

**THE VALLEY COMMUNITY FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**THE VALLEY COMMUNITY FOUNDATION, INC.**

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Accounting | Tax | Business Consulting

## Independent Auditors' Report

To the Board of Directors of The Valley Community Foundation, Inc.  
Derby, Connecticut

### Report on the Financial Statements

We have audited the accompanying financial statements of The Valley Community Foundation, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Valley Community Foundation, Inc., 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.

**Change in Accounting Principle**

As discussed in Note 2, during the year ended December 31, 2015, The Valley Community Foundation, Inc., elected early adoption of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. Our opinion is not modified with respect to this matter.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
February 23, 2016

**THE VALLEY COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 622,904	\$ 720,195
Investments at market value - component funds	13,571,349	13,066,177
Investments at market value - organization funds	5,609,592	5,557,536
Total investments	19,803,845	19,343,908
Other assets	4,890	4,846
Furniture and equipment, net	98,252	119,629
<b>Total Assets</b>	<b>\$ 19,906,987</b>	<b>\$ 19,468,383</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 3,085	\$ 5,767
Organization funds	5,609,592	5,557,536
Grants payable	396,702	262,684
Total liabilities	6,009,379	5,825,987
<b>Unrestricted Net Assets</b>	<b>13,897,608</b>	<b>13,642,396</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,906,987</b>	<b>\$ 19,468,383</b>

The accompanying notes are an integral part of the financial statements

**THE VALLEY COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>Revenue, Gains and Other Support</b>		
Contributions	\$ 1,685,694	\$ 1,829,036
Less contributions to organization funds	<u>(67,375)</u>	<u>(137,737)</u>
Net contributions	1,618,319	1,691,299
Investment gain, net	<u>425,112</u>	<u>1,159,875</u>
Total revenue, gains and other support	<u>2,043,431</u>	<u>2,851,174</u>
<b>Expense</b>		
Grants approved, net	1,447,659	1,316,585
Grants for program management and direct grant activities	<u>227,936</u>	<u>199,915</u>
Total grants expense	1,675,595	1,516,500
Less grants from organization funds	<u>(165,965)</u>	<u>(162,689)</u>
Net grant expense	<u>1,509,630</u>	<u>1,353,811</u>
Development, donor services and fund stewardship	177,284	155,489
Management and general	<u>101,305</u>	<u>88,851</u>
Total administration expense	<u>278,589</u>	<u>244,340</u>
Total expense	<u>1,788,219</u>	<u>1,598,151</u>
<b>Increase in Net Assets</b>	255,212	1,253,023
<b>Net Assets - Beginning of Year</b>	<u>13,642,396</u>	<u>12,389,373</u>
<b>Net Assets - End of Year</b>	<u>\$ 13,897,608</u>	<u>\$ 13,642,396</u>

The accompanying notes are an integral part of the financial statements

**THE VALLEY COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 255,212	\$ 1,253,023
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	21,377	19,079
Realized and unrealized gain on investments, net	(116,059)	(717,650)
Increase in operating assets:		
Other assets	(44)	(1,211)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(2,682)	(11,029)
Organization funds	52,056	463,266
Grants payable	134,018	7,935
Net cash provided by operating activities	<u>343,878</u>	<u>1,013,413</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	11,547,655	1,465,602
Purchases of investments	(11,988,824)	(2,378,290)
Purchases of furniture and equipment	-	(302)
Net cash used in investing activities	<u>(441,169)</u>	<u>(912,990)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(97,291)	100,423
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>720,195</u>	<u>619,772</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 622,904</u>	<u>\$ 720,195</u>

The accompanying notes are an integral part of the financial statements

**THE VALLEY COMMUNITY FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Organization and Basis of Presentation:**

The Valley Community Foundation, Inc. (The Foundation) is a charitable corporation, organized in 2004 to carry out the purposes, mission, objectives, operations and activities of The Community Foundation for Greater New Haven (The Community Foundation) in the towns of Ansonia, Derby, Shelton, Seymour and Oxford, Connecticut, and their environs.

As of January 1, 2014, The Foundation, as a result of changes in federal tax law that became effective at the beginning of calendar year 2014, has determined through actions adopted by its Board of Directors that it shall obtain its federal exemption under Section 501(c)(3) as an independent organization for, among other things, fulfilling its public support test, rather than through the former Internal Revenue Code (IRC) provisions afforded under Section 509(a)(3) as a supporting organization to The Community Foundation. Notwithstanding this IRC election by The Foundation, The Community Foundation and The Foundation, through an amendment to the existing affiliation agreement that was adopted in December 2013 by the respective Board of Directors, will continue to report the financial results of The Community Foundation and The Foundation on a consolidated basis pursuant to the provisions of such affiliation agreement. Consistent with IRC requirements that have existed since The Foundation's formation in 2004, The Foundation and The Community Foundation will continue to issue separate informational tax filings through IRS Form 990.

Under the affiliation agreement between the Foundation and The Community Foundation, The Community Foundation's Corporation, The Community Foundation for Greater New Haven, Inc. (Corporation) performs the investment management services to the Foundation for all of its permanent component and non-permanent charitable assets. In 2014, The Corporation voluntarily sought registration as a Connecticut registered Investment adviser with the State of Connecticut's Department of Banking under the Connecticut Uniform Securities Act as part of its on-going efforts to provide local nonprofits with the comfort of knowing that their endowment-like assets are managed according to the industry standards and best practices. In March 2014, the Connecticut Department of Banking's Securities and Business Investments Division notified the Corporation that it was a registered investment adviser. The Corporation advises both its permanent assets, including its component funds, which have come to the Corporation through irrevocable gifts, as well as other non-permanent charitable assets that have come to the Corporation and the Foundation through revocable transfer by charitable institutions wishing to outsource the management of their investments (Organization Funds). The primary investment advisory services that the Corporation provides to Organization Funds are the selection and monitoring of unaffiliated asset managers retained under a commingled fund operating under a long-term asset allocation model, which processes are set forth in an investment management agreement between the Organization Fund and the Corporation. See footnote 2C below for additional information on Organization Funds.

**Note 2 - Summary of Significant Accounting Policies:**

**a. Basis of Accounting**

The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).



## **b. Financial Statement Presentation**

The Foundation measures aggregate net assets based on the absence or existence of donor-imposed restrictions. The three categories of net assets for presentation of The Foundation's financial statements are as follows: unrestricted, temporarily restricted and permanently restricted.

*ASC 958-205: Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, sets forth the net asset classifications of donor-restricted endowment funds in accordance with the State of Connecticut's enacted version of the Uniform Prudent Management of Institutional Funds Act (CUPMIFA). This standard also requires other disclosures concerning an organization's charitable assets including whether or not the organization is subject to CUPMIFA. Although CUPMIFA is not germane, The Foundation has and will continue to provide additional disclosures as further described below for the complete fulfillment of donor intent. Further, The Foundation will continue its stewardship responsibilities by internally accounting for and reporting on all net assets in accordance with each donor's original intent as provided for in the underlying gift instrument that established the fund, as presented in Note 3a. The impact of CUPMIFA's adoption was negligible on the presentation of The Foundation's financial statements given the governing documents' provision for variance power, the unilateral power to redirect the use of a contribution for another charitable purpose. The criteria and circumstances under which the Board of Directors of The Foundation would exercise its responsibility are prescribed within the By-Laws.

The Foundation's financial statements classify all net assets as unrestricted; however, as noted above, all recordkeeping for internal management and all external reporting retain the original donor intent and direction for every charitable fund held within The Foundation. All contributions not classified as temporarily restricted are classified as unrestricted net assets. As of December 31, 2015 and 2014, The Foundation had no temporarily restricted net assets.

As the community's perpetual endowment organization, The Foundation's spending policies and philosophy since their creation in 2004, as well as the long-term investment management policies and procedures both of which are further described in Note 3b, were designed to function as integrated processes and are administered to reflect the following facts and circumstances, as also described in CUPMIFA, for prudent stewards of charitable assets, including:

- 1) The duration and preservation of a fund;
- 2) The purpose of the organization and the donor designations thereto;
- 3) General economic conditions;
- 4) The possible effects of inflation and deflation;
- 5) The expected total return of the charitable assets;
- 6) Other resources of the organization;
- 7) The investment policies.

**c. Organization Funds**

The Foundation receives and distributes assets for certain endowment funds that have been established by a nonprofit from its own resources for the sole purpose of supporting that specific nonprofit's operations. Amounts received and distributed under these relationships totaled \$67,375 and \$165,965, respectively, for the year ended December 31, 2015, and \$137,737 and \$162,689, respectively, for the year ended December 31, 2014.

The amounts received but not yet distributed totaled \$5,609,592 and \$5,557,536 at December 31, 2015 and 2014, respectively, and are included on the statements of financial position and referred to as organization funds.

**d. Cash and Cash Equivalents**

Cash and cash equivalents include currency and interest-bearing short-term investments with an average maturity of three months or less.

The Foundation maintains deposits that may, at times, be in excess of the financial institution's insurance limits. The Foundation invests available cash and cash equivalents with high-credit quality institutions and believes that such deposits are not subject to significant credit risk.

**e. Investments**

Investments are carried at fair value, as discussed in Note 2f below. Investments include alternative investments, which are principally absolute return and hedge strategies, and real assets such as private equity and real estate. Because most alternative investments are not immediately marketable given the nature of the underlying strategies and the terms of the investment's governing agreement, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that may be received if a ready market for the investments had been in existence, and the difference could be material. Fair value of alternative investments in limited partnerships are determined by the general partner to be at fair value pursuant to GAAP's standard referred to as *Fair Value Measurements* after it considers certain pertinent factors that are reviewed and discussed by management and its investment committee, in consultation with its independent advisory firm.

**f. Fair Value of Financial Instruments**

The Foundation is required to measure the fair value of its assets and liabilities under a three-level hierarchy. In addition, The Community Foundation has decided to adopt in fiscal year 2015, on an early basis, ASU Topic 820, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, as issued by the Financial Accounting Standards Board. In summary, ASU Topic 820 is a practical expedient to measure the fair value of certain investments that utilize a net asset value rather than categorized under the fair value hierarchy.

For those investments that do not utilize a net asset value methodology, The Community Foundation will measure the fair value under the three-level hierarchy, as follows:

**Level 1:** Observable inputs from quoted market prices for identical assets or liabilities to which The Foundation has independent access at the measurement date.

**Level 2:** Observable inputs based on direct quoted market prices or indices for the asset or liability, either directly or indirectly, or can be corroborated by observable inputs and market data, or The Foundation has the ability to redeem the asset in the near term (within 90 days) subsequent to the measurement date.

**Level 3:** Prices, which may be derived from an underlying quoted market price, observable input and/or market data contained in Level 1 and Level 2, which also requires significant judgment on observable inputs by the investee as to the net asset value per share or unit of The Foundation's ownership interest in the partners' capital, and where redemption would be available in a period of more than 90 days from the measurement date. Valuation methodologies include, but are not limited to, discounted cash flow analysis, comparable asset analysis, third-party appraisals, third-party pricing services and other applicable indices.

Where:

Observable inputs reflect the market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and from independent sources that are actively involved in the relevant markets, and include assumptions made in pricing and valuations of the asset or liability that are developed from sources independent of The Foundation; and

Unobservable inputs reflect The Foundation's own assumptions about the fair value assumptions made by investees' use in pricing the asset or liability developed based on the best information available.

The Foundation does not use unobservable inputs for determining fair value of its investments.

The fair value of The Foundation's investments as of December 31, 2015 is as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Valued at NAV (a)</u>
Short-term investments	\$ 622,904	\$ 622,904	\$ -	\$ -	\$ -
Fixed income	4,412,767	3,475,586	-	-	937,181
Equities:					
International	1,874,362	-	-	-	1,874,362
Domestic	6,647,824	1,694,154	-	-	4,953,670
Alternatives:					
Hedged equity	2,677,658	-	-	-	2,677,658
Absolute return	401,649	-	-	-	401,649
Real assets	1,874,362	-	-	-	1,874,362
Private equity	669,415	-	-	-	669,415
Investments as of December 31, 2015	\$ <u>19,180,941</u>	\$ <u>5,792,644</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>13,388,297</u>
Percent of Total	100%	30.2%	0.0%	0.0%	69.8%

The fair value of The Foundation's investments as of December 31, 2014 is as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Valued at NAV (a)</u>
Short-term investments	\$ 744,948	\$ 744,948	\$ -	\$ -	\$ -
Fixed income	2,793,557	2,151,039	-	-	642,518
Equities:					
International	1,598,108	-	-	-	1,598,108
Domestic	8,086,223	5,063,937	-	-	3,022,286
Alternatives:					
Hedged equity	2,592,421	-	-	-	2,592,421
Absolute return	378,061	-	-	-	378,061
Real assets	2,052,334	-	-	-	2,052,334
Private equity	<u>378,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>378,061</u>
Investments as of December 31, 2014	<u>\$ 18,623,713</u>	<u>\$ 7,959,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,663,789</u>
Percent of Total	100%	46.0%	0.0%	0.0%	54.0%

a. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

There were no transfers between levels of investments during the years ended December 31, 2015 or December 31, 2014.

The following table discloses certain additional information as of December 31, 2015 related to The Foundation's investments that report fair valued based on net asset value per share and are not traded in an active market, although such net asset values may be based on underlying securities that are traded in an active market:

Description	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions
<b>Investments valued at Net Asset Value:</b>				
Fixed income	\$ 937,181	\$ None	More than 3 years	N/A
Domestic equity	4,953,670	None	Daily to quarterly	0-60 days' notice
Hedged equity (Class B)	1,606,595	None	Annually with a 1-year lock-up period	60 days written notice
International equity	1,874,362	None	Monthly to 3-year lock-up period	5-90 days' notice
Hedged equity (Class B2)	1,071,063	None	Annually beginning 2013 with a 1-year lock-up period	95 days written notice
Absolute return	401,649	None	Annually with one or 3-year lock-up period	100 days written notice
Real assets	1,874,362	131,205	More than 3 years	N/A
Private equity	<u>669,415</u>	<u>522,144</u>	More than 3 years	N/A
Total Net Asset Value	<u>\$ 13,388,297</u>	<u>\$ 653,349</u>		

The Foundation assesses and reports on the liquidity of all investments on a quarterly basis to ensure that it has access to sufficient resources necessary for its current and future operational activities. Overall, The Foundation has access to approximately forty-one percent (40.6%) of the fair value of its investments on a monthly basis, and just over sixty percent (60.4%) of the fair value of its investments on a quarterly basis.

The Foundation's carrying amounts of cash and cash equivalents, accounts and grants payable and accrued expenses approximate fair value under Level 1. Investments are carried at fair value as presented above. Split-interest agreements are reported at fair value based on the life expectancy of the beneficiary and the net present value of the expected cash flows using a discount rate. Organization funds are carried at fair value based on the underlying investments. Derivatives instruments are measured at fair value based on observable inputs. Certain alternative investments use stock indices, swaps, options, convertible securities

and foreign currency exchange contracts, which are classified as derivatives. The Foundation does not use derivatives for speculative purposes, but rather these instruments are used with the objectives of reducing overall portfolio risk within the parameters provided to the underlying manager under a written agreement.

The Foundation's investments consist of the following types:

**Short-term Investments:** Investments consist of treasury securities with an average maturity of 120 days or less, checking accounts, and money market holdings with daily liquidity.

**Fixed Income:** Fixed income investments consist of both domestic and foreign issuances of debt instruments and include both government and corporate holdings. Domestically, The Foundation concentrates primarily on U.S. treasuries, including a separate account approach of Treasury Inflation Protected Securities (TIPS). Internationally, the fixed income strategy includes sovereign-issued, local-currency denominated debt holdings and a global fixed income approach that seeks a long-term, value-oriented approach in local-currency debt instruments.

**Equities:** Domestic and international equities, including international emerging market equities, are listed securities traded on public exchanges, at various market capitalizations, and are priced daily by the underlying managers. The Foundation accesses both domestic and international equities through institutional-class mutual funds, limited partnerships and separate accounts. Publicly traded domestic and international equities accessed through a limited partnership arrangement.

**Hedged Equity:** This strategy involves equity investments, either long or short, in marketable and publicly traded equities. Traditionally, hedge funds purchase stocks that they perceive to be undervalued and sell stocks that they perceive to be overvalued. The research-intensive and quantitative efforts in identifying promising stocks to hold long in a portfolio may also provide short-sale opportunities, and for this reason many directional hedged equity funds often maintain both long and short portfolios in a fund-of-funds strategy, as employed by The Foundation.

**Absolute Return:** This investment strategy has an objective to generate in most market environments an annualized return equal to or greater than the 91-day U.S. Treasury Bill plus 5%, net of all costs. Absolute return strategies consist of capital structure arbitrage, hedged equity, special situations, distressed debt, and event arbitrage, and employ derivatives, as described above.

**Real Assets:** This strategy, within The Foundation's real assets investments, consists of investments in several fund-of-funds commercial, industrial and residential limited partnerships where diversity of property type, region, manager and strategy is a fundamental premise. These investments may also include the purchase, restructure or origination of loans secured by real property or secured by interests in such property.

**Private Equity:** This strategy consists of making equity capital available through a fund-of-funds structure whereby the underlying investments in the specific companies are not quoted on a public exchange. Private equity consists of qualified investors and institutional funds that make investments directly into private companies or conduct buyouts of public companies. Private equity investments are made with a long-term perspective, or generally about ten years in duration.

The Foundation believes that the carrying amount of its investments is a reasonable fair value as of December 31, 2015 and 2014.

Investment gain for the years ended December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Realized and unrealized gains	\$ 293,613	\$ 812,213
Interest and dividends	<u>309,053</u>	<u>442,225</u>
	293,613	812,213
Less investment management fees	<u>(177,554)</u>	<u>(94,563)</u>
Investment gain, net	<u>\$ 425,112</u>	<u>\$ 1,159,875</u>

**g. Furniture and Equipment**

Furniture and equipment purchased in excess of \$100 are capitalized and are stated at historical cost. Depreciation is provided on a straight-line basis over the following useful lives:

Furniture and equipment	5-20 years
Computer equipment	3-5 years

Furniture and equipment at December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 182,939	\$ 185,902
Accumulated depreciation	<u>(84,687)</u>	<u>(66,273)</u>
Furniture and equipment, net	<u>\$ 98,252</u>	<u>\$ 119,629</u>

**h. Contributions**

Unconditional contributions are recognized when pledged or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. Contributions receivable that are expected to be collected in more than one year are discounted to their present value. 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 statements of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. The Foundation does not recognize conditional promises and only recognizes unconditional contributions when they become estimable and quantifiable.

**i. Grants and Contracts Payable**

Grants are recorded when approved by the Board of Directors and when the recipient has satisfied all material conditions of the terms of the grant agreement.

As of December 31, 2015, The Foundation is unaware of any material conditions on grants that are unlikely to be satisfied during the approved grant period. In the normal course of business, refunds and cancellations occur as a result of the recipient's needs being less than the appropriated amount and are deducted from the grant appropriations reported in the period as canceled or refunded.

Grant activity for the years ended December 31, 2015 and 2014, is summarized below:

	<u>2015</u>	<u>2014</u>
Grants payable, beginning of year	\$ 262,684	\$ 254,749
Grants approved	1,621,102	1,481,352
Grant payments distributed	(1,582,523)	(1,375,781)
Cancellations and adjustments	<u>95,439</u>	<u>(97,636)</u>
Grants payable, end of year	<u>\$ 396,702</u>	<u>\$ 262,684</u>

**j. Investment Management Fees**

Investment management fees are those direct expenses associated with the management of The Foundation's assets, which include all custodial, sub-advisory, and investment management fees and expenses. These fees are allocated against realized and unrealized gains on investments on the statements of activities, and the value is disclosed thereon.

**k. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**l. Subsequent Events**

In preparing these financial statements, management has evaluated subsequent events through February 23, 2016, which represents the date the financial statements were available to be issued.

**m. Reclassification**

Certain amounts in the 2014 combined financial statements have been reclassified to conform to the current year's presentation.

**n. Change in Accounting Principle**

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments measured at net asset value within the fair value hierarchy tables. The standard is effective for years beginning after December 15, 2016 and early adoption is permitted. The Foundation has elected to early adopt ASU 2015-07 for the year ended December 31, 2015.



Note 3 - **Net Asset Management:**

**a. Net Asset Classifications and Values**

As discussed in Note 2b, The Foundation internally accounts for all net assets in accordance with the donor's original intent as provided for in the gift instrument, in the following unrestricted net asset classifications:

**Designated:** Represent funds for which the spending is distributed to one or more charitable beneficiaries in accordance with the donor's designation.

**Donor-Advised:** Represent funds for which the donor has reserved the right to make nonbinding distribution recommendations to The Foundation for distribution to the community in accordance with the policies and procedures governing donor advised funds as adopted by The Foundation's governing board and the Articles of Incorporation and By-Laws.

**Preference:** Represent funds for which the spending is distributed to a specific field of interest or geographic location in accordance with the donor's stated interest, under the direction of The Foundation's governing board and the Articles of Incorporation and By-Laws.

**Unrestricted:** Represent funds that are discretionary and the spending from which is under the direction of The Foundation's governing board and the Articles of Incorporation and By-Laws.

Net assets as of December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Designated	\$ 3,817,611	\$ 3,291,122
Donor advised	8,572,186	8,700,971
Preference	1,140,532	1,164,698
Unrestricted	<u>367,279</u>	<u>485,605</u>
Total net assets	<u>\$ 13,897,608</u>	<u>\$ 13,642,396</u>

**b. Endowment Spending**

The Foundation employs a spending rule policy to maximize the flexibility, efficiency and impact of the endowment management process. This fund utilization policy does not distinguish between investment yield and appreciation, but rather on the total return of the assets.

Since 2004, The Foundation has employed a spending rule policy that calculates endowment spending based on a 20-quarters trailing average market value at a specific spending rate, with a minimum (a Floor) of 4.25% and a maximum (a Cap) of 5.75%, which will be applied to a quarter-ending market valuation. The total value of endowment spending during any fiscal year shall be equal to the greater of the amounts calculated by applying the spending rate to the previous 20-quarters' average market value, or to that amount calculated by using the Floor. However, under no circumstances shall the amount of endowment spending during any fiscal year be greater than the amount determined by using the Cap.

Based upon the spending rule policy as amended through October 2011, \$686,429 and \$624,961, were provided for during the years ended December 31, 2015 and 2014, respectively.

Note 4 - **Retirement Plan:**

Eligible employees are covered under a fully-funded, noncontributory 403(b) retirement plan that requires that The Foundation make contributions thereto based on employees' earnings. Total retirement plan contributions were \$13,804 and \$10,945 for the years ended December 31, 2015 and 2014, respectively.