

Community Foundation of the Holland/Zeeland Area

**Financial Report
with Additional Information
December 31, 2015**

Community Foundation of the Holland/Zeeland Area

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Board and Staff

Officers

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

Trustees

Chair - Investment	Jim Wiersma
Chair – PRI	Bret Docter
Chair – Scholarship	Jane Patterson
Chair - Governance	Sue Den Herder
Chair - Development	Judith Smith
Chair - YAC	Mason Wesolek, Youth Trustee

Staff

President/CEO	Mike Goorhouse
Vice President of Community Impact	Elizabeth E. Kidd
Director of Donor Services	Ruth Vis
Director of Finance and Administration	Diana L. Mavis
Director of Scholarships	Stacy Timmerman
Office Manager	Soma Khov
Communications Manager	Nicole Paquette

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Community Foundation of the Holland/Zeeland Area (the "Foundation"), which comprise the balance sheet as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation of the Holland/Zeeland Area as of December 31, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 3, the December 31, 2015 and 2014 financial statements include investments valued at approximately \$14.4 million and \$17.2 million (28.2 percent and 35.0 percent of net assets), respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Plante & Moran, PLLC

May 13, 2016

Community Foundation of the Holland/Zeeland Area

Balance Sheet

	December 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 2,992,253	\$ 2,570,325
Investments (Notes 2 and 3)	50,394,748	50,284,832
Loans and notes receivable - Program-related investments - Net (Note 4)	98,999	328,529
Pledges receivable (Note 5)	1,724,817	240,394
Cash surrender value of life insurance	11,761	10,458
Property and equipment (Note 6)	939,247	973,703
Total assets	<u>\$ 56,161,825</u>	<u>\$ 54,408,241</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	\$ 3,923	\$ 80,815
Grants payable (Note 8)	581,259	496,942
Split-interest agreements payable	55,199	83,528
Funds held as agency endowments - Founding funds (Note 10)	4,585,919	4,673,817
Total liabilities	5,226,300	5,335,102
Net Assets		
Unrestricted (Note 9)	48,650,069	48,189,188
Temporarily restricted net assets	2,285,456	883,951
Total net assets	<u>50,935,525</u>	<u>49,073,139</u>
Total liabilities and net assets	<u>\$ 56,161,825</u>	<u>\$ 54,408,241</u>

Community Foundation of the Holland/Zeeland Area

Statement of Activities and Changes in Net Assets

	Year Ended					
	December 31, 2015			December 31, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support						
Contributions	\$ 6,328,263	\$ 1,926,050	\$ 8,254,313	\$ 4,793,804	\$ 174,817	\$ 4,968,621
In-kind donations and services	21,012	-	21,012	25,410	-	25,410
Investment income	391,940	-	391,940	479,977	-	479,977
Change in value of split-interest agreements	(12,530)	-	(12,530)	(54,922)	-	(54,922)
Net realized and unrealized gains and losses on investments	(1,720,320)	(45,892)	(1,766,212)	610,781	15,067	625,848
Special event and other revenue	123,333	-	123,333	111,379	-	111,379
Net assets released from restrictions	478,653	(478,653)	-	1,044,841	(1,044,841)	-
Total revenue, gains, and other support	5,610,351	1,401,505	7,011,856	7,011,270	(854,957)	6,156,313
Expenses						
Program:						
Grants	4,055,109	-	4,055,109	4,075,077	-	4,075,077
Program services	200,878	-	200,878	182,604	-	182,604
Fund-related program services	282,381	-	282,381	519,149	-	519,149
Management and general	344,255	-	344,255	304,848	-	304,848
Fundraising	266,847	-	266,847	206,619	-	206,619
Total expenses	5,149,470	-	5,149,470	5,288,297	-	5,288,297
Increase in Net Assets	460,881	1,401,505	1,862,386	1,722,973	(854,957)	868,016
Net Assets - Beginning of year	48,189,188	883,951	49,073,139	46,466,215	1,738,908	48,205,123
Net Assets - End of year	\$ 48,650,069	\$ 2,285,456	\$ 50,935,525	\$ 48,189,188	\$ 883,951	\$ 49,073,139

Community Foundation of the Holland/Zeeland Area

Statement of Cash Flows

	Year Ended	
	December 31, 2015	December 31, 2014
Cash Flows from Operating Activities		
Increase in net assets	\$ 1,862,386	\$ 868,016
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	63,983	59,875
Expense (reversal) of loan reserves	43,555	(133,074)
Unrealized losses on investments	2,391,126	218,776
Cash surrender value of life insurance	(1,303)	(1,792)
Change in value of split-interest agreements	12,530	54,922
Changes in operating assets and liabilities which (used) provided cash:		
Pledges receivable	(1,484,423)	630,195
Grants payable	84,317	(174,509)
Other liabilities	(164,790)	189,386
Net cash provided by operating activities	2,807,381	1,711,795
Cash Flows from Investing Activities		
Purchase of capital assets	(29,527)	(30,228)
Purchases of investments	(13,466,104)	(4,069,296)
Proceeds from sales and maturities of investments	10,965,062	2,713,547
Receipts on notes receivable	94,010	87,713
Proceeds from liquidation of founding fund for note receivable	91,965	-
Net cash used in investing activities	(2,344,594)	(1,298,264)
Cash Flows from Financing Activities - Payments on charitable gift annuities	(40,859)	(59,763)
Net Increase in Cash and Cash Equivalents	421,928	353,768
Cash and Cash Equivalents - Beginning of year	2,570,325	2,216,557
Cash and Cash Equivalents - End of year	<u>\$ 2,992,253</u>	<u>\$ 2,570,325</u>

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note I - Nature of Business and Significant Accounting Policies

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

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

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

Concentration of Credit Risk - The Foundation maintains cash balances in bank deposit accounts which at times may exceed federally insured limits. As of December 31, 2015 and 2014, the Foundation had \$929,560 and \$616,941 in uninsured deposits, respectively.

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

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

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

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

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

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

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

Split-interest Agreements - The Foundation is a remainder beneficiary of several charitable annuity and unitrusts. Required distributions to other beneficiaries range from \$510 to \$15,380, as defined by each agreement. The discount rates used to calculate the present value range from 5.0 percent to 10.5 percent.

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

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

	<u>2015</u>	<u>2014</u>
Connections	\$ 4,860	\$ 10,483
MSU Bioeconomy Fund	555,779	633,074
Time restricted	<u>1,724,817</u>	<u>240,394</u>
Total temporarily restricted net assets	<u>\$ 2,285,456</u>	<u>\$ 883,951</u>

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified purposes. The Foundation had no permanently restricted net assets at December 31, 2015 or 2014.

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

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

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

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

	<u>2015</u>	<u>2014</u>
Named and community's endowment fund	\$ 10,116,617	\$ 9,635,427
Donor advised	8,950,548	7,834,009
Non-endowed community	6,508,319	6,015,581
Field of interest	4,918,675	5,055,175
Scholarships	5,510,345	5,676,128
Charitable trusts and annuities	518,505	555,054
Donor-designated and agency endowments	<u>12,127,060</u>	<u>13,417,814</u>
Total unrestricted net assets	<u>\$ 48,650,069</u>	<u>\$ 48,189,188</u>

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

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

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

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

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

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

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

Fund-related Program Services - Included in program expenses are fund-related program services. These expenses are primarily made up of fiscal sponsorships that vary from year to year. Through fiscal sponsorships, the Foundation agrees to provide administrative and financial services to the activities of groups or individuals engaged in work that furthers the Foundation's mission. Expenditures dedicated for fiscal project purposes require that an equal amount of revenue has been received in current or prior years. Such revenue is included in contribution revenue for the years ended December 31, 2015 and 2014.

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

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

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

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

Retirement Plan - The Foundation has a simplified employee benefit plan that covers all of its employees. The plan allows for salary deferrals and the Foundation makes matching contributions up to 3 percent of eligible compensation. Contributions to the plan for the years ended December 31, 2015 and 2014 were \$11,009 and \$10,502, respectively.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 13, 2016, which is the date the financial statements were available to be issued.

Note 2 - Investments

Investments consisted of the following at December 31:

	Fair Value	
	2015	2014
Money market mutual funds	\$ 2,816,923	\$ 868,180
Fixed-income mutual funds	4,444,218	4,421,974
Equity mutual funds	19,426,732	16,936,925
Hedge fund of funds	9,322,206	10,897,585
Hedge funds and private equity	14,121,311	16,812,632
Note receivable	263,358	347,536
Total	<u>\$ 50,394,748</u>	<u>\$ 50,284,832</u>

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provides 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, 2015 and 2014 and the valuation techniques used by the Foundation to determine those fair values.

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

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

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

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

As of January 1, 2015, the Foundation implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above and the information for 2015 and 2014 has been adjusted to conform to the new disclosure requirements.

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

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

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

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	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, 2014
Assets - Investments					
Money market mutual funds	\$ 868,180	\$ -	\$ -	\$ -	\$ 868,180
Domestic equity mutual funds	9,401,679	-	-	-	9,401,679
Non-U.S. developed equity mutual funds	5,673,360	-	-	-	5,673,360
Non-U.S. developed equity hedge funds	-	4,816,135	-	-	4,816,135
Emerging markets equity	1,842,163	-	-	-	1,842,163
U.S. treasuries fixed-income mutual funds	4,408,812	-	-	-	4,408,812
Global fixed-income mutual and hedge funds	13,162	-	-	2,140,123	2,153,285
Hedge funds - Other strategies	-	4,792,609	-	13,947,179	18,739,788
Private equity - Real estate	-	-	-	725,330	725,330
Global REITS	19,723	1,288,841	-	-	1,308,564
Note receivable	-	-	347,536	-	347,536
Total assets	\$ 22,227,079	\$ 10,897,585	\$ 347,536	\$ 16,812,632	\$ 50,284,832

The fair value of hedge funds and REITs at December 31, 2015 and 2014 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.

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

The following tables summarize the valuation methods and inputs used to determine fair value at December 31, 2015 and 2014 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

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

	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Note receivable	\$ 347,536	Present value of cash flows	Land contract agreement payments	7% interest at \$8,800 per month

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

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2015 and 2014 are as follows:

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

	Note Receivable
Balance at January 1, 2014	\$ 425,204
Settlements	(77,668)
Balance at December 31, 2014	<u>\$ 347,536</u>

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

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

Investments in Entities that Calculate Net Asset Value per Share

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

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

	December 31,	December 31,	December 31, 2015		
	2015	2014	Unfunded	Redemption	Redemption
	Fair Value	Fair Value	Commitments	Frequency, if	Notice Period
				Eligible	
Global fixed-income hedge funds (a)	\$ 2,070,412	\$ 2,140,123	\$ -	Monthly	None
Private equity - Real estate (b)	866,261	725,330	3,221,998	N/A	N/A
Diversified hedge fund (c)	5,738,951	5,655,098	-	Quarterly	65 days
Top-tier hedge fund (d)	2,928,904	1,750,276	-	Quarterly	90 days
Equity hedge fund (e)	1,178,908	5,038,691	-	Quarterly or Annually on 12/31	45-60 days
Multi-strategy hedge fund (f)	1,337,875	1,503,114	-	Annually on 12/31	45 days
Total	<u>\$ 14,121,311</u>	<u>\$ 16,812,632</u>	<u>\$ 3,221,998</u>		

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

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

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

Note 4 - Program-related Investments

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

Effective August 7, 2009, the Foundation extended a program-related line of credit of \$500,000 to the Center for Innovation and Applied Design d/b/a NewNorth Center for Design in Business. The principal balance was \$380,000 and \$427,500 at December 31, 2015 and 2014, respectively. 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.

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 4 - Program-related Investments (Continued)

Effective July 25, 2012, the Foundation extended a program-related promissory note of \$250,000 to Kandu Incorporated. The principal balance was \$3,999 and \$138,475 at December 31, 2015 and 2014, respectively. The loan bears 6 percent interest annually and requires monthly principal and interest payments of \$4,833. During 2015, Kandu Incorporated ceased operations. A majority of the outstanding principal was settled by a founding fund held by the Foundation in the amount of \$91,965 and proceeds from the sale of repossessed goods totaling \$20,000. The remaining balance is comprised of attorneys' fees and interest, which the Foundation believes is fully collectible.

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

Loan receivables are charged against the allowance for credit losses when they are deemed to be uncollectible, ranging from 10 to 75 percent of the original note. The Foundation recorded an allowance of \$285,000 and \$241,445 at December 31, 2015 and 2014, respectively. The Foundation recognized approximately \$27,800 and \$41,200 in interest income during 2015 and 2014, respectively.

Note 5 - Pledges Receivable

Pledges receivable consists of unconditional promises to give.

Pledges outstanding at December 31, 2015 and 2014 are expected to be collected as follows:

	2015	2014
Receivable in less than one year	\$ 1,113,817	\$ 196,305
Receivable in one to five years	611,000	44,089
Gross unconditional promises to give	\$ 1,724,817	\$ 240,394

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 6 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2015</u>	<u>2014</u>
Building	\$ 695,000	\$ 695,000
Building improvements	104,950	96,913
Furniture and fixtures - Cost	<u>316,963</u>	<u>295,473</u>
Total cost	1,116,913	1,087,386
Less accumulated depreciation	<u>(177,666)</u>	<u>(113,683)</u>
Net carrying amount	<u>\$ 939,247</u>	<u>\$ 973,703</u>

Depreciation expense was \$63,983 for 2015 and \$59,875 for 2014.

Note 7 - Lease Commitments

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

<u>Years Ending December 31</u>	<u>Amount</u>
2016	\$ 2,520
2017	2,520
2018	2,520
2019	2,520
2020	<u>1,890</u>
Total	<u>\$ 11,970</u>

Rent expense for 2015 and 2014 was \$2,520 and \$2,520, respectively.

Note 8 - Grants Payable

At December 31, 2015, the board of trustees has authorized certain grants to be paid in future periods. Total commitments are payable as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2016	\$ 323,259
2017	106,000
2018	82,000
2019	<u>70,000</u>
Total	<u>\$ 581,259</u>

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 9 - Board Unrestricted Net Assets

The Foundation's endowment includes funds designated by the board of trustees to function as endowments, which represent all unrestricted net assets. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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

The board of trustees classifies within unrestricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

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

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 9 - Board Unrestricted Net Assets (Continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2014

Board endowments - Beginning of year	\$ 44,057,330
Investment return - Net appreciation (realized and unrealized)	1,030,995
Contributions and other revenue	5,980,275
Appropriation of endowment assets for expenditure	(4,075,077)
Other changes - Transfers from board endowment funds	<u>(1,213,220)</u>
Board endowments - End of year	<u>\$ 48,189,188</u>

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 9 - Board Unrestricted Net Assets (Continued)

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

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

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

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

Note 10 - Funds Held as Agency

The Foundation has adopted guidance to record transfers of assets to a not-for-profit organization that holds contributions for others. Accounting standards specifically require transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. The standard specifically requires that if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

The Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. In accordance with accounting standards, a liability has been established for a portion of the fair value of the funds, which is generally equivalent to the present value of future payments which may be made to NPOs.

Community Foundation of the Holland/Zeeland Area

Notes to Financial Statements December 31, 2015 and 2014

Note 10 - Funds Held as Agency (Continued)

The following table summarizes activity in such funds:

	<u>2015</u>	<u>2014</u>
Funds held as agency - Beginning of year	\$ 4,673,817	\$ 4,561,896
Gifts, memorials, and bequests	223,258	178,419
Investment (loss) income	(127,324)	127,324
Grants and administrative expenses	<u>(183,832)</u>	<u>(193,822)</u>
Funds held as agency - End of year	<u>\$ 4,585,919</u>	<u>\$ 4,673,817</u>

Additional Information

Independent Auditor's Report on Additional Information

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

We have audited the financial statements of Community Foundation of the Holland/Zeeland Area as of and for the years ended December 31, 2015 and 2014 and have issued our report thereon dated May 13, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The details of support activities and program services is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

May 13, 2016

Community Foundation of the Holland/Zeeland Area

Details of Support Activities and Program Services

	Year Ended December 31	
	2015	2014
Professional services	\$ 450	\$ 12,494
Salaries and wages	408,017	358,155
Payroll taxes	31,648	25,501
Retirement plan contributions	11,009	10,502
Employee benefits	21,305	25,177
Occupancy	24,203	23,041
Printing	7,241	13,632
Office supplies	2,914	2,626
Postage	3,435	3,551
Telephone	6,600	5,669
Conferences	15,017	2,072
Computer service	25,558	17,410
Annual report	9,631	8,279
Memberships and subscriptions	15,404	3,914
Web services	707	1,709
Accounting services	16,458	18,441
Marketing and newsletter	18,981	18,835
Insurance	8,958	8,723
Meetings, luncheons, and dinners	73,457	57,188
Depreciation	63,983	59,875
Travel	-	3,427
Facility improvement/relocation expense	3,657	1,951
Miscellaneous	4,105	3,103
Advertising	13,203	8,796
Estate campaign	26,039	-
	<u>\$ 811,980</u>	<u>\$ 694,071</u>
Total support activities and program services		
Reconciliation to Statement of Activities and Changes in Net Assets		
Program services	\$ 200,878	\$ 182,604
Management and general	344,255	304,848
Fundraising	266,847	206,619
	<u>\$ 811,980</u>	<u>\$ 694,071</u>
Total		