

Community
Foundation *for*
Muskegon County
and
Supporting
Organizations



community foundation[®]

Muskegon County

For **good.** For **ever.**

Years Ended
December 31,
2016 and 2015

Combined
Financial
Statements
and
Supplementary
Information

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

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INDEPENDENT AUDITORS' REPORT

May 9, 2017

Board of Trustees
Community Foundation *for* Muskegon County
and Supporting Organizations
Muskegon, Michigan

We have audited the accompanying combined financial statements of the *Community Foundation for Muskegon County and Supporting Organizations* (the "Organization"), which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the *Community Foundation for Muskegon County and Supporting Organizations* as of December 31, 2016 and 2015, and the changes in their combined net assets and their combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS**

COMBINED STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31	
	2016	2015
Cash and cash equivalents	\$ 7,234,497	\$ 10,105,753
Investments	174,936,223	165,216,738
Pooled income fund	301,940	294,548
Other investments	4,896,412	4,257,730
Beneficial interest in charitable lead trust	28,799	128,347
Receivables	160,643	1,922,043
Other assets	88,523	77,984
Net property and equipment	6,499,133	6,611,439
Total assets	\$194,146,170	\$188,614,582
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 72,795	\$ 96,415
Line of credit	78,169	125,107
Deferred gift annuities	1,203,955	1,595,464
Funds held as agency endowments	13,425,850	12,953,350
Funds held as community service	5,147,622	4,583,224
Total liabilities	19,928,391	19,353,560
Commitments (Note 9)		
Net assets		
Unrestricted	174,188,980	169,132,675
Temporarily restricted	28,799	128,347
Total net assets	174,217,779	169,261,022
Total liabilities and net assets	\$194,146,170	\$188,614,582

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

**COMMUNITY FOUNDATION FOR MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS**

COMBINED STATEMENTS OF ACTIVITIES

	Year Ended December 31	
	2016	2015
Unrestricted net assets		
Unrestricted revenues and gains		
Gifts and grants	\$ 7,746,211	\$ 18,467,318
Less: Amounts received from Agency Endowments	292,468	1,622,790
Net unrestricted gifts and grants	7,453,743	16,844,528
Dividends and interest	4,616,003	4,171,805
Net realized and unrealized investment gains (losses)	6,943,720	(4,732,559)
Frauenthal Center for the Performing Arts income	444,674	398,114
Rental revenue	92,657	96,803
Smash Wine Bar revenue	230,413	348,988
Other income	220,919	104,296
Total unrestricted revenues and gains	20,002,129	17,231,975
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	106,735	106,735
Total unrestricted revenues, gains and other support	20,108,864	17,338,710
Expenses		
Program services		
Grants and direct fund expenses	11,757,191	7,855,377
Program grants - Frauenthal Center for the Performing Arts	737,802	752,074
Supporting services		
Grantmaking	312,320	290,545
Philanthropic service	91,859	85,454
Special projects	293,948	273,454
Development	477,666	444,362
Fund management	91,859	85,454
Management and general	569,525	529,817
Rental expenses - Western Avenue Properties	101,282	99,189
Smash Wine Bar expenses	327,819	449,694
Depreciation	291,288	285,166
Total expenses	15,052,559	11,150,586
Increase in unrestricted net assets	5,056,305	6,188,124

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

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS

COMBINED STATEMENTS OF ACTIVITIES (CONCLUDED)

	Year Ended December 31	
	2016	2015
Temporarily restricted net assets		
Change in value of charitable lead trust	\$ 7,187	\$ 12,466
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	<u>(106,735)</u>	<u>(106,735)</u>
Decrease in temporarily restricted net assets	<u>(99,548)</u>	<u>(94,269)</u>
Change in net assets	4,956,757	6,093,855
Net assets, beginning of year	<u>169,261,022</u>	<u>163,167,167</u>
Net assets, end of year	<u><u>\$174,217,779</u></u>	<u><u>\$169,261,022</u></u>

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

**COMMUNITY FOUNDATION FOR MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS**

COMBINED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 4,956,757	\$ 6,093,855
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	291,288	285,166
Bad debt expense	37,211	756,681
Net realized and unrealized investment (gains) losses	(6,943,720)	4,732,559
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	138,996	57,069
Other assets	(10,539)	49,888
Accounts payable	(23,620)	1,766
Funds held as agency endowments	(419,062)	1,172,367
Funds held as community service	564,398	1,766,652
Net cash (used in) provided by operating activities	<u>(1,408,291)</u>	<u>14,916,003</u>
Cash flows from investing activities		
Collection of notes receivable	1,585,193	1,024,915
Purchases of property and equipment	(178,982)	(88,998)
Purchases of investments	(22,647,097)	(20,662,603)
Proceeds from maturities and sales of investments	20,216,368	8,296,355
Issuance of notes receivable	-	(54,928)
Net cash used in investing activities	<u>(1,024,518)</u>	<u>(11,485,259)</u>
Cash flows from financing activities		
Repayment on line of credit	(46,938)	(1,472,000)
Increase in annuity obligations	62,508	439,023
Payments on annuity obligations	(454,017)	(336,594)
Net cash used in financing activities	<u>(438,447)</u>	<u>(1,369,571)</u>
Net (decrease) increase in cash and cash equivalents	(2,871,256)	2,061,173
Cash and cash equivalents, beginning of year	<u>10,105,753</u>	<u>8,044,580</u>
Cash and cash equivalents, end of year	<u>\$ 7,234,497</u>	<u>\$ 10,105,753</u>

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

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The *Community Foundation for Muskegon County* (the "Foundation") receives and administers gifts and bequests which are used to support a variety of programs primarily in and for the benefit of the people of the Muskegon County and Western Michigan area. The Foundation is a Michigan certified community foundation; as such, certain contributions to the Foundation enable the donor to be eligible for a State tax credit in addition to those deductions allowed in determining federal income taxes.

The Paul C. Johnson Foundation was organized for general charitable purposes, and its principal activity is to support and benefit the *Community Foundation for Muskegon County*. The majority of the Board of Directors of The Paul C. Johnson Foundation consists of individuals appointed by the Trustees of the *Community Foundation for Muskegon County*. The Paul C. Johnson Foundation has been included in the accompanying combined financial statements as a supporting organization of the *Community Foundation for Muskegon County*. The net assets of The Paul C. Johnson Foundation were \$3,448,307 and \$3,273,906 at December 31, 2016 and 2015, respectively.

The Pennies From Heaven Foundation was organized for general charitable purposes, and its principal activity is to support and benefit the *Community Foundation for Muskegon County*. The majority of the Board of Directors of The Pennies from Heaven Foundation consists of individuals appointed by the Trustees of the *Community Foundation for Muskegon County*. The Pennies from Heaven Foundation has been included in the accompanying combined financial statements as a supporting organization of the *Community Foundation for Muskegon County*. The net assets of the Pennies from Heaven Foundation were \$18,923,695 and \$21,171,492 at December 31, 2016 and 2015, respectively.

The combined financial statements include the activity of Morris Street, LLC, a limited liability company in which the Foundation is the single member. The assets of Morris Street, LLC primarily comprise investments in a parking lot in downtown Muskegon and commercial properties in Ludington, Michigan.

Basis of Combined Statement Presentation

The combined financial statements include the accounts of the *Community Foundation for Muskegon County*, The Paul C. Johnson Foundation and The Pennies from Heaven Foundation, supporting organizations, and Morris Street, LLC. All significant inter-organizational accounts and transactions have been eliminated in the combined financial statements.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Significant Accounting Policies

The combined financial statements of the Foundation and its supporting organizations (hereinafter collectively referred to as the "Organization") have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the combined financial statements to the reader.

To ensure observance of limitations and restrictions placed on the use of available resources, for internal accounting and stewardship purposes, the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and internal reporting into funds established according to their nature and purpose.

For external financial reporting purposes, the Organization reports resources classified into net asset categories according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes of net assets - unrestricted, temporarily restricted, and permanently restricted net assets. Net assets and revenues, expenses and gains or losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions including the carrying value of property and equipment. Resources that are reported in this net asset category include unrestricted gifts and the investment earnings thereon, and related expenses associated with the operations of the Organization.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be satisfied by the passage of time or actions of the Organization. Resources reported in this net asset category include gifts for which restrictions have not been met. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated time has passed or purpose has been fulfilled) are reported as reclassifications between the applicable classes of net assets.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at December 31, 2016 or 2015.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Gifts and Grants

Gifts and grants, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Use of Estimates

The preparation of combined 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 combined 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, and present value of future estimated payments under deferred gift annuities.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and deposits in money market funds with original maturities when purchased of less than three months. The market value of the money market investments approximate cost. The Organization maintains deposit accounts in various financial institutions, which at times may exceed federally insured limits. Management does not believe the Organization is exposed to any significant interest rate or other financial risk as a result of these deposits.

Investments

Investment securities purchased are initially recorded at cost and investment securities received by gift are recorded at fair value at the date of donation. Thereafter, the carrying value of such investments are adjusted to fair value which is determined using published exchange market quotations where applicable or estimated fair values provided by external investment managers or other sources. In the limited cases where such values are not available or no ready market exists, estimated fair value is used. Other investments are carried at estimated fair value. The net appreciation (depreciation) in fair value of investments is reflected in the combined statements of activities.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED 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 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 combined financial statements.

Notes Receivable

Notes receivable are reported at their outstanding principal balance. Notes receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. Interest income is recognized over the term of the notes and is calculated using the simple-interest method on principal amounts outstanding.

Property and Equipment

The Organization capitalizes all property and equipment in excess of \$1,000. Land is stated at cost. Property and equipment is stated at cost less accumulated depreciation. Donated assets are recorded at fair value when received as increases in unrestricted net assets. Contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Depreciation

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 50 years.

Deferred Gift Annuities

Deferred gift annuities represent gifts given to the Organization with the condition that a specified payment is made to the contributor over his or her life. A liability has been established based on the present value of the estimated payments to be made. This liability is re-measured annually based on changes in the life expectancy assumptions.

Funds Held as Community Service

Funds held as community service represent funds that are owned by various non-profit entities which are managed and maintained by the Organization. At December 31, 2016 and 2015, there were 77 and 92 funds, respectively, held as community service.

Grants

Grants are recorded as an expense when they are approved by the Board of Trustees and performance requirements have been completed by the grantee.

Income Taxes

The Community Foundation for Muskegon County, The Paul C. Johnson Foundation and The Pennies From Heaven Foundation are not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and are also exempt from similar state and local taxes. Although the Organizations were granted income tax exemption by the Internal Revenue Service, such exemption does not apply to any net income that is derived from a trade or business and not in furtherance of the purpose for which it was granted exemption.

The Organization analyzes its filing positions in the federal and state jurisdictions where they are required to file income tax returns, as well as all open tax years in these jurisdictions to identify potential uncertain tax positions. The Organization treats interest and penalties attributable to income taxes, to the extent they arise, as a component of their management and general expenses.

The Organization has analyzed its income tax positions for the years 2012 through 2016, the years which remain subject to examination by major tax jurisdictions as of December 31, 2016. The Organization concluded that there are no significant uncertain tax positions requiring recognition in the Organization's combined financial statements. The Organization does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly increase in the next 12 months. The Organization does not have any amounts accrued for interest and penalties related to UTB at December 31, 2016 and 2015, and they are not aware of any claims for such amounts by federal or state income tax authorities.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Endowments

The Board of Trustees has determined that a majority of the Organization's net assets meet the definition of endowment funds under the State of Michigan's adopted version of the Uniform Management of Institutional Funds Act ("SPMIFA"). The Organization is governed by its By-Laws and most contributions are received subject to the terms and conditions of these By-Laws.

Pursuant to the By-Laws, the Board has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest or fund as the Board in its sole discretion shall determine. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund,
- 2) The purposes of the Organization and the donor-restricted endowment fund,
- 3) General economic conditions,
- 4) The possible effect of inflation and deflation,
- 5) The expected total return from income and appreciation of investments,
- 6) Other resources of the Organization, and
- 7) The investment policies of the Organization

As a result of the ability to distribute corpus, the Board has determined that all contributions received subject to the By-Laws and SPMIFA are classified as unrestricted net assets. Contributions that are subject to other endowment gift instruments may be recorded as permanently restricted, temporarily restricted or unrestricted, depending on the specific terms of the agreement. Generally, if the corpus of an endowment contribution will at some future time become available for spending it is recorded as temporarily restricted, and if the corpus never becomes available for spending it will be reported as permanently restricted.

Reclassification

Certain amounts as reported in the 2015 financial statements have been reclassified to conform with the 2016 presentation.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Subsequent Events

In preparing these combined financial statements, the Organization has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2016, the most recent combined statement of financial position presented herein, through May 9, 2017, the date the combined financial statements were available to be issued. No significant such events or transactions were identified.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Funds are invested in various types of investments, the carrying values of which are summarized as follows at December 31:

	2016	2015
Mutual funds		
Fixed income	\$ 48,858,969	\$ 49,848,928
REIT index	15,760,174	15,701,187
Domestic equities	66,523,147	59,455,008
International equities	43,589,064	39,661,265
Miscellaneous investments	204,869	550,350
Total investments at fair value	\$ 174,936,223	\$ 165,216,738

All of the above investments for 2016 and 2015 are classified as Level 1 assets.

The Organization's pooled income fund (Note 3) and other investments (Note 4) are classified as Level 1 and Level 3 assets, respectively.

Investment revenues are reported net of related investment expenses in the combined statements of activities. The amount of expenses netted with revenues was \$151,259 and \$150,607 for 2016 and 2015, respectively.

The Organization has a majority of their investments in one brokerage firm. As of December 31, 2016 and 2015, approximately 91% and 87%, respectively, of the Organization's total investments are held in safekeeping with one institution.

The Organization utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investment securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis, such as receivables and other long lived assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis.

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values.

Investment Securities: Investment securities, including the pooled income fund, are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets.

Beneficial Interest in Charitable Lead Trust: Fair value of the beneficial interest in charitable lead trust is estimated using a discounted cash flow analysis based on a rate of 5.6% (Note 5).

Notes Receivable: The carrying amounts of notes receivable approximate fair values.

Line of Credit: The carrying amount of the line of credit approximates its fair value.

Deferred Gift Annuities: Fair value of deferred gift annuities is based on the estimated discounted value of the amounts due to the donors based on the Internal Revenue Service annuity and mortality tables.

Funds Held as Agency Endowments: The carrying amount of the funds held as agency endowments approximate fair value and is based on the corresponding investments held.

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 Organization 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.

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which may differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, the Organization uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and the methods used.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

The carrying amount of financial instruments not recorded at fair value in their entirety on a recurring basis including other investments (Note 4) and beneficial interest in charitable lead trust (Note 5), approximated the fair value of these instruments at December 31, 2016 and 2015.

3. COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY POOLED INCOME FUND

The Community Foundation *for* Muskegon County Pooled Income Fund (the "Fund") was established in accordance with Section 642(c)(5) of the Internal Revenue Code of 1986, as amended. Its purpose is to create financial reserves to support the Organization while at the same time, afford reasonable income returns to individual beneficiaries. Donations to the Fund are in accordance with provisions, which stipulate an irrevocable remainder interest in the contributed property to or for the use of the Organization. Donors contributing property to the Fund retain, for the donor's life (or other beneficiaries), an income interest in the property. Income is distributed to the donor or beneficiary quarterly.

Upon the death of the donor or beneficiary the income interest will terminate and the remainder interest upon which income is based shall be paid to the Organization. Pooled income funds represent investments in U.S. government and corporate bonds at fair market value. A liability to life beneficiaries has been established based on the present value of the estimated payments to be made based on the donors' or beneficiaries' life expectancy.

4. OTHER INVESTMENTS

Other investments consist of the following at December 31:

	2016	2015
Real estate	\$ 2,915,333	\$ 3,199,946
Life insurance	113,709	145,088
Other	1,867,370	912,696
Total other investments	\$ 4,896,412	\$ 4,257,730

The real estate is recorded at estimated fair value on a recurring basis based on the state equalized value, and is categorized as Level 3 in the fair value hierarchy. Other investments include equity investments categorized as Level 3 in the fair value hierarchy.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

5. BENEFICIAL INTEREST IN CHARITABLE LEAD TRUST

During 2007, a donor established a trust naming the Organization as the lead beneficiary of a charitable lead trust. Under terms of the agreement, the Organization is to receive 6% of the initial fair market value of the trust, or \$106,735, for ten years, commencing the year of the donor's death. After ten years, the trust is to terminate, and the remaining assets are to be distributed to the other beneficiaries of the trust. Based upon a ten year term and a discount rate of 5.6%, the present value of future benefits expected to be received by the Organization was \$800,686, which was recorded in 2007 as a temporarily restricted contribution. The Organization received \$106,735 from the trust in each fiscal years 2007 through 2016, recorded as a reduction in assets held in charitable lead trust and a corresponding reclassification from temporarily restricted to unrestricted net assets. During 2009, the Organization held the funds as trustee; during 2010, the other beneficiaries of the trust moved the funds to a trustee outside of the Organization. The beneficial interest in charitable lead trust is recorded at the remaining present value which approximates fair value on a recurring basis and is categorized as Level 3 in the fair value hierarchy.

6. RECEIVABLES

Receivables consist of the following at December 31:

	2016	2015
Accounts receivable	\$ 40,643	\$ 179,639
Notes receivable		
Covenant House	120,000	245,000
Traverse City Christian Schools	-	974,257
Amazon Building	-	50,000
YMCA	-	200,000
Parkland Muskegon, Inc.	-	50,000
Russell Block Development LLC	-	223,147
Total receivables	\$ 160,643	\$ 1,922,043

The note receivable for Covenant House is secured by a first mortgage. Bad debt expense recognized on the write-off of receivables during 2016 and 2015 was \$37,211 and \$756,681, respectively, and is included in grants and direct fund expenses on the combined statements of activities.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

7. NET PROPERTY AND EQUIPMENT

Net property and equipment consists of the following at December 31:

	2016	2015
Land	\$ 1,265,000	\$ 1,281,000
Buildings and improvements	11,022,415	10,916,600
Equipment	<u>2,048,700</u>	<u>1,962,358</u>
Total	14,336,115	14,159,958
Less accumulated depreciation	<u>7,836,982</u>	<u>7,548,519</u>
Net property and equipment	<u>\$ 6,499,133</u>	<u>\$ 6,611,439</u>

Net property and equipment consists of the Frauenthal Center for the Performing Arts, the Hilt Building multi-purpose community facility and the Community Foundation Building. All depreciable assets used in rental operations and the Frauenthal Center are recorded in the property and equipment fund. Depreciation expense was \$291,288 and \$285,166 in 2016 and 2015, respectively.

8. FUNDS HELD AS AGENCY ENDOWMENTS

The Organization follows established standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. If a not-for-profit entity (NFP) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Organization refers to such funds as Agency Endowments.

The Organization maintains variance power and legal ownership of Agency Endowment funds and, as such, continue to report the funds as assets of the Organization. However, a liability has been established for the fair value of the funds.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

The Organization was the owner of 132 and 196 Agency Endowment Funds at December 31, 2016 and 2015, respectively. Activity in such funds consists of the following for the years ended December 31:

	2016	2015
Agency endowment fund balances, beginning of year	\$ 12,953,350	\$ 11,909,583
Amounts raised	292,468	1,622,790
Net investment gain (loss)	891,562	(128,606)
Manistee transfer	(267,907)	-
Grants	(443,623)	(450,417)
	<hr/>	<hr/>
Agency endowment fund balances, end of year	<u>\$ 13,425,850</u>	<u>\$ 12,953,350</u>

During 2015, the Organization and the Manistee County Community Foundation mutually agreed to terminate their memorandum of understanding. In January 2016, approximately \$3,416,000 of cash and marketable securities, including Agency Endowment funds of \$267,907, were transferred by the Organization to the Manistee County Community Foundation.

9. COMMITMENTS

Trustees of the Organization have approved, as of December 31, 2016, future conditional grants amounting to approximately \$1,025,000. Such grants are in accordance with the Organization's charitable purposes and with their Articles of Incorporation and By-Laws. The commitments scheduled for payment for the next five years are as follows:

Year	Amount
2017	\$ 185,000
2018	210,000
2019	210,000
2020	210,000
2021	210,000
	<hr/>
Total commitments	<u>\$ 1,025,000</u>

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

10. NET ASSETS

Net assets consist of the following at December 31:

	2016	2015
Net assets		
Unrestricted		
Unrestricted	\$ 12,672,147	\$ 12,074,002
Field of interest	8,853,462	8,624,432
The Paul C. Johnson Foundation	3,448,307	3,273,906
The Pennies from Heaven		
Foundation	18,923,695	21,171,492
Scholarship	20,086,373	18,414,362
Donor advised	31,207,392	27,774,308
Committee advised	11,614,174	11,102,911
Designated	19,222,851	17,314,506
Organizational endowment	20,734,354	19,495,789
Build-A-Fund	124,364	104,513
Community Foundation for		
Oceana County	9,345,027	8,692,244
Community Foundation for		
Mason County	10,463,140	9,549,376
Community Foundation for		
Manistee County	-	2,807,894
CFMC deferred gifts	1,992,817	2,215,028
Property and equipment	4,172,732	4,243,697
Operating	1,328,145	2,274,215
Total unrestricted net assets	174,188,980	169,132,675
Temporarily restricted		
Charitable lead trust	28,799	128,347
Total net assets	\$ 174,217,779	\$ 169,261,022

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

11. EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution retirement plan, which provides for voluntary employee contributions. Contributions to the plan by the Organization, which are discretionary as determined by the Board of Trustees, totaled \$63,426 and \$70,580 in 2016 and 2015, respectively.

12. ENDOWMENT

The Organization's endowment consists of 1,296 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principals (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment without granting the Organization variance power, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. The Organization classifies as unrestricted net assets (a) the original value of gifts donated to the Organization granting the Organization variance power, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. See Note 1 for further discussion related to the net asset classifications.

**COMMUNITY FOUNDATION FOR MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS**

NOTES TO COMBINED FINANCIAL STATEMENTS

Following is a summary of the Organization's endowment and changes therein:

	Unrestricted
Endowment net asset comparison by type of fund as of December 31, 2016	
Donor-restricted endowment funds	\$ 153,277,790
Board-designated endowment funds	<u>15,410,318</u>
	<u>\$ 168,688,108</u>
Changes in endowment net assets for the year ended December 31, 2016	
Investment return:	
Investment income	\$ 4,676,003
Net appreciation (realized and unrealized)	<u>6,957,869</u>
Net investment income	11,633,872
Contributions	8,044,574
Appropriation of endowment assets for expenditure	<u>(13,605,100)</u>
Changes to endowment net assets	6,073,346
Endowment net assets:	
Beginning of year	<u>162,614,762</u>
End of year	<u>\$ 168,688,108</u>
Endowment net asset comparison by type of fund as of December 31, 2015	
Donor-restricted endowment funds	\$ 147,597,682
Board-designated endowment funds	<u>15,017,080</u>
	<u>\$ 162,614,762</u>
Changes in endowment net assets for the year ended December 31, 2015	
Investment return:	
Investment income	\$ 4,213,627
Net depreciation (realized and unrealized)	<u>(4,770,987)</u>
Net investment loss	(557,360)
Contributions	16,576,362
Appropriation of endowment assets for expenditure	<u>(10,084,997)</u>
Changes to endowment net assets	5,934,005
Endowment net assets:	
Beginning of year	<u>156,680,757</u>
End of year	<u>\$ 162,614,762</u>

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Return Objectives and Risk Parameters

The Organization has adopted long-term investment policies for endowment assets that target a primary investment goal of providing for long-term growth of capital to fund its perpetual grant making role. The policy identifies the Organization's total investment return objective which is to equal or exceed the rate of inflation plus the spending guideline of 6% (e.g., 6.0% + 3.25% = 9.25%). The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The Organization's policy adopts a long-term investment horizon.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending

Spending of individual named funds is determined primarily by the donor's stated charitable intent as to spending and preservation of principle. The Organization has established a spending guideline of 5% - 6%, absent specific donor intent. This spending includes grants, administrative fees, and investment expenses, and is applied to the fund's average fair value over the prior 16 quarters through the calendar year end preceding the year in which a distribution is to be made. Under this spending guideline, and absent direction from the donor, the Organization will make grants of 4% from board-designated funds.

13. SUPPLEMENTAL CASH FLOWS INFORMATION

The Organization received non-cash gifts of \$1,311,394 and \$927,949 in 2016 and 2015, respectively.



**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

May 9, 2017

Board of Trustees
Community Foundation *for* Muskegon County and Supporting Organizations
Muskegon, Michigan

We have audited the combined financial statements of the *Community Foundation for Muskegon County and Supporting Organizations* as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated May 9, 2017, which expressed an unmodified opinion on those combined financial statements. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in the accompanying schedules as listed in the table of contents, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the combined financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Rehmann Robson LLC". The signature is written in a cursive, flowing style.

SUPPLEMENTARY INFORMATION

**COMMUNITY FOUNDATION FOR MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS**

SCHEDULES OF ADMINISTRATIVE AND PROGRAM OPERATIONS

	Year Ended December 31	
	2016	2015
Revenue		
Administrative fees	\$ 1,847,573	\$ 1,722,028
Interfund transfers	(10,816)	(12,944)
Total revenue	<u>1,836,757</u>	<u>1,709,084</u>
Administrative expenses		
Salaries and wages	943,029	884,997
Payroll taxes and benefits	267,366	259,229
Occupancy	33,600	33,600
Telephone	4,945	4,944
Postage and shipping	5,174	5,678
Office expense	12,234	11,392
Computer expense	12,960	9,984
Contracted services	125,018	68,896
Depreciation	10,816	12,944
Miscellaneous	301,256	300,363
Total administrative expenses	<u>1,716,398</u>	<u>1,592,027</u>
Program expenses		
Promotion and printing	22,967	29,501
Professional development	13,283	12,764
Travel	2,309	1,973
Dues, subscriptions and memberships	4,844	5,701
Public relations/development	31,697	20,713
Annual meeting and luncheon	27,939	23,807
Audit and legal	9,000	9,000
Miscellaneous	8,320	13,598
Total program expenses	<u>120,359</u>	<u>117,057</u>
Total expenses	<u>1,836,757</u>	<u>1,709,084</u>
Net administrative and program operations	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report on supplementary information.

**COMMUNITY FOUNDATION FOR MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS**

SCHEDULES OF RENTAL OPERATIONS

	Year Ended December 31	
	2016	2015
Revenue		
Rental	\$ 92,657	\$ 96,803
Other	5,169	4,531
Interfund transfers	18,288	12,365
Total revenue	116,114	113,699
Expenses		
Salaries and wages	20,316	19,423
Payroll taxes and benefits	2,531	2,466
Professional fees	500	500
Supplies	2,451	3,339
Utilities	36,519	31,610
Insurance	7,879	7,251
Repairs and maintenance	14,621	18,294
Property taxes	16,165	16,014
Depreciation	14,833	14,510
Interest expense/miscellaneous	299	292
Total expenses	116,114	113,699
Net operations - rental	\$ -	\$ -

See independent auditors' report on supplementary information.

**COMMUNITY FOUNDATION FOR MUSKEGON COUNTY
AND SUPPORTING ORGANIZATIONS**

SCHEDULES OF PROGRAM OPERATIONS
FRAUENTHAL CENTER FOR THE PERFORMING ARTS

	Year Ended December 31	
	2016	2015
Facility revenue		
Rental revenue	\$ 192,807	\$ 200,773
Presenting net revenue	16,602	4,213
Alley Door	10,590	10,131
Ticket maintenance fee	47,233	28,879
Stagehouse revenue	40,613	31,252
Box office revenue	41,850	36,861
Housefront revenue	94,979	86,005
Total facility revenue	444,674	398,114
Administrative and facility expenses		
Salaries and wages	344,476	362,073
Payroll taxes and benefits	70,097	85,620
Conferences and memberships	1,911	1,398
Telephone	5,881	5,979
Postage	1,318	2,648
Office expense	8,910	7,072
Utilities	95,422	91,305
Maintenance and facility supplies	91,757	95,591
Insurance	22,838	21,645
Professional fees	3,000	3,000
Promotion/usher volunteer expense	12,681	16,033
Stagehouse expense	7,698	4,142
Housefront expense	40,590	34,139
Production expense	22,310	9,240
Box office expense	730	553
Miscellaneous	8,183	11,636
Total expenses	737,802	752,074
Net program expense	(293,128)	(353,960)
Other FCPA support		
Grants	293,128	353,960
Net operations - FCPA	\$ -	\$ -

See independent auditors' report on supplementary information.