

Community
Foundation *for*
Muskegon
County and
Supporting
Organizations



community foundation®

Muskegon County

For **good.** For **ever.**®

Years Ended
December 31,
2014 and 2013

Combined
Financial
Statements
and
Supplementary
Information

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

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INDEPENDENT AUDITORS' REPORT

May 19, 2015

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

We have audited the accompanying combined financial statements of the *Community Foundation for Muskegon County and Supporting Organizations* (the "Organizations"), which comprise the combined statements of financial position as of December 31, 2014 and 2013, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the *Community Foundation for Muskegon County and Supporting Organizations* as of December 31, 2014 and 2013, and the combined changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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

COMBINED STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31	
	2014	2013
Cash and cash equivalents	\$ 8,044,580	\$ 8,925,306
Investments	158,327,186	138,545,704
Pooled income fund	317,818	321,856
Other investments	3,510,429	3,086,204
Beneficial interest in charitable lead trust	222,616	311,885
Receivables	3,705,780	4,235,450
Other assets	142,097	98,012
Net property and equipment	6,807,607	6,981,463
Total assets	\$ 181,078,113	\$ 162,505,880
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 94,649	\$ 185,739
Line of credit	1,597,107	851,655
Deferred gift annuities	1,493,035	1,892,432
Funds held as agency endowments	11,909,583	9,040,256
Funds held as community service	2,816,572	5,380,395
Total liabilities	17,910,946	17,350,477
Commitments (Note 9)		
Net assets		
Unrestricted	162,944,551	144,843,518
Temporarily restricted	222,616	311,885
Total net assets	163,167,167	145,155,403
Total liabilities and net assets	\$ 181,078,113	\$ 162,505,880

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

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

COMBINED STATEMENTS OF ACTIVITIES

	Year Ended December 31	
	2014	2013
Unrestricted net assets		
Unrestricted revenues and gains		
Gifts and grants received	\$ 20,695,315	\$ 13,880,438
Less: Amounts received from Agency Endowments	2,798,770	219,452
Net unrestricted gifts and grants received	17,896,545	13,660,986
Dividends and interest	3,509,088	3,896,611
Net realized and unrealized investment gains	3,569,079	9,918,461
Frauenthal Center for the Performing Arts income	405,762	430,257
Rental income	95,695	81,363
Smash Wine Bar income	401,517	107,537
Other income	250,323	363,578
Total unrestricted revenues and gains	26,128,009	28,458,793
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	106,735	106,735
Total unrestricted revenues, gains and other support	26,234,744	28,565,528
Expenses		
Program services		
Grants and direct fund expenses	4,970,240	6,669,688
Program grants - Frauenthal Center for the Performing Arts	714,582	731,611
Supporting services		
Grantmaking	267,073	240,850
Philanthropic service	78,551	70,838
Special projects	251,364	226,682
Development	408,465	368,358
Fund management	78,551	70,838
Management and general	487,013	439,196
Rental expenses - Western Avenue Properties	101,897	98,208
Smash Wine Bar expenses	499,809	215,373
Depreciation	276,166	252,238
Total expenses	8,133,711	9,383,880
Increase in unrestricted net assets	18,101,033	19,181,648

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

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

COMBINED STATEMENTS OF ACTIVITIES (CONCLUDED)

	Year Ended December 31	
	2014	2013
Temporarily restricted net assets		
Change in value of charitable lead trust	\$ 17,466	\$ 22,200
Net assets released from restrictions		
Restrictions satisfied by charitable lead trust receipts	(106,735)	(106,735)
Decrease in temporarily restricted net assets	<u>(89,269)</u>	<u>(84,535)</u>
Total net increase in net assets	18,011,764	19,097,113
Net assets, beginning of year	<u>145,155,403</u>	<u>126,058,290</u>
Net assets, end of year	<u>\$ 163,167,167</u>	<u>\$ 145,155,403</u>

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

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

COMBINED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2014	2013
Cash flows from operating activities		
Increase in net assets	\$ 18,011,764	\$ 19,097,113
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	276,166	252,238
Net realized and unrealized investment gains	(3,569,079)	(9,918,461)
Net realized and unrealized investment gains on annuity obligations	-	(7,858)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	63,081	14,674
Other assets	(58,310)	(29,740)
Accounts payable	(91,090)	70,212
Net gifts (grants) in funds held as agency endowment:	2,365,150	(398,627)
Funds held as community service	(2,563,823)	674,966
Net cash provided by operating activities	14,433,859	9,754,517
Cash flows from investing activities		
Issuance of notes receivable	(370,000)	(1,545,000)
Collection of notes receivable	836,589	34,432
Purchases of property and equipment	(102,310)	(289,056)
Purchases of investments	(172,874,683)	(73,412,173)
Proceeds from maturities and sales of investments	156,849,764	65,348,833
Net cash used in investing activities	(15,660,640)	(9,862,964)
Cash flows from financing activities		
Line of credit	745,452	851,655
Increase in annuity obligations	53,802	55,230
Payments on annuity obligations	(453,199)	(570,029)
Net cash provided by financing activities	346,055	336,856
Net (decrease) increase in cash and cash equivalents	(880,726)	228,409
Cash and cash equivalents, beginning of year	8,925,306	8,696,897
Cash and cash equivalents, end of year	\$ 8,044,580	\$ 8,925,306

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

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

Nature of Organization

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

The *Paul C. Johnson Foundation* was organized for general charitable purposes, and its principal activity is to support and benefit the Community Foundation for Muskegon County. The majority of the Board of Directors of The Paul C. Johnson Foundation consists of individuals appointed by the Trustees of the Community Foundation for Muskegon County. The Paul C. Johnson Foundation has been included in the accompanying combined financial statements as a supporting organization of the Community Foundation for Muskegon County. The net assets of The Paul C. Johnson Foundation were \$3,346,168 and \$3,279,578 at December 31, 2014 and 2013, respectively.

The *Pennies From Heaven Foundation* was organized for general charitable purposes during 2012. Its principal activity is to support and benefit the Community Foundation for Muskegon County. The majority of the Board of Directors of The Pennies from Heaven Foundation consists of individuals appointed by the Trustees of the Community Foundation for Muskegon County. The Pennies from Heaven Foundation has been included in the accompanying combined financial statements as a supporting organization of the Community Foundation for Muskegon County. The net assets of the Pennies from Heaven Foundation were \$21,156,412 and \$15,703,747 at December 31, 2014 and 2013, respectively.

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

Basis of Combined Statement Presentation

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

Significant Accounting Policies

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

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

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

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

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

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organizations. Generally, the donors of these assets permit the Organizations to use all or part of the income earned on any related investments for general or specific purposes. The Organizations had no permanently restricted net assets at December 31, 2014 or 2013.

Gifts and Grants

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant estimates include, but are not limited to, fair value of investments, present value of future estimated payments under deferred gift annuities, and useful lives of property and equipment.

Cash and Cash Equivalents

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

Investments

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

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2 to the combined financial statements.

Notes Receivable

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

Property and Equipment

The Organizations capitalize all property and equipment in excess of \$1,000. Land is stated at cost. Property and equipment is stated at cost less accumulated depreciation. Donated assets are recorded at fair value when received. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired.

Depreciation

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

Deferred Gift Annuities

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Funds Held as Community Service

Funds held as community service represent funds that are owned by various non-profit entities which are managed and maintained by the Organizations. At December 31, 2014 and 2013, there were 91 and 69 funds, respectively, held as community service.

Grants

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

Income Taxes

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

The Organizations analyzed their filing positions in the federal and state jurisdictions where they are required to file income tax returns, as well as all open tax years in these jurisdictions. The Organizations have also elected to retain their existing accounting policies with respect to the treatment of interest and penalties attributable to income taxes, and continue to reflect any charges for such, to the extent they arise, as a component of their management and general expenses.

The Organizations have evaluated the provisions of ASC Topic 740 for the years 2010 through 2014, the years which remain subject to examination by major tax jurisdictions as of December 31, 2014. The Organizations concluded that there are no significant uncertain tax positions requiring recognition in the Organizations' combined financial statements. The Organizations do not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly increase in the next 12 months. The Organizations do not have any amounts accrued for interest and penalties related to UTB at December 31, 2014 and 2013, and they are not aware of any claims for such amounts by federal or state income tax authorities.

Endowments

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

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

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

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

Subsequent Events

In preparing these combined financial statements, the Organizations have evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2014, the most recent combined statement of financial position presented herein, through May 19, 2015, the date the combined financial statements were available to be issued. No significant such events or transactions were identified.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	2014	2013
Mutual funds		
Fixed income	\$ 46,953,514	\$ 10,842,191
Global flexible	-	61,456,854
Global real estate	-	163,733
REIT index	15,063,316	-
Treasury notes/bonds	-	3,368,631
Large cap equities	-	30,143,057
Mid cap equities	-	8,608,059
Small cap equities	-	7,021,395
Domestic equities	56,587,174	-
International equities	39,023,708	16,641,363
Commodities	-	116,630
Miscellaneous investments	699,474	183,791
Total investments at fair value	<u>\$ 158,327,186</u>	<u>\$ 138,545,704</u>

All of the above investments for 2014 and 2013 are classified as Level 1 assets.

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

Investment revenues are reported net of related investment expenses in the combined statements of activities. The amount of expenses netted with revenues was \$144,983 and \$229,392 for 2014 and 2013, respectively.

The Organizations have a majority of their investments in one brokerage firm. As of December 31, 2014 and 2013, approximately 92% and 93% of the Organizations' total investments are held in safekeeping with one institution.

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

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

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

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

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

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

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

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organizations believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

The carrying amount of financial instruments not recorded at fair value in their entirety on a recurring basis approximated the fair value of these instruments at December 31, 2014 and 2013.

3. COMMUNITY FOUNDATION FOR MUSKEGON COUNTY POOLED INCOME FUND

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

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

4. OTHER INVESTMENTS

Other investments consist of the following at December 31:

	2014	2013
Real estate	\$ 2,537,569	\$ 2,534,687
Life insurance	136,265	124,922
Other	<u>836,595</u>	<u>426,595</u>
Total other investments	<u>\$ 3,510,429</u>	<u>\$ 3,086,204</u>

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

5. BENEFICIAL INTEREST IN CHARITABLE LEAD TRUST

During 2007, a donor established a trust naming the Organizations as the lead beneficiary of a charitable lead trust. Under terms of the agreement, the Organizations are to receive 6% of the initial fair market value of the trust, or \$106,735, for ten years, commencing the year of the donor's death. After ten years, the trust is to terminate, and the remaining assets are to be distributed to the other beneficiaries of the trust. Based upon a ten year term and a discount rate of 5.6%, the present value of future benefits expected to be received by the Organizations was \$800,686, which was recorded in 2007 as a temporarily restricted contribution. The Organizations received \$106,735 from the trust in 2014 and 2013, recorded as a reduction in assets held in charitable lead trust and a corresponding reclassification from temporarily restricted to unrestricted net assets. During 2009, the Organizations held the funds as trustee; during 2010, the other beneficiaries of the trust moved the funds to a trustee outside of the Organizations. The beneficial interest in charitable lead trust is recorded at estimated fair value on a recurring basis and is categorized as level 3 in the fair value hierarchy.

6. RECEIVABLES

Receivables consist of the following at December 31:

	2014	2013
Accounts receivable	\$ 236,708	\$ 299,789
Notes receivable		
Traverse City		
Christian Schools	1,369,226	1,510,568
Amazon Building	469,329	481,802
YMCA	1,042,299	992,666
Polk LLC	-	743,150
Covenant House	370,000	-
Russell Block		
Development LLC	218,218	207,475
	<u>218,218</u>	<u>207,475</u>
Total receivables	<u>\$ 3,705,780</u>	<u>\$ 4,235,450</u>

The notes receivable for the Amazon Building and the YMCA are secured by subordinated mortgages. The notes receivable for Russell Block Development, LLC, Traverse City Christian Schools and Covenant House are secured by a first mortgage.

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

7. NET PROPERTY AND EQUIPMENT

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

	2014	2013
Land	\$ 1,281,000	\$ 1,281,000
Buildings and improvements	10,890,811	10,865,370
Equipment	<u>1,899,149</u>	<u>1,832,905</u>
Total	14,070,960	13,979,275
Less accumulated depreciation	<u>7,263,353</u>	<u>6,997,812</u>
Net property and equipment	<u>\$ 6,807,607</u>	<u>\$ 6,981,463</u>

Net property and equipment consists of the Frauenthal Center for the Performing Arts, the Hilt Building multi-purpose community facility and the Community Foundation Building. All depreciable assets used in rental operations and the Frauenthal Center are recorded in the property and equipment fund. Depreciation expense was \$276,166 and \$252,238 in 2014 and 2013, respectively.

8. FUNDS HELD AS AGENCY ENDOWMENTS

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

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

The Organizations were the owners of 188 and 181 Agency Endowment Funds at December 31, 2014 and 2013, respectively. Activity in such funds consists of the following for the years ended December 31:

	2014	2013
Agency endowment fund		
balances, beginning of year	\$ 9,040,256	\$ 8,516,825
Amounts raised	2,798,770	219,452
Net investment gains	504,177	922,058
Grants	(433,620)	(618,079)
	<u> </u>	<u> </u>
Agency endowment fund		
balances, end of year	<u>\$ 11,909,583</u>	<u>\$ 9,040,256</u>

9. COMMITMENTS

Trustees of the Organizations have approved, as of December 31, 2014, future conditional grants amounting to approximately \$1,165,000. Such grants are in accordance with the Organizations' charitable purposes and with their Articles of Incorporation and By-Laws. The commitments scheduled for payment for the next five years are as follows:

	Amount
2015	\$ 450,000
2016	285,000
2017	210,000
2018	110,000
2019	110,000
	<u> </u>
Total commitments	<u>\$ 1,165,000</u>

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

10. NET ASSETS

Net assets consist of the following at December 31:

	2014	2013
Net assets		
Unrestricted		
Unrestricted	\$ 12,510,566	\$ 12,836,850
Field of interest	9,353,044	8,397,500
The Paul C. Johnson Foundation	3,346,168	3,279,578
The Pennies from Heaven		
Foundation	21,156,412	15,703,747
Scholarship	19,156,152	17,085,384
Donor advised	19,423,721	13,782,679
Committee advised	11,647,639	11,539,488
Designated	15,882,751	14,959,668
Organizational endowment	20,348,023	17,940,368
Build-A-Fund	190,783	158,513
Community Foundation for		
Oceana County	8,608,778	7,445,194
Community Foundation for		
Mason County	9,503,700	9,171,100
Community Foundation for		
Manistee County	2,740,270	2,499,743
CFMC deferred gifts	2,812,755	3,269,254
Property and equipment	4,395,484	4,614,157
Operating	1,868,305	2,160,295
Total unrestricted net assets	162,944,551	144,843,518
Temporarily restricted		
Charitable lead trust	222,616	311,885
Total net assets	\$ 163,167,167	\$ 145,155,403

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

11. EMPLOYEE BENEFIT PLAN

The Organizations have a defined contribution retirement plan, which provides for voluntary employee contributions. Contributions to the plan by the Organizations, which are discretionary as determined by the Board of Trustees, totaled \$59,748 and \$55,083 in 2014 and 2013, respectively.

12. ENDOWMENT

The Organizations' endowment consists of 1,168 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principals (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

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

	Unrestricted
Endowment Net Asset Comparison by Type of Fund as of December 31, 2014	
Donor-restricted endowment funds	\$ 141,168,523
Board-designated endowment funds	<u>15,512,234</u>
	<u>\$156,680,757</u>
Changes in Endowment Net Assets for the Year Ended December 31, 2014	
Investment return:	
Investment income	\$ 3,544,304
Net appreciation (realized and unrealized)	<u>3,532,273</u>
Net investment income	7,076,577
Contributions	18,112,016
Appropriation of endowment assets for expenditure	<u>(6,576,902)</u>
Changes to endowment net assets	18,611,691
Endowment net assets:	
Beginning of year	<u>138,069,066</u>
End of year	<u>\$156,680,757</u>
Endowment Net Asset Comparison by Type of Fund as of December 31, 2013	
Donor-restricted endowment funds	\$ 122,317,175
Board-designated endowment funds	<u>15,751,891</u>
	<u>\$138,069,066</u>
Changes in Endowment Net Assets for the Year Ended December 31, 2013	
Investment return:	
Investment income	\$ 3,879,913
Net appreciation (realized and unrealized)	<u>9,767,890</u>
Net investment income	13,647,803
Contributions	13,945,524
Appropriation of endowment assets for expenditure	<u>(7,790,058)</u>
Changes to endowment net assets	19,803,269
Endowment net assets:	
Beginning of year	<u>118,265,797</u>
End of year	<u>\$138,069,066</u>

COMMUNITY FOUNDATION FOR MUSKEGON COUNTY AND SUPPORTING ORGANIZATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organizations rely 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 Organizations target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending

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



**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

May 19, 2015

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

We have audited the combined financial statements of the *Community Foundation for Muskegon County and Supporting Organizations* as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated May 19, 2015, which expressed an unmodified opinion on those combined financial statements. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in the accompanying schedules as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the combined financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



SUPPLEMENTARY INFORMATION

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

SCHEDULES OF ADMINISTRATIVE AND PROGRAM OPERATIONS

	Year Ended December 31	
	2014	2013
Revenue		
Administrative fees	\$ 1,583,493	\$ 1,434,269
Interfund transfers	(12,473)	(17,507)
Total revenue	<u>1,571,020</u>	<u>1,416,762</u>
Administrative expenses		
Salaries and wages	781,430	670,829
Payroll taxes and benefits	228,805	193,314
Occupancy	33,600	33,600
Telephone	4,547	4,567
Postage and shipping	5,808	5,165
Office expense	13,624	14,836
Computer expense	12,795	9,951
Contracted services	69,564	90,637
Depreciation	12,473	17,507
Miscellaneous	239,840	200,653
Total administrative expenses	<u>1,402,486</u>	<u>1,241,059</u>
Program expenses		
Promotion and printing	75,356	100,638
Professional development	23,066	16,835
Travel	3,347	3,507
Dues, subscriptions and memberships	4,637	4,349
Public relations/development	25,521	17,794
Annual meeting and luncheon	17,383	15,962
Audit and legal	10,600	9,065
Miscellaneous	8,624	7,553
Total program expenses	<u>168,534</u>	<u>175,703</u>
Total expenses	<u>1,571,020</u>	<u>1,416,762</u>
Net administrative and program operations	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report on supplementary information.

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

SCHEDULES OF RENTAL OPERATIONS

	Year Ended December 31	
	2014	2013
Revenue		
Rental income	\$ 95,695	\$ 81,363
Other income	3,957	2,975
Interfund transfers	16,884	27,021
Total revenue	116,536	111,359
Expenses		
Salaries and wages	10,145	14,919
Payroll taxes and benefits	1,128	1,663
Professional fees	500	1,145
Supplies	2,353	629
Utilities	35,880	36,043
Insurance	7,964	7,964
Repairs and maintenance	28,282	19,013
Property taxes	15,212	16,808
Depreciation	14,639	13,151
Interest expense/miscellaneous	433	24
Total expenses	116,536	111,359
Net operations - rental	\$ -	\$ -

See independent auditors' report on supplementary information.

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

**SCHEDULES OF PROGRAM OPERATIONS
FRAUENTHAL CENTER FOR THE
PERFORMING ARTS**

	Year Ended December 31	
	2014	2013
Facility income		
Rental income	\$ 208,944	\$ 179,804
Presenting net revenue	3,937	17,982
Alley Door	7,106	11,499
Ticket maintenance fee	29,337	41,482
Stagehouse revenue	26,130	37,383
Box office revenue	36,866	42,564
Housefront revenue	93,442	99,543
Total facility income	405,762	430,257
Administrative and facility expenses		
Salaries and wages	326,209	349,067
Payroll taxes and benefits	71,830	91,272
Conferences and memberships	945	1,271
Telephone	5,782	5,816
Postage	2,857	1,826
Office expense	10,853	11,095
Utilities	108,119	98,014
Maintenance and facility supplies	93,011	78,798
Insurance	21,645	21,645
Professional fees	3,000	3,000
Promotion/usher volunteer expense	12,326	9,784
Stagehouse expense	2,666	4,321
Housefront expense	43,251	41,528
Production expense	5,938	10,548
Box office expense	459	908
Miscellaneous	5,691	2,718
Total expenses	714,582	731,611
Net program expense	(308,820)	(301,354)
Other FCPA support		
Grants	308,820	301,354
Net operations - FCPA	\$ -	\$ -

See independent auditors' report on supplementary information.

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

**SCHEDULES OF OPERATIONS
SMASH WINE BAR**

	Year Ended December 31	
	2014	2013
Revenue		
Food	\$ 216,097	\$ 54,306
Beer and Wine	145,645	45,425
Liquor	39,462	7,806
Merchandise	313	-
Total revenue	401,517	107,537
Cost of Sales	168,811	46,814
Gross Profit	232,706	60,723
Operating Expenses		
Salaries and wages	192,500	69,938
Payroll taxes and benefits	50,319	17,213
Rent	12,000	-
Property taxes	3,557	-
Start Up	-	41,357
Smallwares	8,576	9,749
Menus/POS lease	5,460	1,962
Bank fees	13,841	2,116
Office expense	8,899	5,510
Utilities	16,455	4,340
Professional fees	1,343	9,399
Linens and laundry	6,800	1,951
Repairs and maintenance	3,656	2,760
Advertising	4,689	959
Telephone	1,765	643
Depreciation	19,202	4,686
Miscellaneous	1,138	662
Total Operating Expenses	350,200	173,245
Net loss	\$ (117,494)	\$ (112,522)

See independent auditors' report on supplementary information.