# SACRAMENTO REGION COMMUNITY FOUNDATION

## CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

SACRAMENTO REGION COMMUNITY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

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# INDEPENDENT AUDITOR'S REPORT

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

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sacramento Region Community Foundation, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activity and change in net assets, cash flows and functional expenses 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

(Continued)

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Region Community Foundation 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.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
April 10, 2017

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 7,474,000 | $ 8,046,000 |
| Contributions and pledges receivable, current portion | 17,000 | 37,000 |
| Total current assets | 7,491,000 | 8,083,000 |
| Noncurrent assets: | | |
| Contributions and pledges receivable, long-term | 51,000 | 110,000 |
| Investment securities (Note 2) | 99,427,000 | 100,824,000 |
| Land | 2,000,000 | 2,000,000 |
| Other assets (Note 3) | 2,371,000 | 2,457,000 |
| Funds held in split-interest agreements (Note 4) | 8,615,000 | 7,378,000 |
| Total noncurrent assets | 112,464,000 | 112,769,000 |
| Total assets | $ 119,955,000 | $ 120,852,000 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 650,000 | $ 426,000 |
| Agency endowments | 8,231,000 | 5,866,000 |
| Liability under split-interest agreements (Note 4) | 2,172,000 | 2,266,000 |
| Total liabilities | 11,053,000 | 8,558,000 |
| Commitments and contingencies (Note 6) | | |
| Net assets: | | |
| Unrestricted net assets | 102,459,000 | 107,218,000 |
| Temporarily restricted | 6,443,000 | 5,076,000 |
| Total net assets | 108,902,000 | 112,294,000 |
| Total liabilities and net assets | $ 119,955,000 | $ 120,852,000 |

SACRAMENTO REGION COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2015

| | Unrestricted | | | Temporarily Restricted | |
|---|---|---|---|---|---|
| | Administrative | Other | Total | Split Interest Agreements | Total 2015 |
| Support, revenues, gains, (losses) and other support: | | | | | |
| Donations and pledges | $ 50,000 | $ 10,211,000 | $ 10,261,000 | $ - | $ 10,261,000 |
| Program revenue | 62,000 | - | 62,000 | - | 62,000 |
| Net investment income and other support | 5,000 | 768,000 | 773,000 | 49,000 | 822,000 |
| Net realized gain (loss) on investments | - | 3,356,000 | 3,356,000 | (1,000) | 3,355,000 |
| Net unrealized gain (loss) on investments | (6,000) | (5,736,000) | (5,742,000) | (76,000) | (5,818,000) |
| Change in value of beneficial interest | - | (94,000) | (94,000) | - | (94,000) |
| Change in value of charitable gift annuities | - | - | - | (1,000) | (1,000) |
| Administrative fees | 1,780,000 | - | 1,780,000 | | 1,780,000 |
| Other | 171,000 | (191,000) | (20,000) | 37,000 | 17,000 |
| Net assets released from restriction | - | 4,000 | 4,000 | (4,000) | - |
| Total revenues, gains, (losses) and other support | 2,062,000 | 8,318,000 | 10,380,000 | 4,000 | 10,384,000 |
| Operating expenses: | | | | | |
| Administrative fees | - | 1,638,000 | 1,638,000 | 48,000 | 1,686,000 |
| Financial administration | 456,000 | 107,000 | 563,000 | - | 563,000 |
| Development and public relations | 567,000 | 49,000 | 616,000 | - | 616,000 |
| Management and general | 436,000 | 36,000 | 472,000 | - | 472,000 |
| Total operating expenses | 1,459,000 | 1,830,000 | 3,289,000 | 48,000 | 3,337,000 |
| Community grant making | 285,000 | 39,000 | 324,000 | - | 324,000 |
| Special projects | 233,000 | 25,000 | 258,000 | - | 258,000 |
| Grants and scholarships: | | | | | |
| Public safety | - | 46,000 | 46,000 | - | 46,000 |
| Education and scholarship | - | 2,851,000 | 2,851,000 | - | 2,851,000 |
| Human services | - | 2,022,000 | 2,022,000 | - | 2,022,000 |
| Children's services | - | 600,000 | 600,000 | - | 600,000 |
| Health services | - | 1,015,000 | 1,015,000 | - | 1,015,000 |
| Economic and regional development | - | 458,000 | 458,000 | - | 458,000 |
| Arts | - | 2,074,000 | 2,074,000 | - | 2,074,000 |
| Environment and other | - | 2,202,000 | 2,202,000 | - | 2,202,000 |
| Total program expenses | 518,000 | 11,332,000 | 11,850,000 | - | 11,850,000 |
| Charitable remainder trusts: | | | | | |
| Changes in present value of split-interest agreements | - | - | - | 1,411,000 | 1,411,000 |
| Total split-interest agreements | - | - | - | 1,411,000 | 1,411,000 |
| Change in net assets | 85,000 | (4,844,000) | (4,759,000) | 1,367,000 | (3,392,000) |
| Net assets at the beginning of year | 967,000 | 106,251,000 | 107,218,000 | 5,076,000 | 112,294,000 |
| Net assets at end of year | $ 1,052,000 | $101,407,000 | $102,459,000 | $ 6,443,000 | $108,902,000 |

See accompanying notes to financial statements.

SACRAMENTO REGION COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2014

| | Unrestricted | | | Temporarily Restricted | |
|---|---|---|---|---|---|
| | Administrative | Other | Total | Split Interest Agreements | Total 2014 |
| Support, revenues, gains, (losses) and other support: | | | | | |
| Donations and pledges | $ 55,000 | $ 6,568,000 | $ 6,623,000 | $ - | $ 6,623,000 |
| Net investment income and other support | 4,000 | 1,011,000 | 1,015,000 | 40,000 | 1,064,000 |
| Net realized gain (loss) on investments | - | 1,693,000 | 1,693,000 | (26,000) | 1,667,000 |
| Net unrealized gain (loss) on investments | (1,000) | 235,000 | 234,000 | 12,000 | 246,000 |
| Change in value of beneficial interest | - | 139,000 | 139,000 | - | 139,000 |
| Change in value of charitable gift annuities | - | - | - | (7,000) | (7,000) |
| Administrative fees | 1,688,000 | - | 1,688,000 | - | 1,688,000 |
| Other | 22,000 | (168,000) | (146,000) | 292,000 | 146,000 |
| Net assets released from restriction | - | 8,000 | 8,000 | (8,000) | - |
| Total revenues, gains, (losses) and other support | 1,768,000 | 9,486,000 | 11,254,000 | 312,000 | 11,566,000 |
| Operating expenses: | | | | | |
| Administrative fees | - | 1,600,000 | 1,600,000 | 33,000 | 1,633,000 |
| Financial administration | 410,000 | 30,000 | 440,000 | - | 440,000 |
| Development and public relations | 561,000 | 40,000 | 601,000 | - | 601,000 |
| Management and general | 425,000 | 29,000 | 454,000 | - | 454,000 |
| Total operating expenses | 1,396,000 | 1,699,000 | 3,095,000 | 33,000 | 3,128,000 |
| Program expenses: | | | | | |
| Community grant making | 241,000 | 22,000 | 263,000 | - | 263,000 |
| Special projects | 228,000 | 20,000 | 248,000 | - | 248,000 |
| Grants and scholarships: | | | | | |
| Public safety | - | 79,000 | 79,000 | - | 79,000 |
| Education and scholarship | - | 2,069,000 | 2,069,000 | - | 2,069,000 |
| Human services | - | 1,175,000 | 1,175,000 | - | 1,175,000 |
| Children's services | - | 242,000 | 242,000 | - | 242,000 |
| Health services | - | 728,000 | 728,000 | - | 728,000 |
| Economic and regional development | - | 170,000 | 170,000 | - | 170,000 |
| Arts | - | 1,275,000 | 1,275,000 | - | 1,275,000 |
| Environment and other | - | 1,607,000 | 1,607,000 | - | 1,607,000 |
| Total program expenses | 469,000 | 7,387,000 | 7,856,000 | - | 7,856,000 |
| Split-Interest Agreements: | | | | | |
| Changes in present value of split-interest agreements | - | - | - | 14,000 | 14,000 |
| Total split-interest agreements | - | - | - | 14,000 | 14,000 |
| Change in net assets | (97,000) | 400,000 | 303,000 | 293,000 | 596,000 |
| Net assets at the beginning of year | 1,064,000 | 105,851,000 | 106,915,000 | 4,783,000 | 111,698,000 |
| **Net assets at end of year** | $ 967,000 | $106,251,000 | $107,218,000 | $ 5,076,000 | $112,294,000 |

See accompanying notes to financial statements.

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ (3,392,000) | $ 596,000 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 17,000 | 24,000 |
| Unrealized loss (gain) on investment securities | 5,818,000 | (246,000) |
| Realized gain on investment securities | (3,355,000) | (1,667,000) |
| Change in value of beneficial interest | 94,000 | (139,000) |
| Decrease in contributions and pledges receivable | 79,000 | 119,000 |
| Decrease in other assets | 86,000 | 859,000 |
| Increase in funds held in split-interest agreements | (1,425,000) | (298,000) |
| Increase in current liabilities | 224,000 | 30,000 |
| Increase in agency endowments | 2,365,000 | 2,079,000 |
| Net cash provided by operating activities | 511,000 | 1,357,000 |
| **Cash flows from investing activities:** | | |
| Purchases of investment securities | (22,057,000) | (13,373,000) |
| Sales of investment securities | 20,974,000 | 12,189,000 |
| Net cash used in investing activities | (1,083,000) | (1,184,000) |
| (Decrease) Increase in cash and cash equivalents | (572,000) | 173,000 |
| Cash and cash equivalents, beginning of the year | 8,046,000 | 7,873,000 |
| **Cash and cash equivalents, end of the year** | $ 7,474,000 | $ 8,046,000 |

See accompanying notes to financial statements.

SACRAMENTO REGION COMMUNITY FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2015 and 2014

December 31, 2015

| | Program Services | | | Supporting Services | | | | |
|---|---|---|---|---|---|---|---|---|
| | Community Grantmaking | Special Projects | Total Program Services | Management and General | Development and Public Relations | Financial Admini-stration | Total Supporting Services | Total All Services |
| Grants and scholarships | $ 5,672,000 | $ 5,596,000 | $ 11,268,000 | $ - | $ - | $ - | $ - | $ 11,268,000 |
| Salaries and benefits | 156,000 | 151,000 | 307,000 | 308,000 | 393,000 | 295,000 | 956,000 | 1,303,000 |
| General and administrative | 105,000 | 67,000 | 172,000 | 97,000 | 143,000 | 194,000 | 434,000 | 604,000 |
| Professional fees | 59,000 | 38,000 | 97,000 | 64,000 | 75,000 | 70,000 | 209,000 | 306,000 |
| Administrative fees | - | - | - | 1,686,000 | - | - | 1,686,000 | 1,686,000 |
| Depreciation | 4,000 | 2,000 | 6,000 | 3,000 | 5,000 | 4,000 | 12,000 | 17,000 |
| | $ 5,996,000 | $ 5,854,000 | $ 11,850,000 | $ 2,158,000 | $ 616,000 | $ 563,000 | $ 3,337,000 | $ 15,187,000 |

December 31, 2014

| | Program Services | | | Supporting Services | | | | |
|---|---|---|---|---|---|---|---|---|
| | Community Grantmaking | Special Projects | Total Program Services | Management and General | Development and Public Relations | Financial Admini-stration | Total Supporting Services | Total All Services |
| Grants and scholarships | $ 4,403,000 | $ 2,942,000 | $ 7,345,000 | $ - | $ - | $ - | $ - | $ 7,345,000 |
| Salaries and benefits | 155,000 | 147,000 | 302,000 | 307,000 | 391,000 | 279,000 | 977,000 | 1,279,000 |
| General and administrative | 72,000 | 66,000 | 138,000 | 95,000 | 141,000 | 110,000 | 346,000 | 484,000 |
| Professional fees | 33,000 | 31,000 | 64,000 | 47,000 | 62,000 | 46,000 | 155,000 | 219,000 |
| Administrative fees | - | - | - | 1,633,000 | - | - | 1,633,000 | 1,633,000 |
| Depreciation | 4,000 | 3,000 | 7,000 | 5,000 | 7,000 | 5,000 | 17,000 | 24,000 |
| | $ 4,667,000 | $ 3,189,000 | $ 7,856,000 | $ 2,087,000 | $ 601,000 | $ 440,000 | $ 3,128,000 | $ 10,984,000 |

See accompanying notes to financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation: Sacramento Region Community Foundation (the "Foundation") 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. The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

SRCF Supporting Organization, a type one supporting organization that is a nonprofit public benefit corporation, was incorporated in April, 2014, to hold unconventional donations such as real estate and privately held stock until their disposition. The entity is included in the consolidated financial statements in accordance with generally accepted accounting principles. As of December 31, 2015 and 2014, there were no assets in the organization.

Principles of Consolidation: In accordance with Financial Accounting Standards Board Accounting Standards Codification (the “FASB ASC”) Not-for-Profit Entities, these consolidated financial statements include the accounts the Foundation and SRCF Supporting Organization. All significant intercompany transactions and accounts have been eliminated in the consolidation.

Method of Accounting: The financial statements of Sacramento Region Community Foundation are presented on the accrual basis of accounting and maintained in accordance 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 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 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).

Cash and Cash Equivalents: Cash and cash equivalents include demand deposits, money market accounts and short-term investments with original maturities of 90 days or less.

The Foundation’s cash is deposited with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposits held in banks are insured up to $250,000 by the FDIC. At December 31, 2015 and 2014 carrying balances were $7,474,000 and $8,046,000 with a bank balance of $6,436,000 and $8,324,000, respectively. The total uninsured bank balance at December 31, 2015 and 2014 was $5,469,000 and $8,074,000, respectively. Deposits held in cash investment accounts insured by the Securities Investors Protection Corporation as of December 31, 2015 and 2014 were $152,000 and $163,000, respectively.

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 are recognized as donations when made. Discounts related to contributions receivable are insignificant and have not been recorded.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Contributions and pledges received 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 statement of activity as net assets released from restriction. Contributions subject to the variance power established by the Foundation's governing documents gives 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, 2015 and 2014, management determined that no allowance for uncollectible contributions was necessary.

Investment Pools: In order to increase its investment options and risk diversification, the Foundation pools investment securities from the various donor and administrative funds that it maintains. 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.

Impairment of 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. Once an impairment charge is recorded, the carrying amount cannot be increased.

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. Collectibility 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.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Agency Endowments: The Foundation receives and distributes assets under certain agency and intermediary arrangements. When a not-for-profit organization (NPO) 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 NPOs and are reflected under agency endowments on the accompanying statement of financial position.

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 and the Foundation has not been granted variance power. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restriction.

*Unrestricted Net Assets* – Includes unrestricted contributions, income earned on unrestricted net assets and amounts for which temporary restrictions have expired. As more fully described in the contributions and pledges receivable section of Note 1, the Foundation retains a variance provision in its bylaws that allows the Board to modify a donor's restrictions. Based on that provision, the Foundation classifies contributions otherwise restricted by donors and their related activity, except as noted below, as unrestricted for financial statement presentation.

*Temporarily Restricted Net Assets* – Represent those assets entrusted to the Foundation for the purpose of providing grants at a future date. 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 as unrestricted net assets.

*Permanently Restricted Net Assets* – The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. As more fully described in the contributions and pledges receivable section of Note 1, 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, 2015 and 2014.

Functional Allocation of Expenses: The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited.

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. Therefore, these financial statements contain no provision for such taxes. Informational returns are filed annually with federal and state taxing authorities.

(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The Foundation uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. For the year ended December 31, 2015, management has determined that the Foundation does not have any tax positions that result in any uncertainties regarding the possible impact on the Foundation's financial statements. The Foundation is no longer subject to examination by taxing authorities for years before 2012. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Foundation recognizes interest and/or penalties related to income tax matters in income tax expense. The Foundation did not have any amounts accrued for interest and penalties at December 31, 2015 and 2014.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The accounts payable, accrued expenses and fair value of financial instruments are particularly subject to change.

New Accounting Pronouncements: In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement (Topic 820). The amendments in ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This ASU was adopted by the Foundation for the year ended December 31, 2015 with no material impact on the Foundation. The provisions of this ASU are applied retrospectively.

Reclassification: Certain prior year balances have been reclassified to conform with current year financial statement presentation. Reclassification had no effect on prior year change in net assets or net assets.

Subsequent Events: The Foundation has evaluated subsequent events for recognition and disclosure through April 10, 2017, which is the date the financial statements were available to be issued.

**NOTE 2 – FAIR VALUE MEASUREMENTS**

Fair Value of Financial Instruments: Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made as of a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Foundation's entire holdings of a particular financial instrument for sale at one time.

Fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the fair value presented.

(Continued)

**NOTE 2 – FAIR VALUE MEASUREMENTS** (Continued)

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

*Cash and cash equivalents*: For cash and cash equivalents, the carrying amount is estimated to be fair value.

*Contributions, pledges and grants receivable*: For contributions, pledges and grants receivable, the carrying amounts approximate the fair values based on the anticipated duration for which the receivables are expected to remain outstanding.

*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.

*Other assets*: For beneficial interest in trust agreements included in other assets, fair values are based on information supplied by the trustee.

*Split-interest agreement contributions receivable*: For split-interest agreement contributions receivable, 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.

Fair Value Hierarchy: The Foundation groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices (unadjusted) for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based valuation techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Foundation's estimates of assumptions that market participants would use on pricing the asset or liability. 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.

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 model-based 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.

(Continued)

**NOTE 2 – FAIR VALUE MEASUREMENTS** (Continued)

Assets and Liabilities Recorded at Fair Value: The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2015:

*Recurring Basis*

| | Fair Value Measurements 2015 | | | | |
|---|---|---|---|---|---|
| | Level I | Level 2 | Level 3 | Other[1] | Total |
| Assets: | | | | | |
| Money market funds | $ 7,139,000 | $ - | $ - | $ - | $ 7,139,000 |
| Investment securities: | | | | | |
| Mutual funds | 56,057,000 | - | - | - | 56,057,000 |
| Common commingled funds | - | - | - | 14,163,000 | 14,163,000 |
| Alternative investments: | - | - | 11,193,000 | 14,531,000 | 25,724,000 |
| Corporate stocks and notes | 3,207,000 | - | - | - | 3,207,000 |
| Corporate bonds | 276,000 | - | - | - | 276,000 |
| Beneficial interest in trust | - | - | 2,164,000 | - | 2,164,000 |
| Split-interest agreements (non-cash) | 2,250,000 | - | 5,872,000 | - | 8,122,000 |
| Total investments | $ 68,929,000 | $ - | $ 19,229,000 | $ 28,694,000 | $ 116,852,000 |

Assets and Liabilities Recorded at Fair Value: The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2014:

*Recurring Basis*

| | Fair Value Measurements 2014 | | | | |
|---|---|---|---|---|---|
| | Level I | Level 2 | Level 3 | Other[1] | Total |
| Assets: | | | | | |
| Money market funds | $ 7,432,000 | $ - | $ - | $ - | $ 7,432,000 |
| Investment securities: | | | | | |
| Mutual funds | 56,915,000 | - | - | - | 56,915,000 |
| Common commingled funds | - | 3,118,000 | - | 13,624,000 | 16,742,000 |
| Alternative investments: | - | - | 9,650,000 | 14,028,000 | 23,678,000 |
| Corporate stocks and notes | 3,308,000 | - | - | - | 3,308,000 |
| Corporate bonds | 181,000 | - | - | - | 181,000 |
| Beneficial interest in trust | - | - | 2,259,000 | - | 2,259,000 |
| Split-interest agreements (non-cash) | 2,426,000 | - | 4,282,000 | - | 6,708,000 |
| Total investments | $ 70,262,000 | $ 3,118,000 | $ 16,191,000 | $ 27,651,000 | $ 117,223,000 |

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

(Continued)

**NOTE 2 – FAIR VALUE MEASUREMENTS** (Continued)

*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.

*Net Asset Value* – As noted in Note 1, the Foundation adopted ASU No. 2015-07 for the year ended December 31, 2015. The Foundation reports certain investments that are measured at fair value using the Net Asset Value (NAV) per share "practical expedient" as determined by investment managers which do not have readily available fair value and prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. These investments have not been classified in the fair value hierarchy. The following table lists investments by major category as of December 31:

| | 2015 | | 2014 | | | | |
|---|---|---|---|---|---|---|---|
| | # of Funds | Valuation | # of Funds | Valuation | Unfunded Commitment | Redemption Frequency | Redemption Period Notice |
| Common commingled funds: | | | | | | | |
| Fixed income | 1 | $ 4,161,000 | 1 | $ 4,431,000 | $ - | Monthly | 10 Days |
| Domestic equities | 1 | 1,000 | - | - | - | Daily | none |
| International equities | 2 | 10,001,000 | 2 | 9,192,000 | - | Monthly | 5-10 Days |
| Alternative investments: | | | | | | | |
| Hedge funds | 6 | 14,531,000 | 7 | 14,028,000 | - | June 30, 2016 - September 30, 2016 | 45-95 Days |
| Total | | $28,694,000 | | $27,651,000 | $ - | | |

*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 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 (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.

(Continued)

**NOTE 2 – FAIR VALUE MEASUREMENTS** (Continued)

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.

*Valuation approach* – The Foundation's investments are generally classified within Level 1 or Level 2 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. The Foundation's cash held in money market funds are classified within Level 1 as cash and cash equivalents on the balance sheet as of December 31, 2015 and 2014. The types of instruments valued based on other observable inputs include common commingled funds and are generally classified within Level 2 of the fair value hierarchy.

A portion of alternative investments and the Foundation's beneficial interest in trusts 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 value. The Foundation marks-to-market 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 marks-to-market its beneficial interest in trust based on the fair values of various securities and the net asset value of the Company which includes unobservable data through estimates and appraisals using a market approach.

Split-interest agreement assets are classified within Level 1 and Level 3 of the fair value hierarchy. Assets included in Level 1 are invested in instruments such as cash, equities, mutual funds and other investments which have quoted market prices. Assets included in Level 3 are ownership interests in a company that benefit split-interest agreements held at the Foundation. In addition, the non-trusteed split-interest agreement receivables are included in Level 3 based on the inability of the Foundation to redeem the instrument within 90 days. The Foundation marks-to-market these ownership interests based on the fair values of various securities and the net asset value of the company which includes unobservable data through estimates and appraisals using a market approach.

(Continued)

**NOTE 2 – FAIR VALUE MEASUREMENTS** (Continued)

For the year ended December 31, 2015, the Foundation adopted ASU No. 2015-07, the amendments in ASU No. 2015-07 removes the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments were applied retrospectively to 2014. There were no recurring assets or liabilities transferred in or out of Levels 1 and 2 during the years ended December 31, 2015 and 2014.

*Level 3 Assets Rollforward*

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Alternative Investments | Beneficial Interest in Trust | Split Interest Agreements | Total |
| Beginning balance | $ 9,650,000 | $ 2,259,000 | $ 4,282,000 | $ 16,191,000 |
| Total gains or losses (realized/ unrealized) 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) |
| Issuances | - | - | - | - |
| Settlements | - | - | - | - |
| Transfers in and/or out of Level 3 | - | - | - | - |
| Ending balance | $ 11,193,000 | $ 2,164,000 | $ 5,872,000 | $ 19,229,000 |
| Change in unrealized gains and losses on investments as of December 31, 2015 | $ 605,000 | $ (95,000) | $ 1,590,000 | $ 2,100,000 |

(Continued)

**NOTE 2 – FAIR VALUE MEASUREMENTS** (Continued)

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Alternative Investments | Beneficial Interest in Trust | Split Interest Agreements | Total |
| Beginning balance | $ 21,589,000 | $ 3,103,000 | $ 4,885,000 | $ 29,577,000 |
| Total gains or losses (realized/ unrealized) included in changes in net assets | 1,326,000 | 139,000 | (603,000) | 862,000 |
| Purchases | 1,375,000 | - | - | 1,375,000 |
| Sales | (612,000) | (983,000) | | (1,595,000) |
| Issuances | - | - | - | - |
| Settlements | - | - | - | - |
| Transfers in and/or out of Level 3 | (14,028,000) | - | - | (14,028,000) |
| Ending balance | $ 9,650,000 | $ 2,259,000 | $ 4,282,000 | $ 16,191,000 |
| Change in unrealized gains and losses on investments as of December 31, 2014 | $ 969,000 | $ 139,000 | $ (603,000) | $ 503,000 |

The following table represents the Foundation's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

| Instrument | Fair value at December 31, 2015 | Valuation Methods | Unobservable Input Factors | Quantitative Inputs |
|---|---|---|---|---|
| Alternative investments | $ 11,193,000 | General partner valuations* | NA* | NA* |
| Beneficial interest in split-interest agreements | $ 2,164,000 | Discounted cash flows | Asset fair values from trustees | Varies |
| | | | Payout rate | 5-11 % |
| | | | Payout frequency | Quarterly, annually |
| | | | Term life of instrument | 5 years or lifetime |
| | | | 2000 CM mortality tables based on annuitant's age | .35-.77 |
| | | | AFR rate | 2 % |
| Split-interest agreement assets | $ 5,872,000 | Discounted cash flows | Asset fair values from trustees | Varies |
| | | | Payout rate | 5.4 – 12.1 % |
| | | | Payout frequency | Quarterly, annually |
| | | | Term life of instrument | Lifetime |
| | | | 2000 CM mortality tables based on annuitant's age | .32-.94 |
| | | | AFR rate | 2 % |

**The funds' General Partners may adjust capital balances at its discretion to more appropriately reflect fair value.*

(Continued)

**NOTE 2 – FAIR VALUE MEASUREMENTS** (Continued)

*Non-recurring Basis* - The Foundation did not hold any assets or liabilities which were recorded at fair value on a non-recurring basis.

Investment securities are carried at fair value; therefore, realized and unrealized gains and losses are reflected in the statement of activities and changes in net assets in the year incurred. In addition, the Foundation reports certain investments using the Net Asset Value (NAV) per share "practical expedient" as determined by investment managers.

Approximately 26% of the Foundation's investments at December 31, 2015 were invested in alternative investments 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. As of December 31, 2015, the Foundation was committed to approximately $5,518,000 in future investments.

**NOTE 3 – OTHER ASSETS**

Other assets at December 31 consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Beneficial interest in trust | $ 2,164,000 | $ 2,259,000 |
| Miscellaneous | 207,000 | 198,000 |
| | $ 2,371,000 | $ 2,457,000 |

Other assets primarily represent non-cash receivables that are recorded at their estimated fair value. Management has used all available information in preparing its estimates; however, due to the nature of agreements and underlying assets, amounts ultimately realized upon liquidation could differ significantly from the estimated value.

**NOTE 4 – SPLIT-INTEREST AGREEMENT ASSETS AND LIABILITIES**

Split-interest agreement assets at December 31 consist of:

| | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | $ 493,000 | $ 670,000 |
| Split-interest agreement contributions receivable | 5,872,000 | 4,282,000 |
| Investment securities | 2,250,000 | 2,426,000 |
| | $ 8,615,000 | $ 7,378,000 |

(Continued)

**NOTE 4 – SPLIT-INTEREST AGREEMENT ASSETS AND LIABILITIES** (Continued)

The liability for future payments over the lives of the charitable remainder trusts and charitable gift annuities was $2,172,000 and $2,266,000 at December 31, 2015 and 2014, respectively.

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

**NOTE 5 – ENDOWMENT NET ASSETS**

Endowment: The Foundation accounts for endowment gifts under the Uniform Prudent Management of Institutional Funds Act of 2006 (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 Based on the variance power provision, the Foundation classifies contributions, related activity net assets for donor endowments as unrestricted for 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.

Interpretation of UPMIFA: The Board of Directors has interpreted California UPMIFA as requiring the preservation of the fair value of the original and subsequent gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

Spending Policy and Investment Objectives: 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.

Investment Policies: To satisfy its long-term rate of return objectives, the Foundation relies on a total return perspective in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation uses a diversified asset allocation based on a core-satellite strategy to achieve its long-term objectives within prudent risk constraints.

(Continued)

**NOTE 5 – ENDOWMENT NET ASSET** (Continued)

The endowment net asset composition by type of fund as of December 31 2015, consist of the following:

| | |
|---|---|
| Donor-designated endowment funds | $ 79,012,000 |
| Board designated endowment funds | 1,807,000 |
| | $ 80,819,000 |
| Endowment net assets, beginning of year | $ 85,335,000 |
| Investment return: | |
| Investment income | 731,000 |
| Net (depreciation) appreciation (realized and unrealized) | (1,860,000) |
| Total investment return | (1,129,000) |
| Contributions | 651,000 |
| Appropriation of endowment assets for expenditure | (4,038,000) |
| | $ 80,819,000 |

The endowment net asset composition by type of fund as of December 31 2014, consist of the following:

| | |
|---|---|
| Donor-designated endowment funds | $ 81,923,000 |
| Board designated endowment funds | 1,926,000 |
| | $ 83,849,000 |
| Endowment net assets, beginning of year | $ 84,406,000 |
| Investment return: | |
| Investment income | 854,000 |
| Net (depreciation) appreciation (realized and unrealized) | 1,789,000 |
| Total investment return | 2,643,000 |
| Contributions | 522,000 |
| Appropriation of endowment assets for expenditure | (3,722,000) |
| | $ 83,849,000 |

(Continued)

## NOTE 6 – COMMITMENTS AND CONTINGENCIES

Lease Obligation: The Foundation leases its office premises and certain other equipment under non-cancelable leases. Future minimum lease payments are as follows:

| | Year Ending December 31, |
|---|---|
| 2016 | $ 139,000 |
| 2017 | 106,000 |
| | $ 245,000 |

Total rental expense for the years ended December 31, 2015 and 2014 was $121,000 and $122,000, 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 7 – 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 complete a one year waiting period are eligible to participate. The Foundation makes contributions equal to 8 percent 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 $82,000 and $43,000 for the years ended December 31, 2015 and 2014, respectively.