

**COMMUNITY FOUNDATION FOR THE
FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS**

FINANCIAL STATEMENTS

Year Ended June 30, 2016

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5 - 6
Notes to Financial Statements	7 - 24

INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Foundation for the Fox Valley Region, Inc. and Supporting Organizations
Appleton, Wisconsin

We have audited the accompanying consolidated financial statements of Community Foundation for the Fox Valley Region, Inc. and Supporting Organizations, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 Community Foundation for the Fox Valley Region, Inc. and Supporting Organizations as of June 30, 2016 and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Community Foundation for the Fox Valley Region, Inc. and Supporting Organizations' 2015 consolidated financial statements, and our report dated September 15, 2015, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "Schenck DC". The signature is written in a cursive, flowing style.

Certified Public Accountants

Appleton, Wisconsin
September 13, 2016

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016

With Comparative Totals as of June 30, 2015

ASSETS	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,677,265	\$ 1,369,870
Certificates of deposit	936,409	-
Contributions receivable	3,624,955	1,802,220
Collateral under securities lending program	39,057,293	31,887,895
Investments	246,400,006	253,688,425
Cash value of life insurance	899,002	857,666
Property and equipment, net	4,424,800	4,540,983
Capital lease receivable	312,243	398,643
Other assets	<u>151,493</u>	<u>114,355</u>
 Total assets	 <u>\$ 297,483,466</u>	 <u>\$ 294,660,057</u>
 LIABILITIES AND NET ASSETS		
Grants payable	\$ 1,706,237	\$ 2,178,393
Note payable	22,726	105,599
Capital lease obligation	112,203	86,225
Payable under securities lending program	39,064,722	31,893,287
Charitable gift annuity payable	862,367	947,515
Other liabilities	696,990	509,234
Deferred interest income	-	3,539
Funds held for others	<u>42,730,334</u>	<u>39,479,400</u>
 Total liabilities	 <u>85,195,579</u>	 <u>75,203,192</u>
Net assets:		
Unrestricted	207,470,713	216,224,151
Temporarily restricted	<u>4,817,174</u>	<u>3,232,714</u>
 Total net assets	 <u>212,287,887</u>	 <u>219,456,865</u>
 Total liabilities and net assets	 <u>\$ 297,483,466</u>	 <u>\$ 294,660,057</u>

See notes to consolidated financial statements.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
<u>Support and other revenue</u>				
Total contributions raised	\$ 25,595,438	\$ 3,396,338	\$ 28,991,776	\$ 27,478,996
Less amounts received on behalf of others	<u>(7,002,066)</u>	<u>-</u>	<u>(7,002,066)</u>	<u>(4,425,335)</u>
Contributions, net	18,593,372	3,396,338	21,989,710	23,053,661
Loss on investments	(11,497,832)	(68,239)	(11,566,071)	(883,409)
Investment income	3,812,251	-	3,812,251	4,247,824
Winagamie income	767,148	-	767,148	682,947
Administrative fee income from funds held for others	196,344	-	196,344	192,821
Net assets released from restrictions	<u>1,743,639</u>	<u>(1,743,639)</u>	<u>-</u>	<u>-</u>
Total support and other revenue	<u>13,614,922</u>	<u>1,584,460</u>	<u>15,199,382</u>	<u>27,293,844</u>
<u>Grants and expenses</u>				
Total grants made	19,167,393	-	19,167,393	16,287,944
Less grants made on behalf of others	<u>(2,394,570)</u>	<u>-</u>	<u>(2,394,570)</u>	<u>(1,598,070)</u>
Grants expense, net	16,772,823	-	16,772,823	14,689,874
Other program expenses	1,373,987	-	1,373,987	1,292,340
Management and general:				
Investment manager fees	1,700,638	-	1,700,638	1,610,284
Administrative expenses	1,215,032	-	1,215,032	1,242,957
Winagamie expenses	813,859	-	813,859	807,379
Fundraising expenses	<u>492,021</u>	<u>-</u>	<u>492,021</u>	<u>434,156</u>
Total grants and expenses	<u>22,368,360</u>	<u>-</u>	<u>22,368,360</u>	<u>20,076,990</u>
Change in net assets	(8,753,438)	1,584,460	(7,168,978)	7,216,854
<u>Net assets</u>				
Beginning of year	<u>216,224,151</u>	<u>3,232,714</u>	<u>219,456,865</u>	<u>212,240,011</u>
End of year	<u>\$ 207,470,713</u>	<u>\$ 4,817,174</u>	<u>\$ 212,287,887</u>	<u>\$ 219,456,865</u>

See notes to consolidated financial statements.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
<u>Operating activities</u>		
Change in net assets	\$ (7,168,978)	\$ 7,216,854
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on investments	11,566,071	883,409
Loss on disposal of equipment	-	218
Depreciation	212,971	212,315
Noncash contributions	(50,700)	(549,041)
Decrease (increase) in:		
Contributions receivable	(1,822,735)	4,153,398
Other assets	(37,138)	(7,638)
Increase (decrease) in:		
Grants payable	(472,156)	(966,434)
Charitable gift annuity payable	(85,148)	(56,464)
Other liabilities	187,756	55,493
Funds held for others	<u>3,250,934</u>	<u>2,913,980</u>
Net cash provided by operating activities	<u>5,580,877</u>	<u>13,856,090</u>
<u>Investing activities</u>		
Collection of capital lease receivable	82,861	76,848
Purchase of certificates of deposit	(936,409)	-
Purchase of property and equipment	(51,137)	(28,684)
Proceeds from sale of investments	167,271,253	188,300,924
Purchases of investments	<u>(171,537,504)</u>	<u>(201,232,554)</u>
Net cash used for investing activities	<u>(5,170,936)</u>	<u>(12,883,466)</u>
<u>Financing activities</u>		
Payments on capital lease obligations	(19,673)	(5,078)
Payments on note payable	<u>(82,873)</u>	<u>(729,284)</u>
Net cash used for financing activities	(102,546)	(734,362)
<u>Cash and cash equivalents</u>		
Net increase	307,395	238,262
Beginning of year	<u>1,369,870</u>	<u>1,131,608</u>
End of year	<u>\$ 1,677,265</u>	<u>\$ 1,369,870</u>

See notes to consolidated financial statements.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENT OF CASH FLOWS, CONTINUED
Year ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
<u>Supplemental cash flow information</u>		
Cash paid for interest	\$ 7,722	\$ 17,592
<u>Non-cash investing and financing activities</u>		
Collateral received (returned) under securities lending program in exchange for increase (decrease) in payable under securities lending program, net	\$ 7,171,435	\$ (4,587,161)
Contributions of real estate investments	50,700	1,199,600
Note payable assumed with contribution of real estate investment	-	650,559
Equipment acquired under capital leases	45,651	91,303

See notes to consolidated financial statements.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2016

Note 1 - Nature of activities and significant accounting policies

A. Nature of activities

Community Foundation for the Fox Valley Region, Inc. and Supporting Organizations (the Foundation) is a not-for-profit organization consisting of a community foundation and eight supporting organizations. The Foundation's stated purpose is to serve a broad range of philanthropic interests benefiting the communities in the Fox Valley and surrounding area. The Foundation is supported primarily through donor contributions.

The Community Foundation was established in 1986 to enhance the quality of life for all citizens of the Fox Valley region by using funds entrusted to the Foundation's stewardship to address community problems and opportunities. Its mission, therefore, is:

- To act as a vehicle to receive and manage philanthropic assets created by charitable gifts and bequests from individuals, foundations and corporations;
- To make prudent, sensitive and creative grants, both restricted and unrestricted, to address the changing needs of the communities which it serves;
- To exercise leadership and act as a catalyst in the identification and the sharing of information with other foundations, corporations and organizations in the nonprofit and public sectors regarding important community problems and opportunities.

The supporting organizations are:

Appleton Education Foundation, Inc. (AEF), established in 1997 by parents and community leaders to improve the wellbeing of children, teachers and the community by enhancing the quality of education. Grants support creative projects in reading, science, math, fine arts and more that would not otherwise be possible because of district budget limitations. In December 2013, AEF received a gift of all of the stock of Winagamie Golf Course and made the entity a wholly owned (for profit) subsidiary. The golf course continues to operate as a public golf course and is also used as a hands-on learning facility for hundreds of local students through classes provided by the Appleton Area School District and Fox Valley Technical College.

Community Real Estate and Personal Property Foundation, Inc., established in 2004 to promote philanthropy by the acceptance and disposition of real estate and personal property for charitable purposes.

Robert & Patricia Endries Family Foundation, Ltd., established in 2005 to benefit their family's charitable interests.

Mielke Family Foundation, Inc., established in 1963 by Dr. Edward F. Mielke and his wife, Beula, to enhance the quality of life for residents of Appleton and Shawano and support arts and culture, health care, education and care for the aged. In 1996, it reorganized to become a supporting organization within the Community Foundation for the Fox Valley Region, Inc.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 1 - Nature of activities and significant accounting policies, continued

A. Nature of activities, continued

Doug & Carla Salmon Foundation, Inc., established in 2002 to support the couple's charitable interests, which include educational scholarships and not-for-profit organizations that serve needy residents in the Fox Valley.

William & Barbara Schmidt Family Foundation, Inc., established in 1997 to benefit their family's charitable interests.

Myra M. & Robert L. Vandehey Foundation, Ltd., established in 1989 to support the couple's charitable interests. In 2004, it reorganized to become a supporting organization within the Community Foundation for the Fox Valley Region, Inc.

Women's Fund for the Fox Valley Region, Inc., established in 2005 to create, promote and support programs that help women and girls manage and enhance their lives.

B. Consolidated financial statements

The financial statements include the accounts of the Community Foundation for the Fox Valley Region, Inc., the supporting organizations listed above and AEF's wholly owned subsidiary. The supporting organizations are separately incorporated charitable organizations that are administered by the Foundation. AEF's wholly owned subsidiary is separately incorporated as a taxable entity and is administered independently with AEF's oversight. The financial statements are consolidated since the Community Foundation has both an economic interest in the supporting organizations and control of the supporting organizations through a majority voting interest in their governing boards. All significant inter-organizational transactions and accounts have been eliminated.

C. Basis of accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

D. Basis of presentation

The Foundation is required to report information regarding its net assets and its activities in the following three classes of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Foundation.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 1 - Nature of activities and significant accounting policies, continued

D. Basis of presentation, continued

The Foundation has no permanently restricted net assets as discussed below.

Accounting principles generally accepted in the United States of America provide that, if a governing body of an organization has the unilateral power to redirect the use of a donor's contribution to another beneficiary, such contributions must be classified as unrestricted net assets. The Board of Directors of the Foundation has that ability (variance power); however, they would intend to exercise this authority only if the stated purpose of a contribution becomes no longer applicable and incapable of fulfillment. Accordingly, the Foundation's financial statements classify substantially all funds, including the principal of endowment funds, as unrestricted net assets, but segregate for internal management and endowment recordkeeping the portion that is held as endowment from the funds that are currently available for grants. In addition, to ensure that the Foundation observes the limitations and restrictions placed on the funds by the donors, the accounts of the Foundation are managed as individual charitable funds.

E. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

F. Cash equivalents

For purposes of the consolidated statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less, except those held by investment managers, to be cash equivalents.

G. Contributions receivable

Unconditional promises to give are recognized as revenue and as assets in the period the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Intentions to give are not recognized as revenue unless they are legally enforceable.

H. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the consolidated statement of financial position. Quoted market prices in active markets are used as the basis for measurement.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 1 - Nature of activities and significant accounting policies, continued

H. Investments, continued

Investments in funds that do not have readily determinable fair values including private investment funds, hedge funds, real asset funds, and private equity funds are recorded at their net asset value as provided by the external investment managers. The valuations for these investments necessarily involve estimates, appraisal, assumptions and methods which are reviewed by management.

Other investments, such as investments in real estate and closely held partnerships, are recorded at the lower of the fair value as of the dates the investments were donated to the Foundation (cost) or market. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statement of activities.

I. Investment manager fees

For investments that report earnings to the Foundation net of investment manager fees, the Foundation calculates and records an estimated fee based on information provided by the fund managers.

J. Fair value of financial instruments

The Foundation has a number of financial instruments, none of which are held for trading purposes. The Foundation estimates that the fair value of all financial instruments at June 30, 2016 does not differ materially from the aggregate carrying values of all financial instruments recorded in the accompanying consolidated statement of financial position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies.

K. Derivative financial instruments

The Foundation owns derivative instruments in its portfolio in an indirect way through investments in commingled pools. The underlying portfolio managers of these pools may use derivative instruments to gain financial exposure to individual commodities or to manage currency or duration risk of an actual portfolio of stocks or bonds owned in the respective portfolios they manage. The use of derivative instruments allows the Foundation's portfolio to be fully invested with no more risk than if the cash were actually invested in physical commodities, stocks or bonds.

L. Property, equipment and depreciation

All acquisitions and improvements of property and equipment in excess of \$5,000 are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the assets.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 1 - Nature of activities and significant accounting policies, continued

M. Funds held for others

In accordance with accounting standards, if a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself as the beneficiary of that fund, the Foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency funds.

The Foundation maintains legal ownership of agency funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with this standard, a liability has been established for the fair market value of the funds.

N. Contribution recognition

Unconditional contributions are recognized as revenue when they are promised or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Foundation.

O. Spending policy

The Community Foundation for the Fox Valley Region, Inc. has adopted a spending policy for the endowment funds. There are certain funds that, based upon the donor's intent, are not subject to this spending policy. Under the spending policy, the amounts distributed for grants are determined independent of the cash yield and appreciation of investments in that year. The Community Foundation has adopted this spending policy to stabilize annual spending levels and to preserve the real value of the fund portfolio over time. Currently, the spending policy calls for distributions to be 5% of the market value of the fund, which is based on an average daily value over the most recent 3-year period ending December 31. Money not distributed during the current fiscal year is carried forward and added to the next year's amount available for distribution.

Some of the supporting organizations have adopted their own spending policies. These policies are similar to the Community Foundation's policy but have different distribution rates. Currently the distribution rates under these policies range from 4% - 6% of the market value of the fund.

P. Promotion costs

Promotion costs are charged to activities when incurred. Promotion expense for the year ended June 30, 2016 was approximately \$69,000.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 1 - Nature of activities and significant accounting policies, continued

Q. Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in Note 12. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

R. Income tax status

The Community Foundation for the Fox Valley Region, Inc. and the Supporting Organizations are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organizations qualify for the charitable contribution deduction and have been classified as organizations other than private foundations. All of the Organizations are also exempt from Wisconsin income taxes. However, the Organizations are subject to income taxes on any unrelated business taxable income, pursuant to Section 511(a).

Winagamie, Inc. is a separately incorporated C-Corporation and is subject to Federal and Wisconsin income taxes based on its taxable income. No income tax provision has been recorded in the consolidated financial statements because management has determined the provision to be an immaterial amount.

S. Summarized comparative information

The financial statements include certain summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

T. Subsequent events

The Foundation has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 13, 2016 the date on which the financial statements were available to be issued.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 2 - Contributions receivable

Contributions receivable are primarily due from individuals and organizations located in the Fox Valley region. Unconditional contributions receivable as of June 30, 2016 consists of:

Receivable in less than one year	\$ 2,457,458
Receivable in one to five years	204,129
Receivable in more than five years	<u>1,535,168</u>
Total contributions receivable	4,196,755
Less discount at rates of 3% to 8%	<u>(571,800)</u>
Present value of contributions receivable	<u>\$ 3,624,955</u>

An allowance for uncollectible amounts was deemed not necessary by management.

Note 3 - Investments

Investments at June 30, 2016 consist of the following:

Money market funds	\$ 13,771,096
Equities	138,282,079
Fixed income	50,821,236
Hedge funds	26,809,944
Real assets	6,800,999
Real estate	6,048,724
Private equity	<u>931,400</u>
Total investments recorded at fair value	243,465,478
Other - recorded at lower of cost or market	<u>2,934,528</u>
Total	<u>\$ 246,400,006</u>

Loss on investments for the year ended June 30, 2016 consists of the following:

Net realized and unrealized losses on investments recorded at fair value	\$ (11,447,121)
Net realized and unrealized losses on investments carried at lower of cost or market	<u>(118,950)</u>
	<u>\$ (11,566,071)</u>

Investment strategy – endowment funds

The Foundation's investment strategy for endowment funds incorporates a diversified asset allocation approach to earn a sufficient long-term return with as little volatility as possible while preserving the purchasing power of the assets after withdrawals. Given an inflation assumption of 2%, fees of 1%, and a spending policy of 5%, the long-term return goal of the Foundation is at least 8%.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 3 - Investments, continued

As a long-term investor, the Foundation may experience short-term fluctuations in the fair value of its investments due to volatility in the stock market. Marketable and private investments are exposed to various risks that may cause the reported value of the Foundation's investment assets to fluctuate from period to period and result in a material change to the net assets of the Foundation. The following issues are significant factors in the prudent allocation of the Foundation's assets:

- In order to achieve a rate of return that will support the spending policy while protecting the assets from inflation, the Foundation must be willing to take some investment risk with respect to the investment portfolio.
- The investment committee believes that the most effective way to establish an appropriate volatility level for the portfolio is through its asset allocation (i.e. stocks, bonds and cash). Long term investment return and volatility depend on the Portfolio's strategic asset allocation. In consultation with its external investment consultant, a strategic asset allocation policy has been adopted which best balances the opportunity for achieving the investment return objectives as set forth in this Policy with an acceptable volatility level.
- The Foundation believes there is significant evidence that long-term investors do not benefit from attempting to earn returns through short-term asset class forecasts or market timing. As a result, the Foundation has adopted a strategic long-term asset allocation for its Portfolio. Over time, the Portfolio will remain invested in percentages that are fairly close to those called for in the strategic allocation.
- The Foundation strongly believes in the long-term benefits of diversifying its Portfolio into a number of different asset classes and investment strategies. While each asset class and strategy is carefully selected, the focus of the investment process is always on the overall Portfolio.
- In order to achieve the long-term benefits of a widely diversified Portfolio, the Foundation has adopted strategic targets for each asset class that it utilizes. The Foundation expects that the Portfolio weight for each class will remain within minimum and maximum percentages.
- Within each asset class, the Foundation seeks to earn the most efficient rate of return possible (after investment expenses). Investments will be well diversified by investment style and strategy. Style/strategy diversification will increase the probability over five to seven-year time periods that the Foundation will achieve its investment goals and reduce volatility. The Foundation has adopted specific requirements and restrictions for each asset class.

Investment strategy – non-permanent funds

The Foundation's investment strategy for non-permanent funds involves an effort to align the non-permanent funds with related grant-making plans. The Board has established three separate pools from which a fund may be invested in – short-term pool, intermediate-term pool and long-term pool. The purpose of the short-term pool is to provide a high level of liquidity for funds with short-term grant making strategies. The purpose of the intermediate-term pool is to balance mild liquidity needs with a reasonable level of expected appreciation over full market cycles. The purpose of the long-term pool is to mimic the endowment strategy as close as possible with the intention of maintaining assets within the pool for a long time frame.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 4 - Property and equipment

Property and equipment consist of the following as of June 30, 2016:

	<u>Golf course</u>	<u>Other</u>	<u>Total</u>
Land and land improvements	\$ 1,515,636	\$ 404,148	\$ 1,919,784
Buildings	897,283	2,291,308	3,188,591
Equipment	<u>346,520</u>	<u>563,292</u>	<u>909,812</u>
	2,759,439	3,258,748	6,018,187
Less accumulated depreciation	<u>315,725</u>	<u>1,277,662</u>	<u>1,593,387</u>
	<u>\$ 2,443,714</u>	<u>\$ 1,981,086</u>	<u>\$ 4,424,800</u>

Note 5 - Capital lease receivable

The Appleton Education Foundation, Inc. leases condominium space to the Appleton Area School District. The lease requires monthly payments of \$7,200 for a ten-year period ending August 31, 2016. The lease has been classified as a capital lease. The book value of the condominium and improvements totaled \$677,394 at the inception of the lease.

The components of the capital lease at June 30, 2016 are as follows:

Total minimum lease payments to be received	\$ 12,243
Estimated residual value of leased property	<u>300,000</u>
Total capital lease receivable	<u>\$ 312,243</u>

Future minimum lease payments to be received under the capital lease during the year ended June 30, 2017 is \$12,243.

Subsequent to year end the lease was amended. Under the amended agreement the lease requires annual rental payments of approximately \$110,000. The amended agreement is effective from September 1, 2016 through August 31, 2021

Note 6 - Grants payable

The Foundation records unconditional grants payable when approved or when the recipient is notified. Grants subject to conditions or renewal terms are not recorded until the conditions or renewal terms are substantially met.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 6 - Grants payable, continued

Unconditional grants approved by the Foundation directors as of June 30, 2016 are scheduled for payment as follows:

Year ending <u>June 30,</u>	
2017	\$ 675,990
2018	513,383
2019	360,000
2020	<u>209,864</u>
Total grants payable	1,759,237
Less discount at a rate of 3.0%	<u>(53,000)</u>
Present value of grants payable	<u>\$ 1,706,237</u>

Conditional grants payable as of June 30, 2016 totaled approximately \$2,254,475.

Note 7 - Note payable

The Appleton Education Foundation, Inc. has a 5.09% note payable to Fidelity National Bank. The note is due in monthly installments of \$7,200 including interest through July 5, 2016. The balance at June 30, 2016 was \$22,726.

Interest expense for the year ended June 30, 2016 was \$3,526.

Note 8 - Lines of credit

The Community Foundation for the Fox Valley, Inc. has a line of credit with Associated Bank, N.A. for \$1,000,000. The line is secured by the assets of the Foundation with an interest rate of LIBOR plus 2%. At June 30, 2016, there was no outstanding balance on this line of credit. Unpaid interest and principal is due October 31, 2016.

The Community Real Estate and Personal Property Foundation, Inc. has a line of credit with Associated Bank, N.A. for \$200,000 with an interest rate of LIBOR plus 2%. At June 30, 2016, there was no outstanding balance on this line of credit. Unpaid interest and principal is due October 31, 2016. The Community Foundation for the Fox Valley, Inc. is the guarantor for any outstanding balances on this line of credit.

There was no interest expense incurred with the lines of credit during the year ended June 30, 2016.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 9 - Capital leases obligation

Winagamie, Inc. leases certain equipment under capital leases. The following balances are included in the statement of financial position for these leases as of June 30, 2016:

Property and Equipment	\$ 137,619
Less accumulated depreciation	<u>22,813</u>
Net equipment	<u>\$ 114,806</u>
Capital lease obligations	<u>\$ 112,203</u>

Depreciation charged to operations relating to capital leases amounted to \$15,511 for the year ended June 30, 2016.

Future minimum lease payments under capital leases as of June 30, 2016 are as follows:

Year ending <u>June 30,</u>	
2017	\$ 31,376
2018	32,139
2019	30,158
2020	21,123
2021	<u>7,374</u>
Total minimum lease payments	122,170
Less amount representing interest	<u>9,967</u>
Present value of net minimum lease payments	<u>\$ 112,203</u>

Note 10 - Charitable gift annuity agreements

The Foundation has entered into charitable gift annuity agreements with donors whereby in exchange for the gift from the donor, the Foundation is obligated to provide an annuity to the donor or other designated beneficiaries over a specified number of years. A liability is recognized for the estimated present value of the annuity obligation and the assets are recorded at their fair value for agreements where the Foundation is the trustee. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. At June 30, 2016, the Foundation has assets of \$2,054,586 included in investments and liabilities of \$862,367 in association with the charitable gift annuities. During the year ended June 30, 2016, the Foundation recorded a contribution totaling \$5,543 from a new charitable gift annuity contract. In addition, the Foundation recorded changes in the value of charitable gift annuities totaling (\$68,239), which are included in loss on investments in the consolidated statement of activities.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 11 - Temporarily restricted net assets

Temporarily restricted net assets as of June 30, 2016 consist of following time restrictions:

Contributions receivable	\$ 3,624,955
Charitable gift annuities	<u>1,192,219</u>
	<u>\$ 4,817,174</u>

Note 12 - Functional classification of expenses

Expenses by function for the year ended June 30, 2016 were as follows:

Total grants and other program expenses	\$ 20,541,380
Less grants made on behalf of others	<u>(2,394,570)</u>
Net grants and other program related expenses	18,146,810
Management and general expenses	3,729,529
Fundraising expenses	<u>492,021</u>
	<u>\$ 22,368,360</u>

Note 13 - Operating lease (lessor)

The Community Real Estate and Personal Property Foundation, Inc. leases condominium space to two unrelated organizations under operating leases expiring in December 2019. The leased assets, which have a cost of approximately \$1,445,000 and accumulated depreciation of \$272,000 at June 30, 2016, are included in property and equipment on the consolidated statement of financial position.

Minimum future rental income to be received on the leases is as follows:

Year ending <u>June 30,</u>	
2017	\$ 119,467
2018	121,396
2019	123,363
2020	<u>56,478</u>
	<u>\$ 420,704</u>

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 14 - Retirement plan and deferred compensation

The Foundation has a 401(k) plan that covers substantially all employees of the Foundation. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Foundation made contributions of approximately \$54,000 to the plan during the year ended June 30, 2016.

The Foundation provides deferred compensation benefits for its officers under two 457 plans. One of the plans is funded with a life insurance policy on an employee covered by the plan. The amount charged to expense under the plans was approximately \$47,000 during the year ended June 30, 2016.

Note 15 - Securities lending

Through a securities lending program, managed by its investment custodian, the Foundation loans certain marketable securities included in its investment portfolio. Securities loaned under this program totaled \$38,239,650 at June 30, 2016. The Foundation's investment custodian has indemnified the Foundation against the counterparty risk. The custodian's loan agreements require the borrowers to maintain collateral in the form of cash or securities equal to 102% to 105% of the fair value of the securities loaned. The collateral received and payable under the securities lending program totaled \$39,064,722 at June 30, 2016. The collateral is pooled and invested by the investment custodian in accordance with prescribed investment guidelines and is comprised of mainly cash equivalents, corporate bonds, and asset backed securities with a rating of A or better. The value of these investments totaled \$39,057,293 at June 30, 2016. The difference between the collateral received and payable and the value of the investments represents an unrealized loss of \$7,429. Management expects to recover these losses as the underlying investments in the collateral pool mature.

The Foundation shares in the profit earned on the collateral pool. During the year ended June 30, 2016, the Foundation's share of these earnings totaled \$134,194. The earnings are included in investment income on the consolidated statement of activities.

The Foundation has adopted a policy to record all income and losses associated with the securities lending program to the Foundation's operating accounts. None of the income or loss is allocated to donor established funds within the Foundation or the Supporting Organizations.

Valuations of the collateral investments are provided to the Foundation by the custodian. For purposes of determining the values of collateral investments reflected on the consolidated statement of financial position, the custodian uses quotations from an independent pricing service approved by the custodian. The pricing service may employ methodologies that utilize actual market transactions, actual quotations from broker-dealers, or other formula-driven valuation techniques, which consider factors such as yields or prices of bonds of comparable quality, type of issue, coupon, maturity, ratings, and general market conditions. Securities for which quotations are not readily available or deemed to be inaccurate are valued in good faith at estimated fair value under methods approved by the Securities Lending Policy Committee, which ultimately reports to the custodian's board of directors. In determining fair value, the custodian takes into account all information available and any factors it deems appropriate, including quotations from third-party broker-dealers.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 15 - Securities lending, continued

The Foundation maintains control over the collateral and also continues to receive interest or dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loan will be applied to the account of the Foundation. The Foundation has the right under the lending agreement to recover the securities from the borrower on demand. The principal risks to the

Foundation of the securities lending program are that the yield earned on the collateral may be insufficient to cover the rebate owed to the borrower and that an investment purchased via the collateral reinvestment process may become impaired.

The Foundation can exit the securities lending program at any time after giving five days written notice to its investment custodian; however, additional exit losses apply if the collateral has to be sold when the collateral is in a loss position. At June 30, 2016, there are no additional exit losses.

Note 16 - Fair value measurements

Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures* clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements in financial statements. ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Foundation's market assumptions.

The fair value hierarchy specified by ASC 820 is as follows:

- Level 1 - Quoted prices in active markets for identical assets and liabilities.
- Level 2 - Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of a financial instrument is based on price transparency and does not necessarily correspond to the Foundation's perceived risk of the instrument.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07 (ASU 2015-07), *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, *Fair Value Measurement*, from categorization within the fair value hierarchy and certain related disclosures. This ASU requires presentation of the carrying amount of investments measured at the NAV practical expedient as a reconciling item

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 16 - Fair value measurements, continued

between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the financial statements. The guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Management elected to early adopt the provisions of this new standard and the amendment was applied to the June 30, 2016 financial statements.

The following table presents the major classes of assets and liabilities measured and recorded at fair value on a recurring basis as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments recorded at fair value:				
Money market funds	\$ 13,771,096	\$ -	\$ -	\$ 13,771,096
Equities:				
Large Cap Core	46,920,454	-	-	46,920,454
Large Cap Value	8,673,316	-	-	8,673,316
Large Cap Growth	12,973,698	-	-	12,973,698
Small Cap	12,931,635	-	-	12,931,635
International	20,164,972	-	-	20,164,972
Emerging Markets	1,378,401	-	-	1,378,401
Equities measured at net asset value*	-	-	-	35,239,603
Fixed income:				
Core	30,872,637	-	-	30,872,637
Inflation Protected Securities	81,387	-	-	81,387
Global	654,148	-	-	654,148
High Yield	1,273,750	-	-	1,273,750
Fixed income measured at net asset value *	-	-	-	17,939,314
Hedge funds measured at net asset value*	-	-	-	26,809,944
Real assets:				
Liquid	843,043	-	-	843,043
Real assets measured at net asset value*	-	-	-	5,957,956
Real estate	888,150	-	-	888,150
Real estate measured at net asset value*	-	-	-	5,160,574
Private Equity measured at net asset value*	-	-	-	931,400
	<u>151,426,687</u>	<u>-</u>	<u>-</u>	<u>243,465,478</u>
Total investments recorded at fair value				
Collateral under securities lending	<u>-</u>	<u>39,057,293</u>	<u>-</u>	<u>39,057,293</u>
Total assets recorded at fair value	<u>\$ 151,426,687</u>	<u>\$ 39,057,293</u>	<u>\$ -</u>	<u>\$ 282,522,771</u>
Charitable gift annuity payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 862,367</u>	<u>\$ 862,367</u>

*In accordance with Subtopic 820-10, certain investments that were measured at 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 line items presented in Note 3.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 16 - Fair value measurements, continued

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

The following is a reconciliation of beginning and ending balances for liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2016:

	<u>Charitable Gift Annuity Payable</u>
Beginning balance - July 1, 2015	\$ 947,515
Issuances	4,457
Annuity payments	(161,682)
Change in value	<u>72,077</u>
Ending balance - June 30, 2016	<u>\$ 862,367</u>

The Foundation holds several investments in funds that do not have readily determinable fair values including private investment funds, hedge funds, real asset funds, real estate and private equity funds. These funds are reported on the consolidated statement of financial position at their net asset value. The fund managers provide the Foundation the net asset values of the funds each month. The funds are audited annually by fund's independent auditors. As permitted by ASC 820, the Foundation has concluded that the net asset values reported by the underlying funds are a practical expedient to fair value. Although secondary markets exist for these investments, they are not active and individual transactions are typically not observable. When transactions do occur in this limited market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Foundation were to sell these investments in the secondary market a buyer may require a discount to the reported net asset value, and the discount could be significant.

A few of these funds (representing approximately three percent of the investment balance) report their net asset values to the Foundation on a three-month lag. As such, the Foundation used the March 31, 2016 net asset values as an estimate of the June 30, 2016 values. Management believes the differences in fair value would be immaterial to the consolidated financial statements. Changes in estimated fair value are recognized in the period in which the actual net asset values are determined.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 16 - Fair value measurements, continued

The following table provides additional information for investments using net asset value as a practical expedient to fair value at June 30, 2016:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equities:				
International (a)	\$ 21,157,893	\$ -	monthly	5 - 10 days
Emerging Markets (b)	14,081,710	-	monthly	10 days
Fixed Income:				
Global (c)	7,998,072	-	monthly	N/A
Leveraged Loans (d)	4,824,166	-	monthly	30 days
High Yield (e)	5,117,076	-	monthly	90 days
Hedge Funds (f)	26,809,944	-	monthly, quarterly, semi- annually, annually	45 -90 days
Real Assets:				
Liquid (g)	4,201,694	-	monthly	N/A
Non-liquid (h)	1,756,262	1,954,494	N/A	N/A
Real Estate (i)	5,160,574	2,251,706	N/A	N/A
Private Equity (j)	<u>931,400</u>	<u>93,863</u>	N/A	N/A
Totals	<u>\$ 92,038,791</u>	<u>\$ 4,300,063</u>		

- (a) This class includes investments in a commingled fund that invests in equities domiciled outside of the US. The underlying holdings of this fund are liquid and marketable.
- (b) This class includes investments in a commingled fund that invests in equities in emerging market countries. The underlying holdings of this fund are liquid and marketable.
- (c) This class includes investments in a commingled fund that invests in government bonds throughout the world, with the majority being outside of the U.S. The fund will also hedge currencies and may do so with the use of futures.
- (d) This class includes investments in a commingled fund that invests in senior secured, floating-rate debt.
- (e) This class includes investments in commingled funds with fund of funds investors investing in U.S. high-yield bonds. The investment in this class cannot be redeemed in the first year after acquisition.
- (f) This class includes investments in hedge funds with fund of funds investors investing primarily in long/short equity investing. Investments in this class cannot be redeemed in the first one to three years after acquisition.
- (g) This class includes investments in commingled funds with fund of funds investors investing primarily in publicly traded mutual funds. Underlying funds invests in equities, commodity markets and fixed income securities.

COMMUNITY FOUNDATION FOR THE FOX VALLEY REGION, INC.
AND SUPPORTING ORGANIZATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Year Ended June 30, 2016

Note 16 - Fair value measurements, continued

- (h) This class includes investments in commingled funds and limited partnerships investing in commodities and energy related companies. The underlying holdings are ill-liquid.
- (i) This class includes investments in commingled funds and a limited partnership investing in private real estate. The assets in this class are expected to be ill-liquid for a period of 8 to 10 years.
- (j) This class includes investments in two private equity funds. One fund representing approximately 30 percent of this class invests in U.S. business service and manufacturing companies and the second fund invests in non-U.S. companies. These investments cannot be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. The assets in this class are expected to be ill-liquid for a period of 8 to 10 years.

Note 17 - Concentration of credit risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. The Foundation places substantially all of its cash and cash equivalents with two financial institutions, which at times exceed federally insured limits. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.