

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

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**Financial Report  
with Additional Information  
December 31, 2013**

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

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## **Contents**

<b>Board and Staff List</b>	I
<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	7-23
<b>Additional Information</b>	24
<b>Report Letter</b>	25
Details of Support Activities and Program Services	26

## Board and Staff

### **Officers**

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Chair	Susan Den Herder
Chair-elect, Chair - Audit and Investment	Lori Bush
Secretary, Chair - Distribution	Juanita F. Bocanegra
Treasurer	Randy Thelen
President/CEO	Janet DeYoung

### **Trustees**

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Chair - PRI	Eleanor Lopez
Chair - Education	Nancy Miller
Past Chair	Haans Mulder
Chair - Development	Jane Patterson
	Ann Query
	Judith Smith
	Scott Spoelhof
	Dan Zwier
Chair - YAC	Andrew Coté - Youth Trustee

### **Advisors**

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Taiyoh and Robyn Afrik - YAC

### **Staff**

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President/CEO	Janet DeYoung
Vice-President of Donor Development	Mike Goorhouse
Director of Finance and Administration	Diana L. Mavis
Director of Grantmaking	Elizabeth E. Kidd
Director of Scholarships and Education	Stacy Timmerman
Finance Associate/Office Manager	Soma Khov
Communications Associate	Nicole Paquette

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Community Foundation of the Holland/Zeeland Area (the "Foundation"), which comprise the balance sheet as of December 31, 2013 and 2012 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 Directors  
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 the Community Foundation of the Holland/Zeeland Area as of December 31, 2013 and 2012 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.

***Emphasis of Matter***

As explained in Note 3, the December 31, 2013 and 2012 financial statements include investments valued at approximately \$16.4 million and \$14.9 million (34.1 percent and 34.4 percent of net assets), respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

*Plante & Moran, PLLC*

May 13, 2014

# Community Foundation of the Holland/Zeeland Area

## Balance Sheet

	December 31, 2013	December 31, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 2,216,557	\$ 3,454,126
Investments (Notes 2 and 3)	49,147,859	42,279,338
Loans and notes receivable - Program-related investments - Net (Note 4)	283,168	332,417
Pledges receivable (Note 5)	870,589	1,618,229
Cash surrender value of life insurance	8,666	6,983
Property and equipment (Note 6)	1,003,350	718,529
Total assets	<u>\$ 53,530,189</u>	<u>\$ 48,409,622</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accrued compensation	\$ 3,350	\$ 8,522
Grants payable (Note 8)	671,451	913,030
Split interest agreements payable	88,369	118,554
Funds held as agency endowments - Founding funds (Note 10)	4,561,896	4,093,476
Total liabilities	5,325,066	5,133,582
<b>Net Assets</b>		
Unrestricted:		
Board endowments	6,356,463	5,690,486
Undesignated	40,109,752	35,350,922
Temporarily restricted net assets	1,738,908	2,234,632
Total net assets	48,205,123	43,276,040
Total liabilities and net assets	<u>\$ 53,530,189</u>	<u>\$ 48,409,622</u>

# Community Foundation of the Holland/Zeeland Area

## Statement of Activities and Changes in Net Assets

	Year Ended					
	December 31, 2013			December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains, and Other Support</b>						
Contributions	\$ 3,448,190	\$ 338,775	\$ 3,786,965	\$ 5,832,177	\$ 2,249,906	\$ 8,082,083
In-kind donations	258,695	-	258,695	-	-	-
Investment income	399,065	-	399,065	414,531	-	414,531
Change in value of split interest agreements	(30,974)	-	(30,974)	(25,371)	-	(25,371)
Net realized and unrealized gains and losses on investments	5,029,259	84,507	5,113,766	3,128,765	51,442	3,180,207
Special event and other revenue	147,774	-	147,774	143,670	-	143,670
Net assets released from restrictions	919,006	(919,006)	-	1,010,007	(1,010,007)	-
Total revenue, gains, and other support	10,171,015	(495,724)	9,675,291	10,503,779	1,291,341	11,795,120
<b>Expenses</b>						
Program:						
Grants	3,680,445	-	3,680,445	3,773,258	-	3,773,258
Program services	181,389	-	181,389	128,255	-	128,255
Fund-related program services	366,264	-	366,264	720,964	-	720,964
Management and general	311,139	-	311,139	224,275	-	224,275
Fundraising	206,971	-	206,971	215,591	-	215,591
Total expenses	4,746,208	-	4,746,208	5,062,343	-	5,062,343
<b>Increase (Decrease) in Net Assets</b>	5,424,807	(495,724)	4,929,083	5,441,436	1,291,341	6,732,777
<b>Net Assets - Beginning of year</b>	41,041,408	2,234,632	43,276,040	35,599,972	943,291	36,543,263
<b>Net Assets - End of year</b>	<b>\$ 46,466,215</b>	<b>\$ 1,738,908</b>	<b>\$ 48,205,123</b>	<b>\$ 41,041,408</b>	<b>\$ 2,234,632</b>	<b>\$ 43,276,040</b>

# Community Foundation of the Holland/Zeeland Area

## Statement of Cash Flows

	Year Ended	
	December 31, 2013	December 31, 2012
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 4,929,083	\$ 6,732,777
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	46,392	7,541
Loss on sale of property and equipment	16,831	-
Provision for loan losses	(25,482)	400,000
Unrealized gains on investments	(5,408,837)	(3,611,430)
Cash surrender value of life insurance	(1,683)	(1,586)
In-kind gifts	(258,695)	-
Change in value of split-interest agreements	30,794	25,371
Changes in operating assets and liabilities which provided (used cash):		
Pledges receivable	747,640	(1,484,954)
Grants payable	(241,579)	(32,330)
Other liabilities	463,248	414,490
Net cash provided by operating activities	297,712	2,449,879
<b>Cash Flows from Investing Activities</b>		
Purchase of capital assets	(89,349)	(695,000)
Purchases of investments	(2,318,818)	(3,648,036)
Proceeds from sales and maturities of investments	859,134	4,029,570
Receipts on notes receivable	74,731	21,770
Issuance of notes receivable	-	(250,000)
Net cash used in investing activities	(1,474,302)	(541,696)
<b>Cash Flows from Financing Activities - Payments on charitable gift annuities</b>	(60,979)	(59,763)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(1,237,569)	1,848,420
<b>Cash and Cash Equivalents - Beginning of year</b>	3,454,126	1,605,706
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,216,557</b>	<b>\$ 3,454,126</b>



# Community Foundation of the Holland/Zeeland Area

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## Notes to Financial Statements December 31, 2013 and 2012

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

**Foundation Purpose** - The 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 the 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, 2013 and 2012, the Foundation had \$334,317 and \$0 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.

**Life Insurance Cash Surrender Value** - The Foundation is the owner of a life insurance policy on one donor who named the Foundation as beneficiary.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

**Capital Assets** - Capital assets are stated at their estimated market value 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 3-25 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 \$20,000, as defined by each agreement. The discount rates used to calculate the present value range from 5.1 percent to 13.7 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>2013</u>	<u>2012</u>
Ready for School	\$ 826,079	\$ 1,315,390
Connections	10,483	-
Destination Education	68,700	27,785
MSU Bioeconomy Fund	648,532	593,618
Capital Reserve	<u>185,114</u>	<u>297,839</u>
Total temporarily restricted net assets	<u>\$ 1,738,908</u>	<u>\$ 2,234,632</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, 2013 or 2012.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

**Community Foundation Classification of Unrestricted Net Assets** - The bylaws of the 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 further 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>2013</u>	<u>2012</u>
Named and Community's Endowment Fund	\$ 9,583,374	\$ 8,019,282
Donor advised	6,323,068	5,312,796
Non-endowed Community	5,921,357	5,390,958
Field of interest	10,754,575	10,093,577
Scholarships	5,626,163	4,866,638
Charitable trusts and annuities	508,530	549,479
Donor-designated and agency endowments	<u>7,749,148</u>	<u>6,808,678</u>
Total unrestricted net assets	<u>\$ 46,466,215</u>	<u>\$ 41,041,408</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, 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 value 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, 2013 and 2012

### **Note I - 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.

**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, 2013 and 2012

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to December 31, 2010.

**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, 2013 and 2012 were \$11,229 and \$8,864, 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 13, 2014, which is the date the financial statements were available to be issued.

### Note 2 - Investments

Investments consisted of the following at December 31:

	Fair Value	
	2013	2012
Money market mutual funds	\$ 324,440	\$ 52,489
Fixed-income mutual funds	3,738,323	4,087,353
Equity mutual funds	17,531,660	13,345,713
Hedge fund of funds	11,128,514	9,922,760
Hedge funds and private equity	15,999,718	14,373,601
Note receivable	425,204	497,422
Total	<u>\$ 49,147,859</u>	<u>\$ 42,279,338</u>

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

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## **Notes to Financial Statements December 31, 2013 and 2012**

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

Accounting standards require certain assets and liabilities 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, 2013 and 2012 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.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
Assets - Investments:				
Money market mutual funds	\$ 324,440	\$ -	\$ -	\$ 324,440
Domestic equity mutual funds	9,607,400	-	-	9,607,400
Non-U.S. developed equity mutual funds	5,995,661	-	-	5,995,661
Non-U.S. developed equity hedge funds	-	5,456,726	-	5,456,726
Emerging markets equity	1,911,212	-	-	1,911,212
U.S. treasuries fixed-income mutual funds	3,724,696	-	-	3,724,696
Global fixed-income mutual funds	13,627	-	-	13,627
Global fixed-income hedge funds	-	-	1,919,731	1,919,731
Hedge funds - Other strategies	-	4,602,747	13,766,309	18,369,056
Private equity - Real estate	-	-	313,678	313,678
Global REITS	17,387	1,069,041	-	1,086,428
Note receivable	-	-	425,204	425,204
Total investments	<u>\$ 21,594,423</u>	<u>\$ 11,128,514</u>	<u>\$ 16,424,922</u>	<u>\$ 49,147,859</u>

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2012
Assets - Investments:				
Money market mutual funds	\$ 52,489	\$ -	\$ -	\$ 52,489
Domestic equity mutual funds	7,201,673	-	-	7,201,673
Non-U.S. developed equity mutual funds	4,257,032	-	-	4,257,032
Non-U.S. developed equity hedge funds	-	4,289,329	-	4,289,329
Emerging markets equity	1,869,912	-	-	1,869,912
U.S. treasuries fixed-income mutual funds	4,072,612	-	-	4,072,612
Global fixed-income mutual funds	14,741	-	-	14,741
Global fixed-income hedge funds	-	-	2,061,424	2,061,424
Hedge funds - Other strategies	-	4,732,179	11,988,735	16,720,914
Private equity - Real estate	-	-	323,442	323,442
Global REITS	17,096	901,252	-	918,348
Note receivable	-	-	497,422	497,422
Total investments	<u>\$ 17,485,555</u>	<u>\$ 9,922,760</u>	<u>\$ 14,871,023</u>	<u>\$ 42,279,338</u>

The Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period.

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2013 and 2012:

	Fair Value at January 1, 2013	Purchases	Sales or Payments on Note Receivable	Unrealized Gains (Losses)	Realized Gains	Fair Value at December 31, 2013
Global fixed - Income hedge funds	\$ 2,061,424	\$ 29,114	\$ -	\$ (170,807)	\$ -	\$ 1,919,731
Hedge funds	11,988,734	-	-	1,777,574	-	13,766,308
Private equity - Real estate	323,443	-	(37,201)	-	27,437	313,679
Note receivable	497,422	-	(72,218)	-	-	425,204
Total Level 3 assets at fair value	<u>\$ 14,871,023</u>	<u>\$ 29,114</u>	<u>\$ (109,419)</u>	<u>\$ 1,606,767</u>	<u>\$ 27,437</u>	<u>\$ 16,424,922</u>



# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

	Fair Value at January 1, 2012	Purchases	Sales or Payments on Note Receivable	Unrealized Gains (Losses)	Realized Gains	Fair Value at December 31, 2012
Global fixed - Income hedge funds	\$ 2,042,120	\$ 29,514	\$ -	\$ (10,210)	\$ -	\$ 2,061,424
Hedge funds	13,500,256	1,500,000	(3,639,035)	612,740	14,773	11,988,734
Private equity - Real estate	332,104	6,250	(20,330)	(1,416)	6,835	323,443
Note receivable	565,106	-	(67,684)	-	-	497,422
Total Level 3 assets at fair value	<u>\$ 16,439,586</u>	<u>\$ 1,535,764</u>	<u>\$ (3,727,049)</u>	<u>\$ 601,114</u>	<u>\$ 21,608</u>	<u>\$ 14,871,023</u>

The fair value of the hedge funds, private equity funds, and note receivable at December 31, 2013 and 2012 was determined primarily based on Level 3 inputs. The Foundation estimates the fair value of these investments based on fund manager statements adjusted for additional investments into the funds or withdrawals from the funds. The Foundation estimates the fair value of the note receivable using a discounted cash flow model and market interest rates.

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 for these assets 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 at year end where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

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

#### Investments Held at December 31, 2013

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Global fixed-income hedge funds (a)	\$ 1,919,731	\$ -	Monthly	None
Private equity - Real estate (b)	313,678	6,250	N/A	N/A
Diversified hedge fund (c)	5,389,437	-	Quarterly	65 days
Top-tier hedge fund (d)	1,702,315	-	Quarterly	90 days
Equity hedge fund (e)	4,922,282	-	Annual on 12/31	60 days
Multi-strategy hedge fund (f)	1,752,275	-	Annual on 12/31	45 days
Total	<u>\$ 15,999,718</u>	<u>\$ 6,250</u>		

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

#### Investments Held at December 31, 2012

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Global fixed-income hedge funds (a)	\$ 2,061,424	\$ -	Monthly	None
Private equity - Real estate (b)	323,442	6,250	N/A	N/A
Diversified hedge fund (c)	4,741,691	-	Quarterly	65 days
Top-tier hedge fund (d)	1,467,818	-	Quarterly	90 days
Equity hedge fund (e)	4,355,328	-	Annual on 12/31	60 days
Multi-strategy hedge fund (f)	1,423,898	-	Annual on 12/31	45 days
Total	<u>\$ 14,373,601</u>	<u>\$ 6,250</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 (8-12 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 7-10 years from initial investment of June 2005.
- (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 15-30 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 non-directional, usually multi-strategy managers. Manager allocations are targeted to be either 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 15-30 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.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

- (g) An event-driven fund which combines deep fundamental analysis with a hard catalyst and a global perspective. Geographically, the fund has historically been invested primarily in the U.S. (80 percent - 85 percent), but also in Europe, the U.K., and Asia. Categories of investment can include distressed investing, credit opportunities, special situations, and merger arbitrage. Liquidity is emphasized and the fund likes to be able to liquidate a position in a few days. Long market value is targeted to remain below 100 percent and the beta adjusted net exposure between +20 percent and -20 percent. The fund is subject to an initial two-year lock which began in January 2012.

The following table summarizes the valuation methods and inputs used to determine fair value at December 31, 2013 for assets measured at fair value on a nonrecurring basis using unobservable inputs (Level 3 inputs).

	Fair Value at December 31, 2013	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Note receivable	\$ 425,204	Present value of cash flows	Land contract agreement payments	7% 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 periodic real estate appraisals and adherence to a land contract agreement for present value of payments.

### 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 \$475,000 and \$500,000 at December 31, 2013 and 2012, respectively. The loan bears 5 percent interest from the second anniversary date of the note. The note requires interest-only payments until the principal matures on August 6, 2014. The note is collateralized by equipment, inventory, accounts, contract rights, general intangibles, and chattel paper of the borrower.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

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

Effective July 25, 2012, the Foundation extended a program-related promissory note of \$250,000 to Kandu Incorporated. The principal balance was \$182,689 and \$232,417 at December 31, 2013 and 2012, respectively. The loan bears 6 percent interest annually and requires monthly principal and interest payments of \$4,833. The note matures August 20, 2017 and is collateralized by chattel paper, deposit accounts, documents, equipment, fixtures, general intangibles, goods, instruments, inventory, investment property, and letter-of-credit rights 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.

Loan receivables are charged against the allowance for credit losses when they are deemed to be uncollectible, ranging from 10 to 75 percent of the original note. The Foundation recorded an allowance of \$374,521 and \$400,000 at December 31, 2013 and 2012, respectively. The Foundation recognized approximately \$85,000 and \$51,000 in interest income during 2013 and 2012.

### Note 5 - Pledges Receivable

Pledges receivable consists of unconditional promises to give.

Pledges outstanding at December 31, 2013 and 2012 are expected to be collected as follows:

	2013	2012
Receivable in less than one year	\$ 807,550	\$ 788,315
Receivable in one to five years	63,039	829,914
Gross unconditional promises to give	<u>\$ 870,589</u>	<u>\$ 1,618,229</u>

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

### Note 6 - Capital Assets

The cost of property and equipment is summarized as follows:

	<u>2013</u>	<u>2012</u>
Building	\$ 695,000	\$ 695,000
Building improvements	96,913	-
Furniture and fixtures - Cost	<u>265,245</u>	<u>163,348</u>
Total cost	1,057,158	858,348
Less accumulated depreciation	<u>(53,808)</u>	<u>(139,819)</u>
Net carrying amount	<u>\$ 1,003,350</u>	<u>\$ 718,529</u>

Depreciation expense was \$46,392 for 2013 and \$7,541 for 2012.

### Note 7 - Lease Commitments

The Foundation leased office space under a lease agreement that expired in March 2013. The lease agreement required monthly payments exclusive of inflation adjustments as required by the agreement.

The Foundation leased office space from Mid-Town Campus on behalf of a board initiative called Destination Education. The lease for agreement required monthly payments that cover rent, utilities, and communications. The lease expired in May 2013 and Destination Education took over the lease obligation.

The Foundation leases a copier under a 60-month operating lease, expiring in April 2016.

The future minimum lease payments under all leases are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2014	\$ 2,520
2015	2,520
2016	<u>630</u>
Total	<u>\$ 5,670</u>

Rent expense for 2013 and 2012 was \$7,320 and \$24,819, respectively.

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

### Note 8 - Grants Payable

At December 31, 2013, 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>
2014	\$ 616,451
2015	<u>55,000</u>
Total	<u>\$ 671,451</u>

### Note 9 - Board Endowments

The Foundation's endowment includes funds designated by the board of trustees to function as endowments. 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. The Foundation also applies the following strategies to the unrestricted net assets outside of the board endowments.

#### 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.

The board of trustees, with the advice of legal and other professional counsel, has determined that the majority of the Foundation's net assets do not meet the definition of endowment under UPMIFA. However, the Foundation intends many of its funds to be permanent and manages them accordingly. 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

# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

### Note 9 - Board Endowments (Continued)

#### Changes in Endowment Net Assets for the Year Ended December 31, 2013

Board endowments - Beginning of year	\$ 5,690,486
Investment return - Net appreciation (realized and unrealized)	564,259
Contributions	551,856
Appropriation of endowment assets for expenditure	(480,588)
Other changes - Transfers from board endowment funds	30,450
Board endowments - End of year	<u>\$ 6,356,463</u>

#### Changes in Endowment Net Assets for the Year Ended December 31, 2012

Board endowments - Beginning of year	\$ 4,938,665
Investment return - Net appreciation (realized and unrealized)	507,706
Contributions	640,613
Appropriation of endowment assets for expenditure	(376,498)
Other changes - Transfers to board endowment funds	(20,000)
Board endowments - End of year	<u>\$ 5,690,486</u>

#### 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(s) 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.

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

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## **Notes to Financial Statements December 31, 2013 and 2012**

### **Note 9 - Board Endowments (Continued)**

#### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation adopted a revised spending policy effective July 26, 2012, which now allows funds with less than four quarters to spend at a reduced rate. This policy will be used in calculating the spending allocation for 2013 and beyond.

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.

Funds with less than 12 quarters of history but 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). For December 31, 2012, funds with less than four quarters were typically not included in the spending calculation, nor were any distributions typically made from these funds unless additional nonendowed dollars were contributed and designated for current spending.

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.



# Community Foundation of the Holland/Zeeland Area

## Notes to Financial Statements December 31, 2013 and 2012

### 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>2013</u>	<u>2012</u>
Funds held as agency - Beginning of year	\$ 4,093,476	\$ 3,683,191
Gifts, memorials, and bequests	138,514	313,886
Investment income	596,568	400,301
Grants and administrative expenses	<u>(266,662)</u>	<u>(303,902)</u>
Funds held as agency - End of year	<u>\$ 4,561,896</u>	<u>\$ 4,093,476</u>

## **Additional Information**

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Independent Auditor's Report on Additional Information

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

We have audited the financial statements of the Community Foundation of the Holland/Zeeland Area as of and for the years ended December 31, 2013 and 2012. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The detail 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 13, 2014

# Community Foundation of the Holland/Zeeland Area

## Details of Support Activities and Program Services

	Year Ended December 31	
	2013	2012
Professional services	\$ 16,789	\$ 23,110
Salaries and wages	358,923	310,839
Payroll taxes	27,591	22,737
Retirement plan contributions	11,229	8,864
Employee benefits	35,362	22,699
Occupancy	27,277	30,574
Printing	12,933	4,243
Office supplies	5,883	3,725
Postage	3,027	3,280
Telephone	3,622	1,830
Conferences	8,170	11,880
Computer service	21,783	12,730
Annual report	7,493	12,805
Memberships and subscriptions	7,072	6,963
Web services	2,856	1,141
Marketing and newsletter	26,990	33,210
Insurance	8,642	6,911
Meetings, luncheons, and dinners	30,264	28,174
Depreciation	46,392	7,541
Travel	5,850	6,129
Facility relocation expense	9,882	3,698
Miscellaneous	1,872	3,920
Advertising	2,766	1,118
Sale of property and equipment	16,831	-
Total support activities and program services	<u>\$ 699,499</u>	<u>\$ 568,121</u>
<b>Reconciliation to Statement of Activities and Changes in Net Assets</b>		
Program services	\$ 181,389	\$ 128,255
Management and general	311,139	224,275
Fundraising	206,971	215,591
Total	<u>\$ 699,499</u>	<u>\$ 568,121</u>