

The Harry A. and Margaret D. Towsley Foundation

Years Ended
December 31,
2015 and 2014

Financial
Statements

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

August 22, 2016

Board of Trustees
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* (the "Foundation"), a private foundation, which comprise the statements of assets and unrestricted net assets (modified cash basis) as of December 31, 2015 and 2014, and the related statements of activities (modified cash basis) 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis 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.

Independent Auditors' 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 auditor 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 Foundation'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 Foundation'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 unrestricted net assets of *The Harry A. and Margaret D. Towsley Foundation* as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1 to the financial statements.

Other Matter

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. These 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.

Rehmann Lobson LLC

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

STATEMENTS OF ASSETS AND UNRESTRICTED NET ASSETS MODIFIED CASH BASIS

ASSETS	December 31	
	2015	2014
Cash and cash equivalents	\$ 2,386,880	\$ 2,336,471
Investments, at fair value (Cost - \$25,493,548 and \$25,839,706 as of December 31, 2015 and 2014, respectively)		
Dow Chemical common stock	25,519,812	22,771,377
Other equity securities and mutual funds	32,184,162	34,618,554
Total investments at fair value	57,703,974	57,389,931
Total assets	<u>\$ 60,090,854</u>	<u>\$ 59,726,402</u>
Commitments (Notes 5 and 6)		
UNRESTRICTED NET ASSETS		
Unrestricted principal fund	\$ 63,655,604	\$ 62,995,405
Unrestricted income fund deficit	(3,564,750)	(3,269,003)
Total unrestricted net assets	<u>\$ 60,090,854</u>	<u>\$ 59,726,402</u>

The accompanying notes are an integral part of these financial statements.

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

STATEMENTS OF ACTIVITIES MODIFIED CASH BASIS

	Year Ended December 31	
	2015	2014
Changes in unrestricted net assets		
Support and gains		
Dividends and interest	\$ 1,534,759	\$ 1,465,510
Unitrust reversions	336,802	-
Net appreciation on investments (realized and unrealized)	1,486,953	2,495,190
Total support and gains	3,358,514	3,960,700
Grants and expenses		
Grants		
Education	1,020,700	811,200
Cultural arts, religion and innovative projects	591,000	153,000
Health	671,750	906,200
Community social services	601,950	476,200
Total grants	2,885,400	2,346,600
Expenses		
Operating expenses	69,033	65,870
Investment expenses	39,629	37,419
Federal excise taxes	-	288,500
Total expenses	108,662	391,789
Total grants and expenses	2,994,062	2,738,389
Change in unrestricted net assets	364,452	1,222,311
Unrestricted net assets, beginning of year	59,726,402	58,504,091
Unrestricted net assets, end of year	\$ 60,090,854	\$ 59,726,402

The accompanying notes are an integral part of these financial statements.

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2015	2014
Cash flows from operating activities		
Change in unrestricted net assets	\$ 364,452	\$ 1,222,311
Adjustment to reconcile change in unrestricted net assets to net cash used in operating activities		
Net appreciation on investments	(1,486,953)	(2,495,191)
Net cash used in operating activities	(1,122,501)	(1,272,880)
Cash flows from investing activities		
Proceeds from sale of investments	6,041,269	5,962,979
Purchase of investments	(4,868,359)	(6,901,321)
Net cash provided by (used in) investing activities	1,172,910	(938,342)
Net increase (decrease) in cash and cash equivalents	50,409	(2,211,222)
Cash and cash equivalents, beginning of year	2,336,471	4,547,693
Cash and cash equivalents, end of year	\$ 2,386,880	\$ 2,336,471

The accompanying notes are an integral part of these financial statements.

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. 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, 2015 and 2014 are not included in the financial statements.

Net assets are classified as unrestricted, 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 Dow Chemical 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, 2015 and 2014.

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 earnings. On these financial instruments, the Foundation recognized a net loss of \$3,127 in 2015 and a net gain of \$90,361 in 2014.

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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 2 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 Company 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, 2015, the most recent Statement of Assets and Unrestricted Net Assets - Modified Cash Basis presented herein, through August 22, 2016, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than as described in note 5.

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. 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, 2015 and 2014.

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.

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:

2015	Assets and Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Investments				
Dow Chemical common stock	\$ 25,702,162	\$ -	\$ -	\$ 25,702,162
Call options (liabilities)	(182,350)	-	-	(182,350)
	<u>25,519,812</u>	<u>-</u>	<u>-</u>	<u>25,519,812</u>
Other equity securities and mutual funds				
Mutual funds				
International	9,791,046	-	-	9,791,046
Large cap	8,309,918	-	-	8,309,918
Mid cap	3,990,929	-	-	3,990,929
Small cap	3,957,627	-	-	3,957,627
Bonds	1,139,224	-	-	1,139,224
	<u>27,188,744</u>	<u>-</u>	<u>-</u>	<u>27,188,744</u>

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2015	Assets and Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Other common stock				
Basic materials	\$ 298,060	\$ -	\$ -	\$ 298,060
Consumer goods	1,118,641	-	-	1,118,641
Financial	447,828	-	-	447,828
Healthcare	566,353	-	-	566,353
Industrial goods	739,680	-	-	739,680
Services	980,095	-	-	980,095
Technology	844,761	-	-	844,761
	<u>4,995,418</u>	<u>-</u>	<u>-</u>	<u>4,995,418</u>
Total other equity securities and mutual funds	<u>32,184,162</u>	<u>-</u>	<u>-</u>	<u>32,184,162</u>
Total investments at fair value	<u>\$ 57,703,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,703,974</u>

2014	Assets and Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Investments				
Dow Chemical common stock	\$ 22,771,477	\$ -	\$ -	\$ 22,771,477
Call options (liabilities)	(100)	-	-	(100)
	<u>22,771,377</u>	<u>-</u>	<u>-</u>	<u>22,771,377</u>
Other equity securities and mutual funds				
Mutual funds				
International	10,063,276	-	-	10,063,276
Large cap	9,149,747	-	-	9,149,747
Mid cap	4,464,590	-	-	4,464,590
Small cap	4,441,834	-	-	4,441,834
Bonds	1,149,079	-	-	1,149,079
	<u>29,268,526</u>	<u>-</u>	<u>-</u>	<u>29,268,526</u>
Other common stock				
Basic materials	647,837	-	-	647,837
Consumer goods	1,083,001	-	-	1,083,001
Financial	417,924	-	-	417,924
Healthcare	639,518	-	-	639,518
Industrial goods	577,794	-	-	577,794
Services	887,919	-	-	887,919
Technology	1,096,035	-	-	1,096,035
	<u>5,350,028</u>	<u>-</u>	<u>-</u>	<u>5,350,028</u>
Total other equity securities and mutual funds	<u>34,618,554</u>	<u>-</u>	<u>-</u>	<u>34,618,554</u>
Total investments at fair value	<u>\$ 57,389,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,389,931</u>

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Gains and losses (realized and unrealized) included in the changes in unrestricted net assets in 2014 are reported in net appreciation on investments in the Statements of Activities - Modified Cash Basis.

3. CALL OPTIONS

At December 31, 2015, the Foundation had eight call option contracts outstanding for a total of 100,000 shares of Dow Chemical common stock at strike prices ranging from \$50.00 to \$55.00 per share. These options had varying expiration dates from January 2016 to March 2016. The Foundation received a premium net of fees of \$177,094 for these contracts. The fair value of the contracts was \$(182,350) at December 31, 2015. The contracts are netted with the Dow Chemical common stock on the statements of assets and unrestricted net assets - modified cash basis. The total fair value of the underlying Dow Chemical common stock pledged at December 31, 2015 was \$5,148,000. The buyers exercised options for 20,000 shares in March 2016 and the underlying stock was sold at the strike price of \$50 per share; the owners of the option contracts for the remaining 80,000 shares did not exercise the options before the expiration dates in 2016.

At December 31, 2014, the Foundation had one call option contract outstanding for 10,000 shares of Dow Chemical common stock at a strike price of \$57.50 per share. This option had an expiration date in January 2015. The Foundation received a premium net of fees of \$10,149 for this contract. The fair value of the contract was \$(100) at December 31, 2014. The contract is netted with the Dow Chemical common stock on the statements of assets and unrestricted net assets - modified cash basis. The total fair value of the underlying Dow Chemical common stock pledged at December 31, 2014 was \$456,100. The buyer did not exercise the options before the expiration date in 2015.

4. 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 2015 and 2014 were \$0 and \$288,500, respectively. As of December 31, 2015, the Foundation had a federal excise tax overpayment of approximately \$104,000, which will be applied as a 2016 tax payment. As of December 31, 2014, the Foundation had a federal excise tax overpayment of approximately \$127,000. These overpayments of federal excise taxes are not reflected on the modified cash basis statements of assets and unrestricted 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 \$2,897,000 during 2016 in order to meet the payout requirements as of December 31, 2015. Failure to meet the minimum distribution requirements would result in additional federal excise taxes.

THE HARRY A. AND MARGARET D. TOWSLEY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

5. LEASE COMMITMENTS

The Foundation leases office space under a three-year operating lease, which expires July 31, 2016. Subsequent to year end, the lease was extended to July 31, 2018. Total rental expense was \$13,800 for 2015 and 2014.

The following is a schedule of annual future minimum lease payments required under the operating lease as of December 31, 2015:

Year	Amount
2016	\$ 13,800
2017	13,800
2018	<u>8,050</u>
	<u>\$ 35,650</u>

6. 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
2016	\$ 2,840,000
2017	2,347,000
2018	1,340,000
2019	840,000
2020	<u>570,000</u>
	<u>\$ 7,937,000</u>

7. CHARITABLE REMAINDER AND LEAD UNITRUSTS

The Foundation was the residual beneficiary of a charitable remainder unitrust. During 2015, upon the death of the Trust's individual recipient, the remaining Trust assets of \$336,803 reverted to the Foundation.

