

# **Community Foundation of the Holland/Zeeland Area**

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**Financial Report  
with Additional Information  
December 31, 2016**

# **Community Foundation of the Holland/Zeeland Area**

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## **Contents**

<b>Board and Staff List</b>	1
<b>Report Letter</b>	2-3
<b>Financial Statements</b>	
Balance Sheet	4
Statement of Activities and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-21
<b>Additional Information</b>	22
<b>Report Letter</b>	23
Details of Support Activities and Program Services	24

## Board and Staff

### **Officers**

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Chair	Scott Spoelhof
Chair-elect, Chair - Audit	Mark Harder
Secretary, Chair - Distribution	Juanita F. Bocanegra
Treasurer	Jim Bishop
President/CEO	Mike Goorhouse

### **Trustees**

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Chair - Investment	Jim Wiersma
Chair – PRI	Bret Docter
Chair – Scholarship	Jane Patterson
Chair - Governance	Haans Mulder
Chair - Development	Jim Bishop
Chair - YAC	Lydia Vreeman, Youth Trustee

### **Staff**

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President/CEO	Mike Goorhouse
Vice President of Community Impact	Elizabeth E. Kidd
Director of Development	Ann Query
Director of Finance	Rashelle Wynegar
Director of Scholarships	Stacy Timmerman
Communications Manager	Nicole Paquette
Administrative Assistant	Barbara Widener

## Independent Auditor's Report

To the Board of Trustees  
Community Foundation of the  
Holland/Zeeland Area

We have audited the accompanying financial statements of Community Foundation of the Holland/Zeeland Area (the "Foundation"), which comprise the balance sheet as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Trustees  
Community Foundation of the  
Holland/Zeeland Area

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of the Holland/Zeeland Area as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

May 3, 2017

# Community Foundation of the Holland/Zeeland Area

## Balance Sheet

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 2,604,224	\$ 2,992,253
Investments (Notes 2 and 3)	56,502,945	50,394,748
Loans and notes receivable - Program-related investments - Net (Note 4)	55,238	98,999
Pledges receivable (Note 5)	1,022,870	1,724,817
Cash surrender value of life insurance	-	11,761
Property and equipment (Note 6)	865,188	939,247
Total assets	<u>\$ 61,050,465</u>	<u>\$ 56,161,825</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and other	\$ 32,973	\$ 3,923
Grants payable (Note 8)	868,792	581,259
Split-interest agreements payable	34,207	55,199
Funds held as agency endowments - Founding funds (Note 10)	4,962,927	4,585,919
Total liabilities	5,898,899	5,226,300
<b>Net Assets</b>		
Unrestricted (Note 9)	53,534,489	48,650,069
Temporarily restricted	1,617,077	2,285,456
Total net assets	55,151,566	50,935,525
Total liabilities and net assets	<u>\$ 61,050,465</u>	<u>\$ 56,161,825</u>

# Community Foundation of the Holland/Zeeland Area

## Statement of Activities and Changes in Net Assets

	Year Ended					
	December 31, 2016			December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains, and Other Support</b>						
Contributions	\$ 5,971,377	\$ 432,320	\$ 6,403,697	\$ 6,328,263	\$ 1,926,050	\$ 8,254,313
In-kind donations and services	14,575	-	14,575	21,012	-	21,012
Investment income	569,679	-	569,679	391,940	-	391,940
Change in value of split-interest agreements	(20,992)	-	(20,992)	(12,530)	-	(12,530)
Net realized and unrealized gains and losses on investments	2,667,369	39,625	2,706,994	(1,720,320)	(45,892)	(1,766,212)
Special event and other revenue	159,717	-	159,717	123,333	-	123,333
Net assets released from restrictions	1,140,324	(1,140,324)	-	478,653	(478,653)	-
Total revenue, gains, and other support	10,502,049	(668,379)	9,833,670	5,610,351	1,401,505	7,011,856
<b>Expenses</b>						
Program:						
Grants	4,472,527	-	4,472,527	4,055,109	-	4,055,109
Program services	223,742	-	223,742	200,878	-	200,878
Fund-related program services	331,820	-	331,820	282,381	-	282,381
Management and general	360,264	-	360,264	344,255	-	344,255
Fundraising	229,276	-	229,276	266,847	-	266,847
Total expenses	5,617,629	-	5,617,629	5,149,470	-	5,149,470
<b>Increase (Decrease) in Net Assets</b>	4,884,420	(668,379)	4,216,041	460,881	1,401,505	1,862,386
<b>Net Assets - Beginning of year</b>	48,650,069	2,285,456	50,935,525	48,189,188	883,951	49,073,139
<b>Net Assets - End of year</b>	<b>\$ 53,534,489</b>	<b>\$ 1,617,077</b>	<b>\$ 55,151,566</b>	<b>\$ 48,650,069</b>	<b>\$ 2,285,456</b>	<b>\$ 50,935,525</b>

# Community Foundation of the Holland/Zeeland Area

## Statement of Cash Flows

	Year Ended	
	December 31, 2016	December 31, 2015
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 4,216,041	\$ 1,862,386
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	75,304	63,983
Expense of loan reserves	45,906	43,555
Unrealized (gains) losses on investments	(2,706,994)	1,766,212
Cash surrender value of life insurance	-	(1,303)
Change in value of split-interest agreements	5,762	12,530
Changes in operating assets and liabilities which provided (used) cash:		
Pledges receivable	701,947	(1,484,423)
Grants payable	287,533	84,317
Accounts payable and other	29,050	(76,892)
Funds held as agency endowments	377,008	(87,898)
Net cash provided by operating activities	3,031,557	2,182,467
<b>Cash Flows from Investing Activities</b>		
Purchase of capital assets	(1,245)	(29,527)
Purchases of investments	(22,065,992)	(13,466,104)
Proceeds from sales and maturities of investments	18,664,789	11,589,976
(Capitalized interest) receipts on notes receivable	(2,145)	94,010
Proceeds from liquidation of founding fund for note receivable	-	91,965
Proceeds from cash surrender of life insurance policy	11,761	-
Net cash used in investing activities	(3,392,832)	(1,719,680)
<b>Cash Flows from Financing Activities - Payments on charitable gift annuities</b>	(26,754)	(40,859)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(388,029)	421,928
<b>Cash and Cash Equivalents - Beginning of year</b>	2,992,253	2,570,325
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,604,224</b>	<b>\$ 2,992,253</b>



# Community Foundation of the Holland/Zeeland Area

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## Notes to Financial Statements December 31, 2016 and 2015

### Note 1 - Nature of Business and Significant Accounting Policies

**Foundation Purpose** - Community Foundation of the Holland/Zeeland Area (the "Foundation") is a public, nonprofit Michigan corporation organized exclusively for the purpose of receiving and administering funds for charitable, educational, and scientific purposes as described in Section 501(c)(3) of the Internal Revenue Code, primarily in the communities of Holland and Zeeland and the surrounding areas. The mission of Community Foundation of the Holland/Zeeland Area is to create lasting positive change. The Foundation works to build a permanent community endowment that supports high-impact charitable projects. The Foundation helps donors achieve their charitable goals and the Foundation leads and partners in community-level initiatives.

**Basis of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting.

**Cash Equivalents** - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents consist of interest-bearing checking accounts, a petty cash fund, money market accounts, and savings bonds.

**Concentration of Credit Risk** - The Foundation maintains cash balances in bank deposit accounts which at times may exceed federally insured limits. As of December 31, 2016 and 2015, the Foundation had \$1,214,396 and \$929,560 in uninsured deposits, respectively.

**Investments** - Investments in equity securities and mutual funds are stated at current market values. Unrealized gains or losses from changes in the market value of investments and realized gains and losses on the sale of investments are included in the statement of activities and changes in net assets. Investments in hedge funds and private equity funds, which are not readily marketable, are carried at estimated fair values as provided by the various investment managers, adjusted for additional investments into the funds or withdrawals from the funds. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods used and significant assumptions used in determining fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

**Risks and Uncertainties** - The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets are stated at their estimated market values at the date donated or at cost, if purchased. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 25 years.

**Grants and Scholarships** - Grants and scholarships are charged to operations and recognized as liabilities when authorized by the board of trustees.

**Split-interest Agreements** - The Foundation is a remainder beneficiary of several charitable annuity and unitrusts. Required distributions to other beneficiaries range from \$510 to \$15,381, as defined by each agreement. The discount rates used to calculate the present value range from 5.0 percent to 10.5 percent.

**Classification of Net Assets** - The Foundation reports information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions when the restrictions are satisfied either by the passage of time or by actions of the Foundation. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

	<u>2016</u>	<u>2015</u>
Connections	\$ 4,860	\$ 4,860
MSU Bioeconomy Fund	589,347	555,779
Time restricted	<u>1,022,870</u>	<u>1,724,817</u>
Total temporarily restricted net assets	<u>\$ 1,617,077</u>	<u>\$ 2,285,456</u>

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified purposes. The Foundation had no permanently restricted net assets at December 31, 2016 or 2015.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Community Foundation Classification of Unrestricted Net Assets** - The bylaws of Community Foundation of the Holland/Zeeland Area include a variance provision and powers of modification, giving the board of trustees the power to vary the use of funds. The Foundation is governed subject to its articles of incorporation and bylaws and further by its adopted investment policy, as well as individual gift instruments and agreements. Although the Foundation's mission is to build endowed assets, the Foundation has the ability, as stated in its articles of incorporation, to distribute all or any part of its net income, principal, or property, in accordance with determination made by the Foundation's board of trustees, for the purpose set forth in its restated articles of incorporation. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Based on these provisions, most contributions received by the Foundation are reported as unrestricted support. The Foundation further classifies its unrestricted net assets as follows:

	<u>2016</u>	<u>2015</u>
Named and community's endowment fund	\$ 11,960,809	\$ 10,116,617
Donor advised	15,360,111	14,004,005
Project - Board advised (fiscal sponsorships)	1,495,818	1,454,862
Field of interest	5,302,932	4,918,675
Scholarships	6,297,832	5,510,345
Charitable trusts and annuities	432,545	518,505
Donor-designated and nonprofit endowments	<u>12,684,442</u>	<u>12,127,060</u>
Total unrestricted net assets	<u>\$ 53,534,489</u>	<u>\$ 48,650,069</u>

The Foundation maintains separate accounting records for each of the individual established funds, which are classified as unrestricted.

**Contributions** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair values of the assets received or promised and the present value of the obligation to the third-party recipients under the contract.

# Community Foundation of the Holland/Zeeland Area

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## Notes to Financial Statements December 31, 2016 and 2015

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Authoritative guidance provides that if the governing body of an organization has the ability to remove a donor restriction (i.e., variance power), the contribution should be classified as unrestricted. To ensure tax deductibility of donors' gifts, the Foundation is required by the Internal Revenue Service to exercise final discretion concerning expenditures from its funds. Accordingly, all contributions over which the Foundation exercises control are classified as unrestricted; however, if the donor has indicated a desire to support a particular area of interest or organization, the Foundation may designate the contribution for that use.

The Foundation solicits a variety of contributions to fund its grants, including donor-advised funds. Donor-advised funds allow for the donor to recommend distributions to Foundation beneficiaries or other charitable organizations approved by the Foundation. Although the Foundation generally fulfills the donor's recommendation, use of donor-advised funds is subject to approval by the Foundation's board, and donor-advised funds are therefore considered unrestricted contributions when received.

**Fund-related Program Services** - Included in program expenses are fund-related program services. These expenses are primarily made up of fiscal sponsorships that vary from year to year. Through fiscal sponsorships, the Foundation agrees to provide administrative and financial services to the activities of groups or individuals engaged in work that furthers the Foundation's mission. Expenditures dedicated for fiscal project purposes require that an equal amount of revenue has been received in current or prior years. Such revenue is included in contribution revenue for the years ended December 31, 2016 and 2015.

**Functional Allocation of Expenses** - Total expenses consisted of expenses relating to program services, management and general, and fundraising. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although methods of allocation used are considered appropriate, other methods could be used that may produce different amounts.

**Federal Tax Status** - The Internal Revenue Service has ruled that the Foundation is a public charity and operates as a 501(c)(3), as described in Section 509(a)(1) of the Internal Revenue Code. Consequently, the Foundation is exempt from federal income tax and certain excise taxes imposed on private foundations.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Retirement Plan** - The Foundation has a simplified employee benefit plan that covers all of its employees. The plan allows for salary deferrals and the Foundation makes matching contributions up to 3 percent of eligible compensation. Contributions to the plan for the years ended December 31, 2016 and 2015 were \$11,292 and \$11,009, respectively.

**Use of Estimates** - The preparation of 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 financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including May 3, 2017, which is the date the financial statements were available to be issued.

**Not-for-Profit Financial Reporting** - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Foundation will be impacted by the change in net asset classifications and the new disclosures on liquidity and availability of resources.

### Note 2 - Investments

Investments consisted of the following at December 31:

	Fair Value	
	2016	2015
Money market mutual funds	\$ 1,781,469	\$ 2,816,923
Fixed-income mutual funds	4,813,298	4,444,218
Equity mutual funds	32,372,955	19,426,732
Fund of funds	5,073,858	9,322,206
Hedge funds and private equity at net asset value	12,288,355	14,121,311
Note receivable	173,010	263,358
Total	<u>\$ 56,502,945</u>	<u>\$ 50,394,748</u>

# **Community Foundation of the Holland/Zeeland Area**

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## **Notes to Financial Statements December 31, 2016 and 2015**

### **Note 3 - Fair Value Measurements**

Accounting standards require certain assets be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Investments measured at fair value using net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy above.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 3 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2016
<b>Assets - Investments</b>					
Money market mutual funds	\$ 1,781,469	\$ -	\$ -	\$ -	\$ 1,781,469
Domestic equity mutual funds	25,602,281	-	-	-	25,602,281
Non-U.S. developed equity mutual funds	4,663,369	-	-	-	4,663,369
Non-U.S. developed equity hedge funds	-	2,689,861	-	-	2,689,861
Emerging markets equity	2,107,305	-	-	-	2,107,305
U.S. treasuries fixed-income mutual funds	4,799,157	-	-	-	4,799,157
Global fixed-income mutual and hedge funds	14,141	-	-	4,725,396	4,739,537
Hedge funds - Other strategies	-	-	-	6,321,030	6,321,030
Private equity - Real estate	-	-	-	1,241,929	1,241,929
Global REITS	-	2,383,997	-	-	2,383,997
Note receivable	-	-	173,010	-	173,010
<b>Total assets</b>	<b>\$ 38,967,722</b>	<b>\$ 5,073,858</b>	<b>\$ 173,010</b>	<b>\$ 12,288,355</b>	<b>\$ 56,502,945</b>

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2015
<b>Assets - Investments</b>					
Money market mutual funds	\$ 2,816,923	\$ -	\$ -	\$ -	\$ 2,816,923
Domestic equity mutual funds	11,461,053	-	-	-	11,461,053
Non-U.S. developed equity mutual funds	6,069,593	-	-	-	6,069,593
Non-U.S. developed equity hedge funds	-	4,538,555	-	-	4,538,555
Emerging markets equity	1,879,900	-	-	-	1,879,900
U.S. treasuries fixed-income mutual funds	4,429,187	-	-	-	4,429,187
Global fixed-income mutual and hedge funds	15,031	-	-	2,070,412	2,085,443
Hedge funds - Other strategies	-	3,477,287	-	11,184,638	14,661,925
Private equity - Real estate	-	-	-	866,261	866,261
Global REITS	16,186	1,306,364	-	-	1,322,550
Note receivable	-	-	263,358	-	263,358
<b>Total assets</b>	<b>\$ 26,687,873</b>	<b>\$ 9,322,206</b>	<b>\$ 263,358</b>	<b>\$ 14,121,311</b>	<b>\$ 50,394,748</b>

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 3 - Fair Value Measurements (Continued)

The fair value of hedge funds and REITs at December 31, 2016 and 2015 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments using quoted prices from similar funds and underlying assets.

The following tables summarize the valuation methods and inputs used to determine fair value at December 31, 2016 and 2015 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Note receivable	<u>\$ 173,010</u>	Present value of cash flows	Land contract agreement payments	7 percent interest at \$8,800 per month
	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Note receivable	<u>\$ 263,358</u>	Present value of cash flows	Land contract agreement payments	7 percent interest at \$8,800 per month

The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include determining the present value of future payments to be received under the land contract agreement, net of an impairment, if necessary.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015 are as follows:

	<u>Note Receivable</u>
Balance at January 1, 2016	\$ 263,358
Settlements	<u>(90,348)</u>
Balance at December 31, 2016	<u>\$ 173,010</u>
	<u>Note Receivable</u>
Balance at January 1, 2015	\$ 347,536
Settlements	<u>(84,178)</u>
Balance at December 31, 2015	<u>\$ 263,358</u>



# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 3 - Fair Value Measurements (Continued)

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses (included in settlements above) for this asset presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

#### Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	December 31, 2016	December 31, 2015	December 31, 2016		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Global fixed-income hedge funds (a)	\$ 4,725,396	\$ 2,070,412	\$ -	Monthly	None
Private equity - Real estate (b)	1,241,929	866,261	4,787,899	N/A	N/A
Diversified hedge fund (c)	5,263,964	5,738,951	-	Quarterly	65 days
Top-tier hedge fund (d)	-	2,928,904	-	Quarterly	90 days
Equity hedge fund (e)	988,799	1,178,908	-	Quarterly or Annually on 12/31	45-60 days
Multi-strategy hedge fund (f)	68,267	1,337,875	-	Annually on 12/31	45 days
Total	<u>\$ 12,288,355</u>	<u>\$ 14,121,311</u>	<u>\$ 4,787,899</u>		

- (a) The global fixed-income hedge fund seeks to generate returns above domestic inflation and to structure portfolios that preserve capital. The process and philosophy of the fund centers on prospective real yields (PRY) and the relative attractiveness of global markets based on interest rates and inflation forecasts, which are the primary driver of country and currency allocation. Portfolio duration is limited to plus or minus 25 percent of the index; however, the weighted average maturity of the portfolio can be adjusted if significant interest rate movements are anticipated.
- (b) The private equity fund is a multi-manager fund of funds (8 to 12 underlying funds) that provides investors with a real estate portfolio focused on the industrial, apartment, and office sectors. The fund targets net returns of 13 percent to 15 percent. The fund will be diversified by property type, region, manager, and strategy, and will include value-add/opportunistic strategies, with a core-plus component for stability and income. The manager will invest in broadly diversified portfolios, as well as select niche strategies, mixing shorter duration and longer-term strategies. This fund is liquid in 7 to 10 years from initial investment of June 2005.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 3 - Fair Value Measurements (Continued)

- (c) A diversified fund of hedge funds that seeks to generate equity-like returns with bond-like volatility employing multiple strategies (average allocation 50 percent long/short equity, 20 percent event driven, 20 percent relative value, 10 percent global asset allocation). The fund will typically be made up of 15 to 30 managers, and the aim is for no single fund to account for more than 15 percent of capital.
- (d) A fund-of-funds approach that focuses on top-tier firms with hedged equity, market neutral, global trading, short-biased, and long-biased strategies. The fund targets 60 percent to directional equity managers and 40 percent to nondirectional, usually multi-strategy managers. Manager allocations are targeted to be 10 percent, 5 percent, or 2.5 percent and must have at least \$5 million invested in the fund with the invested amount representing at least 50 percent of the managers' net worth.
- (e) A fund of funds focused on long/short equity hedge funds. The fund is diversified with 15 to 30 underlying managers and does not invest in funds that use excessive (consistently higher than 100 percent or periodically higher than 120 percent) leverage on the long side.
- (f) A low volatility multi-strategy fund seeking consistently positive returns, which are not dependent upon or correlated to equity or fixed-income markets. The fund targets volatility, which is one-third that of the S&P 500 Index or a level that is comparable to the Barclays Aggregate Bond Index. The low volatility multi-strategy fund generally employed approximately 25 managers with investment strategies in long/short credit, direct lending, distressed, event-driven, multi-strategy, relative value, and global macro to a lesser extent.

### Note 4 - Program-related Investments

The Foundation provides financing options for certain not-for-profits by creating program-related investment receivables with maturities greater than one year. The Foundation assesses these program-related investment receivables for impairment periodically, assessing the collateral, the recipients' ability to meet its obligation as it becomes due, and certain other credit quality indicators.

Effective August 7, 2009, the Foundation extended a program-related line of credit of \$500,000 to the Center for Innovation and Applied Design d/b/a NewNorth Center for Design in Business. The principal balance was \$380,000 at December 31, 2016 and 2015. The loan was modified in January 2014 to become a term loan instead of a line of credit. The loan bears 5 percent interest, which can be paid through in-kind services provided by the borrower. The note requires annual payments of \$20,000 in June and \$27,500 in December each year beginning in 2014 through the termination date of December 31, 2023. The note is collateralized by equipment, inventory, accounts, contract rights, general intangibles, and chattel paper of the borrower.

The Foundation has a program-related investment committee that uses a risk matrix to assess the collectibility of the program-related investment receivable. Each program-related investment is evaluated individually for impairment. The Foundation considers a program-related line of credit to be impaired when, based upon current information and events, it believes it is probable that the Foundation will be unable to collect all amounts due according to the contractual terms of the loan agreement.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 4 - Program-related Investments (Continued)

Loans receivable are charged against the allowance for credit losses when they are deemed to be uncollectible, ranging from 10 to 90 percent of the original note. The Foundation recorded an allowance of \$330,000 and \$285,000 at December 31, 2016 and 2015, respectively. The Foundation recognized approximately \$0 and \$27,800 in interest income during 2016 and 2015, respectively.

### Note 5 - Pledges Receivable

Pledges receivable consist of unconditional promises to give.

Pledges outstanding at December 31, 2016 and 2015 are expected to be collected as follows:

	2016	2015
Receivable in less than one year	\$ 508,515	\$ 1,113,817
Receivable in one to five years	511,855	611,000
Receivable in five years and after	2,500	-
Gross unconditional promises to give	<u>\$ 1,022,870</u>	<u>\$ 1,724,817</u>

### Note 6 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015
Building	\$ 695,000	\$ 695,000
Building improvements	104,950	104,950
Furniture and fixtures - Cost	314,574	316,963
Total cost	1,114,524	1,116,913
Less accumulated depreciation	<u>(249,336)</u>	<u>(177,666)</u>
Net carrying amount	<u>\$ 865,188</u>	<u>\$ 939,247</u>

Depreciation expense was \$75,304 for 2016 and \$63,983 for 2015.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 7 - Lease Commitments

The Foundation leases a copier under a 60-month operating lease, expiring in April 2016. The future minimum lease payments under the lease are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 2,520
2018	2,520
2019	2,520
2020	<u>1,890</u>
Total	<u>\$ 9,450</u>

Rent expense for 2016 and 2015 was \$2,520.

### Note 8 - Grants Payable

At December 31, 2016, the board of trustees has authorized certain grants to be paid in future periods. Total commitments are payable as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 520,292
2018	278,500
2019	<u>70,000</u>
Total	<u>\$ 868,792</u>

### Note 9 - Board Unrestricted Net Assets

The Foundation's endowment includes funds designated by the board of trustees to function as endowments, which represent all unrestricted net assets. 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 board of trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 9 - Board Unrestricted Net Assets (Continued)

The board of trustees, with the advice of legal and other professional counsel, has determined that the majority of the Foundation's net assets meet the definition of board-designated endowments (or "quasi-endowments") under UPMIFA. Further reference to "endowment" and "endowed asset" in these notes relates to those intentions of the Foundation.

The board of trustees classifies within unrestricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment. In accordance with UPMIFA, the Foundation 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 purpose of the Foundation and the board 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 Foundation
- (7) The investment policies of the Foundation

#### Changes in Endowment Net Assets for the Year Ended December 31, 2016

Board endowments - Beginning of year	\$ 48,650,069
Investment return - Net appreciation (realized and unrealized)	3,237,048
Contributions and other revenue	6,124,677
Appropriation of endowment assets for expenditure	(5,617,629)
Other changes - Transfers from board endowment funds	1,140,324
	<hr/>
Board endowments - End of year	\$ 53,534,489

#### Changes in Endowment Net Assets for the Year Ended December 31, 2015

Board endowments - Beginning of year	\$ 48,189,188
Investment return - Net depreciation (realized and unrealized)	(1,328,380)
Contributions and other revenue	6,460,078
Appropriation of endowment assets for expenditure	(5,149,470)
Other changes - Transfers from board endowment funds	478,653
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Board endowments - End of year	\$ 48,650,069

# **Community Foundation of the Holland/Zeeland Area**

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## **Notes to Financial Statements December 31, 2016 and 2015**

### **Note 9 - Board Unrestricted Net Assets (Continued)**

#### **Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board endowment funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the Consumer Price Index plus 5 percent on an annual basis. The 5 percent premium shall reflect the average annual spending policy. Total net return shall include interest, dividends, and the change in the capital value of the investments after all management and custodial fees have been deducted. Actual returns in any given year may vary from this amount.

#### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation 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**

Given the long-term historical returns on various asset classes, expectations for the future, and the demonstrated ability of some professional managers to add incremental return above market averages, the Foundation will accomplish its objectives by annually spending no more than 5 percent of the average market value of the fund over 12 quarters, subject to the gift instrument, calculation method, or additional spending limits set forth below. The allocation for this 5 percent shall consist of the applicable fee according to the then-current administrative fee schedule (or as stated in the gift instrument) and the remaining percentage for spending.

In order to be able to predict support and minimize the effect caused by volatility of returns, 4 percent (or 5 percent less the appropriate administrative fee) of the prior 12 quarters' average market value shall be used in determining annual spending allocations, calculated on a fund-by-fund basis. The formula shall be applied to the prior 12 quarters ending each September 30.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2016 and 2015

### Note 9 - Board Unrestricted Net Assets (Continued)

Funds with less than 12 quarters of history, but with four or more quarters, will be eligible for spending based on market performance, fund balance, and the objectives of the particular fund, with a goal of balancing consistent granting that meets with donor intent and principal preservation to sustain the endowed nature of the fund. The calculation shall consist of the applicable spending percentage applied to the average market value of the fund over the actual quarters it has been in existence.

Funds with less than four quarters of history may set aside additional nonendowed dollars designated for current or future year spending or will be allowed to make distributions the following year by applying a reduced spending rate based on the actual number of quarters in existence prior to the September 30 calculation date. (i.e., one quarter of existence would use a 1 percent spending rate, two quarters of existence would use a 2 percent spending rate, and three quarters a 3 percent rate).

Distributions for all fund types will be made in accordance with the individual fund agreements or policies or procedures then in effect for funds of that type.

### Note 10 - Funds Held as Agency

The Foundation has adopted guidance to record transfers of assets to a not-for-profit organization that holds contributions for others. Accounting standards specifically require 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. The standard specifically requires that if a not-for-profit organization (NPO) 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 Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. In accordance with accounting standards, a liability has been established for a portion of the fair value of the funds, which is generally equivalent to the present value of future payments which may be made to NPOs.

The following table summarizes activity in such funds:

	<u>2016</u>	<u>2015</u>
Funds held as agency - Beginning of year	\$ 4,585,919	\$ 4,673,817
Gifts, memorials, and bequests	398,503	223,258
Investment income (loss)	326,994	(127,324)
Grants and administrative expenses	<u>(348,489)</u>	<u>(183,832)</u>
Funds held as agency - End of year	<u>\$ 4,962,927</u>	<u>\$ 4,585,919</u>

## **Additional Information**

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## Independent Auditor's Report on Additional Information

To the Board of Trustees  
Community Foundation of the  
Holland/Zeeland Area

We have audited the financial statements of Community Foundation of the Holland/Zeeland Area as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated May 3, 2017, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The details of support activities and program services is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

May 3, 2017

# Community Foundation of the Holland/Zeeland Area

## Details of Support Activities and Program Services

	Year Ended December 31	
	2016	2015
Professional services	\$ 1,111	\$ 450
Salaries and wages	407,300	408,017
Payroll taxes	30,724	31,648
Retirement plan contributions	11,292	11,009
Employee benefits	14,612	21,305
Occupancy	24,585	24,203
Printing	2,943	7,241
Office supplies	2,544	2,914
Postage	3,750	3,435
Telephone	7,235	6,600
Conferences	14,941	15,017
Computer service	36,198	25,558
Annual report	8,435	9,631
Memberships and subscriptions	16,963	15,404
Web services	-	707
Accounting services	29,356	16,458
Marketing and newsletter	21,020	18,981
Insurance	6,903	8,958
Meetings, luncheons, and dinners	83,831	73,457
Depreciation	75,304	63,983
Facility improvement/relocation expense	-	3,657
Miscellaneous	4,087	4,105
Advertising	9,406	13,203
Estate campaign	742	26,039
	<u>\$ 813,282</u>	<u>\$ 811,980</u>
<b>Total support activities and program services</b>		
<b>Reconciliation to Statement of Activities and Changes in Net Assets</b>		
Program services	\$ 223,742	\$ 200,878
Management and general	360,264	344,255
Fundraising	229,276	266,847
	<u>\$ 813,282</u>	<u>\$ 811,980</u>
<b>Total</b>		