

**ROCHESTER AREA COMMUNITY FOUNDATION
AND AFFILIATES**

**Consolidated Financial Statements
as of March 31, 2017
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

August 2, 2017

To the Board of Directors of
Rochester Area Community Foundation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rochester Area Community Foundation and affiliates (New York not-for-profit corporations), which comprise the consolidated balance sheet as of March 31, 2017, and the related consolidated statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidated 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 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.

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rochester Area Community Foundation and affiliates as of March 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Rochester Area Community Foundation and affiliates' 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Bonadio & Co., LLP

ROCHESTER AREA COMMUNITY FOUNDATION AND AFFILIATES

CONSOLIDATED BALANCE SHEET

MARCH 31, 2017

(With Comparative Totals for 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
ASSETS:				
Cash and short-term investments	\$ 12,477,557	\$ -	\$ 12,477,557	\$ 12,846,152
Accrued interest receivable	45,681	-	45,681	59,270
Pledges receivable, net	-	7,108,767	7,108,767	-
Charitable Checking Account SM	8,295,959	-	8,295,959	8,498,321
Investments	402,766,567	-	402,766,567	353,457,671
Land, building and equipment, net	642,733	-	642,733	696,110
Split-interest agreements	-	11,803,137	11,803,137	12,444,729
Other assets	726,364	-	726,364	378,413
	<u>\$ 424,954,861</u>	<u>\$ 18,911,904</u>	<u>\$ 443,866,765</u>	<u>\$ 388,380,666</u>
LIABILITIES:				
Grants payable	\$ 739,725	\$ -	\$ 739,725	\$ 394,083
Charitable Checking Account SM	8,295,959	-	8,295,959	8,498,321
Agency funds	25,846,703	-	25,846,703	22,893,879
Split-interest agreements	-	1,706,523	1,706,523	1,854,061
Other liabilities	339,321	-	339,321	195,115
	<u>35,221,708</u>	<u>1,706,523</u>	<u>36,928,231</u>	<u>33,835,459</u>
NET ASSETS:				
Unrestricted -				
Charitable endowment funds	261,648,490	-	261,648,490	229,376,778
Charitable Investor Funds SM	113,405,947	-	113,405,947	99,057,965
Grant making	13,089,165	-	13,089,165	13,896,066
Operations/administration	1,589,551	-	1,589,551	1,623,730
	<u>389,733,153</u>	<u>-</u>	<u>389,733,153</u>	<u>343,954,539</u>
Temporarily restricted	-	17,205,381	17,205,381	10,590,668
	<u>389,733,153</u>	<u>17,205,381</u>	<u>406,938,534</u>	<u>354,545,207</u>
	<u>\$ 424,954,861</u>	<u>\$ 18,911,904</u>	<u>\$ 443,866,765</u>	<u>\$ 388,380,666</u>

The accompanying notes are an integral part of these statements.

ROCHESTER AREA COMMUNITY FOUNDATION AND AFFILIATES

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2017
(With Comparative Totals for 2016)**

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
PUBLIC SUPPORT AND REVENUE:				
Public support -				
Gifts, grants and donations	\$ 41,088,179	\$ 7,729,646	\$ 48,817,825	\$ 37,749,686
Establishment of Sands Family Supporting Foundation	-	-	-	61,095,658
Less gifts, grants and donations related to:				
Agency funds	(2,550,835)	-	(2,550,835)	(2,749,460)
Charitable Checking Account SM	(3,182,562)	-	(3,182,562)	(7,041,771)
Interfund activity	(1,687,579)	-	(1,687,579)	(1,364,198)
Total public support	<u>33,667,203</u>	<u>7,729,646</u>	<u>41,396,849</u>	<u>87,689,915</u>
Revenue -				
Interest and dividend income	3,246,821	-	3,246,821	2,096,354
Net gain (loss) on investments	35,156,053	-	35,156,053	(6,972,395)
Change in value of split-interest agreements	-	122,006	122,006	328,016
Other income	298,970	-	298,970	293,803
Net assets released from restriction	1,236,939	(1,236,939)	-	-
Total revenue	<u>39,938,783</u>	<u>(1,114,933)</u>	<u>38,823,850</u>	<u>(4,254,222)</u>
Total public support and revenue	<u>73,605,986</u>	<u>6,614,713</u>	<u>80,220,699</u>	<u>83,435,693</u>
EXPENSES:				
Program services -				
Grants	29,647,275	-	29,647,275	28,415,236
Less grants originated from:				
Agency funds	(2,313,756)	-	(2,313,756)	(759,863)
Charitable Checking Account SM	(3,352,278)	-	(3,352,278)	(5,744,069)
Interfund activity	(1,687,579)	-	(1,687,579)	(1,364,198)
Total program services	<u>22,293,662</u>	<u>-</u>	<u>22,293,662</u>	<u>20,547,106</u>
Program support	<u>2,209,911</u>	<u>-</u>	<u>2,209,911</u>	<u>2,136,762</u>
Total program services	<u>24,503,573</u>	<u>-</u>	<u>24,503,573</u>	<u>22,683,868</u>
Management and general	1,869,549	-	1,869,549	1,642,192
Fundraising	1,454,250	-	1,454,250	1,402,275
Total expenses	<u>27,827,372</u>	<u>-</u>	<u>27,827,372</u>	<u>25,728,335</u>
CHANGE IN NET ASSETS	45,778,614	6,614,713	52,393,327	57,707,358
NET ASSETS - beginning of year	<u>343,954,539</u>	<u>10,590,668</u>	<u>354,545,207</u>	<u>296,837,849</u>
NET ASSETS - end of year	<u>\$ 389,733,153</u>	<u>\$ 17,205,381</u>	<u>\$ 406,938,534</u>	<u>\$ 354,545,207</u>

The accompanying notes are an integral part of these statements.

ROCHESTER AREA COMMUNITY FOUNDATION AND AFFILIATES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2017
(With Comparative Totals for 2016)**

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Total	
CASH FLOW FROM OPERATING ACTIVITIES:				
Change in net assets	\$ 45,778,614	\$ 6,614,713	\$ 52,393,327	\$ 57,707,358
Adjustments to reconcile change in net assets to net cash flow from operating activities:				
Depreciation	62,237	-	62,237	61,956
Change in pledge discount	-	775,333	775,333	-
Provision for uncollectible pledges	-	10,000	10,000	-
Net (gain) loss on investments	(35,156,053)	-	(35,156,053)	6,972,395
Change in value of split-interest agreements	-	(122,006)	(122,006)	(328,016)
Establishment of Sands Family Supporting Foundation	-	-	-	(61,095,658)
Noncash contributions	(4,999,830)	-	(4,999,830)	-
Changes in:				
Accrued interest receivable	13,589	-	13,589	23,231
Pledges receivable	-	(7,894,100)	(7,894,100)	-
Other assets	(347,951)	-	(347,951)	(110,494)
Grants payable	345,642	-	345,642	(123,443)
Agency funds	2,952,824	-	2,952,824	1,186,831
Other liabilities	144,206	-	144,206	(276,115)
Net cash flow from operating activities	<u>8,793,278</u>	<u>(616,060)</u>	<u>8,177,218</u>	<u>4,018,045</u>
CASH FLOW FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	280,834,644	-	280,834,644	252,511,433
Purchases of investments	(289,987,657)	-	(289,987,657)	(257,869,558)
Purchases of land, building and equipment	(8,860)	-	(8,860)	(18,935)
Distributions from (contributions to) split-interest agreements, net	-	616,060	616,060	(328,534)
Net cash flow from investing activities	<u>(9,161,873)</u>	<u>616,060</u>	<u>(8,545,813)</u>	<u>(5,705,594)</u>
CHANGE IN CASH AND SHORT-TERM INVESTMENTS	<u>(368,595)</u>	<u>-</u>	<u>(368,595)</u>	<u>(1,687,549)</u>
CASH AND SHORT-TERM INVESTMENTS - beginning of year	<u>12,846,152</u>	<u>-</u>	<u>12,846,152</u>	<u>14,533,701</u>
CASH AND SHORT-TERM INVESTMENTS - end of year	<u>\$ 12,477,557</u>	<u>\$ -</u>	<u>\$ 12,477,557</u>	<u>\$ 12,846,152</u>

The accompanying notes are an integral part of these statements.

ROCHESTER AREA COMMUNITY FOUNDATION AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017

1. THE ORGANIZATION

Rochester Area Community Foundation is a not-for-profit organization building a community-based endowment that matches the philanthropic interests of donors with unmet community needs.

Rochester Area Community Foundation effectively controls all operational aspects of the affiliate organizations described below. The financial activity of the affiliates has been consolidated in the accompanying financial statements. All significant interaffiliate transactions and balances have been eliminated. Rochester Area Community Foundation and affiliates are collectively referred to as the "Community Foundation" in these consolidated notes.

- Joan and Harold Feinbloom Supporting Foundation, Inc. was established under Section 509(a)(3) of the Internal Revenue Code (IRC) to operate solely for supporting the activities of the Community Foundation.
- Sands Family Supporting Foundation, Inc. was established under Section 509(a)(3) of the IRC to operate exclusively for benefiting and supporting the activities of the Community Foundation. The Sands Family Supporting Foundation was established December 2015.
- Rochester Area Community Foundation Depository, Inc. (Charitable Checking AccountSM) was established under Section 509(a)(1) of the IRC to provide donors the ability to direct monies to specific tax-exempt entities.
- Rochester Area Foundation was established under Section 509(a)(3) of the IRC to operate solely for supporting the activities of the Community Foundation, including taking title to real property that otherwise would have been acquired by the Community Foundation.
- Rochester Area Community Foundation Initiatives, Inc. (RACF Initiatives) was established under Section 509(a)(3) of the IRC to operate exclusively for the purpose of benefiting and supporting the Community Foundation. RACF Initiatives sponsors programs and projects that address identified needs of the community.
- Rochester Area Community Foundation, LLC (RACF, LLC) was established for the purpose of providing a means for interested donors to participate in certain national charitable giving programs. RACF, LLC's sole member is Rochester Area Community Foundation.
- Rochester Area Community Foundation Family LLC (RACF Family LLC) was established for the purpose of providing a means for interested donors to make contributions of interests in real estate entities. RACF Family LLC's sole member is Rochester Area Community Foundation. The Rochester Area Community Foundation, LLC was established August 2015.
- Rochester Area Community Foundation Health LLC (RACF Health LLC) was established for the purpose of acquiring, owning, developing, managing, encumbering, and disposing of interest in other property, real and personal, whether owned directly or indirectly. RACF Health LLC's sole member is Rochester Area Community Foundation. RACF Health LLC was established December 2016.

1. THE ORGANIZATION (Continued)

Rochester Area Community Foundation, Joan and Harold Feinbloom Supporting Foundation, Inc., Sands Family Supporting Foundation, Inc., Rochester Area Community Foundation Depository, Inc., Rochester Area Foundation, and Rochester Area Community Foundation Initiatives, Inc. are exempt from income taxes as organizations qualified under Section 501(c)(3) of the IRC. RACF, LLC, RACF Family LLC, and RACF Health LLC are limited liability companies under the New York Limited Liability Company Law and are considered disregarded entities under the IRC. Accordingly, RACF, LLC, RACF Family LLC, and RACF Health LLC are categorized as tax-exempt organizations based on the tax status of their sole member.

None of the above affiliates have been classified as private foundations under the IRC.

The Helen L. Morris Foundation, Inc. also operates in connection with the Community Foundation as a supporting organization under Section 509(a)(3) of the IRC. As a type (iii) supporting organization, the Helen L. Morris Foundation, Inc. carries out the work of Rochester Area Community Foundation but is not controlled by it. Therefore, the financial activity of this organization is not included in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Under generally accepted accounting principles, not-for-profit organizations are required to report information regarding their financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Under the Community Foundation's governing documents and applicable laws, the Community Foundation has the right and power to vary the use of certain gifts from their original donor-prescribed purpose. Based on this variance power, the Community Foundation classifies all net assets as unrestricted, other than those on which time restrictions have been placed by the donor. Accordingly, the Community Foundation reports its assets in the following classes:

- **Unrestricted Net Assets**

Unrestricted net assets are those over which the Board of Directors of the Community Foundation retains control to use in achieving its institutional mission.

- **Temporarily Restricted Net Assets**

Temporarily restricted net assets are those on which a time restriction has been placed by a donor, e.g., a split-interest planned gift. When a donor restriction expires, that is, when a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted.

Endowment Funds

Accounting standards provide that if the governing body of an organization has the ability to remove a donor restriction, the contribution should be classified as unrestricted. However, under New York State law and the Community Foundation's governing documents, its assets are held as endowment funds until such time, if ever, as the governing body deems it prudent and appropriate under its variance power to redirect some part of the principal or appreciation. Accordingly, the consolidated financial statements classify most net assets as unrestricted but segregate the portion that is held as endowment from the funds that are currently available for grants and administration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (Continued)

The Community Foundation maintains a spending policy in connection with endowment earnings. Under this policy, 5.0% of a rolling 20-quarter average of the fair value of endowment investments is designated as available to meet current grant making requirements, plus an additional amount to cover fund administrative fees. However, the Community Foundation has adopted policies that limit amounts available for these purposes so as not to invade the historic value of its gifts on a component fund basis, even for gifts where the donor has allowed such invasion. At March 31, 2017 and 2016, the percentage of endowment funds with no donor designation was 11.4% and 12%, respectively.

Fair Value Measurement

Generally accepted accounting principles establish a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs, as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Community Foundation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these items does not entail a significant degree of judgment.
- Level 2 - Valuations based on the net asset value of interests in limited partnerships, trusts, and limited liability corporations (collectively referred to as alternative investments); or based on significant inputs that are observable, directly or indirectly; or based on quoted prices in markets that are not active.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Cash and Short-Term Investments

Cash and short-term investments include bank accounts and money market funds. The Community Foundation actively manages cash balances to minimize the extent to which balances exceed federally insured limits. However, balances may, at times, exceed federally insured limits. The Community Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to its cash and short-term investments.

Pledges Receivable

The Community Foundation records pledges receivable in the year the pledge is received. Pledges are recorded at their estimated net present value based on anticipated future cash flow using 3.65% discount rate. The difference between the pledges outstanding and their net present value is recorded as a reduction to pledges receivable and is recognized as contribution revenue over the term of the related pledge. The Community Foundation records an allowance for uncollectible pledges based on a review of specific outstanding pledges. Pledges receivable are written off after all collection efforts are exhausted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are stated at fair value as described in Note 8. Investments in cash and equivalents and certificates of deposit are stated at cost. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the risks associated with investment securities and the uncertainty related to changes in the fair value of investment securities, it is at least reasonably possible that changes in fair value could occur in the near term and that such changes could materially affect the net assets of the Community Foundation.

Split-Interest Agreements

The Community Foundation is a beneficiary of various trust and other split-interest agreements. The Community Foundation's beneficial interest is measured at the discounted value of its expected future cash flows and is reported as temporarily restricted net assets. Liabilities are recorded equal to the estimated present value of payments that the Community Foundation is required to make to specified beneficiaries under the terms of these arrangements.

Donated Life Insurance Policies - Cash Surrender Value

Various donors have contributed to the Community Foundation the ownership of certain life insurance policies. The cash surrender value of those policies has been included with split-interest agreements as an asset of the Community Foundation. Annual premiums on the policies, paid by the donors to the Community Foundation, are recorded as donations with corresponding premium expense included in management and general expense on the accompanying consolidated statement of activities and change in net assets.

Land, Building and Equipment

Land, building and equipment are stated at cost if purchased, or the fair value at the date of donation. The Community Foundation capitalizes assets with an initial cost greater than or equal to \$5,000 and a useful life greater than three years. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets which range from three (3) to forty (40) years.

Contributions

Contributions, including unconditional promises to give, are recognized at their fair value in the period received. Contributions to be received in the future are discounted at a rate commensurate with risk involved. Amortization of the discount is recorded as additional contribution revenue. The Community Foundation's policy is to liquidate non-cash contributions as soon as practicable after receipt. The proceeds of such sales are included in the cash flow from operating activities on the accompanying consolidated statement of cash flows.

Gifts-In-Kind

Gifts of real property and donations other than cash are recognized at their fair value in the period received.

Contributed Services

A substantial number of volunteers have made significant contributions of their time to the Community Foundation. The value of this contributed time is not reflected in these consolidated financial statements as it does not meet the criteria for recognition.

Grants

Grants are recorded as an expense of the Community Foundation when approved by the Board of Directors and after satisfaction by the recipients of any conditions associated with the payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Wills, Trusts and Estates

The Community Foundation is the beneficiary under various wills and trust agreements, the total realizable value of which is not presently determinable; therefore, these amounts are not recorded until they are received.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Comparative Information

The consolidated financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Community Foundation's consolidated financial statements for the year ended March 31, 2016, from which the summarized information was derived.

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at March 31:

	<u>2017</u>	<u>2016</u>
Pledges receivable, net	\$ 7,108,767	\$ -
Split-interest agreements	<u>10,096,614</u>	<u>10,590,668</u>
	<u>\$ 17,205,381</u>	<u>\$ 10,590,668</u>

Releases from restrictions consisted of the following for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Collection of pledges receivable	\$ 461,400	\$ -
Distributions of split-interest agreements	<u>775,539</u>	<u>183,583</u>
	<u>\$ 1,236,939</u>	<u>\$ 183,583</u>

The Community Foundation's temporarily restricted net assets are all subject to time restrictions. Upon lapse of these restrictions, the net assets will be reclassified as unrestricted.

4. PLEDGES RECEIVABLE

Pledges receivable are expected to be collected, as follows, for the years ending March 31:

2018	\$ 704,100
2019	1,063,000
2020	1,062,000
2021	1,063,000
2022	1,002,000
Thereafter	<u>3,000,000</u>
Gross pledges receivable	\$ 7,894,100
Less: Unamortized pledge discount	(775,333)
Allowance for uncollectible pledges	<u>(10,000)</u>
Pledges receivable, net	<u>\$ 7,108,767</u>

5. CHARITABLE CHECKING ACCOUNTSM

The Community Foundation acts as an agent for certain contributions made by donors to its Charitable Checking AccountSM, whereby the Community Foundation receives the monies and disburses those monies to specific tax-exempt entities. The Community Foundation's review of these disbursements is limited to confirmation of the charitable nature of the distribution. Therefore, the activity related to these assets is not included in the Community Foundation's change in net assets.

Charitable Checking AccountSM assets consisted of the following at March 31:

	<u>2017</u>	<u>2016</u>
Cash	\$ 4,215,584	\$ 5,197,065
Investments	<u>4,080,375</u>	<u>3,301,256</u>
	<u>\$ 8,295,959</u>	<u>\$ 8,498,321</u>

Charitable Checking AccountSM activity consisted of the following for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Contributions	\$ 3,182,562	\$ 7,041,771
Investment activity and other	(32,646)	(35,739)
Distributions	<u>(3,352,278)</u>	<u>(5,744,069)</u>
Net change in Charitable Checking Account SM	(202,362)	1,261,963
Charitable Checking Account SM - beginning of year	<u>8,498,321</u>	<u>7,236,358</u>
Charitable Checking Account SM - end of year	<u>\$ 8,295,959</u>	<u>\$ 8,498,321</u>

Investments held in the Charitable Checking AccountSM include certificates of deposit and money market accounts stated at cost that had maturities of less than three years at March 31, 2017 and 2016. These investments had a cost basis of \$3,985,175 and \$3,195,676 at March 31, 2017 and 2016, respectively. Earnings from these assets benefit the Community Foundation.

6. AGENCY FUNDS

The Community Foundation accepts funds from, and holds funds for the benefit of, other not-for-profit organizations. These funds are assets of the Community Foundation, but the Community Foundation is obligated, if certain conditions are met, to repay these amounts to the not-for-profit organization from whom the assets were received. These funds are shown as "Agency funds" in the accompanying consolidated balance sheet.

Total agency funds activity consisted of the following for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Contributions	\$ 2,550,835	\$ 2,749,460
Investment activity and other	2,715,745	(802,766)
Grants	<u>(2,313,756)</u>	<u>(759,863)</u>
Net change in agency funds	2,952,824	1,186,831
Agency funds - beginning of year	<u>22,893,879</u>	<u>21,707,048</u>
Agency funds - end of year	<u>\$ 25,846,703</u>	<u>\$ 22,893,879</u>

7. INVESTMENTS

Investments consisted of the following at March 31:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash and equivalents	\$ 7,145,765	\$ 7,145,765	\$ 39,242,935	\$ 39,242,935
Certificates of deposit	4,423,281	4,423,281	2,884,547	2,884,547
Common stocks	107,947,002	63,532,679	81,860,439	45,153,241
Alternative funds:				
Equity-focused	65,996,319	52,741,465	44,343,215	38,775,811
Debt-focused	28,249,826	25,250,732	26,928,102	25,370,785
Hedge funds	39,371,459	36,183,986	24,936,688	24,043,606
Private equity	2,120,412	1,871,369	-	-
Fixed income mutual funds	35,182,288	35,080,625	28,474,355	28,015,280
Equity mutual funds	<u>112,330,215</u>	<u>79,852,130</u>	<u>104,787,390</u>	<u>84,669,695</u>
	<u>\$402,766,567</u>	<u>\$306,082,032</u>	<u>\$353,457,671</u>	<u>\$288,155,900</u>

In conjunction with the establishment of the Sands Family Supporting Foundation, Inc., the Community Foundation held an investment in a single stock which comprised approximately 8% and 9% of the total investment balance at March 31, 2017 and 2016, respectively.

Investment management fees were approximately \$1,402,000 and \$1,314,000 for the years ended March 31, 2017 and 2016, respectively. These fees have been included in "net gain (loss) on investments" in the accompanying consolidated statement of activities and change in net assets.

7. INVESTMENTS (Continued)

Alternative Funds

Alternative funds consist of the Community Foundation's investments in limited liability companies and limited partnerships for the purpose of long term growth as follows:

Equity-focused alternative funds

Sanderson International Value Fund: The fund's investment objective is to achieve long-term growth principally by investing in a diversified portfolio of equity securities of companies ordinarily located outside of the United States of America and Canada. The fund allows monthly redemptions with a 10-business day written notice. Minimum redemption amount is \$250,000 unless otherwise waived by the Custodian Trustee. The Community Foundation's investment in the fund had a fair value of \$20,903,995 and \$18,767,181 at March 31, 2017 and 2016, respectively.

Wellington Trust Company, NA CTF International Contrarian Value Portfolio: The fund commenced operations on May 1, 2015 and is a non-benchmark oriented investment approach which seeks to maximize long term capital appreciation and generate long term returns in excess of the MSCI EAFE Index. The fund allows monthly redemptions with a 10-business day written notice. The Community Foundation's investment in the fund had a fair value of \$12,421,275 and \$9,917,661 at March 31, 2017 and 2016, respectively.

Marathon-London International Investment Trust I: The fund's investment objective is to grow capital through investing in a professionally managed portfolio of global securities, primarily common stocks, in companies based outside the United States of America. The fund allows monthly redemptions with a 5-business day advance written notice. The Community Foundation's investment in this fund had a fair value of \$10,462,821 and \$9,702,801 at March 31, 2017 and 2016, respectively.

WGI Emerging Markets Fund, LLC: The fund's overall investment objective is to provide long term returns in excess of the Morgan Stanley Capital International Emerging Index by investing in equity securities of companies operating within one or more global developing markets. The fund allows monthly redemptions with 30-business day written notice. The Community Foundation's investment in this fund had a fair value of \$9,626,276 and \$5,955,572 at March 31, 2017 and 2016, respectively.

Copper Rock International Small Cap Fund: The fund seeks capital appreciation by investing in stocks of international small capitalization companies that the investment advisor believes can achieve high rates of business growth. The fund allows for redemptions with a 10-business day advance written notice. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$6,335,163 at March 31, 2017.

Baxter Street Offshore Fund, LTD.: The fund was formed for the purpose of investing primarily in equity securities to achieve maximum total return. The fund allows for monthly redemptions with a 30-day advance written notice. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$3,715,883 at March 31, 2017.

Polunin Emerging Markets Small Cap Fund: The fund seeks to achieve capital growth through investment in equities and equity equivalent instruments in emerging markets. The fund allows for monthly redemptions with a 30-business day advance written notice. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$2,530,906 at March 31, 2017.

7. INVESTMENTS (Continued)

Debt-focused alternative funds

Colchester Global Bond Fund: The fund's investment objective is to achieve favorable income-oriented returns from a globally diversified portfolio of primarily debt and debt-like securities and to preserve and enhance principal. The fund allows redemptions on the first business day of each month with a 10-business day advance written notice. The Community Foundation's investment in the fund had a fair value of \$10,938,879 and \$11,105,769 at March 31, 2017 and 2016, respectively.

Post Traditional High Yield Fund, LP: The fund's investment objective is to maximize current income by primarily investing in a diversified portfolio of public and private issue debt securities that are generally rated below investment grade as well as issues whose value is expected to increase over time. The fund allows redemptions on the last business day of each month with a 30-business day advance written notice. The Community Foundation's investment in this fund had a fair value of \$8,824,019 and \$8,076,561 at March 31, 2017 and 2016, respectively.

Colchester Local Markets Debt Fund: This fund's investment objective is to achieve favorable income-oriented returns from a globally diversified portfolio of primarily developing market debt or debt-like securities and to preserve and enhance principal. The fund allows redemptions on the first business day of each month with a 10-business day advance written notice. The Community Foundation's investment in this fund had a fair value of \$8,486,928 and \$7,745,772 at March 31, 2017 and 2016, respectively.

Alternative hedge funds

Archipelago Holdings, Ltd.: The fund engages in a "fund of funds" approach, allocating its assets among private investment funds associated with Wellington Global Holdings, Ltd. These funds may include investments in a wide variety of global financial instruments. The fund allows quarterly redemptions pursuant to a 45-business day written notice. The Community Foundation's investment in this fund had a fair value of \$7,222,621 and \$5,649,650 at March 31, 2017 and 2016, respectively.

Lone Juniper, L.P.: The fund's investment objective is to invest with compound annual long-term returns that are superior to the broad market averages, while having less risk than the overall stock market. The Fund engages in a "fund of funds" approach, allocating its assets among up to 40 private investment partnerships believed to have above average investment return histories and/or prospects. No more than 20% of the fund's assets will be placed in any one private investment partnership. The fund allows annual redemptions with a 75-business day advance written notice. The Community Foundation's investment in this fund had a fair value of \$16,998,817 and \$13,535,568 at March 31, 2017 and 2016, respectively.

Drake Capital Offshore Partners, L.P.: This fund engages in a "fund of funds" approach, investing in private investment funds based in the United States and other countries. The fund allows withdrawals as follows: (a) up to 25% of the capital account as of each June 30 and (b) any amount of capital as of each December 31 with a 90-business day advance written notice. Community Foundation's investment in this fund had a fair value of \$7,002,293 and \$5,751,470 at March 31, 2017 and 2016, respectively.

QMS Diversified Global Macro Offshore Fund LTD.: The fund's objective is to provide long-term capital appreciation with attractive risk-adjusted returns and low long-term correlation to traditional asset classes. The investment manager seeks to achieve this objective primarily by taking long and short positions in liquid global futures and forward markets. The fund allows for monthly redemptions with 30-business day advance written notice, or as little as 2 business days' notice subject to a 3% redemption fee. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$1,232,289 at March 31, 2017.

7. INVESTMENTS (Continued)

Alternative hedge funds (Continued)

Renaissance Institutional Equities Fund LLC: The fund's objective is to achieve over the long-term a risk adjusted return that, on a gross basis, exceeds that of the Standard & Poor's 500 Index. The fund uses algorithms to attempt to build a portfolio of large-cap, mid-cap, and small-cap, stocks that the fund's models predict will generate attractive risk-adjusted profits over time. The fund allows for redemptions with 45-business day advance written notice, as of last business day of each calendar month. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$1,483,468 at March 31, 2017.

Pharo Gaia Fund, Ltd.: The objective of the fund is to consistently generate attractive risk-adjusted returns over a market cycle (typically three to five years) by investing primarily in emerging markets across a range of asset classes, including but not limited to foreign exchange, credit, interest rates, commodities and equities. The fund allows for quarterly redemptions with 90-business day advance written notice. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$1,474,240 at March 31, 2017.

AQR Delta XN Offshore Fund, LP: The fund's objective is to efficiently capture a diversified set of classic hedge fund strategies and deliver them to investors in a transparent and liquid vehicle with little or no correlation to the traditional assets classes. The fund allows for semi-monthly redemptions with 75-calendar day advance written notice. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$1,406,126 at March 31, 2017.

Senator Global Opportunity Offshore Fund II, Ltd.: The fund seeks to deliver absolute returns to investors by employing a global and opportunistic long/short strategy for investing in distressed debt, value equities and event equities. The fund allows for quarterly redemptions with 60 day advance written notice up to a maximum of 12.5% of the investor's shares. A complete or partial redemption over 12.5% will take up to eight consecutive quarterly redemption dates to satisfy the redemption request. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$1,401,033 at March 31, 2017.

Passport II, LP: The objective of the fund is to achieve long-term capital appreciation by investing and trading primarily in a portfolio and global equities on both a long and short basis, derivatives and fixed income instruments. The master/feeder structure is used to permit the pooling of the fund's assets with other investors of similar investment objectives, in an effort to achieve economies of scale and efficiencies in portfolio management, while preserving the fund's separate identity. The fund allows for quarterly redemptions with 45 day advance written notice. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$1,150,572 at March 31, 2017.

Private equity alternative funds

Orchard Landmark Limited: The fund seeks to achieve an attractive rate of return, relative to level of risk assumed, by employing an investment approach that heavily incorporates the general partner's capabilities to invest and risk manage privately negotiated credit-intensive investments. The fund allows for quarterly redemptions with 90 day advance written notice. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$1,415,989 at March 31, 2017.

7. INVESTMENTS (Continued)

Private equity alternative funds (Continued)

Aviator Capital Mid-Life Offshore Feeder Fund, LP: The fund's objective is to generate high yielding returns from a portfolio of mid-life (used, generally 8 to 15 years old at the time of acquisition) commercial aircraft and aircraft engines to be owned by the master funds or special purpose companies owned by one of the master funds. The fund is targeting a net return of 12-15% per year, while striving for limited principal risk. Fund income is expected to be generated from a combination of lease rental income, re-lease rental income, sales income and other asset disposition income. The fund allows for redemptions at the sole discretion of the general partner with 10-business day advance written notice. The fund has an unfunded capital commitment of \$1,491,600 at March 31, 2017. The Community Foundation's investment in this fund was purchased during fiscal 2017 and had a fair value of \$704,423 at March 31, 2017.

General

In certain circumstances, the agreements between the alternative funds and the Community Foundation allow the alternative funds to suspend redemptions based solely on the funds' evaluation of their own liquidity needs, difficulties the funds might be experiencing valuing some of their holdings, or other similar reasons. The timing and extent of redemption restrictions under these terms is determined unilaterally at the discretion of each individual alternative fund and its general partners.

These agreements also allow the funds to unilaterally redeem the Community Foundation's interest in the funds with as little as five days advance notice under certain circumstances.

At March 31, 2017, the Community Foundation had no remaining capital commitments in these alternative funds except as described above.

8. FAIR VALUE INFORMATION

The Community Foundation reports the following items at fair value on a recurring basis utilizing the following valuation input levels as of March 31:

<u>2017</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Common stocks	\$ 107,947,002	\$ -	\$ -	\$ 107,947,002
Alternative funds:				
Equity-focused	-	65,996,319	-	65,996,319
Debt-focused	-	28,249,826	-	28,249,826
Hedge funds	-	39,371,459	-	39,371,459
Private equities	-	2,120,412	-	2,120,412
Fixed income mutual funds	35,182,288	-	-	35,182,288
Equity mutual funds	<u>112,330,215</u>	<u>-</u>	<u>-</u>	<u>112,330,215</u>
	<u>\$ 255,459,505</u>	<u>\$ 135,738,016</u>	<u>\$ -</u>	<u>\$ 391,197,521</u>

8. FAIR VALUE INFORMATION (Continued)

<u>2016</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Common stocks	\$ 81,860,439	\$ -	\$ -	\$ 81,860,439
Alternative funds:				
Equity-focused	-	44,343,215	-	44,343,215
Debt-focused	-	26,928,102	-	26,928,102
Hedge funds	-	24,936,688	-	24,936,688
Fixed income mutual funds	28,474,355	-	-	28,474,355
Equity mutual funds	<u>104,787,390</u>	<u>-</u>	<u>-</u>	<u>104,787,390</u>
	<u>\$ 215,122,184</u>	<u>\$ 96,208,005</u>	<u>\$ -</u>	<u>\$ 311,330,189</u>

Investments in common stocks, fixed income and equity mutual funds with readily determinable fair values are measured at fair market value based on quoted market prices. Alternative funds are reported at fair value utilizing Level 2 inputs. The Community Foundation evaluates the fair value of its alternative funds based on the net asset value reported by the fund managers and the fair value of the securities held by each fund. The Community Foundation estimates fair value of these investments based on information received from the investment custodian, including inputs used by the custodian's pricing service (benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications). The appraisals that result from these inputs do not necessarily reflect net results obtainable in the event of actual liquidation.

9. ENDOWMENT FUNDS

The Community Foundation's charitable endowment net assets are all classified as unrestricted in the accompanying consolidated balance sheet. These net assets experienced the following changes for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Endowment net assets - beginning of year	\$ 229,376,778	\$ 234,383,668
Investment return:		
Investment income	2,205,370	1,635,502
Net gain (loss)	<u>31,831,692</u>	<u>(8,639,701)</u>
Total investment return	<u>34,037,062</u>	<u>(7,004,199)</u>
Contributions	<u>14,847,744</u>	<u>14,889,306</u>
Expenses	<u>(3,340,896)</u>	<u>(3,169,541)</u>
Transfers	<u>(1,884,191)</u>	<u>(258,520)</u>
Grants:		
Spending policy distributions	(11,181,288)	(9,201,936)
Feinbloom Foundation	<u>(206,719)</u>	<u>(262,000)</u>
Total grants	<u>(11,388,007)</u>	<u>(9,463,936)</u>
Endowment net assets - end of year	<u>\$ 261,648,490</u>	<u>\$ 229,376,778</u>

Interpretation of Relevant Law

In accordance with its accounting policies as set forth in Note 2, the Community Foundation's charitable endowment funds are classified as unrestricted in the accompanying consolidated balance sheet. However, the Community Foundation's Board of Directors has interpreted the applicable provisions of New York Not-for-Profit Corporation Law to mean that the classification of appreciation on endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income.

Return Objectives and Risk Parameters

The Community Foundation's Board of Directors has adopted investment and spending policies for endowment assets that seek to preserve the purchasing power of its assets against inflation and provide a predictable stream of funding to programs supported by its endowment. In accordance with the concept of the Prudent Investor, the Community Foundation's investment policy applies a flexible, balanced and diversified approach to yield an appropriate return while controlling the risk that is inherent in any investment program.

Strategies Employed for Achieving Objectives

The Community Foundation's charitable endowment funds are managed with a long-term horizon under the guidance of its Board of Directors, Investment Committee and external consultant. Endowment assets are invested in the equity, fixed and alternative pools of the Community Foundation and rebalanced regularly to an allocation of 70% equities, 20% fixed income and 10% alternative funds. Using managers selected and closely monitored by the Community Foundation, the equity pool invests in domestic and international companies broadly diversified by size, sector, industry and other characteristics.

9. ENDOWMENT FUNDS (Continued)

Strategies Employed for Achieving Objectives (Continued)

The fixed-income portfolio incorporates both active and passive investments, principally in government and investment-grade corporate bonds and notes. Alternative investments, made with the intention of raising the Community Foundation's returns and lowering total volatility, could include, but are not limited to, multi-strategy hedge funds, long/short equity hedge funds, private equity, real estate and real estate investment trusts (REITS).

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Community Foundation's spending policy uses a total return approach to maximize its benefit from long-term market growth while leveling out short-term volatility in its portfolio. Under total return, interest, dividends and capital appreciation are defined as income eligible for grant making. The Community Foundation's current spending policy for grant making is set at 5% of the rolling 20-quarter average market value of each charitable endowment fund. Income above this spending policy is returned to the endowment fund for inflation protection and long-term preservation of purchasing power.

In periods of poor market performance, newer funds may not have enough accumulated capital appreciation to make full spending-policy distributions without invading the original amount of the gift. In these circumstances, the Community Foundation's policy allows for only interest and dividends to be made available for distributions, even in cases where donors have allowed for the invasion of principal in accordance with NYPMIFA. Under the terms of the Community Foundation's policy, market conditions did not allow for 2% and 17% of the Community Foundation's charitable endowment funds to make full spending-policy distributions as of March 31, 2017 and 2016, respectively.

10. SPLIT-INTEREST AGREEMENTS

Split-interest agreements consisted of the following at March 31:

	<u>2017</u>		<u>2016</u>	
	<u>Asset</u>	<u>Liability</u>	<u>Asset</u>	<u>Liability</u>
Charitable remainder trusts	\$ 5,995,866	\$ -	\$ 6,096,204	\$ -
Pooled life income fund	1,721,995	413,901	1,806,448	413,669
Donated life insurance policies				
cash surrender value	654,419	-	549,347	-
Life estates	1,950,000	729,463	2,525,000	863,609
Charitable gift annuities	<u>1,480,857</u>	<u>563,159</u>	<u>1,467,730</u>	<u>576,783</u>
	<u>\$ 11,803,137</u>	<u>\$ 1,706,523</u>	<u>\$ 12,444,729</u>	<u>\$ 1,854,061</u>

The fair value of split-interest agreements approximates carrying value at March 31, 2017 and 2016. Charitable remainder trusts, pooled life income funds, and charitable gift annuities are recorded at the present value of expected future net cash flows. Donated life insurance policies are recorded at the cash surrender value reported by the respective insurance carriers. The Community Foundation's interest in the life estates is recorded at the discounted present value of the properties, after consideration of primary beneficiaries' interest.

The face value of the donated permanent life insurance policies was approximately \$4,900,000 and \$4,800,000 at March 31, 2017 and 2016, respectively.

11. LAND, BUILDING AND EQUIPMENT

Land, building and equipment consisted of the following at March 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 160,000	\$ 160,000
Building and improvements	1,072,253	1,072,253
Equipment	<u>616,158</u>	<u>607,298</u>
	1,848,411	1,839,551
Less: Accumulated depreciation	<u>(1,205,678)</u>	<u>(1,143,441)</u>
	<u>\$ 642,733</u>	<u>\$ 696,110</u>

12. GRANTS PAYABLE

Grants payable consisted of unconditional promises to give to other organizations, which had not been paid as of March 31, 2017. Amounts payable are as follows for the years ending March 31:

2018	\$ 606,392
2019	103,333
2020	10,000
2021	10,000
2022	<u>10,000</u>
	<u>\$ 739,725</u>

13. RETIREMENT PLAN

The Community Foundation sponsors a 401(k) retirement plan covering all employees meeting eligibility requirements. Accrued pension costs are funded currently and are calculated as a percentage of eligible participants' payroll. Pension expense for the year ended March 31, 2017 and 2016 was approximately \$69,000 and \$77,000, respectively.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 2, 2017, which is the date the financial statements were available to be issued.