

Frey Foundation

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

Frey Foundation

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Independent Auditor's Report

To the Board of Trustees
Frey Foundation

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Trustees
Frey Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frey Foundation as of December 31, 2016 and 2015, and the changes in 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 2, the December 31, 2016 and 2015 financial statements include investments valued at \$24,554,463 and \$22,642,824 (17.4 percent and 16.4 percent of net assets), respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Plante & Moran, PLLC

April 20, 2017

Frey Foundation

Balance Sheet

	December 31, 2016	December 31, 2015
Assets		
Cash	\$ 210,576	\$ 440,284
Investments (Note 2)	141,278,788	138,116,671
Accrued income	187,675	181,131
Prepaid expenses	91,775	121,582
Furniture, equipment, and leasehold improvements - Less accumulated depreciation and amortization of \$391,747 in 2016 and \$329,135 in 2015	<u>324,113</u>	<u>386,725</u>
Total assets	<u>\$ 142,092,927</u>	<u>\$ 139,246,393</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 47,877	\$ 53,735
Grants payable (Note 3)	<u>847,900</u>	<u>1,306,300</u>
Total liabilities	895,777	1,360,035
Net Assets - Unrestricted	<u>141,197,150</u>	<u>137,886,358</u>
Total liabilities and net assets	<u>\$ 142,092,927</u>	<u>\$ 139,246,393</u>

Frey Foundation

Statement of Activities and Changes in Net Assets

	Year Ended	
	December 31, 2016	December 31, 2015
Unrestricted Revenue		
Interest income	\$ 112,623	\$ 85,117
Dividend income	3,471,485	3,697,984
Other investment income	55,334	250,155
Net unrestricted revenue	3,639,442	4,033,256
Expenses		
Program services:		
Grants:		
Building community	1,186,000	697,135
Children and families	917,276	1,680,815
Community arts	871,300	490,850
Environment	458,500	451,340
Special initiatives	1,525,603	2,969,726
Total grants	4,958,679	6,289,866
Foundation-administered programs (Note 6)	192,637	122,246
Support services:		
Management and general	1,633,704	1,648,107
Investment expenses	571,244	664,299
Excise and unrelated business income taxes	44,000	134,580
Total expenses	7,400,264	8,859,098
Decrease in Unrestricted Net Assets - Before net realized and unrealized gains on investments	(3,760,822)	(4,825,842)
Net Realized and Unrealized Gains (Losses) on Investments	7,071,614	(6,963,034)
Increase (Decrease) in Net Assets	3,310,792	(11,788,876)
Net Assets - Beginning of year	137,886,358	149,675,234
Net Assets - End of year	\$ 141,197,150	\$ 137,886,358

Frey Foundation

Statement of Cash Flows

	Year Ended	
	December 31, 2016	December 31, 2015
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 3,310,792	\$ (11,788,876)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	62,612	62,613
Net unrealized (gains) losses on investments	(4,656,624)	14,401,600
Gains recognized on partnership investment and noncash mutual fund management fees	(1,548,258)	(5,572,735)
Changes in operating assets and liabilities which provided (used) cash:		
Prepaid expenses	29,807	(59,753)
Accounts payable and accrued expenses	(5,858)	(230,966)
Accrued income	(6,544)	84,456
Grants payable	(458,400)	253,300
Net cash used in operating activities	(3,272,473)	(2,850,361)
Cash Flows from Investing Activities		
Purchases of furniture, equipment, and leasehold improvements	-	(22,000)
Purchases of investments	(49,795,630)	(30,356,487)
Proceeds from sales and maturities of investments	49,476,877	29,202,628
Proceeds from partnership distribution	3,361,518	4,466,504
Net cash provided by investing activities	3,042,765	3,290,645
Net (Decrease) Increase in Cash	(229,708)	440,284
Cash - Beginning of year	440,284	-
Cash - End of year	<u>\$ 210,576</u>	<u>\$ 440,284</u>
Supplemental Disclosure Cash Flow Information - Cash paid for excise taxes	<u>\$ 93,875</u>	<u>\$ 135,000</u>

Note I - Nature of Business and Significant Accounting Policies

Organization Purpose - Frey Foundation (the "Foundation") is a private family foundation that fosters positive change in the west Michigan region through strong community partnerships and strategic philanthropic investments.

Concentration of Credit Risk - The Foundation maintains its primary cash balances at one bank where deposit accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2016, the Foundation's deposits were fully insured. As of December 31, 2015, the Foundation had depository accounts with a financial institution in excess of the federally insured limits.

Investments - Investments in equity securities and mutual funds are stated at current quoted market values. Unrealized gains or losses resulting 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 limited partnerships (private equity and venture capital funds, real estate, hedge funds, and other limited partnerships), which are not readily marketable, are carried at estimated fair values as provided by the various investment managers, adjusted for additional investments into the partnerships or withdrawals from the partnerships. 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.

Furniture, Equipment, and Leasehold Improvements - Expenditures for the purchase of furniture, equipment, and leasehold improvements are capitalized and depreciated over their estimated useful lives (3 to 10 years) on a straight-line basis.

Federal Tax Status - The Internal Revenue Service has ruled that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). However, the Foundation is subject to an excise tax imposed on private foundations, which is assessed on net investment income.

Retirement Plan - The Foundation has a 401(k) plan that covers substantially all of its employees. The plan obligates the Foundation to contribute 5 percent of base compensation paid regardless of employee participation. In addition, the Foundation matches 3.5 percent above the 5 percent base. Contributions to the plan for the years ended December 31, 2016 and 2015 were \$56,795 and \$54,687, respectively.

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

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.

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.

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

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

Upcoming Pronouncement - Lease Accounting Treatment - In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The lease new guidance will be effective for the Foundation's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Upon implementation, the Foundation's lease payment obligations will be recognized at their estimated present value along with a corresponding right-of-use asset. Lease expense recognition will be generally consistent with current practice.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 20, 2017, which is the date the financial statements were available to be issued.

Note 2 - Investments

Investments consisted of the following at December 31:

	2016	2015
Equity securities	\$ 7,610,017	\$ 6,968,783
Mutual funds	88,153,686	87,432,109
Index funds	20,960,622	21,072,955
Limited partnerships	24,554,463	22,642,824
Total	<u>\$ 141,278,788</u>	<u>\$ 138,116,671</u>

Net realized gains on the sale of investments were \$2,414,990 and \$7,438,566 for the years ended December 31, 2016 and 2015, respectively, and are included in the statement of activities and changes in net assets.

Frey Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 3 - Grants Payable

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

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 519,200
2018	328,700
Total	<u>\$ 847,900</u>

The board of trustees has also approved various grants subject to conditions to be met by the grantees. These conditional grants are excluded from grants payable and grant expense until the conditions are met. Short- and long-term conditional grants totaled \$810,250 and \$1,180,000, respectively, at December 31, 2016 and \$1,330,000 and \$635,250, respectively, at December 31, 2015.

Note 4 - Distribution Requirements

Certain IRS provisions require that the Foundation make cash distributions (defined as grants and related grant making expenses) in prescribed minimum amounts each year based upon the operations of the preceding year. The Foundation distributed amounts exceeding the minimum requirements in 2016 and 2015. The Foundation is required to distribute approximately \$6,839,000 in 2017 to meet the minimum requirements.

Note 5 - Lease Commitments

The Foundation leases its office space under a lease agreement that was amended in 2010 and expires in December 2020. The lease agreement requires monthly payments exclusive of inflation adjustments as required by the agreement. The Foundation also leases office equipment under lease agreements that expire in 2019.

The future minimum lease payments are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 79,045
2018	80,930
2019	82,358
2020	81,176
Total	<u>\$ 323,509</u>

Lease expense for 2016 and 2015 was \$77,707 and \$73,084, respectively.

Note 6 - Foundation Administered Programs

From time to time, the Foundation initiates projects that are managed internally and are 100 percent charitable in nature. Through such projects, the Foundation defines grant-making focus areas, publishes reports on social issues related to grant-making areas, and supports civic problem-solving initiatives with government, business, and nonprofit sectors. Costs associated with the projects normally include expenditures for outside consultants, as well as other related fees that are directly related to the projects, and were \$192,637 and \$122,246 for 2016 and 2015, respectively.

Note 7 - 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, 2016 and 2015 and the valuation techniques used by the Foundation to determine those fair values.

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

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

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

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

Note 7 - Fair Value Measurements (Continued)

Disclosures concerning assets measured at fair value on a recurring basis are as follows:

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Equity securities	\$ 7,610,017	\$ -	\$ -	\$ 7,610,017
Mutual funds:				
Domestic large cap	5,942,225	-	-	5,942,225
Domestic small cap	8,795,392	-	-	8,795,392
International developed	14,669,875	-	-	14,669,875
International small cap	8,012,590	-	-	8,012,590
Emerging markets	9,955,851	-	-	9,955,851
Real estate composite funds	3,550,164	-	-	3,550,164
Low volatility/market neutral	10,947,095	-	-	10,947,095
Commodities	2,627,761	-	-	2,627,761
Core fixed income	21,726,180	-	-	21,726,180
Money market mutual funds	1,926,553	-	-	1,926,553
Index funds:				
Domestic large cap	16,987,319	-	-	16,987,319
Domestic mid cap	3,973,303	-	-	3,973,303
Limited partnerships:				
Private equity/venture capital measured at net asset value	-	-	-	16,622,375
Absolute return and directional hedge fund of funds measured at net asset value	-	-	-	7,932,088
Total	<u>\$ 116,724,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,278,788</u>

Note 7 - 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)	Balance at December 31, 2015
Equity securities	\$ 6,968,783	\$ -	\$ -	\$ 6,968,783
Mutual funds:				
Domestic large cap	5,752,661	-	-	5,752,661
Domestic small cap	7,061,478	-	-	7,061,478
International developed	14,386,365	-	-	14,386,365
International small cap	7,418,736	-	-	7,418,736
Emerging markets	9,350,993	-	-	9,350,993
Real estate composite funds	3,664,092	-	-	3,664,092
Low volatility/market neutral	14,114,257	-	-	14,114,257
Commodities	2,216,344	-	-	2,216,344
Core fixed income	22,302,132	-	-	22,302,132
Money market mutual funds	1,165,051	-	-	1,165,051
Index funds:				
Domestic large cap	17,397,483	-	-	17,397,483
Domestic mid cap	3,675,472	-	-	3,675,472
Limited partnerships:				
Private equity/venture capital measured at net asset value	-	-	-	14,908,007
Absolute return and directional hedge fund of funds measured at net asset value	-	-	-	7,734,817
Total	<u>\$ 115,473,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,116,671</u>

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended December 31, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

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.

Frey Foundation

Notes to Financial Statements December 31, 2016 and 2015

Note 7 - 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, 2016

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Private equity/venture capital	\$ 16,622,375	\$ 3,374,334	Not Eligible	Not Eligible
Absolute return and directional hedge fund of funds	<u>7,932,088</u>	<u>-</u>	Quarterly	45 days or 100 days
Total	<u>\$ 24,554,463</u>	<u>\$ 3,374,334</u>		

Investments Held at December 31, 2015

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Private equity/venture capital	\$ 14,908,007	\$ 4,616,461	Not Eligible	Not Eligible
Absolute return and directional hedge fund of funds	<u>7,734,817</u>	<u>-</u>	Quarterly	45 days or 100 days
Total	<u>\$ 22,642,824</u>	<u>\$ 4,616,461</u>		

The private equity/venture capital category includes several funds that invest in other limited partnerships, approximately 90 percent in the U.S. and 10 percent foreign for both December 31, 2016 and 2015. The fair values of the investments in this category have been estimated using the net asset value of the Foundation's ownership interest in partners' capital.

The absolute return and directional hedge fund of funds partnership invests approximately 100 percent in U.S. private investment companies. The fair value of the investment in this category has been estimated using the net asset value per share of the investments.

Note 8 - Commitments

The Foundation provides a limited guarantee not to exceed \$333,333 for a bank loan of a nonprofit organization. The Foundation's commitment is limited to one-third of the total default and shared with two other guarantors, and a default would be treated as a program-related investment. The guarantee will expire two years after the underlying bank loan's maturity date of March 31, 2021, or when the loan is paid in full. As of December 31, 2016 and 2015, the Foundation assessed the performance risk of the guarantee and that it will not require payment by the Foundation.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Trustees
Frey Foundation

We have audited the financial statements of Frey Foundation as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated April 20, 2017, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The details of support activities are presented for 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

April 20, 2017

Frey Foundation

Details of Support Activities

	Year Ended December 31	
	2016	2015
Management and General Expenses		
Salaries and wages	\$ 704,922	\$ 675,427
Employee benefits	141,106	129,223
Payroll taxes	52,191	48,690
Trustee and next generation fees	194,000	194,000
Supplies	4,128	3,845
Legal, accounting, and other professional fees	129,570	191,287
Repairs and maintenance	12,026	18,396
Telephone	11,969	11,885
Support services	384	-
Insurance	9,334	9,014
Postage and shipping	1,742	2,015
Utilities	4,363	4,668
Rent	76,525	71,897
Depreciation and amortization	62,612	62,612
Equipment leases	1,182	1,187
Conferences and meetings	145,349	147,736
Subscriptions and publications	6,126	4,030
Memberships	2,264	3,287
Technology	71,269	66,782
Miscellaneous	2,642	2,126
Total management and general expenses	1,633,704	1,648,107
Investment Expenses		
Contract and professional fees	18,500	14,000
Investment management fees	411,694	496,320
Investment consultant	120,949	134,920
Custodial fees	4,178	4,471
Other investment expenses	15,923	14,588
Total investment expenses	571,244	664,299
Excise and Unrelated Business Income Tax Expenses	44,000	134,580
Total support activities	\$ 2,248,948	\$ 2,446,986