

Community
Foundation *for*
Muskegon County
and
Supporting
Organizations



community foundation

Muskegon County

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

Years Ended
December 31,
2018 and 2017

Combined
Financial
Statements

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

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INDEPENDENT AUDITORS' REPORT

June 3, 2019

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, 2018 and 2017, and the related combined statements of activities, functional expenses 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, 2018 and 2017, 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 Lobson LLC

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

Combined Statements of Financial Position

	December 31	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 6,777,711	\$ 6,555,926
Investments	171,473,455	196,624,509
Pooled income fund	266,129	296,114
Other investments	3,164,805	5,129,683
Receivables	8,123,559	1,132,493
Other assets	92,647	87,360
Net property and equipment	<u>12,110,280</u>	<u>12,007,544</u>
Total assets	<u><u>\$ 202,008,586</u></u>	<u><u>\$ 221,833,629</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 77,825	\$ 33,782
Deferred gift annuities	919,516	1,147,478
Funds held as agency endowments	14,943,009	16,327,456
Funds held as community service	<u>6,853,429</u>	<u>6,868,087</u>
Total liabilities	22,793,779	24,376,803
Commitments (Note 8)		
Net assets without donor restrictions	<u>179,214,807</u>	<u>197,456,826</u>
Total liabilities and net assets	<u><u>\$ 202,008,586</u></u>	<u><u>\$ 221,833,629</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 Activities

	Year Ended December 31	
	2018	2017
Net assets without donor restrictions		
Revenues and gains (losses) without donor restrictions		
Gifts and grants	\$ 6,008,215	\$ 6,525,168
Less: Amounts received from agency endowments	436,740	1,395,188
	<hr/>	<hr/>
Net gifts and grants without donor restrictions	5,571,475	5,129,980
Net investment (loss) return	(13,687,223)	25,604,281
Frauenthal Center for the Performing Arts income	500,999	492,707
Rental revenue	89,012	89,074
Other income	405,306	474,158
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Total revenues and gains (losses) without donor restrictions	(7,120,431)	31,790,200
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	-	30,704
	<hr/>	<hr/>
Total revenues, gains (losses) and other support without donor restrictions	(7,120,431)	31,820,904
	<hr/>	<hr/>
Expenses		
Program services		
Community investment	8,037,215	5,662,227
Frauenthal Center for the Performing Arts	835,210	800,365
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Total program services	8,872,425	6,462,592
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Supporting services		
Management and general	1,195,788	1,128,786
Philanthropic service	152,891	138,437
Special projects	109,209	98,884
Development	567,885	514,195
Fundraising	109,209	98,884
Western Avenue Properties	114,181	111,280
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Total supporting services	2,249,163	2,090,466
	<hr/>	<hr/>
Total expenses	11,121,588	8,553,058
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(Decrease) increase in net assets without donor restrictions	(18,242,019)	23,267,846
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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	
	2018	2017
Net assets with donor restrictions		
Change in value of charitable lead trust	\$ -	\$ 1,905
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	-	(30,704)
Decrease in net assets with donor restrictions	-	(28,799)
Change in net assets	(18,242,019)	23,239,047
Net assets, beginning of year	197,456,826	174,217,779
Net assets, end of year	<u>\$ 179,214,807</u>	<u>\$ 197,456,826</u>

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Combined Statement of Functional Expenses

For the Year Ended December 31, 2018

	Program Services		
	Community Investment	Frauenthal Center for the Performing Arts	Total Program Services
Salaries and fringe benefits			
Salaries and wages	\$ 325,978	\$ 382,381	\$ 708,359
Employee benefits and payroll taxes	95,426	94,188	189,614
Total salaries and fringe benefits	421,404	476,569	897,973
Grant awards	7,469,330	-	7,469,330
Audit and legal	3,582	3,000	6,582
Contracted services	54,597	2,338	56,935
CRT / CGA related expenses	-	-	-
Dues, subscriptions and memberships	5,584	249	5,833
Information technology	740	-	740
Insurance	-	16,121	16,121
Maintenance and facility supplies	300	117,515	117,815
Occupancy	8,736	-	8,736
Office expense	5,575	3,017	8,592
Other and miscellaneous	15,098	96,524	111,622
Postage and shipping	4,097	1,671	5,768
Promotion and printing	7,676	3,867	11,543
Professional development	7,661	-	7,661
Property taxes	11,660	-	11,660
Public relations / development	17,459	-	17,459
Telephone	1,324	5,954	7,278
Travel, meetings, and seminars	1,708	1,878	3,586
Utilities	684	101,566	102,250
Total expenses before depreciation	8,037,215	830,269	8,867,484
Depreciation	-	4,941	4,941
Total expenses	\$ 8,037,215	\$ 835,210	\$ 8,872,425

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

Supporting Services							
Management and General	Philanthropic Service	Special Projects	Development	Fundraising	Western Avenue Properties	Total Supporting Services	Total Expenses
\$ 388,666 113,777	\$ 87,763 25,692	\$ 62,688 18,351	\$ 325,978 95,426	\$ 62,688 18,351	\$ 16,873 3,177	\$ 944,656 274,774	\$ 1,653,015 464,388
502,443	113,455	81,039	421,404	81,039	20,050	1,219,430	2,117,403
-	-	-	-	-	-	-	7,469,330
4,270	964	689	3,582	689	500	10,694	17,276
65,096	14,699	10,499	54,597	10,499	-	155,390	212,325
76,836	-	-	-	-	-	76,836	76,836
6,658	1,503	1,074	5,584	1,074	-	15,893	21,726
882	199	142	740	142	-	2,105	2,845
-	-	-	-	-	11,133	11,133	27,254
358	81	58	300	58	26,649	27,504	145,319
10,416	2,352	1,680	8,736	1,680	-	24,864	33,600
6,647	1,501	1,072	5,575	1,072	-	15,867	24,459
18,002	4,065	2,904	15,098	2,904	-	42,973	154,595
4,885	1,103	788	4,097	788	-	11,661	17,429
9,152	2,067	1,476	7,676	1,476	-	21,847	33,390
9,134	2,062	1,473	7,661	1,473	-	21,803	29,464
13,902	3,139	2,242	11,660	2,242	17,090	50,275	61,935
20,816	4,700	3,357	17,459	3,357	-	49,689	67,148
1,579	357	255	1,324	255	-	3,770	11,048
2,037	460	329	1,708	329	-	4,863	8,449
816	184	132	684	132	30,107	32,055	134,305
753,929	152,891	109,209	567,885	109,209	105,529	1,798,652	10,666,136
441,859	-	-	-	-	8,652	450,511	455,452
\$ 1,195,788	\$ 152,891	\$ 109,209	\$ 567,885	\$ 109,209	\$ 114,181	\$ 2,249,163	\$ 11,121,588

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Combined Statement of Functional Expenses

For the Year Ended December 31, 2017

	Program Services		
	Community Investment	Frauenthal Center for the Performing Arts	Total Program Services
Salaries and fringe benefits			
Salaries and wages	\$ 306,317	\$ 384,978	\$ 691,295
Employee benefits and payroll taxes	88,371	87,740	176,111
Total salaries and fringe benefits	394,688	472,718	867,406
Grant awards	5,148,032	-	5,148,032
Audit and legal	2,802	3,000	5,802
Contracted services	33,756	2,985	36,741
CRT / CGA related expenses	-	-	-
Dues, subscriptions and memberships	1,402	336	1,738
Insurance	-	21,496	21,496
Maintenance and facility supplies	558	96,101	96,659
Occupancy	8,736	-	8,736
Office expense	4,675	5,007	9,682
Other and miscellaneous	30,771	86,861	117,632
Postage and shipping	2,232	598	2,830
Promotion and printing	5,824	4,580	10,404
Professional development	4,451	-	4,451
Property taxes	6,937	-	6,937
Public relations / development	14,382	-	14,382
Telephone	1,298	5,896	7,194
Travel, meetings, and seminars	1,492	1,808	3,300
Utilities	191	97,302	97,493
Total expenses before depreciation	5,662,227	798,688	6,460,915
Depreciation	-	1,677	1,677
Total expenses	\$ 5,662,227	\$ 800,365	\$ 6,462,592

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

Supporting Services							
Management and General	Philanthropic Service	Special Projects	Development	Fundraising	Western Avenue Properties	Total Supporting Services	Total Expenses
\$ 365,224	\$ 82,470	\$ 58,907	\$ 306,317	\$ 58,907	\$ 16,730	\$ 888,555	\$ 1,579,850
105,365	23,792	16,994	88,371	16,994	3,627	255,143	431,254
470,589	106,262	75,901	394,688	75,901	20,357	1,143,698	2,011,104
-	-	-	-	-	-	-	5,148,032
3,340	754	539	2,802	539	500	8,474	14,276
40,247	9,088	6,491	33,756	6,491	-	96,073	132,814
95,263	-	-	-	-	-	95,263	95,263
1,672	378	270	1,402	270	-	3,992	5,730
-	-	-	-	-	7,993	7,993	29,489
666	150	107	558	107	23,458	25,046	121,705
10,416	2,352	1,680	8,736	1,680	-	24,864	33,600
5,574	1,259	899	4,675	899	-	13,306	22,988
36,689	8,285	5,918	30,771	5,918	-	87,581	205,213
2,661	601	429	2,232	429	-	6,352	9,182
6,944	1,568	1,120	5,824	1,120	-	16,576	26,980
5,307	1,198	856	4,451	856	-	12,668	17,119
8,271	1,868	1,334	6,937	1,334	16,429	36,173	43,110
17,148	3,872	2,766	14,382	2,766	-	40,934	55,316
1,547	349	250	1,298	250	-	3,694	10,888
1,779	402	287	1,492	287	-	4,247	7,547
227	51	37	191	37	29,767	30,310	127,803
708,340	138,437	98,884	514,195	98,884	98,504	1,657,244	8,118,159
420,446	-	-	-	-	12,776	433,222	434,899
\$ 1,128,786	\$ 138,437	\$ 98,884	\$ 514,195	\$ 98,884	\$ 111,280	\$ 2,090,466	\$ 8,553,058

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Combined Statements of Cash Flows

	Year Ended December 31	
	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (18,242,019)	\$ 23,239,047
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Non-cash gifts	(762,404)	(884,935)
Depreciation	455,452	434,899
Net realized and unrealized investment losses (gains)	18,400,261	(20,774,516)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(22,066)	(15,105)
Other assets	(5,287)	1,163
Accounts payable	44,043	(39,013)
Funds held as agency endowments	(251,108)	902,925
Funds held as community service	(14,658)	1,720,465
Net cash (used in) provided by operating activities	<u>(397,786)</u>	<u>4,584,930</u>
Cash flows from investing activities		
Issuance of notes receivable	(6,970,000)	(1,076,745)
Collection of notes receivable	1,000	120,000
Purchases of property and equipment	(558,188)	(5,943,310)
Purchases of investments	(29,587,220)	(14,190,878)
Proceeds from maturities and sales of investments	37,961,941	15,962,078
Net cash provided by (used in) investing activities	<u>847,533</u>	<u>(5,128,855)</u>
Cash flows from financing activities		
Repayment on line of credit	-	(78,169)
Increase in annuity obligations	67,011	156,648
Payments on annuity obligations	(294,973)	(213,125)
Net cash used in financing activities	<u>(227,962)</u>	<u>(134,646)</u>
Net increase (decrease) in cash and cash equivalents	221,785	(678,571)
Cash and cash equivalents, beginning of year	6,555,926	7,234,497
Cash and cash equivalents, end of year	<u>\$ 6,777,711</u>	<u>\$ 6,555,926</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 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 \$2,884,291 and \$3,678,108 at December 31, 2018 and 2017, 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 \$21,561,350 and \$24,558,353 at December 31, 2018 and 2017, respectively.

Morris Street, LLC is 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.

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 (collectively, the "Organization"). All significant inter-organizational accounts and transactions have been eliminated in the 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, present value of future estimated payments under deferred gift annuities, and allocation of certain costs among function.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

Basis of Presentation

Net assets, support, revenues, gains and losses are classified based on the existence or absence of donor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for board-designated endowments. The Organization maintains within its net assets without donor restrictions certain designated endowments from which the Organization's board permits only distributions of earnings, which may include appreciation as well as income. See Note 11.

Net Assets with Donor Restrictions: Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization had no net assets with donor restrictions at December 31, 2018 and 2017.

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.

Realized gains and losses are recorded using specific identification of the assets sold. Investment income is reported net of external investment expenses.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

Contributions

Contributions, 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.

Contributions without donor-imposed restrictions and contributions with donor-imposed restrictions that are met in the same period as the gift is received are both reported as support of the net assets without donor restrictions class. Other restricted gifts are reported as restricted support.

Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Notes receivable are reported at their outstanding principal balance. Receivables 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. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management 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.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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, 2018 and 2017, there were 78 and 79 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 has evaluated its income tax positions for the years 2015 through 2018, the years that remain subject to examination by major tax jurisdictions as of December 31, 2018. 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, 2018 and 2017, and they are not aware of any claims for such amounts by federal or state income tax authorities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statement of activities. The combined statement of functional expenses presents the natural classification detail of expenses by function. Expenses which apply to more than one functional category have been allocated among the respective function based upon the time spent on these functions by specific employees as estimated by management and applied on a consistent basis.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

Change in Accounting Principle

As of January 1, 2017, the Organization adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU (1) reduces the number of net asset classes presented from three to two; (2) modifies the presentation of underwater endowment funds and related disclosures; (3) requires enhanced disclosures concerning board designated net assets; (4) requires the presentation of expenses by functional and natural classification in one location; (5) requires quantitative and qualitative disclosures about liquidity and availability of financial assets; and (6) requires the presentation of investment return net of external and direct internal investment expenses.

Reclassification

Certain amounts as reported in the 2017 combined financial statements have been classified to conform with the 2018 presentation.

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, 2018, the most recent combined statement of financial position presented herein, through June 3, 2019, 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 Organization has the ability to access.

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.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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.

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.

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.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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, 2018	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
Fixed income	\$ 46,357,904	\$ -	\$ -	\$ 46,357,904
REIT index	8,066,493	-	-	8,066,493
Domestic equities	64,367,780	-	-	64,367,780
International equities	52,569,805	-	-	52,569,805
Miscellaneous investments	111,473	-	-	111,473
Total investments	171,473,455	-	-	171,473,455
Pooled income fund	266,129	-	-	266,129
Other investments:				
Real estate	-	-	403,065	403,065
Life insurance	-	-	124,426	124,426
Other	-	-	2,637,314	2,637,314
Total other investments	-	-	3,164,805	3,164,805
Total assets at fair value	\$ 171,739,584	\$ -	\$ 3,164,805	\$ 174,904,389

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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	196,624,509	-	-	196,624,509
Pooled income fund	296,114	-	-	296,114
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	-	-	5,129,683	5,129,683
Total assets at fair value	\$ 196,920,623	\$ -	\$ 5,129,683	\$ 202,050,306

The following tables set 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, 2018	Real Estate	Life Insurance	Other	Total
Balance at January 1, 2018	\$ 2,550,925	\$ 120,572	\$ 2,458,186	\$ 5,129,683
Total gains and losses	(1,847,860)	3,854	-	(1,844,006)
Purchases	-	-	179,128	179,128
Sales	(300,000)	-	-	(300,000)
Balance at December 31, 2018	\$ 403,065	\$ 124,426	\$ 2,637,314	\$ 3,164,805

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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	\$ 2,550,925	\$ 120,572	\$ 2,458,186	\$ 5,129,683

The Organization has a majority of their investments in one brokerage firm. As of December 31, 2018 and 2017, approximately 92% and 88%, 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.

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

5. RECEIVABLES

Receivables consist of the following at December 31:

	2018	2017
Accounts receivable	\$ 53,224	\$ 55,748
Notes receivable		
Local investment notes		
Parkland Muskegon, Inc.-A	2,300,000	-
Parkland Muskegon, Inc.-B	2,000,000	-
Other notes		
Muskegon Railroad		
Historical Society	24,000	25,000
Community enCompass	50,000	50,000
351 W. Western LLC	2,000,000	1,000,000
Northern Economic		
Initiative	500,000	-
225 Ludington	585,000	-
200 Loomis	585,000	-
Interest receivable	26,335	1,745
Total receivables	<u>\$ 8,123,559</u>	<u>\$ 1,132,493</u>

The note receivable from Parkland Muskegon, Inc.-A is a local impact investment loan related to Highpoint Flats, a residential apartment complex located in the City of Muskegon. 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 year amortization. However, the entire remaining principal balance and accrued interest are due in full on the eighteen year anniversary of the loan. The note is secured by a personal guarantee and a security interest in the Shoreline Inn, a hotel located in the City of Muskegon.

The note receivable from Parkland Muskegon, Inc.-B is a local impact investment loan related to Highpoint Flats, a residential apartment complex located in the City of Muskegon. 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 year amortization. However, the entire remaining principal balance and accrued interest are due in full on the ten year anniversary of the loan. The note is secured by a personal guarantee and a security interest in the Shoreline Inn, a hotel located in the City of Muskegon.

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Notes To Combined Financial Statements

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.

The notes receivable from Northern Economic Initiative is a program related investment loan to support community development through the startup of a lending program to grow small businesses exclusively in Muskegon County, with a focus on the underserved and minority populations. Payments of interest only on the outstanding principal balance are due in monthly installments based on a ten 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.

The notes receivable from 225 Ludington and 200 Loomis are program related investment loans to be used toward the acquisition, construction and rehabilitation of certain property in Ludington, Michigan. Interest is charged at 3% simple interest for a term of nineteen years. Payments of principal and interest are due in nineteen annual installments, with the entire unpaid balance due in full on the nineteen year anniversary of the loan. The notes receivable are unsecured.

6. NET PROPERTY AND EQUIPMENT

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

	2018	2017
Land	\$ 1,658,785	\$ 1,603,750
Buildings and improvements	16,627,478	16,201,594
Equipment	<u>1,640,612</u>	<u>1,565,672</u>
Total	19,926,875	19,371,016
Less accumulated depreciation	<u>7,816,595</u>	<u>7,363,472</u>
Net property and equipment	<u>\$ 12,110,280</u>	<u>\$ 12,007,544</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 \$455,452 and \$434,899 in 2018 and 2017, respectively.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

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, continues to report the funds as assets of the Organization. However, a liability has been established for the fair value of the funds.

The Organization was the owner of 147 and 143 Agency Endowment Funds at December 31, 2018 and 2017, respectively. Activity in such funds consists of the following for the years ended December 31:

	2018	2017
Agency endowment fund balances, beginning of year	\$ 16,327,456	\$ 13,425,850
Amounts raised	436,740	1,395,188
Net investment (loss) return	(1,133,339)	1,998,681
Grants	<u>(687,848)</u>	<u>(492,263)</u>
 Agency endowment fund balances, end of year	 <u>\$ 14,943,009</u>	 <u>\$ 16,327,456</u>

8. COMMITMENTS

Trustees of the Organization have approved, as of December 31, 2018, future conditional grants amounting to approximately \$1,534,000. 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
2019	\$ 429,000
2020	383,000
2021	372,000
2022	272,000
2023	22,000
Thereafter	<u>56,000</u>
 Total	 <u><u>\$ 1,534,000</u></u>

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

9. NET ASSETS

The bylaws of the Organization include a variance provision and powers of modification, giving the Board of Trustees the power to vary the use of funds. Based on these provisions, the contributions received by the Organization and its supporting organizations are reported as support without donor restrictions. The Organization's net assets without donor restrictions consist of the following at December 31:

	2018	2017
Discretionary	\$ 12,205,010	\$ 13,621,005
Field of interest	9,284,887	10,488,354
The Paul C. Johnson Foundation	2,884,291	3,678,108
The Pennies from Heaven Foundation	21,561,350	24,558,353
Scholarship	20,802,635	22,847,569
Donor advised	30,312,402	32,927,444
Committee advised	11,490,346	12,778,065
Designated	19,541,346	21,172,538
Organizational endowment	21,458,574	23,559,592
Build-A-Fund	107,973	101,935
Community Foundation for Oceana County	10,728,028	11,129,002
Community Foundation for Mason County	11,439,280	12,368,990
CFMC deferred gifts	1,882,406	2,162,033
Property and equipment	4,006,525	4,132,000
Operating	<u>1,509,754</u>	<u>1,931,838</u>
Total net assets without donor restrictions	<u>\$ 179,214,807</u>	<u>\$ 197,456,826</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 \$68,199 and \$67,220 in 2018 and 2017, respectively.

11. DESIGNATED ENDOWMENTS

The Organization's net assets without donor restrictions include designated endowments whereby the Organization has variance power over those assets. Therefore, the Board of Trustees treats these funds as designated endowments and they are classified and reported based on the existence or absence of donor-imposed restrictions.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

Interpretation of Relevant Law

The Board of Trustees of the Organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historical value of the original gift as of the gift date of the designated endowment funds absent explicit donor stipulations to the contrary. As a result of this law and variance provision rights, the Organization classifies within net assets without donor restrictions (a) the original value of gifts donated to the designated endowment, (b) the original value of subsequent gifts to the designated endowment, and (c) accumulations to the designated endowment. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate designated endowment funds:

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

Changes in Endowment Net Assets Without Donor Restrictions

Endowment net asset at January 1, 2017	\$ 168,688,108
Net investment return	25,257,330
Contributions and other income	5,370,682
Appropriation of endowment assets for expenditure	<u>(7,923,150)</u>
Endowment net asset at December 31, 2017	191,392,970
Net investment loss	(12,762,214)
Contributions and other income	5,472,528
Appropriation of endowment assets for expenditure	<u>(10,404,756)</u>
Endowment net asset at December 31, 2018	<u><u>\$ 173,698,528</u></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

The Organization has a policy of appropriating for distribution each year up to 6% of its endowment assets' average fair market value over the prior 16 quarters as of September 30 of the previous year. In establishing this policy, the Organization considered the long-term expected return on its endowment investment portfolio. By limiting its spending policy over the long-term, the Organization expects the current spending policy to allow its endowment assets to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment investment portfolio, as well as to provide additional real growth through new gifts and investment return. For 2018 and 2017, the Organization set the spending rate at 4% for grants.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

Notes To Combined Financial Statements

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the combined statements of financial position date for general expenditures are as follows as of December 31:

	2018	2017
Cash and cash equivalents	\$ 6,777,711	\$ 6,555,926
Investments	171,473,455	196,624,509
Pooled income fund	266,129	296,114
Other investments	3,164,805	5,129,683
Receivables	8,123,559	1,132,493
Other assets	92,647	87,360
Net property and equipment	12,110,280	12,007,544
	<u>202,008,586</u>	<u>221,833,629</u>
Less:		
Endowed investments	(173,698,528)	(191,392,970)
Receivables due in excess of one year	(8,070,335)	(1,076,745)
Other assets	(92,647)	(87,360)
Net property and equipment	(12,110,280)	(12,007,544)
	<u>(193,971,790)</u>	<u>(204,564,619)</u>
Assets not available for current spending		
Add:		
Board designated for grant expenditures	6,946,194	6,520,170
	<u>14,982,990</u>	<u>23,789,180</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,982,990</u>	<u>\$ 23,789,180</u>

The Organization has \$14,982,990 as of December 31, 2018 and \$23,789,180 as of December 31, 2017 of financial assets available within one year of the combined statement of financial position date to meet cash needs for general expenditures. The Organization manages its liquidity required to meet its operating needs while also trying to maximize earnings on its available funds by investing excess cash in investments.

COMMUNITY FOUNDATION *FOR* MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

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Funds that are endowed or that operate according to the spending policy for grantmaking, are generally invested in the Organization's investment pool. The amount available for grantmaking is determined on an annual basis. This amount is calculated according to the Organization's spending policy, which is currently up to 6% of the funds' average quarterly market value over the preceding 16 quarters. Six months of the annual amount available for grantmaking and administrative fees charged by the Organization are transferred to the money market fund so that they are readily available.

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