed-income securities	16,026,890	15,362,775
Total traditional asset class securities	74,813,490	79,152,408
Alternative investments:		
Hedge funds and multistrategy	38,537,006	47,875,460
Private equity and venture capital	26,120,675	33,656,125
Total alternative investments	64,657,681	81,531,585
Total investments	$ 139,471,171	$ 160,683,993

Note 4 - Grants Payable

Unconditional grants are recognized as an expense at the time of formal approval by trustees of the Foundation. At times, the trustees may approve multi-year grants that are contingent upon the occurrence of an event or after certain requirements have been satisfied. When these requirements are substantial and the likelihood of the requirement not being met by the grantee is more than remote, the grants is approved on a conditional basis. Conditional grants, if any, are expensed when such conditions are substantially met.

The following summarizes the changes in grants payable as of December 31:

	2017	2016
Grants payable - Beginning of year	$ 3,028,790	$ 2,744,100
Grants approved	4,640,882	7,272,101
Payments made	(4,598,382)	(6,987,411)
Grants payable - End of year	$ 3,071,290	$ 3,028,790

Grant commitments outstanding at December 31, 2017 are scheduled for payment, as shown below:

	2017	2016
Amounts due in:		
2018	$ 2,121,290	$ 1,928,790
2019	700,000	850,000
2020	250,000	250,000
Total	$ 3,071,290	$ 3,028,790

Conditional grants are expensed when such conditions are substantially met. Conditional grants approved for future payment totaled $10,550,000 through December 31, 2017 and $10,500,000 through December 31, 2016. These grant awards have not been recognized as expense in the respective years.

Note 4 - Grants Payable (Continued)

Conditional grants that have been approved by the board of trustees total approximately $12.50 million, of which $1.95 million has been released as conditions have been met. The remaining $10.55 million will be payable upon fulfillment of the conditions, as monitored by the Foundation. The following table reflects the expected time frame for the fulfillment of the conditions and the related amounts payable:

	Foundation for Detroit's Future	Detroit Institute of Art	Motown Historical Museum	Develop Detroit, Inc
2018	$ 500,000	$ 300,000	$ 150,000	$ 350,000
2019	500,000	300,000	150,000	300,000
2020	500,000	300,000	200,000	-
2021	500,000	300,000	-	-
2022	500,000	200,000	-	-
2023 and thereafter	5,500,000	-	-	-
Total	$ 8,000,000	$ 1,400,000	$ 500,000	$ 650,000

These amounts were not included in grants payable consistent with the Foundation's policy for conditional grants.

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, 2017 and 2016 totaled $44,959 and $42,763, respectively.

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 $71,158 for 2017 and $69,238 for 2016.

The future minimum lease payments are as follows:

Years Ending December 31	Amount
2018	$ 73,079
2019	75,005
2020	76,936
2021	12,876
Total	$ 237,896

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:

	2017	2016
Program services:		
Grants	$ 4,640,882	$ 7,272,101
Grant support costs	1,123,534	1,101,407
Total program services	5,764,416	8,373,508
Support services:		
Investment and general expenses	686,483	639,821
Federal excise tax	508,883	80,997
Total	$ 6,959,782	$ 9,094,326

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, 2017 and 2016 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.

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.

As of December 31, 2017, the Foundation implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as practical expedient are no longer classified in the fair value hierarchy above and the information for 2017 and 2016 has been adjusted to confirm to the new disclosure requirements.

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, 2017 or 2016.

Note 8 - Fair Value Measurements (Continued)

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2017
Assets					
Domestic equities	$ -	$ -	$ -	$ 30,325,233	$ 30,325,233
Foreign equities	-	-	-	60,463,940	60,463,940
Domestic fixed income	-	-	-	7,065,109	7,065,109
Foreign fixed income	10,553,781	-	-	6,012,598	16,566,379
Hedge funds and multistrategy	8,353,135	-	-	17,832,977	26,186,112
Private equity and venture capital	-	-	-	36,525,380	36,525,380
Total assets	$ 18,906,916	$ -	$ -	$ 158,225,237	$ 177,132,153

	Assets 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)	Net Asset Value	Balance at December 31, 2016
Assets					
Domestic equities	$ 9,290,173	$ -	$ -	$ 25,936,852	$ 35,227,025
Foreign equities	-	-	-	21,313,378	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	-	-	39,083,215	47,875,460
Private equity and venture capital	-	-	-	33,656,125	33,656,125
Total assets	$ 38,018,109	$ -	$ -	$ 122,665,884	$ 160,683,993

The fair value of the domestic and foreign equities, certain hedge funds, and multistrategy funds at December 31, 2017 was determined primarily based on net asset value. 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 where applicable. For other funds, the Foundation estimates the fair value of 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.

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.

Note 8 - Fair Value Measurements (Continued)

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

	Investments Held at December 31, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Multistrategy funds	$ 17,832,977	$ -	Monthly, Daily	30 Days
Equity funds	90,789,173	-	Monthly, Daily	0 to 15 Days
Fixed-income funds	13,077,707	-	Semi-monthly, Daily	0 to 5 Days
Private equity and venture capital funds	36,525,380	15,364,679	Quarterly	N/A
Total	$ 158,225,237	$ 15,364,679		

	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	36,867,277	-	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	$ 122,665,884	$ 5,344,097		

The equity long/short hedge fund class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the 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 class have been estimated using the net asset value per share of the investments.

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 President and 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, 2017, we, Melanca D. Clark, and Julie A. Ermler, President and 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, 2018

Melanca D. Clark, President and CEO

Julie A. Ermler, Vice President of Finance & Administration