

Community
Foundation *for*
Muskegon County
and
Supporting
Organizations



community foundation®

Muskegon County

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

Years Ended
December 31,
2017 and 2016

Combined
Financial
Statements
and
Supplementary
Information

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

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INDEPENDENT AUDITORS' REPORT

May 10, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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.

Rehmann Lobarr LLC

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

Combined Statements of Financial Position

ASSETS	December 31	
	2017	2016
Cash and cash equivalents	\$ 6,555,926	\$ 7,234,497
Investments	196,624,509	174,936,223
Pooled income fund	296,114	301,940
Other investments	5,129,683	4,896,412
Beneficial interest in charitable lead trust	-	28,799
Receivables	1,132,493	160,643
Other assets	87,360	88,523
Net property and equipment	12,007,544	6,499,133
Total assets	\$ 221,833,629	\$ 194,146,170
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 33,782	\$ 72,795
Line of credit	-	78,169
Deferred gift annuities	1,147,478	1,203,955
Funds held as agency endowments	16,327,456	13,425,850
Funds held as community service	6,868,087	5,147,622
Total liabilities	24,376,803	19,928,391
Commitments (Note 8)		
Net assets		
Unrestricted	197,456,826	174,188,980
Temporarily restricted	-	28,799
Total net assets	197,456,826	174,217,779
Total liabilities and net assets	\$ 221,833,629	\$ 194,146,170

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	
	2017	2016
Unrestricted net assets		
Unrestricted revenues and gains		
Gifts and grants	\$ 6,525,168	\$ 7,746,211
Less: Amounts received from Agency Endowments	1,395,188	292,468
Net unrestricted gifts and grants	5,129,980	7,453,743
Dividends and interest	4,829,765	4,616,003
Net realized and unrealized investment gains	20,774,516	6,943,720
Frauenthal Center for the Performing Arts income	492,707	444,674
Rental revenue	89,074	92,657
Smash Wine Bar revenue	-	230,413
Other income	474,158	220,919
Total unrestricted revenues and gains	31,790,200	20,002,129
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	30,704	106,735
Total unrestricted revenues, gains and other support	31,820,904	20,108,864
Expenses		
Program services		
Grants and direct fund expenses	5,232,444	11,757,191
Program grants - Frauenthal Center for the Performing Arts	800,360	737,802
Supporting services		
Grantmaking	337,459	312,320
Philanthropic service	99,253	91,859
Special projects	317,608	293,948
Development	516,113	477,666
Fund management	99,253	91,859
Management and general	615,366	569,525
Rental expenses - Western Avenue Properties	99,128	101,282
Smash Wine Bar expenses	1,175	327,819
Depreciation	434,899	291,288
Total expenses	8,553,058	15,052,559
Increase in unrestricted net assets	23,267,846	5,056,305

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

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY
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Combined Statements of Activities (Concluded)

	Year Ended December 31	
	2017	2016
Temporarily restricted net assets		
Change in value of charitable lead trust	\$ 1,905	\$ 7,187
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	<u>(30,704)</u>	<u>(106,735)</u>
Decrease in temporarily restricted net assets	<u>(28,799)</u>	<u>(99,548)</u>
Change in net assets	23,239,047	4,956,757
Net assets, beginning of year	<u>174,217,779</u>	<u>169,261,022</u>
Net assets, end of year	<u>\$ 197,456,826</u>	<u>\$ 174,217,779</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	
	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 23,239,047	\$ 4,956,757
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Non-cash gifts	(884,935)	(1,311,394)
Depreciation	434,899	291,288
Bad debt expense	-	37,211
Net realized and unrealized investment gains	(20,774,516)	(6,943,720)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(15,105)	138,996
Other assets	1,163	(10,539)
Accounts payable	(39,013)	(23,620)
Funds held as agency endowments	902,925	(419,062)
Funds held as community service	1,720,465	564,398
Net cash provided by (used in) operating activities	<u>4,584,930</u>	<u>(2,719,685)</u>
Cash flows from investing activities		
Issuance of notes receivable	(1,076,745)	-
Collection of notes receivable	120,000	1,585,193
Purchases of property and equipment	(5,943,310)	(178,982)
Purchases of investments	(14,190,878)	(21,335,703)
Proceeds from maturities and sales of investments	15,962,078	20,216,368
Net cash used in investing activities	<u>(5,128,855)</u>	<u>286,876</u>
Cash flows from financing activities		
Repayment on line of credit	(78,169)	(46,938)
Increase in annuity obligations	156,648	62,508
Payments on annuity obligations	(213,125)	(454,017)
Net cash used in financing activities	<u>(134,646)</u>	<u>(438,447)</u>
Net decrease in cash and cash equivalents	(678,571)	(2,871,256)
Cash and cash equivalents, beginning of year	<u>7,234,497</u>	<u>10,105,753</u>
Cash and cash equivalents, end of year	<u>\$ 6,555,926</u>	<u>\$ 7,234,497</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 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 \$3,678,108 and \$3,448,307 at December 31, 2017 and 2016, 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 \$24,558,353 and \$18,923,695 at December 31, 2017 and 2016, respectively.

The combined financial statements include the activity of Morris Street, LLC, a limited liability company in which the Foundation is the sole 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.

Significant Accounting Policies

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

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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. The Organization had no temporarily restricted net assets at December 31, 2017.

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, 2017 or 2016.

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.

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.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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, useful lives of property and equipment, 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.

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

Accounts Receivable (including Notes)

Accounts receivable is stated at the amount management expects to collect from outstanding balances. 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.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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 temporally 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 for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

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 that are managed and maintained by the Organization. At December 31, 2017 and 2016, there were 79 and 77 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.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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 has evaluated its income tax positions for the years 2014 through 2017, the years that remain subject to examination by major tax jurisdictions as of December 31, 2017. 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, 2017 and 2016, and they are not aware of any claims for such amounts by federal or state income tax authorities.

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

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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.

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board has issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which will be effective for the Organization's year ending December 31, 2018. ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Management will evaluate the provisions of ASU 2016-14 to determine the potential impact on the Organization's 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, 2017, the most recent combined statement of financial position presented herein, through May 10, 2018, the date the combined financial statements were available to be issued. No significant such events or transactions were identified.

2. FAIR VALUE MEASUREMENTS AND INVESTMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

Level 2: Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy of each of the Organization's assets and liabilities is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value.

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 4).

Other investments: The carrying amounts of the Organization's other investments, including real estate and life insurance, approximate fair values. The Organization's other investments are categorized as level 3 assets.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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.

Assets Recorded at Fair Value on a Recurring Basis

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis:

December 31, 2017	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
Fixed income	\$ 48,196,988	\$ -	\$ -	\$ 48,196,988
REIT index	18,033,871	-	-	18,033,871
Domestic equities	76,451,009	-	-	76,451,009
International equities	53,738,330	-	-	53,738,330
Miscellaneous investments	204,311	-	-	204,311
Total investments	<u>196,624,509</u>	<u>-</u>	<u>-</u>	<u>196,624,509</u>
Pooled income fund	<u>296,114</u>	<u>-</u>	<u>-</u>	<u>296,114</u>
Other investments:				
Real estate	-	-	2,550,925	2,550,925
Life insurance	-	-	120,572	120,572
Other	-	-	2,458,186	2,458,186
Total other investments	<u>-</u>	<u>-</u>	<u>5,129,683</u>	<u>5,129,683</u>
Total assets at fair value	<u>\$ 196,920,623</u>	<u>\$ -</u>	<u>\$ 5,129,683</u>	<u>\$ 202,050,306</u>

**COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY
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Notes To Combined Financial Statements

December 31, 2016	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
Fixed income	\$ 48,858,969	\$ -	\$ -	\$ 48,858,969
REIT index	15,760,174	-	-	15,760,174
Domestic equities	66,523,147	-	-	66,523,147
International equities	43,589,064	-	-	43,589,064
Miscellaneous investments	204,869	-	-	204,869
Total investments	<u>174,936,223</u>	<u>-</u>	<u>-</u>	<u>174,936,223</u>
Pooled income fund	<u>301,940</u>	<u>-</u>	<u>-</u>	<u>301,940</u>
Other investments:				
Real estate	-	-	2,915,333	2,915,333
Life insurance	-	-	113,709	113,709
Other	-	-	1,867,370	1,867,370
Total other investments	<u>-</u>	<u>-</u>	<u>4,896,412</u>	<u>4,896,412</u>
Total assets at fair value	<u>\$ 175,238,163</u>	<u>\$ -</u>	<u>\$ 4,896,412</u>	<u>\$ 180,134,575</u>

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets measured at fair value on a recurring basis:

December 31, 2017	Real Estate	Life Insurance	Other	Total
Balance at January 1, 2017	\$ 2,915,333	\$ 113,709	\$ 1,867,370	\$ 4,896,412
Total gains and losses	1,678	6,863	-	8,541
Purchases	-	-	590,816	590,816
Sales	(366,086)	-	-	(366,086)
Balance at December 31, 2017	<u>\$ 2,550,925</u>	<u>\$ 120,572</u>	<u>\$ 2,458,186</u>	<u>\$ 5,129,683</u>

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

December 31, 2016	Real Estate	Life Insurance	Other	Total
Balance at January 1, 2016	\$ 3,199,946	\$ 145,088	\$ 912,696	\$ 4,257,730
Total gains and losses	-	(31,379)	10,575	(20,804)
Purchases	60,901	-	1,005,000	1,065,901
Sales	(345,514)	-	(60,901)	(406,415)
Balance at December 31, 2016	<u>\$ 2,915,333</u>	<u>\$ 113,709</u>	<u>\$ 1,867,370</u>	<u>\$ 4,896,412</u>

Investment revenues are reported net of related investment expenses in the combined statements of activities. The amount of expenses netted with revenues was \$155,448 and \$151,259 for 2017 and 2016, respectively.

The Organization has a majority of their investments in one brokerage firm. As of December 31, 2017 and 2016, approximately 88% and 91%, respectively, of the Organization's total investments are held in safekeeping with one institution.

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.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

4. 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 was 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 was to terminate, with the remaining assets 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 2017, in accordance with the agreement, the trust terminated and the remaining assets were distributed to the other beneficiaries of the trust. 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.

5. RECEIVABLES

Receivables consist of the following at December 31:

	2017	2016
Accounts receivable	\$ 55,748	\$ 40,643
Notes receivable		
Muskegon Railroad		
Historical Society	25,000	-
Community enCompass	51,745	-
351 W. Western LLC	1,000,000	-
Covenant House	-	120,000
	<u> </u>	<u> </u>
Total receivables	<u>\$ 1,132,493</u>	<u>\$ 160,643</u>

The note receivable from 351 W. Western LLC is a program related investment loan to be used toward the construction (materials, labor and contractors) of a 6-story mixed use building. Payments of interest only on the outstanding principal balance are due monthly during the first five years of the loan. Thereafter, payments of principal and interest are due monthly based on a twenty-five year amortization. However, the entire remaining principal balance and accrued interest are due in full on the ten year anniversary of the loan. The notes receivable are unsecured.

Bad debt expense recognized on the write-off of receivables during 2017 and 2016 was \$0 and \$37,211, 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

6. NET PROPERTY AND EQUIPMENT

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

	2017	2016
Land	\$ 1,603,750	\$ 1,265,000
Buildings and improvements	16,201,594	11,022,415
Equipment	<u>1,565,672</u>	<u>2,048,700</u>
Total	19,371,016	14,336,115
Less accumulated depreciation	<u>7,363,472</u>	<u>7,836,982</u>
Net property and equipment	<u>\$ 12,007,544</u>	<u>\$ 6,499,133</u>

Net property and equipment consists of the Frauenthal Center for the Performing Arts, the Hilt Building multi-purpose community facility, the Community Foundation Building and Pennies for Heaven facilities. All depreciable assets used in rental and general operations and the Frauenthal Center are recorded in the property and equipment fund. Depreciation expense was \$434,899 and \$291,288 in 2017 and 2016, respectively.

7. 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 143 and 132 Agency Endowment Funds at December 31, 2017 and 2016, respectively. Activity in such funds consists of the following for the years ended December 31:

	2017	2016
Agency endowment fund balances, beginning of year	\$ 13,425,850	\$ 12,953,350
Amounts raised	1,395,188	292,468
Net investment gain	1,998,681	891,562
Manistee transfer	-	(267,907)
Grants	<u>(492,263)</u>	<u>(443,623)</u>
 Agency endowment fund balances, end of year	 <u>\$ 16,327,456</u>	 <u>\$ 13,425,850</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.

8. COMMITMENTS

Trustees of the Organization have approved, as of December 31, 2017, future conditional grants amounting to approximately \$1,853,000. 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 and thereafter are as follows:

Year	Amount
2018	\$ 387,000
2019	417,000
2020	383,000
2021	372,000
2022	272,000
Thereafter	<u>22,000</u>
Total	<u>\$ 1,853,000</u>

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

9. NET ASSETS

Net assets consist of the following at December 31:

	2017	2016
Net assets		
Unrestricted		
Unrestricted	\$ 13,619,100	\$ 12,672,147
Field of interest	9,992,091	8,853,462
The Paul C. Johnson Foundation	3,678,108	3,448,307
The Pennies from Heaven Foundation	24,558,353	18,923,695
Scholarship	22,847,562	20,086,373
Donor advised	32,880,981	31,207,392
Committee advised	12,808,978	11,614,174
Designated	21,476,856	19,222,851
Organizational endowment	23,743,759	20,734,354
Build-A-Fund	127,153	124,364
Community Foundation for Oceana County	11,129,002	9,345,027
Community Foundation for Mason County	12,368,990	10,463,140
CFMC deferred gifts	2,162,037	1,992,817
Property and equipment	4,132,003	4,172,732
Operating	1,931,853	1,328,145
	<u>197,456,826</u>	<u>174,188,980</u>
Total	197,456,826	174,188,980
Temporarily restricted		
Charitable lead trust	-	28,799
	<u>-</u>	<u>28,799</u>
Total net assets	<u>\$ 197,456,826</u>	<u>\$ 174,217,779</u>

10. 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 \$67,220 and \$63,426 in 2017 and 2016, respectively.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

11. ENDOWMENT

The Organization's endowment consists of 1,352 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, 2017	
Donor-restricted endowment funds	\$ 175,100,874
Board-designated endowment funds	16,292,096
	<u>\$ 191,392,970</u>
Changes in endowment net assets for the year ended December 31, 2017	
Investment return:	
Investment income	\$ 4,901,868
Net appreciation (realized and unrealized)	20,355,462
Net investment income	<u>25,257,330</u>
Contributions	5,370,682
Appropriation of endowment assets for expenditure	<u>(7,923,150)</u>
Changes to endowment net assets	22,704,862
Endowment net assets:	
Beginning of year	<u>168,688,108</u>
End of year	<u>\$ 191,392,970</u>
Endowment net asset comparison by type of fund as of December 31, 2016	
Donor-restricted endowment funds	\$ 153,277,790
Board-designated endowment funds	15,410,318
	<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)	6,957,869
Net investment income	<u>11,633,872</u>
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>

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 Policy

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.



**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

May 10, 2018

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, 2017 and 2016, and have issued our report thereon dated May 10, 2018, 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".

SUPPLEMENTARY INFORMATION

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

Schedules of Administrative and Program Operations

	Year Ended December 31	
	2017	2016
Revenue		
Administrative fees	\$ 1,985,126	\$ 1,847,573
Interfund transfers	(438,275)	(10,816)
Total revenue	<u>1,546,851</u>	<u>1,836,757</u>
Administrative expenses		
Salaries and wages	978,751	943,029
Payroll taxes and benefits	281,460	267,366
Occupancy	33,600	33,600
Telephone	5,019	4,945
Postage and shipping	6,090	5,174
Office expense	9,289	12,234
Computer expense	13,461	12,960
Contracted services	86,868	125,018
Depreciation	13,764	10,816
Miscellaneous	75	301,256
Total administrative expenses	<u>1,428,377</u>	<u>1,716,398</u>
Program expenses		
Promotion and printing	22,399	22,967
Professional development	14,642	13,283
Travel	2,304	2,309
Dues, subscriptions and memberships	5,368	4,844
Public relations/development	37,607	31,697
Annual meeting and luncheon	18,147	27,939
Audit and legal	10,500	9,000
Miscellaneous	7,507	8,320
Total program expenses	<u>118,474</u>	<u>120,359</u>
Total expenses	<u>1,546,851</u>	<u>1,836,757</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	
	2017	2016
Revenue		
Rental	\$ 89,074	\$ 92,657
Other	4,856	5,169
Interfund transfers	17,974	18,288
Total revenue	111,904	116,114
Expenses		
Salaries and wages	16,730	20,316
Payroll taxes and benefits	3,627	2,531
Professional fees	500	500
Supplies	2,033	2,451
Utilities	29,767	36,519
Insurance	7,993	7,879
Repairs and maintenance	21,425	14,621
Property taxes	16,429	16,165
Depreciation	12,776	14,833
Interest expense/miscellaneous	624	299
Total expenses	111,904	116,114
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	
	2017	2016
Facility revenue		
Rental revenue	\$ 475,313	\$ 192,807
Presenting net revenue	4,949	16,602
Alley Door	12,445	10,590
Ticket maintenance fee	-	47,233
Stagehouse revenue	-	40,613
Box office revenue	-	41,850
Housefront revenue	-	94,979
Total facility revenue	492,707	444,674
Administrative and facility expenses		
Salaries and wages	384,979	344,476
Payroll taxes and benefits	87,740	70,097
Conferences and memberships	2,143	1,911
Telephone	5,896	5,881
Postage	598	1,318
Office expense	12,572	8,910
Utilities	97,302	95,422
Maintenance and facility supplies	96,103	91,757
Insurance	21,496	22,838
Professional fees	3,000	3,000
Promotion/usher volunteer expense	15,410	12,681
Stagehouse expense	9,653	7,698
Housefront expense	42,175	40,590
Production expense	19,268	22,310
Box office expense	351	730
Miscellaneous	1,677	8,183
Total expenses	800,363	737,802
Net program expense	(307,656)	(293,128)
Other FCPA support		
Grants	307,656	293,128
Net operations - FCPA	\$ -	\$ -

See independent auditors' report on supplementary information.