Report of Independent Auditors and Consolidated Financial Statements

Sacramento Region Community Foundation

December 31, 2016 and 2015

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Report of Independent Auditors

To the Audit Committee and Board of Directors
Sacramento Region Community Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sacramento Region Community Foundation, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sacramento Region Community Foundation as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Financial Statements

The consolidated financial statements of Sacramento Region Community Foundation as of December 31, 2015, were audited by other auditors whose report dated April 10, 2017, expressed an unmodified opinion on those statements.

Moss Adams LLP

Sacramento, California
November 29, 2017

Consolidated Financial Statements

Sacramento Region Community Foundation
Consolidated Statements of Financial Position
(rounded to the nearest thousand)
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,659,000	$ 7,474,000
Contributions and pledges receivable, current portion	2,000	17,000
Total current assets	6,661,000	7,491,000
NON-CURRENT ASSETS		
Contributions and pledges receivable, long-term	43,000	51,000
Investments	109,090,000	99,427,000
Land	2,000,000	2,000,000
Beneficial interest in trust	903,000	2,164,000
Other assets	203,000	207,000
Funds held in split-interest agreements	7,116,000	8,615,000
Total assets	$ 126,016,000	$ 119,955,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,285,000	$ 650,000
Total current liabilities	1,285,000	650,000
LONG-TERM LIABILITIES		
Agency endowments	8,733,000	8,231,000
Liability under split-interest agreements	1,939,000	2,172,000
Total liabilities	11,957,000	11,053,000
NET ASSETS		
Unrestricted	108,898,000	102,459,000
Temporarily restricted	5,161,000	6,443,000
Total net assets	114,059,000	108,902,000
Total liabilities and net assets	$ 126,016,000	$ 119,955,000

Sacramento Region Community Foundation
Consolidated Statements of Activities and Changes in Net Assets
(rounded to the nearest thousand)
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted Split Interest Agreements	Total 2016
SUPPORT, REVENUES, GAINS (LOSSES), AND OTHER SUPPORT			
Donations and pledges	$ 12,290,000	$ -	$ 12,290,000
Program revenue	237,000	-	237,000
Net investment income and other support	833,000	30,000	863,000
Net realized gain on investments	1,385,000	28,000	1,413,000
Net unrealized gain on investments	3,928,000	1,000	3,929,000
Change in value of beneficial interest	(61,000)	-	(61,000)
Administrative fees	1,810,000	8,000	1,818,000
Other	40,000	-	40,000
Net assets released from restriction	314,000	(314,000)	-
Total support, revenues, gains (losses), and other support	20,776,000	(247,000)	20,529,000
OPERATING EXPENSES			
Administrative fees	1,712,000	-	1,712,000
Financial administration	515,000	-	515,000
Development and public relations	630,000	-	630,000
Management and general	499,000	-	499,000
Total operating expenses	3,356,000	-	3,356,000
PROGRAM EXPENSES			
Community grant making	348,000	-	348,000
Special projects	262,000	-	262,000
Grants and scholarships			
Public safety	40,000	-	40,000
Education and scholarship	2,789,000	-	2,789,000
Human services	1,544,000	-	1,544,000
Children's services	730,000	-	730,000
Heatlh services	1,171,000	-	1,171,000
Economic and regional development	454,000	-	454,000
Arts	1,784,000	-	1,784,000
Environment and other	1,859,000	-	1,859,000
Total program expenses	10,981,000	-	10,981,000
CHARITABLE REMAINDER TRUSTS			
Changes in present value of split-interest agreements	-	(1,035,000)	(1,035,000)
Total charitable remainder trust	-	(1,035,000)	(1,035,000)
CHANGE IN NET ASSETS	6,439,000	(1,282,000)	5,157,000
NET ASSETS, beginning of year	102,459,000	6,443,000	108,902,000
NET ASSETS, end of year	$ 108,898,000	$ 5,161,000	$ 114,059,000

Sacramento Region Community Foundation
Consolidated Statements of Activities and Changes in Net Assets
(rounded to the nearest thousand)
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted Split Interest Agreements	Total 2015
SUPPORT, REVENUES, GAINS (LOSSES), AND OTHER SUPPORT			
Donations and pledges	$ 10,261,000	$ -	$ 10,261,000
Program revenue	62,000	-	62,000
Net investment income and other support	773,000	49,000	822,000
Net realized gain (loss) on investments	3,356,000	(1,000)	3,355,000
Net unrealized loss on investments	(5,742,000)	(76,000)	(5,818,000)
Change in value of beneficial interest	(94,000)	-	(94,000)
Change in value of charitable gift annuities	-	(1,000)	(1,000)
Administrative fees	1,780,000	-	1,780,000
Other	(20,000)	37,000	17,000
Net assets released from restriction	52,000	(52,000)	-
Total support, revenues, gains (losses), and other support	10,428,000	(44,000)	10,384,000
OPERATING EXPENSES			
Administrative fees	1,686,000	-	1,686,000
Financial administration	563,000	-	563,000
Development and public relations	616,000	-	616,000
Management and general	472,000	-	472,000
Total operating expenses	3,337,000	-	3,337,000
PROGRAM EXPENSES			
Community grant making	324,000	-	324,000
Special projects	258,000	-	258,000
Grants and scholarships			
Public safety	46,000	-	46,000
Education and scholarship	2,851,000	-	2,851,000
Human services	2,022,000	-	2,022,000
Children's services	600,000	-	600,000
Heatlh services	1,015,000	-	1,015,000
Economic and regional development	458,000	-	458,000
Arts	2,074,000	-	2,074,000
Environment and other	2,202,000	-	2,202,000
Total program expenses	11,850,000	-	11,850,000
CHARITABLE REMAINDER TRUSTS			
Changes in present value of split-interest agreements	-	1,411,000	1,411,000
Total charitable remainder trust	-	1,411,000	1,411,000
CHANGE IN NET ASSETS	(4,759,000)	1,367,000	(3,392,000)
NET ASSETS at the beginning of year	107,218,000	5,076,000	112,294,000
NET ASSETS at the end of year	$ 102,459,000	$ 6,443,000	$ 108,902,000

Sacramento Region Community Foundation
Consolidated Statements of Cash Flows
(rounded to the nearest thousand)
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,157,000	$ (3,392,000)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	13,000	17,000
Unrealized (gain) loss on investment securities	(3,929,000)	5,818,000
Realized gain on investment securities	(1,413,000)	(3,355,000)
Changes in assets and liabilities		
Contributions and pledges receivable	23,000	79,000
Beneficial interest in trust	1,261,000	95,000
Other assets	26,000	(26,000)
Funds held in split-interest agreements	1,528,000	(1,237,000)
Accounts payable and accrued expenses	635,000	224,000
Agency endowments	502,000	2,365,000
Liability under split-interest agreements	(233,000)	(94,000)
Cash flows from operating activities	3,570,000	494,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	22,620,000	20,974,000
Purchases of investments	(26,970,000)	(22,040,000)
Purchases of equipment	(35,000)	-
Cash flows from investing activities	(4,385,000)	(1,066,000)
NET CHANGES IN CASH AND CASH EQUIVALENTS	(815,000)	(572,000)
CASH AND CASH EQUIVALENTS, beginning of year	7,474,000	8,046,000
CASH AND CASH EQUIVALENTS, end of year	$ 6,659,000	$ 7,474,000

Sacramento Region Community Foundation
Consolidated Statements of Functional Expenses
(rounded to the nearest thousand)
Years Ended December 31, 2016 and 2015

YEAR ENDED DECEMBER 31, 2016

	Program services			Supporting services				
	Community grantmaking	Special projects	Total program services	Management and general	Development and public relations	Financial administration	Total supporting services	Total all services
Grants and scholarships	$ 6,150,000	$ 4,221,000	$ 10,371,000	$ -	$ -	$ -	$ -	$ 10,371,000
Administrative fees	-	-	-	1,712,000	-	-	1,712,000	1,712,000
Salaries and benefits	185,000	159,000	344,000	328,000	413,000	312,000	1,053,000	1,397,000
General and administrative	106,000	67,000	173,000	98,000	146,000	136,000	380,000	553,000
Professional fees	54,000	34,000	88,000	71,000	68,000	64,000	203,000	291,000
Depreciation	3,000	2,000	5,000	2,000	3,000	3,000	8,000	13,000
Total	$ 6,498,000	$ 4,483,000	$ 10,981,000	$ 2,211,000	$ 630,000	$ 515,000	$ 3,356,000	$ 14,337,000

YEAR ENDED DECEMBER 31, 2015

	Program services			Supporting services				
	Community grantmaking	Special projects	Total program services	Management and general	Development and public relations	Financial administration	Total supporting services	Total all services
Grants and scholarships	$ 5,672,000	$ 5,596,000	$ 11,268,000	$ -	$ -	$ -	$ -	$ 11,268,000
Administrative fees	-	-	-	1,686,000	-	-	1,686,000	1,686,000
Salaries and benefits	156,000	151,000	307,000	309,000	393,000	295,000	997,000	1,304,000
General and administrative	105,000	67,000	172,000	97,000	143,000	194,000	434,000	606,000
Professional fees	59,000	38,000	97,000	64,000	75,000	70,000	209,000	306,000
Depreciation	4,000	2,000	6,000	2,000	5,000	4,000	11,000	17,000
Total	$ 5,996,000	$ 5,854,000	$ 11,850,000	$ 2,158,000	$ 616,000	$ 563,000	$ 3,337,000	$ 15,187,000

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Sacramento Region Community Foundation (“SRCF”) is a not-for-profit organization incorporated under the laws of the State of California whose purpose is to administer contributions received and distribute grants which meet community needs. SRCF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

SRCF Supporting Organization is a type one supporting organization that is a not-for-profit public benefit corporation, incorporated in April, 2014, to hold unconventional donations such as real estate and privately held stock until their disposition. The organization is included in the consolidated financial statements in accordance with generally accepted accounting principles. As of December 31, 2016 and 2015, there were no assets in the organization.

Basis of presentation – The consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States of America. The Foundation’s resources are classified for accounting and reporting purposes into funds established according to their nature and objectives. While separate accounts are maintained for each fund, in the consolidated financial statements the funds have been combined.

The funds of the Foundation are maintained as follows:

Administrative fund – Administrative fund represents a portion of funds that are available for the Foundation operations.

Endowed and expendable funds – Endowed and expendable funds are available for disbursement at the recommendation of the donor subject to approval by the Board of Directors (the “Board”).

Principles of consolidation – The accompanying consolidated financial statements reflect the consolidation of SRCF and the SRCF Supporting Organization (collectively, the “Foundation”). All significant transactions between the entities have been eliminated in consolidation.

Cash and cash equivalents – Cash and cash equivalents includes highly liquid investments with remaining terms to maturity of three months or less at the date of acquisition. Interest income on cash and cash equivalents is included in support, revenues, gains (losses), and other support in the consolidated statements of activities and changes in net assets as those investment types are used for the Foundation’s daily cash management activities.

Contributions and pledges receivable – Contributions and pledges receivable represent unconditional promises to contribute specified amounts to the Foundation in the future. The contributions and pledges receivable are recognized as donations when made. Discounts related to contributions receivable are insignificant and have not been recorded.

Contributions and pledges receivable are measured at their fair value and reported as an increase in net assets. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restriction. Contributions are subject to variance power and give the Board the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. Based on that provision, the Foundation classifies contributions as unrestricted for financial statement presentation.

Allowance for uncollectible contributions – An allowance is maintained to provide for uncollectible contributions that can be expected to occur in the normal course of operations. The allowance is based on management’s analysis of the outstanding pledges and general business and economic conditions in the community. The allowance is established through a provision for pledge losses which reduces gross revenue. At December 31, 2016 and 2015, management determined that no allowance for uncollectible contributions was necessary.

Investments – The Foundation invests securities from the various donor and administrative funds that it maintains in order to increase its investment options and risk diversification. The funds are accounted for using the “market value unit method”. Under this method, each donor fund is assigned a number of units based on the ratio of the donor fund’s market value with the market value of all investments at the time of entry in the pool. Monthly, the pooled assets are valued and new unit values calculated. Changes in estimated fair values are recognized as gains or losses in the consolidated statements of activities and changes in net assets.

Concentrations of risk – The Foundation recognizes that there are additional inherent risks associated with non-publicly traded securities. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations and regular communication with investment managers.

To address market and credit risks of investments, the Foundation maintains formal investment policies that set out performance criteria, provide investment guidelines and require regular review of investment performance. Investments are managed by multiple investment managers, who have responsibility for investing the funds using various investment strategies. The Foundation has custody agreements with selected banks, which process transactions at the direction of authorized staff and investment managers.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of investments in excess of Securities Investor Protection Corporation (SIPC) insurance and cash deposits in excess of the Federal Deposit Insurance Corporation (FDIC). The Foundation occasionally maintains balances in depository and brokerage accounts in excess of the respective FDIC and SIPC insurance limits. Management does not believe it is exposed to any significant credit risk on uninsured amounts.

Long-lived assets – The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to forecasted undiscounted future net cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Funds held in split-interest agreements – The Foundation is the trustee, beneficiary or both the trustee and beneficiary of charitable remainder trusts (CRTs). When the Foundation is the trustee of a CRT, the assets held in trust are recorded at fair value, as determined by quoted market price or other relevant valuation methods, and a corresponding liability is established to recognize the trust's future obligations. If the Foundation is an irrevocable beneficiary of a CRT, management prepares an estimate of the present value of the future contribution using methods that are reciprocal to the methods used by the donor in determining their charitable deduction for Federal income tax purposes. Collectability and changes in fair value of these contributions are evaluated periodically and charged or credited to income annually. When the Foundation is the trustee and irrevocable beneficiary, the CRT assets are recorded at fair market value and the corresponding liability is recorded net of the contribution amount calculated in the manner outlined above. Changes in fair value of the recorded amounts are charged or credited to income annually.

Agency endowments – The Foundation receives and distributes assets under certain agency and intermediary arrangements. When a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the Foundation accounts for the transfer of such assets as a liability. Liabilities are established at the fair value of the funds, which are generally equivalent to the present value of future payments expected to be made to the not-for-profit organizations and are reflected under agency endowments on the accompanying consolidated statements of financial position.

Net assets – Net assets are classified based on existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets are defined as that portion of net assets that have no use or time restrictions. The bylaws of the Foundation include a variance provision giving the Board of Directors (the "Board") the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board (without the necessity of the approval of any other party), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. Based on that provision, the Foundation classifies contributions, except as noted below, as unrestricted for financial statement presentation.

Temporarily Restricted Net Assets are defined as that portion of net assets that have a restriction on the specific use or the occurrence of a certain future event. Split interest gifts for which the Foundation acts as trustee are recorded as temporarily restricted until such time as the contract has expired or matured. The Foundation may also receive grants from charitable foundations and local agencies for initiatives and special projects for which purpose restrictions apply. Such grants are recorded as temporarily restricted until the purpose restrictions are met. When the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Permanently Restricted Net Assets are defined as that portion of net assets consisting of the initial fair value of the gifts where the donor has specified that the assets donated are to be retained in an endowment, providing a permanent source of revenue for charitable purposes. The Foundation retains a variance provision in its bylaws that allows the Board to modify a donor's restrictions. That provision has rarely been used by the Board during the Foundation's history and in all such cases, the Board's actions attempt to follow the donor's original intent as closely as is practicable. Based on that provision, the Foundation classifies contributions otherwise restricted by donors and their related activity, except as noted above, as unrestricted for financial statement presentation. For financial reporting purposes only, the Foundation does not have any permanently restricted net assets as of December 31, 2016 and 2015.

Revenue recognition – Contributions are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on discounted cash flows. The discount on these amounts are computed using the rate applicable in the year the promises were received. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at appraised value on the date of the gift and is generally made available for sale as soon as practicable. Contributions of public stock are recorded at the average of the quoted high and low market price on the date of donation.

Functional expense allocations – Expenses which apply to more than one functional category have been allocated among program, general and administrative, and fundraising based on the percentage of staff allocated to each functional area.

Income taxes – The Foundation is a nonprofit corporation exempt from federal income taxes under Internal Revenue Code section 501(c)(3) and from State of California income taxes, except on unrelated business income. Therefore, these consolidated financial statements contain no provision for such taxes. Informational returns are filed annually with federal and state taxing authorities. The Foundation is not aware of any transactions that would affect its tax-exempt status. The Foundation had no unrecognized tax benefits as of December 31, 2016 and 2015, respectively.

The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. For the year ended December 31, 2016 and 2015, there were no tax interest or penalties recorded in the statements of activities and changes in net assets.

Use of estimates – The preparation of consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recently adopted pronouncement – In August 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances, such as the existence of substantial doubt. Management is required to evaluate going concern uncertainties at each annual and interim reporting period, considering the entity's ability to continue as a going concern within one year after the date the consolidated financial statements are available to be issued. This guidance was effective on December 31, 2016. The adoption of this ASU had no impact on the Foundation's consolidated financial statements.

Reclassifications – Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 presentation. These reclassifications had no effect on the reported net assets.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated Statement of Financial Position date, but before consolidated financial statements are issued. The Foundation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated Statement of Financial Position, including the estimates inherent in the process of preparing the consolidated financial statements. The consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated Statement of Financial Position, but arose after the consolidated Statement of Financial Position date and before the consolidated financial statements are available to be issued. Subsequent events have been evaluated through the date the financial statements were available to be issued.

NOTE 2 – SPLIT-INTEREST AGREEMENTS

Split-interest agreements as of December 31, 2016 and 2015, consisted of the following:

	2016	2015
Funds held in split-interest agreements		
Cash and cash equivalents	$ 1,124,000	$ 493,000
Split-interest agreement contributions receivable	4,997,000	5,872,000
Investment securities	995,000	2,250,000
Total funds held in split-interest agreements	$ 7,116,000	$ 8,615,000
Liability under split-interest agreements	$ (1,939,000)	$ (2,172,000)

Charitable remainder trusts held by the Foundation pay administrative fees to the Foundation that are accounted for as inter-fund transactions which eliminate in the consolidated financial statements. The related income and expense are reflected on the Statements of Activities and Changes in Net Assets to clarify the revenue sources of the Foundation's unrestricted fund.

NOTE 3 – FAIR VALUE MEASUREMENT

Fair value of investments – The Foundation applies the guidance FASB ASC 820, Fair Value Measurements, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for the asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of nonperformance risk including the Foundation's own credit risk.

In addition to defining fair value, the standard expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed. Those differences could be material.

The following methods and assumptions were used by the Foundation to estimate the fair value of its financial instruments at December 31, 2016 and 2015, respectively:

Investment securities – For investment securities, fair values are based on either quoted market prices, quoted market prices for similar securities, indications of values provided by brokers or derived from model-based valuation techniques that use assumptions not observable in the market.

Beneficial interest in trust – For beneficial interest in trust agreements, fair values are based on information supplied by the trustee.

Funds held in split-interest agreements – For funds held in split-interest agreements when the Foundation is an irrevocable beneficiary of a CRT, fair values are based on a present value calculation of the irrevocable portion of the assets of the split-interest agreements utilizing discount rates between 5.4% - 12.1%, based on the applicable federal rate at the date of contribution. Funds held in split-interest agreements when the Foundation is the trustee of a CRT are comprised of equities, mutual funds and other investments which have quoted market prices.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. There were no such transfers for the years ended December 31, 2016 and 2015.

The following tables present information about the Foundations' assets and liabilities measured at fair value on a recurring basis as of December 31:

	December 31, 2016				
	Total	Level 1	Level 2	Level 3	Other*
ASSETS					
Investments					
Mutual funds	$ 55,368,000	$ 55,368,000	$ -	$ -	$ -
Common commingled funds	19,361,000	-	-	-	19,361,000
Alternative investments	30,362,000	-	-	12,935,000	17,427,000
Corporate stocks and notes	3,719,000	3,719,000	-	-	-
Corporate bonds	280,000	280,000	-	-	-
Total investments	$ 109,090,000	$ 59,367,000	$ -	$ 12,935,000	$ 36,788,000
Beneficial interest in trust					
Beneficial interest in trust	$ 903,000	$ -	$ -	$ 903,000	$ -
Split-interest agreements					
Funds held in split-interest agreements	$ 5,992,000	$ 995,000	$ -	$ 4,997,000	$ -
LIABILITIES					
Split-interest agreements					
Liability under split-interest agreements	$ (1,939,000)	$ -	$ -	$ (1,939,000)	$ -

	December 31, 2015				
	Total	Level 1	Level 2	Level 3	Other*
ASSETS					
Investments					
Mutual funds	$ 56,057,000	$ 56,057,000	$ -	$ -	$ -
Common commingled funds	14,163,000	-	-	-	14,163,000
Alternative investments	25,724,000	-	-	11,193,000	14,531,000
Corporate stocks and notes	3,207,000	3,207,000	-	-	-
Corporate bonds	276,000	276,000	-	-	-
Total investments	$ 99,427,000	$ 59,540,000	$ -	$ 11,193,000	$ 28,694,000
Beneficial interest in trust					
Beneficial interest in trust	$ 2,164,000	$ -	$ -	$ 2,164,000	$ -
Split-interest agreements					
Funds held in split-interest agreements	$ 8,122,000	$ 2,250,000	$ -	$ 5,872,000	$ -
LIABILITIES					
Split-interest agreements					
Liability under split-interest agreements	$ (2,172,000)	$ -	$ -	$ (2,172,000)	$ -

*Investments using Net Asset Value (NAV) as fair value expedient are not included in the fair value hierarchy, pursuant to the ASU 2015-07, *Fair Value Measurement*.

Mutual funds – This class includes investments in mutual funds that invest primarily in domestic and foreign equity or debt securities. The objective of these investments is to capture similar market returns in their respective indices. The funds are priced and traded on a daily basis and offer full liquidity and availability on a daily basis.

Common commingled funds – This class includes investments in commingled funds that invest primarily in domestic and foreign equity or debt securities. The objective of these investments is to capture similar market returns in their respective indices. The funds' underlying positions are all marketable and priced regularly but the majority of the funds themselves are priced monthly on a net asset value basis. Common commingled funds are accessible for full liquidity on a monthly basis on the first of every month.

Alternative investments – This class includes multiple strategies in investments that are intended to either protect capital through unique investment opportunities while finding value when markets are less than optimal or to maximize returns greater than, while providing less correlation to, the volatility of the overall stock markets. Management elected the fair value option for its alternative investments. Although these investments may not have readily determinable fair value as defined by accounting principles generally accepted in the United States of America, management believes it has sufficient information and valuation techniques (using the net asset value "NAV") to reflect a reasonable estimate of fair value and this fair value is more representative of the basis for which management and knowledgeable investors make their investment decisions.

Hedge and absolute return investments which seek to protect capital may include strategies such as equity long/short, relative value, event-driven, etc. Redemptions vary by fund but often are redeemable with written notification up to 95 days. When requested for full redemption, 5-10% of assets are generally held back for several months after the redemption date until final audits are completed.

Private assets which seek to maximize return and provide less correlation to the overall stock markets include private investments in venture capital, buyout, special situations, real estate and other hard assets. Investments are focused on the infrastructure of various hard assets, the purchase and sale of quality real estate properties and/or investment in newly developed and start-up companies. There is no provision for redemption during the life of these funds but management intends to hold these investments until distributions occur within a period of 3-10 years.

Corporate stocks and notes – This class includes investments in individual domestic and foreign equity securities. The objective of these investments is to capture dividend income and capital appreciation. The securities are priced and traded on a daily basis and offer full liquidity and availability on a daily basis.

Corporate bonds – This class includes investments in individual domestic fixed income securities. The objective of these investments is to capture interest income. The securities are priced and traded on a daily basis and offer full liquidity and availability on a daily basis.

Beneficial interest in trust, funds and liabilities held in split-interest agreements – The Foundation uses the fair value of trust assets reported by the trustee to record the fair value of the beneficial interests in trust; uses a discounted cash flow methodology to record the fair value of the assets and liability associated with split-interest agreements when the Foundation is an irrevocable beneficiary of a CRT; and uses quoted market prices to record the fair value of the investment securities held when the Foundation is the trustee of a CRT.

Fair value inputs are reviewed and updated annually by adjusting the current life expectancy of the income beneficiaries, an applicable discount rate determined by the Foundation, and market value of each trust from financial statements provided by the trustees. A decrease in the discount rate and a shorter life expectancy will increase the fair value of the funds held in split-interest agreements and liability, just as an increase in the discount rate and a longer life expectancy will decrease the fair value of the funds held in split-interest agreements and liability.

Valuation process – The Foundation's investments are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include corporate stocks and notes, corporate bonds and mutual funds. Such instruments are generally classified within Level 1 of the fair value hierarchy.

A portion of the alternative investments and the Foundation's beneficial interest in trust are classified within Level 3 of the fair value hierarchy as significant assumptions are not observable in the market. The alternative Investments may be in offshore fund vehicles or in a fund of funds structure and the beneficial interest in trust represents an ownership interest in a trust, and therefore do not have a readily determinable fair values. The Foundation values its alternative investments based on indicative pricing using a market approach. Those indicative price quotes represent the individual broker's own assessments based on similar assets as well as using valuation techniques and analyzing the underlying asset. The Foundation also relies on other qualitative analysis including discussions with brokers and fund managers and overall capital market liquidity to value its alternative investments. The Foundation values its beneficial interest in trust based on the fair values reported by the trustee which includes unobservable inputs as the Foundation does not own the individual underlying trust assets.

Funds held in split-interest agreements are classified within Level 1 and Level 3 of the fair value hierarchy. Funds included in Level 1 are invested in instruments such as equities, mutual funds and other investments which have quoted market prices. Funds included in Level 3 are ownership interests in a company that benefit split-interest agreements held at the Foundation. The Foundation values these ownership interests based on the fair values of various securities and the net asset value of the company which includes unobservable inputs.

The following tables present the roll-forward of Level 3 investments carried at fair value (including the change in fair value) on the consolidated statements of financial position for the years ended December 31:

	December 31, 2016			
	Alternative Investments	Beneficial Interest in Trust	Funds held in Split Interest Agreements	Total
Balance, January 1	$ 11,193,000	$ 2,164,000	$ 5,872,000	$ 19,229,000
Total realized and unrealized gains (losses) included in changes in net assets	1,295,000	(61,000)	(267,000)	967,000
Purchases	1,241,000	-	-	1,241,000
Sales	(794,000)	(1,200,000)	(608,000)	(2,602,000)
Balance, December 31	$ 12,935,000	$ 903,000	$ 4,997,000	$ 18,835,000
Change in unrealized gains and losses on investments held as of December 31	$ 604,000	$ (61,000)	$ (267,000)	$ 276,000

	December 31, 2015			
	Alternative Investments	Beneficial Interest in Trust	Funds held in Split Interest Agreements	Total
Balance, January 1	$ 9,650,000	$ 2,259,000	$ 4,282,000	$ 16,191,000
Total realized and unrealized gains (losses) included in changes in net assets	1,406,000	(95,000)	1,590,000	2,901,000
Purchases	1,060,000	-	-	1,060,000
Sales	(923,000)	-	-	(923,000)
Balance, December 31	$ 11,193,000	$ 2,164,000	$ 5,872,000	$ 19,229,000
Change in unrealized gains and losses on investments held as of December 31	$ 605,000	$ (95,000)	$ 1,590,000	$ 2,100,000

The table below presents information about significant unobservable inputs related to material categories of Level 3 financial assets and liabilities at December 31:

	Fair Value at December 31, 2016	Valuation Techniques	Unobservable Inputs	Quantitative Inputs
Alternative investments	$ 12,935,000	Market comparables	General partner estimates	na*
Beneficial interest in trust	$ 903,000	Fair value of trust assets reported by the trustee	Asset fair value from trustees	Varies
Funds help in Split-interest agreement assets and liabilities	$ 3,058,000	Discounted cash flows	Asset fair values from trustees	Varies
			Payout rate	4.9 - 10.8%
			Payout frequency	Quarterly, annually
			Term life of instrument	Lifetime
			IRS Publication 1458 unitrust factors	.34 - .82
			AFR rate	1.8%

* Not included due to the wide range of possible values given the diverse nature of the underlying investments.

Approximately 30% and 26% of the Foundation's investments were invested in alternative investments as of December 31, 2016 and 2015, respectively. These investments are composed of hedge, absolute return and private equity funds that are not immediately liquid. Certain of the Foundation's investments require investment commitments and include limitations on the timing of subsequent withdrawals from those investments. The Foundation was committed to approximately $8,286,000 and $5,518,000 in future investments as of December 31, 2016 and 2015, respectively.

Investments valued at NAV – The Foundation reports certain investments that are measured at fair value using the NAV per share "practical expedient" as determined by investment managers. These investments do not have readily determinable fair values and are investments in companies that prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments reported at NAV by major category as of December 31:

	2016		2015				
Investments	# of Funds	Fair Value	# of Funds	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Common commingled funds							
Fixed income	1	$ 2,111,000	1	$ 4,161,000	$ -	Monthly	10 Days
Domestic equities	2	2,072,000	1	1,000	-	Daily	None
International equities	4	15,178,000	2	10,001,000	-	Monthly, November 30, 2018	5 - 120 Days
Alternative investments							
Hedge funds	9	17,427,000	6	14,531,000	-	Monthly, Quarterly, June 30, 2016 - September 30, 2018	45 - 95 Days
Total		$ 36,788,000		$ 28,694,000	$ -		

NOTE 4 – ENDOWMENT NET ASSETS

Endowment – The Foundation accounts for endowment gifts under the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the Foundation may allow an endowed fund to spend into historic gift value if it can prudently do so after consideration of 7 factors that affect the spending and future earnings of the fund. The factors in making a determination as to the appropriation of assets for expenditure are: 1) the duration and preservation of the fund, 2) the purposes of the organization and the donor-restricted endowment fund, 3) general economic conditions, 4) the possible effect of inflation and deflation, 5) the expected total return from income and the appreciation of investments, 6) other resources of the Foundation, and 7) the investment policies of the Foundation.

Interpretation of relevant law – The Board of Directors of the Foundation, with the advice of legal counsel, has determined it holds assets which meet the definition of endowment funds under the UPMIFA. As a result of the Foundation’s ability to spend into historic gift value and its variance power provision, the Foundation classifies contributions, related activity net assets for donor endowments as unrestricted for the consolidated financial statement presentation. A board designated endowment fund, one where the Foundation's board has set aside a permanent portion of its unrestricted net assets to support the Foundation for the long term, is classified as unrestricted net assets.

Investment and spending policies: The Foundation has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowed assets. The investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The Foundation has a policy of appropriating for distribution in the current year 4% of an endowment fund's average fair value over the past 12 quarters ending September 30. In establishing this policy, the Foundation has set its long-term total return rate to be approximately 7.5 - 8% annually which allows for the achieved spending rate, investment expenses and growth of the fund's balance over time. The Foundation's spending policy is reviewed annually in light of economic conditions and relationship to the overall long-term benchmark.

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 with an emphasis on equity based investments, within prudent risk parameters.

Classifications include endowment which is designated by donors and endowment which has been board designated. The changes in endowment net assets for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Endowment net assets, January 1	$ 80,819,000	$ 85,335,000
Investment return:		
Investment income	629,000	731,000
Net appreciation (depreciation) (realized and unrealized)	4,545,000	(1,860,000)
Total investment return	5,174,000	(1,129,000)
Contributions	2,618,000	651,000
Appropriation of endowment assets for expenditure	(3,746,000)	(4,038,000)
Endowment net assets, December 31	84,865,000	80,819,000

	2016	2015
Board designated endowments with variance power	$ 83,047,000	$ 79,012,000
Board designated endowments	1,818,000	1,807,000
Total	$ 84,865,000	$ 80,819,000

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Lease obligation – The Foundation leases its office premises with a term of five years and eight months, expiring in September 2017. The Foundation also leases certain equipment under non-cancellable leases. Following is a schedule of future minimum rental payments under its non-cancelable operating leases:

Years ending December 31,	
2018	$ 3,700
2019	3,700
2020	3,700
2021	3,700
Total	$ 14,800

Rental expense consisted of approximately $119,000 and $121,000 for the years ended December 31, 2016 and 2015, respectively.

Contingencies – The Foundation is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Foundation.

NOTE 6 – RETIREMENT BENEFITS

Effective June 1, 2014, the Foundation established a 401(k) plan (the Plan). Participation in the Plan is voluntary and all full time and part-time employees who complete 1,000 hours of service and a one year waiting period are eligible to participate. The Foundation makes contributions equal to 8% of the employee's base pay each pay period. Employer contributions for all employees are fully vested when made except for eligible employees hired after June 1, 2014, whose employer contributions will vest equally over a 3-year period. All employee contributions are fully vested when made. Employer contributions totaled $85,000 and $82,000 for the years ended December 31, 2016 and 2015, respectively.