
THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Harry A. and Margaret D. Towsley Foundation
Midland, Michigan

We have audited the accompanying financial statements of The Harry A. and Margaret D. Towsley Foundation (a private nonprofit foundation), which comprise the statements of assets and net assets - modified cash basis as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and other changes in net assets - modified cash basis and cash flows – modified cash basis 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 the modified cash basis of accounting as described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit 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 assets and net assets of The Harry A. and Margaret D. Towsley Foundation as of December 31, 2018 and 2017, and the changes in its revenues, expenses, and other changes in net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Respectfully,

Bennett & Associates, CPAs PLLC

Ann Arbor, Michigan
September 23, 2019

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION
STATEMENTS OF ASSETS AND NET ASSETS - MODIFIED CASH BASIS
December 31,

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 6,803,944	\$ 7,324,493
Investments, at fair value		
DowDuPont common stock	17,213,290	23,766,200
Other equity securities and mutual funds	<u>38,466,732</u>	<u>43,262,233</u>
Total investments at fair value	<u>55,680,022</u>	<u>67,028,433</u>
TOTAL ASSETS	<u>\$ 62,483,966</u>	<u>\$ 74,352,926</u>
Commitments (Notes H and I)		
NET ASSETS		
Without donor restrictions		
Principal fund	\$ 57,369,614	\$ 70,111,268
Income fund (deficit)	<u>5,114,352</u>	<u>4,241,658</u>
TOTAL NET ASSETS	<u>\$ 62,483,966</u>	<u>\$ 74,352,926</u>

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH
BASIS
For the years ended December 31,

	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS		
SUPPORT AND GAINS		
Dividends and interest	\$ 1,540,619	\$ 1,658,967
Net appreciation on investments (realized and unrealized)	(9,898,822)	12,396,626
Less investment expenses	(46,642)	(41,269)
Net investment return	(8,404,845)	14,014,324
TOTAL SUPPORT AND GAINS WITHOUT DONOR RESTRICTIONS	(8,404,845)	14,014,324
GRANTS AND EXPENSES		
Grants		
Education	1,028,000	1,538,871
Cultural arts, religion and innovative projects	320,000	297,500
Health	971,725	642,250
Community social services	650,000	584,000
Environmental	360,955	321,250
Total grants	3,330,680	3,383,871
Expenses		
Operating expenses	78,435	78,659
Federal excise taxes	55,000	73,000
Total expenses	133,435	151,659
TOTAL GRANTS AND EXPENSES	3,464,115	3,535,530
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(11,868,960)	10,478,794
NET ASSETS AT BEGINNING OF YEAR	74,352,926	63,874,132
NET ASSETS AT END OF YEAR	\$ 62,483,966	\$ 74,352,926

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
For the years ended December 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (11,868,960)	\$ 10,478,794
Adjustment to reconcile change in net assets to net cash from (used for) operating activities:		
Realized and unrealized (gains)/losses on investments	9,898,822	(12,396,626)
Net cash from (used for) operating activities	(1,970,138)	(1,917,832)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	7,836,929	13,189,642
Purchase of investments	(6,387,340)	(9,240,760)
Net cash provided by (used in) investing activities	1,449,589	3,948,882
 CASH FLOWS FROM FINANCING ACTIVITIES	-	-
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(520,549)	2,031,050
Cash and cash equivalents at beginning of year	7,324,493	5,293,443
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,803,944	\$ 7,324,493

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Harry A. and Margaret D. Towsley Foundation (the "Foundation"), a private, nonprofit, charitable foundation, was established in 1959 by Margaret Dow Towsley and was incorporated under the laws of the State of Michigan. Its purpose is to assist religious, educational, charitable, literary, and scientific organizations with their programs.

Basis of Accounting

The Foundation's accounts are maintained and the accompanying financial statements are presented on a modified cash basis of accounting, under which dividends and interest are recognized as received, and grants, operating and investment expenses, as well as federal excise and foreign tax expenses, are recognized as disbursed. Contributions are recognized as support when received. Additionally, unrealized gains and losses on investments held at year-end, including derivative instruments, are reflected as increases or decreases in net assets of the current period. The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Consequently, accounts payable, accrued and deferred excise taxes, accrued grant commitments, and accrued investment income as of December 31, 2018 and 2017 are not included in the financial statements.

Net assets are classified as without donor restrictions, as there have been no donor-imposed restrictions on contributions.

Cash and Cash Equivalents

The Foundation considers the checking account and various money market funds held at financial institutions to be cash equivalents. At times, the Foundation has cash deposits in excess of federally insured limits. Management believes the Foundation is not exposed to any significant interest rate or other financial risk on these deposits.

Investments

The investments in DowDuPont common stock and other equity securities and mutual funds are presented in the financial statements at fair value using quoted market prices at December 31, 2018 and 2017. The Foundation is potentially subject to market risk, resulting from its concentration in DowDuPont common stock.

Net investment return is reported in the statements of revenues, expenses, and other changes in net assets – modified cash basis and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Such investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the values of investment securities in the near term could materially affect investment balances and the amounts reported in the financial statements.

Derivative Financial Instruments

From time to time, the Foundation writes call options against certain of its equity holdings for the purpose of generating additional cash flows to meet its grant commitment obligations. The fair value of these call options are netted with the underlying common stock, with the changes in the fair value reported in current-period net appreciation on investments. On these financial instruments, the Foundation recognized a net loss of \$(441) in 2018 and a net loss of \$(301,542) in 2017.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note D to the financial statements.

Income Taxes

The Foundation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Foundation was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from the membership. The Foundation has been classified as a private foundation.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to fair value of investments.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2018, the most recent Statement of Assets and Net Assets – Modified Cash Basis presented herein, through September 23, 2019, the date these financial statements were available to be issued. No significant such events or transactions were identified.

NOTE B - DOW CHEMICAL MERGER WITH DUPONT

Effective August 31, 2017, The Dow Chemical Company (“Dow”) merged with E.I. du Pont Nemours & Company (“DuPont”). The combined entity is operating as a holding company under the name “DowDuPont”. As a Dow shareholder, the Foundation received 1.00 share of DowDuPont common stock for each of its shares of Dow common stock. The Foundation did not record any gain or loss on the exchange of shares.

NOTE C - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Cash and cash equivalents	\$ 6,803,944
Investments	<u>55,680,022</u>
	<u>\$ 62,483,966</u>

As part of its liquidity management plan, the Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. It invests cash in excess of daily requirements in common stock, other equity securities and mutual funds, and money market funds.

NOTE D - FAIR VALUE MEASUREMENTS

The Foundation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments are recorded at fair value on a recurring basis. Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Common stock and other equity securities and mutual funds

These investments are valued at the closing price reported in the active market on which the individual securities are traded.

Call options

The call options are valued at the closing price reported in the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE D – FAIR VALUE MEASUREMENTS, *continued*

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	2018			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Investments				
DowDuPont common stock	\$ 17,213,340	\$ -	\$ -	\$ 17,213,340
Call options (liabilities)	(50)	-	-	(50)
	<u>17,213,290</u>	<u>-</u>	<u>-</u>	<u>17,213,290</u>
Other equity securities and mutual funds				
Mutual funds				
International	11,432,805	-	-	11,432,805
Large cap	9,244,032	-	-	9,244,032
Mid cap	4,402,575	-	-	4,402,575
Small cap	4,321,632	-	-	4,321,632
Short-term bond	1,360,610	-	-	1,360,610
US Treasury Securities	993,281	-	-	993,281
Other common stock				
Consumer goods	2,606,965	-	-	2,606,965
Energy	474,915	-	-	474,915
Financial services	500,951	-	-	500,951
Healthcare	638,377	-	-	638,377
Industrials	910,367	-	-	910,367
Technology	1,496,403	-	-	1,496,403
Other	83,819	-	-	83,819
Total other securities and mutual funds	<u>38,466,732</u>	<u>-</u>	<u>-</u>	<u>38,466,732</u>
Total investments at fair value	<u>\$ 55,680,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,680,022</u>

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE D – FAIR VALUE MEASUREMENTS, *continued*

	2017			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Investments				
DowDuPont common stock	\$ 23,813,475	\$ -	\$ -	\$ 23,813,475
Call options (liabilities)	(47,275)	-	-	(47,275)
	<u>23,766,200</u>	<u>-</u>	<u>-</u>	<u>23,766,200</u>
 Other equity securities and mutual funds				
Mutual funds				
International	12,983,777	-	-	12,983,777
Large cap	10,906,540	-	-	10,906,540
Mid cap	5,274,047	-	-	5,274,047
Small cap	5,282,781	-	-	5,282,781
Short-term bond	1,404,841	-	-	1,404,841
Other common stock				
Consumer goods	2,500,032	-	-	2,500,032
Energy	483,435	-	-	483,435
Financial services	867,326	-	-	867,326
Healthcare	788,646	-	-	788,646
Industrials	1,181,987	-	-	1,181,987
Technology	1,410,611	-	-	1,410,611
Other	178,210	-	-	178,210
Total other securities and mutual funds	<u>43,262,233</u>	<u>-</u>	<u>-</u>	<u>43,262,233</u>
Total investments at fair value	<u>\$ 67,028,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,028,433</u>

Gains and losses (realized and unrealized) included in the changes in net assets in 2018 and 2017 are reported in net appreciation on investments in the statements of revenues, expenses, and other changes in net assets – modified cash basis.

NOTE E - CALL OPTIONS

At December 31, 2018, the Foundation had one call option contract outstanding for a total of 10,000 shares of DowDuPont common stock at strike price of \$75.00 per share. This option had an expiration date of January 2019. The Foundation received a premium net of fees of \$19,428 for this contract. The fair value of the contracts was \$(50) at December 31, 2018. The contract is netted with the DowDuPont common stock on the statements of assets and net assets – modified cash basis. The total fair value of the underlying DowDuPont common stock pledged at December 31, 2018 was \$534,800.

NOTE E – CALL OPTIONS, *continued*

At December 31, 2017, the Foundation had three call option contracts outstanding for a total of 27,500 shares of DowDuPont common stock at strike prices ranging from \$70.00 to \$75.00 per share. These options had varying expiration dates from January 2018 to March 2018. The Foundation received a premium net of fees of \$51,476 for these contracts. The fair value of the contracts was \$(47,275) at December 31, 2017. The contracts are netted with the DowDuPont common stock on the statements of assets and net assets – modified cash basis. The total fair value of the underlying DowDuPont common stock pledged at December 31, 2017 was \$1,958,550.

NOTE F - FEDERAL EXCISE TAXES

The Foundation obtained its latest determination letter on September 27, 1961, in which the Internal Revenue Service stated that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation is subject to an excise tax on net investment income, including realized gains. Payments for estimated federal excise taxes during 2018 and 2017 were \$55,000 and \$73,000, respectively. As of December 31, 2018, the Foundation had a federal excise tax overpayment of approximately \$57,000, which will be applied as a 2019 tax payment. As of December 31, 2017, the Foundation had a federal excise tax overpayment of approximately \$25,000. These overpayments of federal excise taxes are not reflected on the modified cash basis statements of assets and net assets.

In addition, the Tax Reform Act requires that certain minimum distributions be made in accordance with a specified formula. The Foundation must distribute approximately \$2,819,000 during 2019 in order to meet the payout requirements as of December 31, 2018. Failure to meet the minimum distribution requirements would result in additional federal excise taxes.

NOTE G - EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the table below. Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses are all allocated on the basis of estimates of time and effort.

For the year ended December 31, 2018

	Grant-Making Activities	Management and General	Total
Grants awarded	\$ 3,330,680	\$ -	\$ 3,330,680
Wages and related payroll taxes	15,600	1,733	17,333
Professional fees	-	18,861	18,861
Office expenses	17,797	1,977	19,774
Occupancy	12,420	1,380	13,800
Federal excise tax	-	55,000	55,000
All other	7,799	867	8,666
	<u>\$ 3,384,296</u>	<u>\$ 79,818</u>	<u>\$ 3,464,114</u>

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE H - LEASE COMMITMENTS

The Foundation leases office space under a three-year operating lease, which expires July 31, 2020. Total rental expense was \$13,800 for both 2018 and 2017.

The following is a schedule of annual future minimum lease payments required under the operating lease as of December 31, 2018:

Year	Amount
2019	\$ 13,800
2020	8,050
2021	-
	\$ 21,850

NOTE I - GRANT COMMITMENTS

The Board of Trustees has awarded certain grants that are subject to the passage of time and/or satisfaction of prior conditions by the intended recipient before payment by the Foundation. The Foundation currently has the following grants scheduled for payment:

Year	Amount
2019	\$ 2,702,750
2020	1,855,000
2021	995,000
2022	650,000
2023	50,000
	\$ 6,252,750

NOTE J - CHANGE IN ACCOUNTING PRINCIPLES

The Foundation implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions. The Foundation did not have any restricted net assets at December 31, 2016.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note C).

The changes have the following effect on net assets at January 1, 2017:

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 63,874,132	
Temporarily restricted net assets	-	
Permanently restricted net assets	-	
Net assets without donor restrictions		\$ 63,874,132
Net assets with donor restrictions		-
Total net assets	\$ 63,874,132	\$ 63,874,132