REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

# JEWISH COMMUNITY FOUNDATION OF THE JEWISH FEDERATION COUNCIL OF GREATER LOS ANGELES

December 31, 2017 and 2016

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# Report of Independent Auditors

To the Board of Trustees of the
Jewish Community Foundation of the Jewish Federation Council of Greater Los Angeles:

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jewish Community Foundation of the Jewish Federation Council of Greater Los Angeles and its support foundations (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and 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 Consolidated Financial Statements*

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

### *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jewish Community Foundation of the Jewish Federation Council of Greater Los Angeles and its support foundations as of December 31, 2017 and 2016, and changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of a Matter*

As discussed in note 2 to the consolidated financial statements, as of December 31, 2017, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Presenting Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Los Angeles, California
June 5, 2018

# Jewish Community Foundation of the Jewish Federation Council of Greater Los Angeles
## Consolidated Statements of Financial Position
## December 31, 2017 and 2016
## (dollar amounts rounded to nearest thousand)

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| ASSETS | | |
| Cash and cash equivalents | $ 151,448,000 | $ 146,590,000 |
| Notes receivable, net | 6,295,000 | 8,791,000 |
| Investments | | |
| Securities | 601,874,000 | 545,672,000 |
| Common Investment Pool | 388,081,000 | 305,933,000 |
| Strategic Return Fund | 33,066,000 | 22,665,000 |
| State of Israel bonds | 4,879,000 | 4,858,000 |
| Real estate | 46,105,000 | 38,904,000 |
| Partnership interests | 10,503,000 | 10,039,000 |
| Total investments | 1,084,508,000 | 928,071,000 |
| Other assets, net | 5,903,000 | 10,295,000 |
| Total assets | $ 1,248,154,000 | $ 1,093,747,000 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Grant commitments | $ 39,022,000 | $ 38,194,000 |
| Other payables | 1,522,000 | 1,421,000 |
| Amounts held in custody for others | 138,779,000 | 81,520,000 |
| Amounts held with no variance power | 52,839,000 | 48,444,000 |
| Liabilities under split-interest agreements | 1,933,000 | 2,122,000 |
| Total liabilities | 234,095,000 | 171,701,000 |
| NET ASSETS | | |
| Without donor restrictions | | |
| Support Foundations | 212,805,000 | 196,075,000 |
| Donor Advised Funds | 612,430,000 | 559,373,000 |
| Permanent Legacy Fund (board designated) | 67,809,000 | 61,183,000 |
| Total net assets without donor restrictions | 893,044,000 | 816,631,000 |
| With donor restrictions | 121,015,000 | 105,415,000 |
| Total net assets | 1,014,059,000 | 922,046,000 |
| Total liabilities and net assets | $ 1,248,154,000 | $ 1,093,747,000 |

See accompanying notes.

# Jewish Community Foundation of
# the Jewish Federation Council of Greater Los Angeles
## Consolidated Statement of Activities and Changes in Net Assets
## Year Ended December 31, 2017
## (dollar amounts rounded to nearest thousand)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Public support and corpus gifts** | | | |
| Contributions to: | | | |
| Support Foundations | $ 17,076,000 | $ - | $ 17,076,000 |
| Donor Advised Funds | 95,532,000 | - | 95,532,000 |
| Endowment and other funds | 1,223,000 | 6,549,000 | 7,772,000 |
| Total public support and corpus gifts | 113,831,000 | 6,549,000 | 120,380,000 |
| **Revenue and gains** | | | |
| Investment income, net | 64,892,000 | 13,658,000 | 78,550,000 |
| Other | 1,337,000 | - | 1,337,000 |
| Total revenue and gains | 66,229,000 | 13,658,000 | 79,887,000 |
| Net assets released from restrictions | 4,607,000 | (4,607,000) | - |
| Total public support, corpus gifts, revenue and gains | 184,667,000 | 15,600,000 | 200,267,000 |
| **Distributions and expenses** | | | |
| Program | | | |
| Grants and distributions from: | | | |
| Support Foundations | 29,007,000 | - | 29,007,000 |
| Donor Advised Funds | 65,534,000 | - | 65,534,000 |
| Endowment Funds | 5,642,000 | - | 5,642,000 |
| Support services | 8,071,000 | - | 8,071,000 |
| Total distributions and expenses | 108,254,000 | - | 108,254,000 |
| Changes in net assets | 76,413,000 | 15,600,000 | 92,013,000 |
| Net assets, beginning of year | 816,631,000 | 105,415,000 | 922,046,000 |
| Net assets, end of year | $ 893,044,000 | $ 121,015,000 | $ 1,014,059,000 |



See accompanying notes.

# Jewish Community Foundation of
# the Jewish Federation Council of Greater Los Angeles
## Consolidated Statement of Activities and Changes in Net Assets
## Year Ended December 31, 2016
## (dollar amounts rounded to nearest thousand)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Public support and corpus gifts** | | | |
| Contributions to: | | | |
| Support Foundations | $ 8,486,000 | $ - | $ 8,486,000 |
| Donor Advised Funds | 104,115,000 | - | 104,115,000 |
| Endowment and Other Funds | 750,000 | 20,468,000 | 21,218,000 |
| Total public support and corpus gifts | 113,351,000 | 20,468,000 | 133,819,000 |
| **Revenue and gains** | | | |
| Investment income, net | 39,694,000 | 4,795,000 | 44,489,000 |
| Other | 481,000 | - | 481,000 |
| Total revenue and gains | 40,175,000 | 4,795,000 | 44,970,000 |
| Net assets released from restrictions | 3,958,000 | (3,958,000) | - |
| Total public support, corpus gifts, revenue and gains | 157,484,000 | 21,305,000 | 178,789,000 |
| **Distributions and expenses** | | | |
| Program | | | |
| Grants and distributions from: | | | |
| Support Foundations | 18,810,000 | - | 18,810,000 |
| Donor Advised Funds | 55,333,000 | - | 55,333,000 |
| Endowment Funds | 4,347,000 | - | 4,347,000 |
| Support services | 7,551,000 | - | 7,551,000 |
| Total distributions and expenses | 86,041,000 | - | 86,041,000 |
| Changes in net assets | 71,443,000 | 21,305,000 | 92,748,000 |
| Net assets, beginning of year | 745,188,000 | 84,110,000 | 829,298,000 |
| Net assets, end of year | $ 816,631,000 | $ 105,415,000 | $ 922,046,000 |

See accompanying notes.

**Jewish Community Foundation of**
**the Jewish Federation Council of Greater Los Angeles**
**Consolidated Statements of Cash Flows**
**Years Ended December 31, 2017 and 2016**
**(dollar amounts rounded to nearest thousand)**

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | $ 92,013,000 | $ 92,748,000 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Noncash gifts | (12,118,000) | (23,939,000) |
| Contributions restricted for long-term investment | (1,526,000) | (160,000) |
| Net realized & unrealized (gain) loss | (62,402,000) | (30,763,000) |
| Changes in operating assets and liabilities | | |
| Other assets | 4,300,000 | (644,000) |
| Grant commitments | 828,000 | (2,233,000) |
| Other payables | 101,000 | 26,000 |
| Amounts held in custody for others | 57,259,000 | (2,026,000) |
| Amounts held with no variance power | 4,395,000 | (466,000) |
| Net cash provided by operating activities | 82,850,000 | 32,543,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Collections on notes receivable | 2,496,000 | 704,000 |
| Proceeds from sale of investments | 535,850,000 | 277,017,000 |
| Purchase of investments | (617,675,000) | (496,691,000) |
| Net cash used in investing activities | (79,329,000) | (218,970,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions permanently restricted for long-term investment | 1,526,000 | 160,000 |
| Increase in liabilities under charitable remainder trusts and gift annuities | (189,000) | (176,000) |
| Net cash provided by (used in) financing activities | 1,337,000 | (16,000) |
| Net increase (decrease) in cash and cash equivalents | 4,858,000 | (186,443,000) |
| Cash and cash equivalents, beginning of year | 146,590,000 | 333,033,000 |
| Cash and cash equivalents, end of year | $ 151,448,000 | $ 146,590,000 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Noncash gifts | $ 50,863,000 | $ 48,960,000 |


See accompanying notes.

### Note 1 – Nature of Operations

The Jewish Community Foundation of the Jewish Federation Council of Greater Los Angeles (the "Foundation") is a California nonprofit corporation organized solely for charitable purposes. The sole member of the Foundation is the Jewish Federation Council of Greater Los Angeles ("JFC"). The accompanying consolidated financial statements do not include the accounts of JFC in as much as it is the intent of their respective Boards of Trustees and Directors to operate the Foundation and JFC independently of one another.

The Foundation maintains the books and records for 35 active Support Foundations, which are consolidated with the Foundation for reporting purposes. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. The Foundation and its Support Foundations are collectively referred to herein as the Foundation.

### Note 2 – Summary of Significant Accounting Policies

**Basis of presentation** – The accompanying consolidated financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities.* The Foundation has implemented ASC 958 and has adjusted the presentation in these consolidated financial statements accordingly, including changes to the presentation of net asset classification on the financial statements, inclusion of information about liquidity and availability of resources (Note 12), and inclusion of information provided about expenses (Note 13). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- ***Net Assets Without Donor Restrictions*** – Net assets available for use in general operations and not subject to donor restrictions.

- ***Net Assets With Donor Restrictions*** – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Note 2 – Summary of Significant Accounting Policies (continued)**

In accordance with ASC 958, net assets at December 31, 2016 have been reclassified as follows:

| | Without Donor Restrictions | With Donor Restrictions |
|---|---|---|
| Unrestricted | $ 816,631,000 | $ - |
| Temporarily restricted | - | 65,870,000 |
| Permanently restricted | - | 39,545,000 |
| | $ 816,631,000 | $ 105,415,000 |

The Foundation has three components within net assets without donor restrictions: Support Foundations, Donor Advised Funds, and the Permanent Legacy Fund ("PLF").

- Support Foundations (Note 11) are separate, non-profit, charitable corporations funded and named by the donor that support the broad charitable purposes of the Foundation. All grants are approved by the Board of Directors of the respective Support Foundation, which includes a majority of Foundation appointed members and a minority of family appointed members, and are made in the name of the Support Foundation.

- Donor Advised Funds are gifts to the Foundation without donor restrictions; however, the donor retains the right to recommend grants to organizations that support the broad charitable purposes of the Foundation.

- The PLF is a board-designated endowment which holds bequests and contributions received by the Foundation without donor restrictions. Annually, the Board of the Foundation makes grants, according to grant making guidelines, of the spending amount calculated per Board-adopted spending policies.

**Cash and cash equivalents** – Cash and cash equivalents include cash on hand and investments with original maturities at purchase date of three months or less. The carrying value approximates fair value because of the short maturity of those instruments.

**Bequests** – The Foundation has been named as beneficiary in numerous wills. Such bequests are not recognized as public support by the Foundation until the earlier of receipt of the assets or confirmation that such bequests are irrevocable.

**Grant commitments** – Grant commitments are grants that have been approved by the Board of Trustees for a specific program or project; those for which the Board of Trustees, through its by-laws, has approved the type of grant, but the specific program or project is yet to be determined; or those grants required by law to be distributed by March 15 of the following year.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Investments** – Investments consist of money market funds; mutual funds (including fixed income and equity funds); U.S. and international common and preferred stock; U.S. government, municipal, corporate, and international bonds; and other holdings, comprised of non-publicly traded investments. Investments are reported at fair value under a hierarchy which prioritizes the inputs in fair value measurements.

The Foundation's investments in mutual funds are valued at the net asset value of shares held. In general, there are no restrictions as to the redemption of these funds, nor does the Foundation have any contractual obligations to further invest in any of these funds. In addition, these funds have daily or monthly liquidity with trades settling between one and three days. Mutual funds are reported by investment asset class (e.g., equity or fixed income) in the tables in Note 3. Investments in common stock are valued using quoted market prices reported on the active market upon which the individual securities are traded. The fair value of the fixed income securities is determined based on valuations provided by independent pricing services, which use multiple valuation techniques that incorporate available market information and proprietary valuation models, which consider market characteristics, such as benchmark yield curve, credit spreads, estimated default rates and other security features.

Dividend and interest income and gains and losses on investments are reported in the consolidated statements of activities and changes in net assets as either increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulations or by law.

For the Common Investment Pool (Note 3) and other investments, the Foundation considers investments in asset classes other than public equity and fixed income to be alternative investment strategies ("Alternative Investments"). These investments include hedge funds, private equity investments, and other limited partnership interests such as real estate partnerships. The Foundation also considers inflation-hedging investments such as commodities and infrastructure-related investments to be alternative investments due to their low correlation with other investment asset classes. Investments that are not readily marketable are carried at fair value which is determined in good faith by the Foundation, based on relevant factors such as the most recent communications with the companies' management and/or representatives.

The Foundation uses net asset value (NAV) as a practical expedient to determine the fair value of alternative investments which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. If the NAV of the investment obtained from the investee fund manager is not as of the Foundation's measurement date or is not calculated in a manner consistent with the specialized accounting guidance for investment companies, the Foundation considers whether an adjustment to the most recent NAV is necessary. Because of the inherent uncertainty of valuations, these amounts may differ materially from values that would be realized if the investments were sold.

**Note 2 – Summary of Significant Accounting Policies (continued)**

Net changes in unrealized gains (losses) on alternative investments are reported in investment income, net in the consolidated statements of activities and changes in net assets.

Investments are monitored by the Foundation's Investment Committee and made in a manner consistent with policies and guidelines established by the Investment Committee and approved by the Board of Trustees. In addition to market risks, the Foundation is exposed to credit loss for the amount of the investments in the event of nonperformance by the other parties to the investment transactions. However, nonperformance by the counterparties is not anticipated.

**Amounts held in custody for others** – Amounts held in custody for others represents resources received from nonprofit organizations that desire to have the Foundation provide investment management services for those other organizations' endowment or reserve funds. A liability is recorded at the estimated fair value of assets deposited with the Foundation by those nonprofit organizations. Resources are generally invested in the Common Investment Pool (Note 3). At December 31, 2017 and 2016, the balance that was held in custody by the Foundation of the reserve fund of JFC, a related organization, amounted to $99,564,000 and $45,214,000, respectively.

**Amounts held with no variance power** – Amounts held with no variance power are resources received by the Foundation in which the Foundation does not have the unilateral power to direct the use of the resources without the approval of the resource provider, such as when a donor names a specific agency as beneficiary and does not give the Foundation the ability to change the beneficiary. Resources received for which the Foundation does not have variance power are generally invested in the Common Investment Pool (Note 3) and shown as a liability in the consolidated statements of financial position.

**Revenue recognition** – Contributions are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years are recognized when the promise is made at fair value based on discounted cash flows. Amortization of the discounts is included in contributions. There were no contributions receivable associated with unconditional promises to give at December 31, 2017 and 2016. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at fair value using a current appraisal on the date of the gift and is generally made available for sale as soon as practicable. Contributions of public stock are recorded at the mean of the quoted market price on the date of receipt of donation. Conditional promises to give are not recorded until the conditions are substantially met. An allowance for estimated uncollectible contributions receivable will be recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Accounts are written off against the allowance when deemed uncollectible. Management has determined that no allowance for uncollectible contributions receivable is necessary as of December 31, 2017 and 2016.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Use of estimates** – The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income taxes** – The Foundation and its Support Foundations are public charities and are exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding California Revenue and Taxation Code sections. The Jewish Community Foundation – Charitable Fund is a private foundation, as defined by the Internal Revenue Code and consists of charitable directed funds that were an offering that are no longer available. Net investment income of the Charitable Fund is subject to a federal excise tax which has not been significant to the Foundation. The Foundation and its Support Foundations do not have any material uncertain tax positions. The Foundation and its Support Foundations file information organization returns in the United States federal jurisdiction and with the Franchise Tax Board in the State of California.

**Concentration of credit risk** – The Foundation maintains commercial accounts in various banks. Accounts at each bank are insured by the Federal Deposit Insurance Corporations ("FDIC") up to $250,000. At December 31, 2017 and 2016, the Foundation had amounts that were in excess of the FDIC insurance limits. The Foundation performs ongoing evaluations of commercial banks to limit its concentration credit risk exposure.

**Subsequent events** – The Foundation has evaluated subsequent events through June 5, 2018, the date the consolidated financial statements were issued.

**Going concern** – In connection with the preparation of the consolidated financial statements for the year ended December 31, 2017, the Foundation conducted an evaluation as to whether there were events, considered in the aggregate, that raised substantial doubt as to the Foundation's ability to continue as a going concern within one year after the date of the consolidated financial statements were issued. The evaluation raised no substantial doubt about the Foundation's ability to continue as a going concern.

**Reclassifications** – Certain reclassifications were made to the 2016 amounts to conform to the 2017 presentation.

**Note 3 – Investments**

ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes how to measure fair value based on a three-level hierarchy of inputs, of which the first two are considered observable and the last unobservable.

Level I: Quoted prices in active markets for identical assets or liabilities.

Level II: Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Securities accounted for at net asset value (NAV) include equity securities, hedge funds, private equity investments, and real estate partnership funds. NAV amounts provided by external managers are adjusted for receipts and disbursements of cash and securities to the most recently available NAV date.

The following table presents the Foundation's valuation levels as of December 31, 2017:

| | Level I | Level II | Level III | Assets Held at Net Asset Value (or Equivalent) | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 801,000 | $ - | $ - | $ - | $ 801,000 |
| Equity | | | | | |
| Domestic | 304,404,000 | - | 2,275,000 | 27,297,000 | 333,976,000 |
| International | 165,918,000 | - | 960,000 | 16,737,000 | 183,615,000 |
| Fixed income | | | | | |
| Domestic | 405,201,000 | 22,547,000 | - | 19,991,000 | 447,739,000 |
| International | 1,503,000 | 2,124,000 | - | 10,000,000 | 13,627,000 |
| Alternative investments | | | | | |
| Hedge funds | - | - | | 15,553,000 | 15,553,000 |
| Private equity | - | - | - | 11,007,000 | 11,007,000 |
| Inflation-hedging | 16,219,000 | - | - | - | 16,219,000 |
| Real estate partnerships | - | - | 10,987,000 | - | 10,987,000 |
| State of Israel bonds | - | 4,879,000 | - | - | 4,879,000 |
| Real estate | - | - | 46,105,000 | - | 46,105,000 |
| Total investments | $ 894,046,000 | $ 29,550,000 | $ 60,327,000 | $ 100,585,000 | $ 1,084,508,000 |

**Note 3 – Investments (continued)**

The following table presents the Foundation's valuation levels as of December 31, 2016:

| | Level I | Level II | Level III | Assets Held at Net Asset Value (or Equivalent) | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 33,267,000 | $ - | $ - | $ - | $ 33,267,000 |
| Equity | | | | | |
| Domestic | 286,499,000 | - | 2,275,000 | 22,083,000 | 310,857,000 |
| International | 111,791,000 | - | 960,000 | 14,177,000 | 126,928,000 |
| Fixed income | | | | | |
| Domestic | 320,855,000 | 26,504,000 | - | 13,717,000 | 361,076,000 |
| International | 464,000 | 2,561,000 | - | - | 3,025,000 |
| Alternative investments | | | | | |
| Hedge funds | - | - | - | 7,632,000 | 7,632,000 |
| Private equity | - | - | - | 12,952,000 | 12,952,000 |
| Inflation-hedging | 17,788,000 | - | - | - | 17,788,000 |
| Real estate partnerships | - | - | 10,784,000 | - | 10,784,000 |
| State of Israel bonds | - | 4,858,000 | - | - | 4,858,000 |
| Real estate | - | - | 38,904,000 | - | 38,904,000 |
| Total investments | $ 770,664,000 | $ 33,923,000 | $ 52,923,000 | $ 70,561,000 | $ 928,071,000 |

The investment goals of the Foundation are to maintain or grow its asset size and spending power in real (inflation-adjusted) terms with risk at a level appropriate to the Foundation's program objectives. The Foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, except for certain Support Foundations' holdings and government obligations, nearly all financial assets of the Foundation are managed by external investment management firms selected by the Foundation. All financial assets of the Foundation are held in custody by a major commercial bank, except for assets invested with partnerships, real estate, Israel bonds, notes receivable and trust deeds.

At December 31, 2017 and 2016, approximately 85% and 86%, respectively, of the Foundation's assets are invested in publicly traded equities and mutual funds, which are listed on national exchanges; Treasury and agency bonds of the U.S. government; and investment grade corporate bonds for which active trading markets exist. Net realized and unrealized gains and losses on investments are reflected in the consolidated statements of activities and changes in net assets.

The Foundation uses appraisals, discounted cash flow analysis, and comparable transaction multiples and/or comparable trading multiples, as appropriate, to estimate fair value of Level III investments. The Foundation establishes valuation processes and procedures to ensure that the valuation techniques for investments are fair, consistent and verifiable.

**Note 3 – Investments (continued)**

The following table summarizes the activity for the Foundation's Level III assets for the year ended December 31, 2017:

| | Balance at 12/31/2016 | Realized & Unrealized Gains (Losses) | Purchases & Contributions | Sales & Distributions | Net Transfers In (Out) of Level III | Balance at 12/31/2017 |
|---|---|---|---|---|---|---|
| Equity | | | | | | |
| Domestic | $ 2,275,000 | $ - | $ - | $ - | $ - | $ 2,275,000 |
| International | 960,000 | - | - | - | - | 960,000 |
| Alternative investments | | | | | | |
| Real estate partnerships | 10,784,000 | (12,000) | 576,000 | (361,000) | - | 10,987,000 |
| Real estate | 38,904,000 | 4,150,000 | 5,650,000 | (2,599,000) | - | 46,105,000 |
| | $ 52,923,000 | $ 4,138,000 | $ 6,226,000 | $ (2,960,000) | $ - | $ 60,327,000 |

The following table summarizes the activity for the Foundation's Level III assets for the year ended December 31, 2016:

| | Balance at 12/31/2015 | Realized & Unrealized Gains (Losses) | Purchases & Contributions | Sales & Distributions | Net Transfers In (Out) of Level III | Balance at 12/31/2016 |
|---|---|---|---|---|---|---|
| Equity | | | | | | |
| Domestic | $ 2,275,000 | $ - | $ - | $ - | $ - | $ 2,275,000 |
| International | 2,648,000 | - | - | (1,688,000) | - | 960,000 |
| Alternative investments | | | | | | |
| Real estate partnerships | 10,540,000 | (12,000) | 920,000 | (664,000) | - | 10,784,000 |
| Real estate | 33,142,000 | - | 5,762,000 | - | - | 38,904,000 |
| | $ 48,605,000 | $ (12,000) | $ 6,682,000 | $ (2,352,000) | $ - | $ 52,923,000 |

## Note 3 – Investments (continued)

The following table includes quantitative information about Level III investments included in the preceding tables, including the range of significant unobservable inputs used in the fair value measurement:

| | Fair Value | Valuation Techniques | Unobservable Inputs | Range |
|---|---|---|---|---|
| Domestic equity | $ 2,275,000 | Discounted cash flow | Discount Rate | 39% |
| | | | Annual Sales Growth | 20% |
| | | Sales comparison | Market comparable rates | N/A* |
| International equity | 960,000 | Company Valuation or Market Comparables | Company Financials or General Partners' Estimates | N/A* |
| Real estate partnerships | 10,987,000 | Income approach | Long-term occupancy rate | N/A* |
| | | | Market comparable rate | N/A* |
| | | | Capitalization rate | N/A* |
| Real estate | 46,105,000 | Income approach | Long-term occupancy rate | 95% |
| | | | Market comparable rate | $0.54 to $0.58 per sq ft per month |
| | | | Capitalization rate | 6.00% |
| | | Sales comparison | Market comparable rates | N/A* |

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

The following table summarizes characteristics of the Foundation's investments with fair value at NAV at December 31, 2017:

| | Strategy | NAV in Funds | # of Funds | Remaining Life | Amount of Unfunded Commitments | Timing to Draw Down Commitments | Redemption Terms | Redemption Restrictions |
|---|---|---|---|---|---|---|---|---|
| Domestic equity | Long-short US equity fund | $ 27,297,000 | 1 | N/A | None | None | Annual<br>60 days notice | 20% fund level gate |
| International equity | Long-only international equity fund | 16,737,000 | 1 | N/A | None | None | Monthly<br>10 days notice | N/A |
| Fixed income | High-yield, credit, and multi-strategy funds | 29,991,000 | 4 | N/A | None | None | Monthly to Cannot Redeem<br>30 to 90 days notice | Varies |
| Hedge funds | Long-short and multi-strategy funds | 15,553,000 | 12 | N/A | None | None | Quarterly to over 1 year<br>30 days to 12 months notice | Varies |
| Private equity | Opportunistic real estate and US/international funds of funds | 11,007,000 | 9 | Through 2024 | $ 2,062,000 | 2024 | Cannot Redeem | Cannot Redeem |
| Total | | $ 100,585,000 | 27 | | $ 2,062,000 | | | |

**Note 3 – Investments (continued)**

Although the Foundation uses its best judgment in estimating the fair value of investments, there are inherent limitations in any estimation technique. Therefore, the values presented herein are not necessarily indicative of the amount that the Foundation could realize in a current transaction. Future confirming events could affect the estimates of fair value and could be material to the consolidated financial statements. These events could also affect the amount realized upon liquidation of the investments.

The gain (loss) on the Foundation's investment portfolio consists of the following for the years ending December 31:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividends | $ 16,148,000 | $ 13,726,000 |
| Realized and unrealized gains | 64,721,000 | 32,873,000 |
| Related expenses | (2,319,000) | (2,110,000) |
| | $ 78,550,000 | $ 44,489,000 |

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Foundation's investments and total net assets balance could fluctuate materially.

The Common Investment Pool ("CIP") serves as an investment pool for endowment funds, Support Foundations, and funds held in custody for charitable or educational organizations. The investment pool is operated using the net asset value method. Net investment income and net realized and unrealized gains (losses) on investments are allocated to each participant in the pool at the end of each quarter based on each participant's share of the investments in the pool. The Strategic Return Fund is an investment pool available for Donor Advised Funds with an investment strategy similar to the CIP but with monthly liquidity.

The investment gain (loss) for the CIP, Strategic Return Fund, and other investments are presented below for the years ended December 31:

| | 2017 | 2016 |
|---|---|---|
| Common Investment Pool | $ 25,742,000 | $ 9,676,000 |
| Strategic Return Fund | 3,739,000 | 1,344,000 |
| Other investments | 49,069,000 | 33,469,000 |
| | $ 78,550,000 | $ 44,489,000 |

## Note 3 – Investments (continued)

The investments in the CIP are evaluated and managed by third-party investment companies under the monitoring and direction of the Foundation's Investment Committee. The composition of the CIP at fair value is as follows at December 31:

| | 2017 | 2016 |
|---|---|---|
| Equities | | |
| Domestic | $ 122,801,000 | $ 116,802,000 |
| International | 92,858,000 | 58,658,000 |
| Fixed income | 140,089,000 | 95,213,000 |
| Alternatives | | |
| Hedge funds | 7,206,000 | 6,321,000 |
| Private equity | 10,583,000 | 12,439,000 |
| Inflation-hedging | 14,544,000 | 16,500,000 |
| Total | $ 388,081,000 | $ 305,933,000 |

## Note 4 – Notes Receivable

At December 31, 2017 and 2016, notes receivable consist primarily of loans made to private and public corporations, religious organizations and individuals, with annual interest rates ranging from 5% to 5.5%. The notes are unsecured, and interest is paid quarterly. Principal payments due on notes receivable during each of the five years subsequent to year-end are as follows at December 31:

| | |
|---|---|
| 2018 | $ 35,000 |
| 2019 | - |
| 2020 | - |
| 2021 | 6,260,000 |
| | $ 6,295,000 |

## Note 5 – Retirement Benefits (unaudited)

Retirement benefits are provided for substantially all employees hired before January 1, 2006 through the Basic Pension Plan for Employees of the JFC (the "Plan"), a multi-employer pension plan. The risks of participating in multi-employer plans are different from single-employer plans in the following respects:

**Note 5 – Retirement Benefits (unaudited) (continued)**

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multi-employer plan, the unfunded obligations of the plan may become the responsibility of the remaining participating employers.
- If the Foundation chooses to stop participating in the multi-employer plan, the Foundation may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The JFC is the Plan administrator of the Basic Pension Plan (plan number 001), a multi-employer pension plan. The Foundation is one of the participating members registered under the Employer Identification Number 95-1643388. The Plan is made up of two components: a defined benefit component and an employee contribution component. The Plan is subject to a collective bargaining agreement which expires on June 30, 2019.

The actuarial value of the Plan's assets and accrued liabilities, as reported in the annual certification submitted to the Secretary of the Treasury by the Plan's actuary, as of December 31, 2017 and 2016 are listed below. In addition, the Plan's funded percentage and the interest rate used in the accrued liability calculation are listed below. The plan is "not endangered" (as defined by the IRS), also known as the "green zone," because the Plan's funded percentages were more than 80% for the plan years beginning January 1, 2017 and 2016, and because the Plan met other funding criteria. The figures reported in the annual certification, summarized below, are not audited.

| | 2017 | 2016 |
|---|---|---|
| Actuarial value of assets | $ 116,817,000 | $ 115,604,000 |
| Actuarial accrued liabilities | 130,320,000 | 127,066,000 |
| Funded percentage | 89.60% | 90.90% |
| Valuation interest rate | 7.50% | 7.50% |

Charges to current year expense for the Foundation's share of the pension contributions were $347,000 and $496,000 for the years ended December 31, 2017 and 2016, respectively, and are included in management and general expenses in the consolidated statements of activities. The Foundation was listed in its plan's Form 5500 as providing more than 5 percent of the total contributions in the plan years ending December 31, 2016 and 2015.

Employees hired on or after January 1, 2006 are eligible for a defined contribution plan. The Foundation makes a contribution based on 5% of eligible compensation for participants who have served more than one year of eligible service. Participants are fully vested after three years. The Foundation contributed $72,000 and $68,000 for the years ended December 31, 2017 and 2016, respectively, to the defined contribution plan.

### Note 6 – Grant Commitments

Grant commitments are expected to be disbursed as follows at December 31:

| | |
|---|---|
| 2018 | $ 17,298,000 |
| 2019 | 8,459,000 |
| 2020 | 4,091,000 |
| 2021 | 2,567,000 |
| 2022 | 2,348,000 |
| 2023 and after | 4,259,000 |
| | $ 39,022,000 |

### Note 7 – Split-Interest Agreements

The Foundation is a beneficiary of split-interest agreements. The total liability at December 31, 2017 and 2016 of $1,933,000 and $2,122,000, respectively, is calculated by discounting the present value of estimated future distributions to the annuitants. The reserve amount is based upon the most current Annuity Mortality Table from the State of California Department of Insurance on the date of the Agreement and the range of discount rates for the existing agreements is 2% to 6%. The liability is classified as Level III in the fair value hierarchy.

### Note 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31:

| | 2017 | 2016 |
|---|---|---|
| Subject to spending policy and appropriation, including amounts above original gift amount of $82,445,000 in 2017 and $80,920,000 in 2016 | | |
| Specific grant areas or organizations | $ 70,239,000 | $ 36,052,000 |
| Any activities of the Foundation | 39,422,000 | 23,708,000 |
| | 109,661,000 | 59,760,000 |
| Term endowments (previously temporarily restricted) | - | 39,000,000 |
| | 109,661,000 | 98,760,000 |
| Subject to expenditure for a specified purpose | 10,704,000 | 5,918,000 |
| Subject to appropriation and expenditure when a specified event occurs (e.g., split-interest agreements) | 650,000 | 737,000 |
| Total net assets with donor restrictions | $ 121,015,000 | $ 105,415,000 |

## Note 9 – Spending Policy

Consistent with the policy of maintaining the purchasing power of the Permanent Legacy Fund and other endowment funds, the Board of Trustees has approved a spending rate of 5% of the average fair value of the most recent five years. If the current yield is insufficient to provide the full amount of the 5% spending rate, the balance to be expended may be appropriated from accumulated realized and unrealized gains of these assets.

## Note 10 – Endowments

The Foundation's endowment consists of approximately 100 donor-restricted endowment funds in addition to the Permanent Legacy Fund, a board-designated endowment. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds are invested in the Common Investment Pool with the goal of meeting the Foundation's spending policy (Notes 3 and 9).

The Board of Trustees of the Foundation has determined that a portion of the Foundation's net assets meet the definition of endowment under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as adopted by the state of California as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity, (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

1) The duration and preservation of the fund;
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 the appreciation of investments;
6) Other resources of the organization; and
7) The investment policies of the Foundation.

## Note 10 – Endowments (continued)

The following table presents the Foundation's endowment composition, changes, and net asset classifications for the years ended December 31, 2017 and 2016:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Endowment net assets, 1/1/2016** | $ 59,634,000 | $ 59,141,000 | $ 118,775,000 |
| Investment income, net | 3,740,000 | 2,583,000 | 6,323,000 |
| Gifts | 824,000 | 160,000 | 984,000 |
| Appropriation of endowment assets for expenditure | (3,015,000) | (2,124,000) | (5,139,000) |
| **Endowment net assets, 12/31/2016** | $ 61,183,000 | $ 59,760,000 | $ 120,943,000 |
| Investment income, net | $ 8,757,000 | $ 13,687,000 | $ 22,444,000 |
| Gifts | 2,443,000 | 1,526,000 | 3,969,000 |
| Adjustment for term endowments | - | 39,000,000 | 39,000,000 |
| Appropriation of endowment assets for expenditure | (4,574,000) | (4,312,000) | (8,886,000) |
| **Endowment net assets, 12/31/2017** | $ 67,809,000 | $ 109,661,000 | $ 177,470,000 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). We have interpreted UPMIFA to permit spending from endowment funds with deficits of this nature in accordance with prudent measures required under law. There were no such deficits as of December 31, 2017 and 2016.

In 2017, the Foundation made a policy change to incorporate funds considered to be term endowments in the above table. These funds are considered term endowments because the gift agreements allow for the funds to deviate below the original gift value. The Foundation expects to hold these funds in perpetuity and applies the Foundation's spending policy (Note 9) to these funds.

## Note 11 – Support Foundations

The Foundation has 35 qualifying Support Foundations. A Support Foundation is a separate not-for-profit corporation that exists to support the Foundation and those charitable organizations supported by the Foundation. Each foundation is a tax-exempt entity for both Federal and California tax purposes, and is classified as a public charity rather than as a private foundation.

The Support Foundations are controlled by the Foundation through the selection of a majority of the Board of Directors of the Support Foundation by the Foundation's Board of Trustees, as required by the Foundation in establishing a Support Foundation. Accordingly, the Support Foundations are consolidated with the Foundation and included in net assets without donor restrictions.

### Note 11 – Support Foundations (continued)

The following is a summary of the significant financial statement components of the Support Foundations as of December 31, 2017 and 2016 and for the years then ended:

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 16,907,000 | $ 17,095,000 |
| Notes receivable, net | - | 2,531,000 |
| Investments | | |
| Securities | 177,842,000 | 160,918,000 |
| Common investment pool | 33,748,000 | 28,048,000 |
| Strategic return fund | 1,095,000 | 917,000 |
| State of Israel bonds | 696,000 | 672,000 |
| Real estate | 2,002,000 | 2,002,000 |
| Partnership interests | 8,605,000 | 8,599,000 |
| Total investments | 223,988,000 | 201,156,000 |
| Other assets | 253,000 | 356,000 |
| Total assets | $ 241,148,000 | $ 221,138,000 |
| Total liabilities | $ 28,343,000 | $ 25,063,000 |
| Total net assets without donor restrictions | 212,805,000 | 196,075,000 |
| Total liabilities and net assets | $ 241,148,000 | $ 221,138,000 |
| **Public Support, Corpus Gifts and Gains** | | |
| Contributions | $ 17,076,000 | $ 8,486,000 |
| Investment income, net | 29,313,000 | 12,750,000 |
| Total public support, corpus gifts and gains | 46,389,000 | 21,236,000 |
| **Distributions and Expenses** | | |
| Grants and distributions | 29,007,000 | 18,810,000 |
| Support services | 652,000 | 847,000 |
| Total distributions and expenses | 29,659,000 | 19,657,000 |
| Change in net assets | 16,730,000 | 1,579,000 |
| Net assets, beginning of year | 196,075,000 | 194,496,000 |
| Net assets, end of year | $ 212,805,000 | $ 196,075,000 |

## Note 12 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2017, comprise the following:

| | |
|---|---|
| Cash and cash equivalents | $ 137,769,000 |
| Investments | 665,499,000 |
| Other assets | 3,205,000 |
| | $ 806,473,000 |

In the calculation of financial assets, the Foundation includes the portion of the Permanent Legacy Fund that is available for expenditure per the Foundation's spending policy (Note 9). The Foundation also includes assets from Donor Advised Funds and Support Foundations because these do not have donor restrictions and are available to meet the Foundation's general expenditures, which are predominately consist of grants (Note 13). Donor-restricted endowment funds are not considered to be available for general expenditures.

The Foundation has established an operating reserve and reviews its funding level on an ongoing basis to ensure it is adequate. The Foundation invests cash in excess of daily requirements in U.S. government securities and other short-term investments, certificates of deposit, and money market funds.

## Note 13 – Functional Expenses

The following table presents the Foundation's expenses by program or supporting function for the year ended December 31, 2017:

| | | Support Services | | | |
|---|---|---|---|---|---|
| | **Program** | **Management and General** | **Development** | **Total Support Services** | **Total** |
| Grants and distributions | $ 100,183,000 | $ - | $ - | $ - | $ 100,183,000 |
| Personnel | - | 2,624,000 | 1,901,000 | 4,525,000 | 4,525,000 |
| Other | - | 2,812,000 | 734,000 | 3,546,000 | 3,546,000 |
| | $ 100,183,000 | $ 5,436,000 | $ 2,635,000 | $ 8,071,000 | $ 108,254,000 |

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Foundation allocates expenses on the basis of estimates of time and effort.