Community Foundation of the Holland/Zeeland Area

Financial Report

December 31, 2018

Contents

Board and Staff

Officers

Chair	Bret Docter
Chair-elect, Chair - Audit	Leslie Brown
Secretary	Deborah Sterken
Treasurer	Jim Bishop
President/CEO	Mike Goorhouse

Trustees

Chair - Investment	Jim Wiersma
Chair – PRI	Bret Docter
Chair – Scholarship	Jane Patterson
Chair - Governance	Mark Harder
Chair - Development	Jim Bishop
Chair – Distribution	Jane Patterson
Chair - YAC	Caleb Steeby, Youth Trustee

Staff

President/CEO	Mike Goorhouse
Vice President of Community Impact	Elizabeth E. Kidd
Vice President of Development and Donor Services	Colleen Hill
Director of Finance	Rashelle Wynegar
Director of Scholarships	Stacy Timmerman
Finance Associate	Barb Widener
Communications Associate	Lina Pierson
Executive Assistant	Jessica Lynch

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of Community Foundation of the Holland/Zeeland Area (the "Foundation"), which comprise the balance sheet as of December 31, 2018 and 2017 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of the Holland/Zeeland Area as of December 31, 2018 and 2017 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 described in Note 2 to the financial statements, the Foundation adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of January 1, 2017. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

May 6, 2019

Balance Sheet

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 7,275,731	$ 3,831,121
Investments (Notes 4 and 5)	65,467,536	67,775,233
Pledges receivable (Note 7)	1,881,433	1,161,404
Receivable for sale of noncash gift	6,000,000	-
Property and equipment (Note 8)	816,330	793,852
Total assets	**$ 81,441,030**	**$ 73,561,610**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	$ 38,309	$ 68,301
Grants payable (Note 10)	1,074,276	1,419,158
Split-interest agreements payable	216,946	220,049
Funds held as agency - Founding funds (Note 14)	9,117,240	8,198,989
Total liabilities	10,446,771	9,906,497
Net Assets		
Net assets without donor restrictions (Notes 11 and 12)	68,531,306	61,838,481
Net assets with donor restrictions (Note 11)	2,462,953	1,816,632
Total net assets	70,994,259	63,655,113
Total liabilities and net assets	**$ 81,441,030**	**$ 73,561,610**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions	$ 16,746,660	$ 1,909,773	$ 18,656,433	$ 6,223,103	$ 824,209	$ 7,047,312
In-kind donations and services	20,232	-	20,232	30,571	-	30,571
Special event and other revenue	193,669	-	193,669	166,388	-	166,388
Net realized and unrealized (losses) gains on investments	(4,308,372)	(37,528)	(4,345,900)	7,040,504	92,079	7,132,583
Investment income	684,935	-	684,935	861,941	-	861,941
Change in value of split-interest agreements	(2,130)	-	(2,130)	(193,132)	-	(193,132)
Net assets released from restrictions	1,225,924	(1,225,924)	-	716,733	(716,733)	-
Total revenue, gains, and other support	14,560,918	646,321	15,207,239	14,846,108	199,555	15,045,663
Expenses						
Program expenses:						
Grants	6,650,526	-	6,650,526	5,676,613	-	5,676,613
Program services	258,216	-	258,216	204,530	-	204,530
Fund-related program services	211,020	-	211,020	244,233	-	244,233
Recovery of bad debt on program-related investments (Note 6)	-	-	-	(330,000)	-	(330,000)
Total program expenses	7,119,762	-	7,119,762	5,795,376	-	5,795,376
Support services:						
Management and general	477,731	-	477,731	494,912	-	494,912
Fundraising	270,600	-	270,600	251,828	-	251,828
Total support services	748,331	-	748,331	746,740	-	746,740
Total expenses	7,868,093	-	7,868,093	6,542,116	-	6,542,116
Increase in Net Assets	6,692,825	646,321	7,339,146	8,303,992	199,555	8,503,547
Net Assets - Beginning of year	61,838,481	1,816,632	63,655,113	53,534,489	1,617,077	55,151,566
Net Assets - End of year	**$ 68,531,306**	**$ 2,462,953**	**$ 70,994,259**	**$ 61,838,481**	**$ 1,816,632**	**$ 63,655,113**

See notes to financial statements.

Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 7,339,146	$ 8,503,547
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	69,105	75,348
Recovery of loan reserve	-	(330,000)
Unrealized losses (gains) on investment	4,345,900	(7,132,583)
Change in value of split-interest agreements	22,307	214,714
Change in receivable for sale of noncash gift	(6,000,000)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Pledges receivable	(720,029)	(138,534)
Grants payable	(344,882)	550,366
Accounts payable and other	(29,992)	35,328
Funds held as agency endowments	918,251	3,236,062
Net cash and cash equivalents provided by operating activities	5,599,806	5,014,248
Cash Flows from Investing Activities		
Purchase of capital assets	(91,583)	(4,012)
Purchase of investments	(7,300,765)	(6,869,200)
Proceeds from sales and maturities of investments	5,262,562	2,729,495
Receipts on notes receivable	-	385,238
Net cash and cash equivalents used in investing activities	(2,129,786)	(3,758,479)
Cash Flows Used in Financing Activities - Payments on charitable gift annuities	(25,410)	(28,872)
Net Increase in Cash and Cash Equivalents	3,444,610	1,226,897
Cash and Cash Equivalents - Beginning of year	3,831,121	2,604,224
Cash and Cash Equivalents - End of year	**$ 7,275,731**	**$ 3,831,121**

See notes to financial statements.

Note 1 - Nature of Business

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

Note 2 - Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash Equivalents

The Foundation considers all investments with an original maturity of three months or less when purchased 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, 2018 and 2017, the Foundation had $6,014,967 and $2,419,909, respectively, in uninsured deposits.

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, certain equity 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.

Receivable for Sale of Noncash Gift

The Foundation entered into an agreement to sell a noncash gift in December 2018. The cash proceeds were received in January 2019.

Capital Assets

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

Note 2 - Significant Accounting Policies (Continued)

Grants and Scholarships

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

Split-interest Agreements

The Foundation is a remainder beneficiary of several charitable annuity and unitrusts. Required distributions to other beneficiaries range from $510 to $15,106, as defined by each agreement. The discount rates used to calculate the present value range from 5.0 percent to 7.6 percent.

Classification of Net Assets

The Foundation reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as without donor restrictions (see Note 11 for further classification of net assets with donor restrictions).

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions, unless specifically restricted by the donor or by applicable state law.

Community Foundation Classification of Net Assets without Donor Restrictions

The bylaws of Community Foundation of the Holland/Zeeland Area include a variance provision and powers of modification, giving the board of trustees the power to vary the use of funds. The Foundation is governed subject to its articles of incorporation and bylaws and further by its adopted investment policy, as well as individual gift instruments and agreements. Although the Foundation's mission is to build endowed assets, the Foundation has the ability, as stated in its articles of incorporation, to distribute all or any part of its net income, principal, or property, in accordance with determination made by the Foundation's board of trustees, for the purpose set forth in its restated articles of incorporation. As a result of the ability to distribute corpus, all contributions not classified as with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

Based on these provisions, most contributions received by the Foundation are reported as support without donor restrictions (see Note 11 for further classification of net assets without donor restrictions).

The Foundation maintains separate accounting records for each of the individual established funds, which are classified as net assets without donor restrictions.

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.

Note 2 - 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 support with donor restrictions.

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 activity; however, if the donor has indicated a desire to support a particular area of interest or organization, the Foundation may designate the contribution for that use.

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

Fund-related Program Services

Included in program expenses are fund-related program services. These expenses are primarily made up of fiscal sponsorships that vary from year to year. Through fiscal sponsorships, the Foundation agrees to provide administrative and financial services to the activities of groups or individuals engaged in work that furthers the Foundation’s mission. Expenditures dedicated for fiscal project purposes require that an equal amount of revenue has been received in current or prior years. Such revenue is included in contribution revenue for the years ended December 31, 2018 and 2017.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 13. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expense deemed to be indirect to employee work, such as professional services, depreciation, insurance, and supplies, are considered to be all management and general expenses. Other expenses utilized by all employees, such as occupancy, utilities, and training are also allocated on the basis of time and effort. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

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.

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, 2018 and 2017 were $15,086 and $12,355, respectively.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of a New Accounting Pronouncement

As of December 31, 2018, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended December 31, 2017 has been restated, as follows: management and general expenses have increased $100,000 from the amount previously reported, with a corresponding decrease in program expenses of $30,120 and fundraising expenses of $69,880. In addition, temporarily restricted net assets of $1,816,632 at December 31, 2017 are now classified as net assets with donor restrictions.

Upcoming Accounting Pronouncement

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation’s year ending December 31, 2019 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition of foundation and individual grants and contributions.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 6, 2019, which is the date the financial statements were available to be issued.

Note 3 - Liquidity and Availability of Resources

The Foundation’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

	2018	2017
Cash and cash equivalents	$ 7,275,731	$ 3,831,121
Short-term pledges receivable	1,317,888	671,589
Receivable for sale of noncash gift	6,000,000	-
Short-term investments	54,490,861	59,373,396
Total	$ 69,084,480	$ 63,876,106

Note 3 - Liquidity and Availability of Resources (Continued)

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

The assets above include approximately $34,600,000 and $24,600,000 in nonendowed funds (described in Note 12), including agency reserve assets, as of December 31, 2018 and 2017, respectively. The Foundation generally uses these assets for grantmaking based on donor and agency recommendations, first accessing dollars available in cash. The Foundation invests all cash in money market bank account funds, except for $124,000, which is held in savings bonds as of December 31, 2018 and 2017, respectively.

The Foundation also realizes there could be unanticipated liquidity needs.

The Foundation's endowments are subject to a 5 percent spending rate (described in Note 12), which appropriates $3,100,000 for the 12 months following December 31, 2018. Although the Foundation does not intend to spend from the principal of endowed funds (other than amounts appropriated per the board's annual spending rate approval), these amounts could be made available, if necessary. However, the board-designated endowments contain investments with lock-up provisions that reduce the total investments that could be made available (see Note 5 for disclosures about investments).

Note 4 - Investments

The details of the Foundation's investments at fair value at December 31 are as follows:

	2018	2017
Money market mutual funds	$ 380,982	$ 1,347,874
Equity mutual funds	30,573,672	37,274,968
Equity funds	3,123,551	3,374,209
Fixed-income mutual funds	6,312,312	5,822,415
Funds held at net asset value	21,598,775	16,657,454
Global REITS	3,478,244	3,123,295
Note receivable	-	76,040
Marketable securities	-	98,978
Total	$ 65,467,536	$ 67,775,233

Note 5 - 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, 2018 and 2017 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.

Note 5 - Fair Value Measurements (Continued)

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.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2018
Assets - Investments:					
Money market funds	$ 380,983	$ -	$ -	$ -	$ 380,983
Domestic equity funds	28,165,466	-	-	-	28,165,466
Non-U.S. developed equity funds	5,531,756	-	-	2,755,038	8,286,794
Emerging markets equity funds	-	-	-	2,456,441	2,456,441
U.S. treasuries fixed income	6,294,960	-	-	-	6,294,960
Global fixed-income funds	17,352	-	-	6,098,622	6,115,974
Diversified hedge funds	-	-	-	5,403,752	5,403,752
Distressed credit hedge funds	-	-	-	1,422,005	1,422,005
Private equity	-	-	-	3,462,917	3,462,917
Global REITS	16,781	3,461,463	-	-	3,478,244
Total assets	$ 40,407,298	$ 3,461,463	$ -	$ 21,598,775	$ 65,467,536

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2017
Assets - Investments:					
Money market funds	$ 1,347,875	$ -	$ -	$ -	$ 1,347,875
Domestic equity funds	31,348,356	-	-	-	31,348,356
Non-U.S. developed equity funds	6,622,611	-	-	3,381,691	10,004,302
Emerging markets equity funds	2,678,210	-	-	-	2,678,210
U.S treasuries fixed income	5,804,543	-	-	-	5,804,543
Global fixed-income funds	17,871	-	-	5,517,729	5,535,600
Diversified hedge funds	-	-	-	5,572,291	5,572,291
Private equity	-	-	-	2,185,743	2,185,743
Global REITS	17,982	3,105,313	-	-	3,123,295
Note receivable	-	-	76,040	-	76,040
Other marketable securities	98,978	-	-	-	98,978
Total assets	$ 47,936,426	$ 3,105,313	$ 76,040	$ 16,657,454	$ 67,775,233

The fair value of Global REITs at December 31, 2018 and 2017 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments using quoted prices from similar funds and underlying assets.

Note 5 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2018 and 2017 are as follows:

	Note Receivable
Balance at January 1, 2017	$ 173,010
Settlements	(96,970)
Balance at December 31, 2017	$ 76,040
Balance at January 1, 2018	$ 76,040
Settlements	(76,040)
Balance at December 31, 2018	$ -

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.

The following table summarizes the valuation methods and inputs used to determine fair value at December 31, 2017 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at December 31, 2017	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Note receivable	$ 76,040	Present value of cash flows	Land contract agreement payments	7 percent interest at $8,800 per month

The Foundation collected the full balance of the note receivable in 2018.

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

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment companies as a practical expedient.

Note 5 - Fair Value Measurements (Continued)

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

	Investments Held at December 31, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Non-U.S. developed equity funds (a)	$ 2,755,038	$ -	Monthly	10 days
Emerging markets equity funds (b)	2,456,441	-	Daily	7 days
Global fixed-income funds (c)	6,098,622	-	Monthly	10 days
Diversified hedge funds (d)	5,403,752	-	Quarterly	65 days
Distressed credit hedge funds (e)	1,422,005	-	Annually	90 days
Private equity (f)	3,462,917	6,244,772	N/A	N/A
Total	$ 21,598,775	$ 6,244,772		

	Investments Held at December 31, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Non-U.S. developed equity funds (a)	$ 3,381,691	$ -	Monthly	10 days
Global fixed-income funds (c)	5,517,729	-	Monthly	10 days
Diversified hedge funds (d)	5,572,291	-	Quarterly	65 days
Private equity	2,185,743	4,781,051	N/A	N/A
Total	$ 16,657,454	$ 4,781,051		

(a) Non-U.S. developed equity funds seek to invest in companies it believes have discounted future profits that are attractive relative to their current stock prices. Portfolio construction begins with an initial screening of stocks based on a variety of value and growth measures. Fundamental and business analysis is then conducted, emphasizing quality with a particular focus on assessing competitive position, management's past track record and experience, underlying industry growth, and capitalization. The typical holding period is 3-5 years. Exposure to emerging markets is capped at 20 percent.

(b) Emerging markets equity funds utilize a bottom-up investment process that seeks to own high-quality companies that can sustain long-term earnings growth and are available at reasonable valuations. They look for companies that have an understandable business strategy, sound accounting principles, limited need for capital, a strong and defensible franchise, and a high-quality management team. Portfolio diversification is driven by the bottom-up investment process, which has historically led to varying portfolio characteristics relative to the MSCI Emerging Markets benchmark.

(c) Global fixed-income funds seek to construct a portfolio consisting only of sovereign bonds and domestic high-yield bonds. The primary valuation tool used for sovereign bonds is real yields, which are defined as a given country's benchmark bond issue less forecasted inflation for the country. Domestic high-yield bonds use a research-intensive process with a goal of gauging credit risk and avoiding deteriorating credits and/or defaults. Portfolios are built from the bottom up, and analysts conduct a sensitivity analysis on the key factors that they believe impact cash flows.

(d) Diversified hedge funds seek 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, and 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.

(e) Distressed credit hedge funds seek to achieve superior absolute returns along with solid downside protection by investing in nonperforming and underperforming corporate, consumer, and real estate loans, structured products, high-yield debt, and certain equity securities and derivatives primarily in the U.S. and Europe. The vast majority of the portfolio is in long positions, which are typically well diversified by asset type, industry, and geography. The only constraint on the fund is that it has a 30 percent maximum on private investments.

Note 5 - Fair Value Measurements (Continued)

(f) Private equity is generally defined as capital invested in a private company through a negotiated process. A private equity program seeks the highest return and growth opportunities that capture market inefficiencies through active management in the private markets. The objective of the private equity program is to generate net of fee returns that exceed the total return of public equity markets by at least 3 percent (illiquidity premium) over a 10-year period.

Note 6 - Program-related Investments

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

Effective August 7, 2009, the Foundation extended a program-related line of credit of $500,000 to the Center for Innovation and Applied Design d/b/a NewNorth Center for Design in Business. The principal balance was $380,000 at December 31, 2016. The loan was modified in January 2014 to become a term loan instead of a line of credit. The loan bears 5 percent interest, which can be paid through in-kind services provided by the borrower. The note requires annual payments of $20,000 in June and $27,500 in December each year beginning in 2014 through the termination date of December 31, 2023. The note is collateralized by equipment, inventory, accounts, contract rights, general intangibles, and chattel paper of the borrower. During 2017, the principal balance was collected in full, resulting in a $330,000 recovery of bad debt on program-related investment.

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.

Loans receivable are charged against the allowance for credit losses when they are deemed to be uncollectible, ranging from 10 to 90 percent of the original note. There were no program-related investments outstanding at December 31, 2018 or 2017.

Note 7 - Pledges Receivable

Pledges receivable consist of unconditional promises to give.

Pledges outstanding at December 31, 2018 and 2017 are expected to be collected as follows:

	2018	2017
Receivable in less than one year	$ 1,317,888	$ 671,588
Receivable in one to five years	601,433	487,816
Receivable in five years and after	-	2,000
Less allowance for net present value discount	(37,888)	-
Net pledges receivable	$ 1,881,433	$ 1,161,404

Note 8 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017
Buildings and improvements	$ 887,107	$ 799,950
Furniture and fixtures	323,011	318,586
Total cost	1,210,118	1,118,536
Accumulated depreciation	393,788	324,684
Net property and equipment	$ 816,330	$ 793,852

Depreciation expense for 2018 and 2017 was $69,105 and $75,348, respectively.

Note 9 - Lease Commitments

The Foundation leases a copier under a 60-month operating lease, expiring in August 2020, and a postage machine under a 51-month operating lease, expiring in March 2021. The future minimum lease payments under the leases are as follows:

Years Ending	Amount
2019	$ 2,968
2020	2,338
2021	448
Total	$ 5,754

Rent expense for 2018 and 2017 was $2,968 and $2,520.

Note 10 - Grants Payable

At December 31, 2018, the board of trustees has authorized certain grants to be paid in future periods. Total commitments are payable as follows:

Years Ending December 31	Amount
2019	$ 561,450
2020	330,636
2021	93,340
2022	88,850
Total	$ 1,074,276

Note 11 - Net Assets

Net assets without donor restrictions consist of the following as of December 31:

	2018	2017
Board-designated net assets:		
Named and community's endowment fund	$ 12,239,593	$ 12,862,012
Donor advised	25,719,635	18,118,355
Project - Board advised (fiscal sponsorships)	3,246,021	2,052,849
Field of interest	6,558,442	6,844,466
Scholarships	7,073,692	7,263,736
Charitable trusts and annuities	234,242	296,822
Donor-designated and nonprofit endowments	13,459,681	14,400,241
Total unrestricted net assets	$ 68,531,306	$ 61,838,481

Net assets with donor restrictions as of December 31 are available for the following purposes:

	2018	2017
Connections	$ -	$ 4,860
MSU Bioeconomy Fund	581,520	650,368
Time restricted	1,881,433	1,161,404
Total net assets with donor restrictions	$ 2,462,953	$ 1,816,632

Note 12 - Board-designated Endowment Net Assets

The Foundation's endowment includes funds designated by the board of trustees to function as endowments, which represent donor endowed funds (subjected to variance power described in Note 2) included in net assets without donor restrictions. The remainder of net assets without donor restrictions are denoted as nonendowed funds. The nonendowed funds are board designated net assets, but not subject to the spending policy or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). 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 Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the Foundation had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund

Note 12 - Board-designated Endowment Net Assets (Continued)

- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

	Changes in Net Assets without Donor Restrictions for the Fiscal Year Ended December 31, 2018		
	Endowed	Nonendowed	Total
Board endowments - Beginning of year	$ 45,528,194	$ 16,310,287	$ 61,838,481
Investment return:			
Investment return - Net depreciation (realized and unrealized)	(2,652,460)	(970,977)	(3,623,437)
Contributions and other revenue	1,704,884	15,253,547	16,958,431
Appropriation of endowment assets for expenditure	(2,374,629)	(5,493,465)	(7,868,094)
Other changes - Transfers from board endowment funds	349,158	876,767	1,225,925
Board endowments - End of year	$ 42,555,147	$ 25,976,159	$ 68,531,306

	Changes in Net Assets without Donor Restrictions for the Fiscal Year Ended December 31, 2017		
	Endowed	Nonendowed	Total
Board endowments - Beginning of year	$ 39,944,906	$ 13,589,583	$ 53,534,489
Investment return:			
Investment return - Net appreciation (realized and unrealized)	6,214,721	1,687,723	7,902,444
Contributions and other revenue	1,035,082	5,191,848	6,226,930
Appropriation of endowment assets for expenditure	(2,258,361)	(4,283,755)	(6,542,116)
Other changes - Transfers from board endowment funds	591,846	124,888	716,734
Board endowments - End of year	$ 45,528,194	$ 16,310,287	$ 61,838,481

Funds with Deficiencies

As of December 31, 2018 and 2017, there were no funds with deficiencies.

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 periods, as well as board-designated 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.

Note 12 - Board-designated Endowment Net Assets (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

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

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

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

Note 13 - Expenses by Nature and Function

Expense detail for December 31, 2018 is as follows:

	Program Services	Management and General	Fundraising	Total
Grants	$ 6,650,526	$ -	$ -	$ 6,650,526
Fund-related program services	211,020	-	-	211,020
Compensation and benefits	204,116	240,514	139,684	584,314
Occupancy	10,084	80,987	6,901	97,972
Professional services	-	90,253	-	90,253
Supplies, subscriptions, and fees	-	37,080	-	37,080
Staff development	7,802	9,193	5,339	22,334
Marketing and advertising	6,961	17,144	33,173	57,278
Events and meetings	29,253	2,560	85,503	117,316
Total	$ 7,119,762	$ 477,731	$ 270,600	$ 7,868,093

Note 13 - Expenses by Nature and Function (Continued)

Expense detail for December 31, 2017 is as follows:

	Program Expenses	Management and General	Fundraising	Total
Grants	$ 5,676,613	$ -	$ -	$ 5,676,613
Fund-related program services	244,233	-	-	244,233
Recovery of bad debt on program-related investments	(330,000)	-	-	(330,000)
Compensation and benefits	151,408	256,602	127,571	535,581
Occupancy	13,130	97,600	11,063	121,793
Professional services	-	71,813	-	71,813
Supplies, subscriptions, and fees	-	35,718	-	35,718
Staff development	5,634	9,550	4,747	19,931
Marketing and advertising	8,228	21,342	37,272	66,842
Events and meetings	26,130	2,287	71,175	99,592
Total	$ 5,795,376	$ 494,912	$ 251,828	$ 6,542,116

Note 14 - Funds Held as Agency - Founding Funds

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 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 that may be made to NPOs.

The following table summarizes activity in such funds:

	2018	2017
Funds held as agency - Beginning of year	$ 8,198,989	$ 4,962,927
Gifts, memorials, and bequests	2,029,669	2,993,319
Investment (loss) income	(603,283)	923,766
Grants and administrative expenses	(508,135)	(681,023)
Funds held as agency - End of year	$ 9,117,240	$ 8,198,989