

EAST BAY COMMUNITY FOUNDATION

JUNE 30, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

East Bay Community Foundation

Independent Auditors' Report and Consolidated Financial Statements

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A Century Strong

Independent Auditors' Report

THE BOARD OF DIRECTORS
EAST BAY COMMUNITY FOUNDATION
Oakland, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the **EAST BAY COMMUNITY FOUNDATION (the Foundation)** which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, the related consolidated statements of activities and changes in net assets, and cash flows for the years 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 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 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the East Bay Community Foundation as of June 30, 2017 and 2016, 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.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Schedule of Functional Expenses on page 5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hood & Strong LLP

San Francisco, California
March 2, 2018

East Bay Community Foundation

Consolidated Statement of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 873,316	\$ 1,734,623
Investments, at fair value	321,841,574	325,599,953
Investments in transit		2,663,718
Other receivables, net	778,837	360,780
Notes receivable	38,427	45,355
Charitable trust assets	3,350,007	3,374,672
Property and equipment, net	3,341,266	5,864,697
Other assets	379,713	332,266
Total assets	\$ 330,603,140	\$ 339,976,064
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 487,605	\$ 416,796
Grants payable	13,748,256	23,611,852
Notes payable	2,000,000	3,250,000
Agency funds	107,522,530	110,112,244
Total liabilities	123,758,391	137,390,892
Net Assets:		
Unrestricted	136,628,358	139,247,646
Temporarily restricted	20,834,198	16,505,496
Permanently restricted	49,382,193	46,832,031
Total net assets	206,844,749	202,585,173
Total liabilities and net assets	\$ 330,603,140	\$ 339,976,065

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Statement of Activities and Changes in Net Assets

For the Years Ended June 30,

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support								
Contributions	\$ 24,928,665	\$ 2,590,949	\$ 2,590,612	\$ 30,110,226	\$ 19,456,245	\$ 963,290	\$ 4,450,771	\$ 24,870,306
Less: amounts received for agency funds	(10,328,807)	(50)	(38,307)	(10,367,164)	(227,019)	(4,190)	(48,572)	(279,781)
	14,599,858	2,590,899	2,552,305	19,743,062	19,229,226	959,100	4,402,199	24,590,525
Investment income	3,586,232	1,016,879		4,603,111	2,348,804	1,089,190		3,437,994
Less: investment income for agency funds	(1,518,624)	(78,565)		(1,597,189)	(715,116)	(70,271)		(785,387)
	2,067,608	938,314	-	3,005,922	1,633,688	1,018,919	-	2,652,607
Net realized and unrealized gains (losses) on investments	12,143,639	6,736,442		18,880,081	592,188	(3,406,403)		(2,814,215)
Less: net realized and unrealized gains on investments for agency funds	(3,646,201)	(500,799)		(4,147,000)	(351,846)	234,410		(117,436)
	8,497,438	6,235,643	-	14,733,081	240,342	(3,171,993)	-	(2,931,651)
Other income	462,401	397,779		860,180	776,352			776,352
Net assets released from restrictions	4,137,171	(4,135,028)	(2,143)	-	6,498,696	(6,164,157)	(334,539)	-
Total revenue and other support	29,764,476	6,027,607	2,550,162	38,342,245	28,378,304	(7,358,131)	4,067,660	25,087,833
Expenses								
Grant programs:								
Arts and culture	1,849,146			1,849,146	1,533,963			1,533,963
Education and youth development	12,375,971			12,375,971	35,639,211			35,639,211
Economic development	6,966,210			6,966,210	13,895,849			13,895,849
Strengthening families	25,361,161			25,361,161	33,197,556			33,197,556
Less: grants made from agency funds	(18,205,625)			(18,205,625)	(15,444,414)			(15,444,414)
	28,346,863	-	-	28,346,863	68,822,165	-	-	68,822,165
Program services	1,677,531			1,677,531	1,098,890			1,098,890
Development and fundraising	723,889			723,889	712,582			712,582
General and administrative	2,907,298			2,907,298	3,032,279			3,032,279
Investment advisory fees	427,088			427,088	293,156			293,156
Total expenses	34,082,669	-	-	34,082,669	73,959,072	-	-	73,959,072
Change in Net Assets Before Reclassification of Net Assets	(4,318,193)	6,027,607	2,550,162	4,259,576	(45,580,768)	(7,358,131)	4,067,660	(48,871,239)
Underwater endowment funds adjustment	1,698,905	(1,698,905)		-	(1,644,900)	1,644,900		-
Change in Net Assets	(2,619,288)	4,328,702	2,550,162	4,259,576	(47,225,668)	(5,713,231)	4,067,660	(48,871,239)
Net Assets, beginning of year	139,247,646	16,505,496	46,832,031	202,585,173	186,473,314	22,218,727	42,764,371	251,456,412
Net Assets, end of year	\$ 136,628,358	\$ 20,834,198	\$ 49,382,193	\$ 206,844,749	\$ 139,247,646	\$ 16,505,496	\$ 46,832,031	\$ 202,585,173

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Supplementary Information - Consolidated Schedule of Functional Expenses (See Independent Auditors' Report)

For the Years Ended June 30,

	2017				2016			
	Program Services	Development and Fundraising	General and Administrative	Total	Program Services	Development and Fundraising	General and Administrative	Total
Salaries	\$ 913,709	\$ 432,940	\$ 1,199,057	\$ 2,545,706	\$ 531,730	\$ 498,779	\$ 1,235,019	\$ 2,265,528
Payroll taxes	70,155	33,241	92,065	195,461	39,618	37,163	92,019	168,800
Employee benefits	151,428	71,751	198,719	421,898	87,657	82,225	203,596	373,478
	1,135,292	537,932	1,489,841	3,163,065	659,005	618,167	1,530,634	2,807,806
				-				
Consultants	288,745	62,838	173,678	525,261	167,034	-	276,306	443,340
Accounting and legal	29,084	25,008	105,371	159,463	42,622	21,632	106,248	170,502
Payroll processing fees and hiring costs	9,422	7,975	34,166	51,563	6,692	4,100	56,085	66,877
Printing, postage and supplies	1,305	119	27,773	29,197	9,013	651	23,838	33,502
Communication and technology	31,700	20,214	201,696	253,610	3,273	1,495	193,179	197,947
Insurance	-	-	51,901	51,901	10,471	-	54,534	65,005
Repairs and maintenance	21,972	-	72,654	94,626	17,432	-	150,618	168,050
Dues and subscriptions	13,479	7,170	72,382	93,031	8,000	595	68,304	76,899
Depreciation	20,148	-	153,708	173,856	35,259	-	145,461	180,720
Rent and property expenses	30,233	-	215,347	245,580	32,497	-	215,321	247,818
Conferences and meetings	13,146	9,277	47,997	70,420	12,223	6,820	46,818	65,861
Travel	4,876	3,615	30,058	38,549	4,302	6,321	24,726	35,349
Office expense	-	-	11,059	11,059	-	-	5,336	5,336
Sponsorships and marketing	51,020	49,018	107,278	207,316	44,023	52,350	25,859	122,232
Interest expense	-	-	70,783	70,783	-	-	66,853	66,853
Other	27,109	723	41,606	69,438	47,044	451	42,159	89,654
Total	\$ 1,677,531	\$ 723,889	\$ 2,907,298	\$ 5,308,718	\$ 1,098,890	\$ 712,582	\$ 3,032,279	\$ 4,843,751

East Bay Community Foundation

Consolidated Statement of Cash Flows

<i>For the Years Ended June 30,</i>	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,259,576	\$ (48,871,239)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	173,856	180,720
Net realized and unrealized (gains) losses on investments	(14,733,081)	4,275,153
Donation of real estate		(2,325,000)
Loss on sale of real estate	159,074	
(Increase) decrease in operating assets:		
Other receivables, net	(418,057)	899,753
Charitable trust assets	24,665	2,114,995
Other assets	(47,447)	2,780
Increase (decrease) in operating liabilities:		
Accounts payable and other liabilities	70,808	80,643
Grants payable	(9,863,596)	7,295,900
Agency funds	(2,589,713)	(14,365,449)
Net cash used by operating activities	(22,963,915)	(50,711,744)
Cash Flows from Investing Activities:		
Purchase of equipment	(14,079)	(61,723)
Proceeds from sale of real estate	2,204,580	
Purchase of investments	(58,965,433)	(119,541,545)
Sale of investments	80,120,612	169,932,494
Net cash provided by investing activities	23,345,680	50,329,226
Cash Flows from Financing Activities:		
Payments of notes payable	(1,250,000)	
Payments of notes receivable	6,928	6,558
Net cash (used) provided by financing activities	(1,243,072)	6,558
Change in Cash and Cash Equivalents	(861,307)	(375,960)
Cash and Cash Equivalents, beginning of year	1,734,623	2,110,583
Cash and Cash Equivalents, end of year	\$ 873,316	\$ 1,734,623
Supplemental Cash Flow Information:		
Cash paid for interest during the year	\$ 70,783	\$ 66,853

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 1 - General:

The East Bay Community Foundation (the Foundation) is a non-profit public benefit corporation organized in 1982 to incorporate the East Bay Community Foundation, an unincorporated association formed in 1928. It is a leading resource for mobilizing financial resources and community leadership to transform the lives of people in the East Bay of the San Francisco, California Bay Area with pressing needs. The Foundation does this through research on those needs and through joining its own financial and leadership resources with those of the private, public, and non-profit sectors.

A supporting organization is a Section 501(c)(3) charity that is classified as a public charity rather than a private foundation because it supports a publicly supported charity, such as a community foundation. Supporting organizations of the Foundation are consolidated herein and include, EBCF Properties, Edward and May Yee Chan Memorial Foundation, Model Transitions Foundation, Helzel Family Foundation, Open Circle Foundation, and T. Gary and Kathleen Rogers Family Foundation. All of the supporting organizations are Type 1 supporting organization as defined by the Internal Revenue Service (IRS). The T. Gary and Kathleen Rogers Family Foundation board of directors voted to dissolve the corporation and transfer its assets to a donor advised fund with the Foundation in the fiscal year ending June 30, 2018.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The bylaws of the Foundation include a variance provision giving the Board of Directors the power to modify any restriction or condition placed on gifts to the Foundation if, in its sole judgment, the Board of Directors determine that the restriction becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served.

Unrestricted Net Assets - The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - The portion of net assets consisting of irrevocable remainder charitable trusts, contributions unconditionally promised which are scheduled to be received in the future, purpose-restricted grants which are not subject to the variance provision of the Board, and the portion of donor-restricted endowment funds that are not classified as permanently restricted net assets.

East Bay Community Foundation

Notes to Consolidated Financial Statements

When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets - The portion of net assets consisting of the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds where the donor indicated that a portion of the fund be retained permanently.

b. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which recognizes revenue and support when earned and expenses when incurred and accordingly, reflect all significant receivables, payables, and other liabilities.

c. Principles of Consolidation

The accompanying consolidated financial statements include all amounts and operations of the East Bay Community Foundation and its supporting organizations (collectively, the Foundation). Intercompany transactions and accounts have been eliminated in consolidation.

d. Cash and Cash Equivalents

For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include the Foundation's operating and checking accounts, but exclude investment account money funds.

e. Investments

Investments received through gifts are recorded at estimated fair value at the date of donation. All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. The fair value of partnership interests and hedge funds are valued at net asset value (NAV) per unit or percentage of ownership as determined by the individual fund managers.

Due to the inherent uncertainty of valuation of non-marketable 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, and the differences could be material.

Gains and losses that result from market fluctuations are recognized in the statement of activities and changes in net assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

East Bay Community Foundation

Notes to Consolidated Financial Statements

f. Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the Foundation reports certain investments using the NAV per share under the so-called “practical expedient.” The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique. The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted market prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

g. Charitable Trust Assets

Trusts for which the Foundation is not the trustee are recorded as contributions receivable from charitable trusts and are recorded at the fair value of the assets in the trusts, less the present value of the expected payments to beneficiaries, using life expectancies of income beneficiaries and the Internal Revenue Service (IRS) Section 7520 rate in effect as of the end of the fiscal year (2.4% for 2017 and 1.8% for 2016).

h. Property and Equipment

Purchased property and equipment are recorded at cost or fair value at the date of donation. Acquisitions or donations in excess of \$5,000 are capitalized. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation on property and equipment is provided over the estimated useful lives of the respective assets, ranging from five to thirty-nine years, on a straight-line basis.

East Bay Community Foundation

Notes to Consolidated Financial Statements

i. Agency Funds

Agency funds represent funds transferred to the Foundation by other not-for-profit organizations that have specified themselves as the beneficiary. These funds are accounted for as assets and liabilities on the consolidated financial statements. However, in most cases, the Foundation maintains legal ownership of the agency assets and has variance power.

j. Contributions

Contributions, which may include unconditional promises to give (pledges), are recognized as public support and revenue in the period pledged or received. Interests in irrevocable charitable trusts are recorded as contributions receivable when notification of interest is received, and the fair value is determinable. Contributions and grants are derived primarily from donors in Northern California. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributed goods and services, if any, are recorded at their estimated fair value. Contributed services are accounted for as contribution revenue if the services meet certain criteria.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions of assets other than cash are recorded at their estimated fair value.

k. Grant Expenses

Grant expenses are recognized when an unconditional promise to give is approved by the Board of Directors. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation. Grants payable represents the present value of grants to be paid in the future.

East Bay Community Foundation

Notes to Consolidated Financial Statements

1. Functional Expense Allocation

Certain expenses are allocated to programs and supporting services based on headcount. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. For most departments, expenses are allocated based upon the primary purpose of the department. Functional expenses related to Foundation staff compensation are allocated among program, development and general administration by management, based on staff member estimates of their annual time usage. With the exception of general overhead, other functional expenses are charged according to the Foundations expense classifications as they are incurred. Overhead expenses, such as rent, and supporting departments, such as management information services, are allocated based on headcount percentages of the Foundation.

m. Endowments

Interpretation of Relevant Law

The Foundation classifies as permanently restricted net assets both the original value of the gifts donated plus all subsequent gifts to the donor restricted endowment funds. The remaining value of the donor restricted endowed funds is classified as temporarily restricted net assets until appropriated for expenditure by the Foundation.

Appropriation for expenditure for endowed funds is made in a manner consistent with the standards of prudence prescribed by State Prudent Management Investment Funds Act (SPMIFA), which include: (1) The duration and preservation of the fund consistent with donor intent; (2) the purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and appreciation of invested funds; (6) other resources of the Foundation; (7) the investment policies of the Foundation.

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets. At June 30, 2017, the Foundation had four funds with deficiencies totaling \$123,278. At June 30, 2016, there were twenty funds with deficiencies of this nature totaling \$1,822,182 that are reported in unrestricted net assets.

Investment and Spending Policies

The Foundation has adopted investment and spending polices for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return a percentage in excess of the annual rate of inflation, net of investment fees. Actual returns in any given year may vary from this amount.

East Bay Community Foundation

Notes to Consolidated Financial Statements

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes U.S. Government and agency paper investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundations' various endowed funds, for grant-making and administration. The current spending policy is to distribute an amount equal to 5% of a moving twelve quarter rolling average for funds with balances of at least 90% of the historic gift value. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

n. Tax Exempt Status

The Foundation and its consolidated supporting organizations are exempt from federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code, and California Revenue and Taxation Code Section 23701(d). In addition, they have each, received a determination from the IRS that they are not private foundations.

As of June 30, 2017 and 2016, management evaluated the Foundation and its consolidated supporting organization's tax positions and concluded that they had maintained their tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

o. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

p. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

East Bay Community Foundation

Notes to Consolidated Financial Statements

q. Recent Accounting Pronouncements

Adopted:

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, Presentation of Financial Statements - Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Topic 205). The amendments in this update requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, which is currently performed by the external auditors. Management is required to perform this assessment for both interim and annual reporting periods and must make certain disclosures if it concludes that substantial doubt exists. periods thereafter. The Foundation adopted this standard for the year ending June 30, 2017. The adoption did not have any effect on the financial statements.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this Update apply to reporting entities that elect to-measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. Under Topic 820, a reporting entity is permitted, as a practical expedient, to estimate the fair value of certain investments using those investments' NAV per share. Prior to ASU 2015-07, these investments were categorized in the fair value hierarchy based on whether the investment was redeemable with the investee at net asset value on measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. These criteria were different from the criteria used for all other investments. All other investments are categorized based on inputs to fair value. The Foundation adopted ASU 2015-07 retroactively to June 30, 2016.

Pronouncements effective in the future:

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize, at commencement date, a lease liability representing the lessee's obligation to make payments arising from the lease and a right-of-use asset representing the lessee's right to use, or control the use of, a specified asset for the lease term. This guidance is effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact the new standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources, and the changes in those resources, to the users of the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Foundation is currently evaluating the impact the new standard will have on its financial statements.

East Bay Community Foundation

Notes to Consolidated Financial Statements

r. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2017 through March 2, 2018, the date these financial statements were available to be issued. With the exception of those matters discussed in Note 1 and 8, there were no other material subsequent events that required recognition.

Note 3 - Investments and Fair Value Measurements:

The table below presents the assets and liabilities measured at fair value at June 30, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV (a)</u>	<u>Total</u>
Investments:				
Money market, cash and cash equivalents	\$ 72,691,978			\$ 72,691,978
Certificates of deposit		\$ 500,000		500,000
Fixed income:				
Fixed income securities	34,266,535			34,266,535
Government securities	145,316			145,316
Corporate bonds		513,559		513,559
Equities:				
Domestic	49,843,340			49,843,340
International	37,873,079			37,873,079
Mutual funds:				
Domestic fixed income	52,309,610			52,309,610
International fixed income	7,701,671			7,701,671
Multi-strategy	31,379,254			31,379,254
Real estate securities	8,276,424			8,276,424
Commodities and natural resource	2,531,767			2,531,767
Net Asset Value Funds (a)			\$ 23,809,041	23,809,041
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Subtotal	297,018,974	1,013,359	23,809,041	321,841,574
Charitable trust assets		3,350,007		3,350,007
Beneficial interest in life insurance policies		207,778		207,778
<hr/>				
Total	\$ 297,018,974	\$ 4,571,144	\$ 23,809,041	\$ 325,399,959

East Bay Community Foundation

Notes to Consolidated Financial Statements

The table below presents the assets and liabilities measured at fair value at June 30, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV (a)</u>	<u>Total</u>
Investments:				
Money market, cash and cash equivalents	\$ 97,182,151			\$ 97,182,151
Certificates of deposit		\$ 500,000		500,000
Fixed income:				
Fixed income securities	781,157			781,157
Government securities	2,614,971			2,614,971
Corporate bonds		1,227,199		1,227,199
Mortgage-backed securities		539,446		539,446
Equities:				
Domestic	6,385,329			6,385,329
International	92,231			92,231
Mutual funds:				
Domestic equity	37,720,244			37,720,244
International equity	28,426,170			28,426,170
Domestic fixed income	87,438,488			87,438,488
International fixed income	5,345,503			5,345,503
Multi-strategy	21,279,231			21,279,231
Real estate securities	6,485,794			6,485,794
Commodities and natural resource	2,087,593			2,087,593
Net Asset Value Funds (a)			\$ 27,494,446	27,494,446
<hr/>				
Subtotal	295,838,862	2,266,645	27,494,446	325,599,953
Charitable trust assets				
Beneficial interest in life insurance policies		3,374,672		3,374,672
		213,395		213,395
<hr/>				
Total	\$ 295,838,862	\$ 5,854,712	\$ 27,494,446	\$ 329,188,020

East Bay Community Foundation

Notes to Consolidated Financial Statements

- (a) In accordance with FASB ASC Subtopic 820-10, 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 Consolidated Statement of Financial Position.

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following table lists investments by major category as of June 30:

Strategies	2017		2016		Redemption	
	# of Funds	Valuation	# of Funds	Valuation	Frequency	Notice Periods (days)
Multi-strategy fund (a)	1	\$ 7,310,890	1	\$ 6,295,607	Daily	1
Long/short/event driven hedge funds (b)	2	3,459,225	2	5,196,543	(b)	(b)
Private equity (c)	1	500	1	500	(c)	(c)
Partnership interests (d)	3	13,038,426	3	16,001,796	(d)	(d)
Total	7	\$ 23,809,041	7	\$ 27,494,446		

- (a) One affiliated organization at the Foundation invests in a multi-asset fund (TIFF) that is open primarily to foundations, endowments, 501(c)(3) corporations, and other non-profit organizations. Its objective is to return its members a 5% return after inflation, over multiple market cycles. The fund investments in global stocks (51%), cash equivalents (13%), inflation linked bonds (10%), TIPS (10%), high yield bonds (6%), commodities (5%), and REITS (5%). The fund may also hold derivatives and sell some securities short. Some of the investments are considered illiquid. The fund offers daily redemptions with disbursements distributed one day after the trade date. The fund reserves the right at periods of high stress to delay or suspend redemptions in accordance with SEC regulations.
- (b) These hedge funds are fund of funds and directly held funds which, in aggregate, represent a number of underlying funds with a wide range of investment strategies. These funds are primarily long public equity securities but also short public equity securities and hold small amounts of fixed income and derivative securities.

East Bay Community Foundation

Notes to Consolidated Financial Statements

These hedge funds are fund of funds and directly held funds which, in aggregate, represent a number of underlying funds with a wide range of investment strategies. These funds are primarily long public equity securities but also short public equity securities and hold small amounts of fixed income and derivative securities. For one of the funds, redemptions are permitted on a quarterly basis with 30 days' notice.

One of the funds with a balance of \$126,963 at June 30, 2017, is in liquidation, and is no longer accepting redemption, including redemption that were requested for future redemption dates. The fund will make periodic distributions of capital, through December 31, 2017, as investments are liquidated by way of a compulsory redemption of shares. There is a 6% of NAV of the underlying investment funds that will be available after December 31, 2017 which consists primarily of designated investments and Special Opportunities that have an uncertain liquidity.

- (c) Private equity strategies invest in various companies and some debt securities, both domestic and international. The partnerships have a legal life span of up to 10 years with no redemption rights for the Limited Partners. Liquidity is expected in the form of distributions from the funds when the underlying assets are sold. It is estimated that the underlying assets will be redeemed over this time period and that the Foundation will make new investments in other private equity strategies. One partnership permits redemptions up to 5% for the first three years, 100% of capital account thereafter subject to a 20% gate.
- (d) These partnerships include a partnership operated on behalf of a supporting organization and another party which represents 67% and 80% of the value at June 30, 2017 and 2016, respectively. It has alternative investments in multiple asset classes among multi industry sectors including: hedge funds, private equity funds, venture capital, real estate, natural resource and energy partnerships and direct investments. The partnership's investments at June 30, 2017 and 2016 include hedge funds (25% and 25%), private equity funds (48% and 47%), equities (23% and 22%) and fixed income (4% and 6%), respectively. These include investments made directly and through fund of funds. Certain of these investments held by the partnership have liquidity restrictions, restriction on sales up to three years and commitments for additional capital contributions. Capital commitments of the investments held by the partnership, based on the supporting organization's ownership share of the partnership, at June 30, 2017 total approximately \$1.25 million.

Another partnership invests in and trades in securities for the purpose of achieving capital preservation and long-term appreciation. Redemptions are permitted on a quarterly basis with 30 days' notice. Capital commitments of the investments held by the partnership, at June 30, 2017 total approximately \$132,000.

Another partnership invests in real estate for the purpose of achieving long-term capital appreciation. Redemptions are not permitted. Investments are held for the life of the fund (typically 7-10 years) with principal and capital gains distributions given periodically as assets are sold. Capital commitments of the investments held by the partnership, at June 30, 2017 total approximately \$490,000.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 4 - Notes Receivable:

The Foundation holds the following program related loan at June 30, 2017 and 2016.

One note for Carquinez Model Railroad Society bears 6.0% interest, monthly payments of interest and principal, 10 year term, maturing August 1, 2021. At June 30, 2017 and 2016, the outstanding balance was \$38,427 and \$45,355, respectively.

Note 5 - Charitable Trusts:

Future Interest in Charitable Remainder Trusts

The Foundation is named as the remainder beneficiary in charitable remainder trusts for which it is not the trustee. The present value of these interests was computed by discounting the current market value of the Foundation's interest at approximately 2.4% per annum in 2017 and 1.8% in 2016, and taking account of the current age of the remaining life beneficiary. The present value of these interests was \$2,388,313 and \$2,313,589 as of June 30, 2017 and 2016, respectively.

Interest in Charitable Lead Trust

The Foundation is named as the income beneficiary of a charitable lead trust. As income beneficiary, the Foundation is entitled to \$58,837 per year through 2038. The present value of the lead interest was \$961,694 and \$1,061,083 as of June 30, 2017 and 2016, respectively.

Note 6 - Property and Equipment:

Property and equipment consists of the following at June 30:

	2017	2016
Land and buildings	\$ 5,497,065	\$ 7,933,858
Furniture and equipment	569,790	573,287
	<hr/>	<hr/>
Less: accumulated depreciation	6,066,855 (2,725,589)	8,507,145 (2,642,448)
	<hr/>	<hr/>
Property and equipment, net	\$ 3,341,266	\$ 5,864,697

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 7 - Grants Payable:

Grants payable at June 30, 2017 are scheduled to be disbursed as follows:

Less than one year	\$ 7,571,976
One to five years	6,176,280
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Total	\$ 13,748,256

Note 8 - Notes Payable:

The Foundation maintains a revolving line of credit with Northern Trust in the amount of \$3,750,000, which matures June 25, 2017. The interest rate on the note is equal to the greater of 2% or the prime rate (4.25% as of June 30, 2017 and 3.50% as of June 30, 2016) minus 1.5%. The note requires monthly payments of interest only with the entire principal due at maturity. The revolving line of credit's ending balance was reduced to \$1,500,000 as of June 30, 2017 from \$2,750,000 on June 30, 2016. The note is collateralized by an investment account maintained with Northern Trust subject to a minimum balance based on certain percentages by asset class. At June 30, 2017 and 2016, the investment account value exceeded the necessary minimum amount. On June 25, 2017, the line of credit was renewed with similar terms and an expiration date of June 20, 2018.

The Foundation's revolving line of credit with Beneficial State Bank, formerly called One PacificCoast Bank, in the amount of \$500,000. The interest rate on the note is 2.15%. The note requires monthly payments of interest only, with the entire principal due at maturity. The note is collateralized by a bank deposit maintained with Beneficial State Bank in the amount of \$500,000. On September 29, 2016, the line of credit was renewed with similar terms and an expiration date of September 28, 2017. On October 13, 2017, the line of credit was renewed with similar terms and an expiration date of September 26, 2018. The balance outstanding on the line of credit at June 30, 2017 and 2016 was \$500,000.

Interest expense on the notes for the years ended June 30, 2017 and 2016 was \$70,783 and \$66,853 respectively.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 9 - Temporarily Restricted Net Assets:

The Foundation's temporarily restricted net assets at June 30 are composed of:

	2017	2016
Restricted by donor for program purpose:		
Arts and culture	\$ 430,454	\$ 131,691
Community improvement and capital building	1,056,081	190,151
Education	242,919	293,304
Employment	151,084	206,889
Housing and shelter	1,419	19,116
Human services	80,585	5,845
Philanthropy, volunteer and grant making	382,728	166,901
Youth development		4,163
Restricted by donor as to time	3,576,021	3,196,651
Endowed funds (Note 10)	14,912,907	12,290,783
Total	\$ 20,834,198	\$ 16,505,494

Net assets were released from donor restriction for the year ended June 30 by expiration of time restriction or by the occurrence of other events specified by donors:

	2017	2016
Restricted by donor for program purpose	\$ 1,266,752	\$ 694,502
Restricted by donor as to time	59,577	2,278,734
Endowed funds (Note 10)	2,808,699	3,525,460
Total	\$ 4,135,028	\$ 6,498,696

Releases from restrictions for the year ended June 30, 2017 and 2016 includes an endowment fund of \$2,143 and \$334,539, respectively granted to a public charity to be maintained by that charity.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 10 - Endowment Funds:

Endowment net asset composition by type of fund at June 30, 2017 is:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 24,317,502			\$ 24,317,502
Donor restricted endowment funds - income restricted for:				
Animal related		\$ 581,792	\$ 770,448	1,352,240
Arts and culture		867,067	7,319,971	8,187,038
Civil rights, social, activities & advocacy		26,371	458,885	485,256
Community improvement & capital building		354,382	417,240	771,622
Economic aid		1,192,645	3,277,071	4,469,716
Education		1,558,221	5,431,573	6,989,794
Environment		3,659,767	6,561,031	10,220,798
Food, agriculture & nutrition		220,861	2,026,843	2,247,704
Healthcare		3,119,435	11,039,966	14,159,401
Human services		883,624	5,236,671	6,120,295
International foreign affairs & national security		56,038	709,308	765,346
Philanthropy, volunteer & grant making foundations		129,629	1,016,874	1,146,503
Recreation & sports		583,549	523,653	1,107,202
Religion-related		125,268	324,430	449,699
Youth development		1,554,258	4,268,229	5,822,488
Underwater endowment funds	(123,277)			(123,277)
Total restricted endowment funds	(123,277)	14,912,907	49,382,193	64,171,823
Total funds	\$ 24,194,225	\$ 14,912,907	\$ 49,382,193	\$ 88,489,325

East Bay Community Foundation

Notes to Consolidated Financial Statements

Endowment net asset composition by type of fund at June 30, 2016 is:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 23,179,652			\$ 23,179,652
<hr/>				
Donor restricted endowment funds - income restricted for:				
Animal related		\$ 542,985	\$ 740,292	1,283,277
Arts and culture		642,475	7,319,571	7,962,046
Civil rights, social, activities & advocacy			458,885	458,885
Community improvement & capital building		344,380	417,240	761,620
Economic aid		1,019,869	3,277,071	4,296,940
Education		1,234,022	4,153,736	5,387,758
Environment		3,143,287	5,344,471	8,487,758
Food, agriculture & nutrition		128,743	2,026,843	2,155,586
Healthcare		2,580,748	11,024,888	13,605,636
Human services		716,278	5,231,599	5,947,876
International foreign affairs & national security			709,308	709,308
Philanthropy, volunteer & grant making foundations		45,852	1,011,814	1,057,667
Recreation & sports		518,881	523,653	1,042,534
Religion-related		96,946	324,430	421,376
Youth development		1,276,317	4,268,230	5,544,547
Underwater endowment funds	(1,822,182)			(1,822,182)
<hr/>				
Total restricted endowment funds	(1,822,182)	12,290,783	46,832,031	57,300,632
<hr/>				
Total funds	\$ 21,357,470	\$ 12,290,783	\$ 46,832,031	\$ 80,480,284

East Bay Community Foundation

Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 21,357,470	\$ 12,290,783	\$ 46,832,031	\$ 80,480,284
Fund transfer		2,143	(2,143)	
Endowment net assets after reclassification	21,357,470	12,292,926	46,829,888	80,480,284
Interest and dividends	419,360	925,646		1,345,007
Net gain (realized and unrealized)	2,469,110	6,201,939		8,671,049
Total investment return	2,888,470	7,127,585		10,016,056
Contributions			2,552,305	2,552,305
Appropriated for expenditure	(1,750,620)	(2,808,699)		(4,559,319)
Underwater endowment funds adjustment	1,698,905	(1,698,905)		
Change in endowment net assets	2,836,755	2,619,981	2,552,305	8,009,041
Endowment net assets, end of year	\$ 24,194,225	\$ 14,912,907	\$ 49,382,193	\$ 88,489,325

East Bay Community Foundation

Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 23,674,453	\$ 15,691,274	\$ 42,764,371	\$ 82,130,098
Fund transfer		334,539	(334,539)	
Endowment net assets after reclassification	23,674,453	16,025,813	42,429,832	82,130,098
Interest and dividends	414,303	943,760		1,358,063
Net gain (realized and unrealized)	(687,380)	(3,065,980)		(3,753,360)
Total investment return	(273,077)	(2,122,220)		(2,395,817)
Contributions	1,253,933	267,750	4,402,199	5,923,882
Appropriated for expenditure	(1,652,939)	(3,525,460)		(5,178,399)
Underwater endowment funds adjustment	(1,644,900)	1,644,900		
Change in endowment net assets	(2,316,983)	(3,735,030)	4,402,199	(1,649,814)
Endowment net assets, end of year	\$ 21,357,470	\$ 12,290,783	\$ 46,832,031	\$ 80,480,284

Note 11 - Retirement Plans:

The Foundation has a 401(k) retirement plan (TriNet Plan) that matched 100% of employee's contributions up to 4% of their salaries. The Foundation's contributions were \$67,744 and \$76,856 for the years ended June 30, 2017 and 2016, respectively.

Note 12 - Operating Lease Commitments:

The Foundation leases equipment and its conference center space adjacent to its offices in downtown Oakland, California, under various non-cancelable operating leases expiring through 2056. Rental expense, under these leases totaled \$134,988 and \$118,200 for the years ended June 30, 2017 and 2016, respectively.

East Bay Community Foundation

Notes to Consolidated Financial Statements

The following is a schedule of future minimum lease payments for the fiscal year ending June 30:

2018	\$ 132,517
2019	115,518
2020	61,418
2021	57,305
2022	57,305
Thereafter	1,764,770
<hr/>	
Total	\$ 2,188,833

Note 13 - Concentrations:

Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation places its cash investments with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Foundation has not experienced any losses in such accounts. Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. To address the market risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment managers' performance. This entire process is actively overseen by an Investment Committee of the Board of Directors.

Other

In the fiscal year ending in 2017, the Foundation received approximately 34.2% of its contributions from five donors representing \$19,688,062. The Foundation received approximately 52.2% of its contributions from five donors in fiscal year ending in 2016 representing \$12,838,288.