

November 8, 2017

To the Audit Committee and Board of Directors of
the Community Foundation of Western Nevada,
Incorporated and Subsidiaries
50 Washington Street, Ste 300
Reno, Nevada 89503

We have audited the consolidated financial statements of the Community Foundation of Western Nevada, Incorporated and Subsidiaries (Foundation) for the year ended December 31, 2016, and have issued our report thereon dated November 8, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 28, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 1 to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Issues concerning significant estimates made by management include:

- Management's identification of and process for making significant accounting estimates.
- Risks of material misstatement.
- Indicators of possible management bias.
- Disclosure of estimation uncertainty in the financial statements.

The most significant estimates affecting your financial statements include:

- The market value of investments based upon quoted market costs, brokerage statements, or statements from investment managers and property appraisals.
- Estimated fair value of notes receivable and investments in LLC's.
- Depreciation expense based on the estimated useful lives of property and equipment.
- The functional allocation of expenses within and across programs.
- Value of the liability reflected for split-interest arrangements.
- Allowance for doubtful accounts.

We reviewed the process and basis for management's judgments and estimates impacting key accounting and financial reporting areas and concluded they are reasonable.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are those relating to investments and endowments.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We passed on recording an increase in the investments in the notes receivable and LLC ownerships and depreciation expense understated in the current year. Had those adjustments been made the change in net assets would have increased by approximately \$38,000. We did not propose any adjustments.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 8, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

New accounting standards have been issued which will change the way all not-for-profit organizations classify net assets and prepare financial statements. The significant changes include the categories for the classification of net assets; presentation and disclosure of underwater endowments; enhanced disclosure of board designated net assets; required utilization of the placed-in-service approach for releasing restrictions on long-lived assets; transparency of liquidity information; reporting financial performance measures; a net presentation of investment expenses against return; required analysis of expenses by both function and natural classification; and presentation of cash flow information. The new standards will be effective for fiscal years beginning after December 15, 2017, but early adoption is allowed. Additional changes are expected to be announced as the standards are implemented.



**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**

TABLE OF CONTENTS
DECEMBER 31, 2016

	<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
Notes to Consolidated Financial Statements	6-16
SUPPLEMENTARY INFORMATION	17
Consolidated Schedule of Functional Expenses	18

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Community Foundation of Western Nevada,
Incorporated and Subsidiaries

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Foundation of Western Nevada, Incorporated (a nonprofit organization) and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of Western Nevada, Incorporated and Subsidiaries as of December 31, 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

The December 31, 2015 consolidated financial statements of the Community Foundation of Western Nevada, Incorporated and Subsidiaries were audited by us and we expressed an unmodified opinion on those consolidated financial statements in our report dated September 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kohnstamper LLP
Reno, Nevada
November 8, 2017



**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015)

	2016	2015 (Memorandum Only)
Assets		
Cash and cash equivalents	\$ 13,586,587	\$ 10,901,633
Investments		
Current	58,889,705	49,281,831
Long-term	14,090,188	13,630,674
Other assets	2,050	13,276
Contributions receivable	879,123	130,919
Property and equipment, net	1,156,753	1,073,373
Investments held for split-interest agreements	3,915,001	1,667,219
Total Assets	\$ 92,519,407	\$ 76,698,925
Liabilities		
Accounts payable	\$ 55,183	\$ 295,538
Split-interest agreements	3,915,001	1,667,219
Accrued payroll	18,723	18,723
Grants payable	3,650,136	5,582,207
Funds held for others	9,213,115	7,268,099
Total Liabilities	16,852,158	14,831,786
Net Assets		
Unrestricted		
Designated	2,796,221	2,796,221
Undesignated	41,819,678	26,957,184
Temporarily restricted	19,905,619	21,123,385
Permanently restricted	11,145,731	10,990,349
Total Net Assets	75,667,249	61,867,139
Total Liabilities and Net Assets	\$ 92,519,407	\$ 76,698,925

See accompanying notes

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016				2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	(Memorandum Only)
Public support, revenue and transfers						
Contributions	\$ 12,772,144	\$ 5,125,391	\$ 1,139,944	\$ 19,037,479	\$ 10,029,210	
Rental income	108,726	-	-	108,726	125,726	
Investment income, net	3,187,645	-	-	3,187,645	(1,346,068)	
Change in the value of split-interest agreements	(182,468)	-	-	(182,468)	(618,889)	
Miscellaneous income	342,321	2,013	-	344,334	367,556	
Total public support and revenue	16,228,368	5,127,404	1,139,944	22,495,716	8,557,535	
Net assets released from restrictions and reclassifications	7,329,732	(6,345,170)	(984,562)	-	-	
Total public support, revenue, and transfers	23,558,100	(1,217,766)	155,382	22,495,716	8,557,535	
Expenses						
Program services and grants	8,107,107	-	-	8,107,107	5,853,987	
General and administrative	413,958	-	-	413,958	716,470	
Fundraising	174,541	-	-	174,541	217,424	
Total expenses	8,695,606	-	-	8,695,606	6,787,881	
CHANGE IN NET ASSETS	14,862,494	(1,217,766)	155,382	13,800,110	1,769,654	
Net assets, beginning of year	29,753,405	21,123,385	10,990,349	61,867,139	60,097,485	
Net assets, end of year	\$ 44,615,899	\$ 19,905,619	\$ 11,145,731	\$ 75,667,249	\$ 61,867,139	

See accompanying notes

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016	2015 (Memorandum Only)
Cash flows from operating activities		
Cash received from contributions, rent and royalties	\$ 12,530,281	\$ 5,526,886
Cash paid for gifts and grants	(9,575,532)	(6,740,804)
Cash received from investments	812,711	2,096,061
Cash received for fund administration	344,334	367,556
Cash paid for expenses	(1,281,274)	(1,062,134)
Received funds held for others, net	4,010,330	(882,506)
Net cash provided (used) by operating activities	<u>6,840,850</u>	<u>(694,941)</u>
Cash flows from investing activities		
Purchase of property and equipment	(8,282)	(113,297)
Payments for purchase of investments	(16,919,960)	(19,511,210)
Cash received from sale of investments	12,772,345	17,614,997
Net cash provided (used) by investing activities	<u>(4,155,897)</u>	<u>(2,009,510)</u>
Net increase (decrease) in cash and cash equivalents	2,684,953	(2,704,451)
Cash and cash equivalents, beginning of year	<u>10,901,633</u>	<u>13,606,084</u>
Cash and cash equivalents, end of year	<u>\$ 13,586,586</u>	<u>\$ 10,901,633</u>
Reconciliation of change in net assets to net cash used by operating activities		
Change in net assets	\$ 13,800,110	\$ 1,769,654
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	(75,098)	213,986
Noncash contributions, net	(5,792,622)	(4,831,179)
Net realized and unrealized loss (gain) on investments	(2,374,934)	3,442,129
Loss on sale of property and equipment	-	2,343
Change in:		
Other assets	11,226	4,617
Contributions and pledges receivable	(748,204)	(13,200)
Accounts and pledges payable	(2,172,426)	(1,017,857)
Annuities payable and funds held for others	4,192,798	(263,617)
Accrued payroll	-	(1,817)
Net cash provided (used) by operating activities	<u>\$ 6,840,850</u>	<u>\$ (694,941)</u>
Supplemental disclosure		
Noncash investing activities		
Donation of real estate and stock held for investment	\$ 5,792,622	\$ 4,831,179
Cash paid for interest	\$ 6,511	\$ 8,799

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Community Foundation of Western Nevada, Incorporated and Subsidiaries, (Foundation) activities and significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Nature of Activities

The Foundation is organized as a nonprofit corporation under the laws of the State of Nevada to complement and enhance the existing philanthropic efforts of nonprofit organizations.

During 2000, the Foundation received a contribution of a limited liability company, CFX, LLC. This wholly-owned subsidiary has partial ownership in a leasehold, which is a building leased out to grocery stores in Tennessee.

During 2003, the Foundation established CFCP, LLC. This wholly-owned subsidiary was created for the purpose of receiving donated property.

During 2011, the Foundation established CFRSO, LLC. This wholly-owned subsidiary received varying fractional memberships of five separate LLCs. The memberships were created from the voluntary conversion of fractional ownership positions in direct investment loans as notes receivables secured by real estate. Currently they have all been converted to fractional interest in LLCs.

The Raymond C. Rude Supporting Foundation is a supporting organization for the Foundation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly-owned subsidiaries, CFX, LLC, CFCP, LLC and CFRSO, LLC and the Raymond C. Rude Supporting Foundation. All material intercompany accounts and transactions have been eliminated.

Classification of Net Assets

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*, requires the Foundation to report information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, based upon the existence or absence of donor-imposed restrictions.

The Articles of Incorporation of the Foundation include a variance provision giving the Board of Directors (the Board) the power to modify any restriction or condition placed on gifts to the Foundation if, in its sole judgment, the Board determined that the restriction becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community. The Foundation's governing documents further provide that, absent contrary directions given in the transferring instrument regarding the use of the principal, all or part of the principal of any fund may be used subject to certain conditions, including approval of the Board and Trustee holding each fund. Accordingly, such contributions are reported as unrestricted net assets.

Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time are designated as temporarily restricted. The Foundation's temporarily restricted net assets are primarily composed of contributions received for scholarships and specific areas of interest.

Permanently restricted net assets are subject to donor-imposed restrictions that will be maintained in perpetuity. The investment income generated by these assets is available for general support of the Foundation's programs and operations.

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For financial reporting purposes, the Foundation considers all money market and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Foundation maintains cash and money market balances in financial institutions which may, at times, exceed federally insured limits as insured by FDIC or SPIC Insurance. Although balances held in cash and cash equivalents at December 31, 2016 exceed the insurance limits by \$12,954,628, the Foundation has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk on cash funds.

Investments

Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price. Non-publicly traded stock is based upon an appraisal that is done on the stock once every five years.

Real estate investments are recorded at fair value determined by periodic appraisals which are obtained as deemed necessary based upon economic conditions and management discretion. LLC ownership values are based upon the assessed value of the property held less a blended discount rate of 30% for lack of marketability and minority interest. Notes receivable are valued on the lower of the assessed value of the property held as security against the note, less a blended discount rate of 30% for lack of marketability and minority interest or the original note value. For both the LLC ownership values and the notes receivable values, if actual information based on subsequent sale or comparable sale information is available, that value is deemed to be the fair value of the investment.

The fair value of other investments in hedge funds for which quoted market prices are not available is determined by management with the assistance of third-party investment managers in good faith using methods it considers appropriate. Securities are generally held in custodial investment accounts administered by certain financial institutions.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated on the underlying fair value of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investments are made according to the Investment Objectives and Policies adopted by the Foundation's Board. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. The Board contracts outside parties to provide investment management and consulting.

In general, investment securities are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the Consolidated Statements of Financial Position.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their face value, which approximates the estimated realizable value in the year made. Unconditional promises to give that are expected to be collected in future years are recorded as pledges receivable. The contribution receivables are considered fully collectible by management; therefore, no allowance for doubtful accounts is included in the financial statements.

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Foundation capitalizes all expenditures of property and equipment in excess of \$1,000.

Purchased property and equipment are recorded at cost. Contributed property and equipment are recorded at fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets of three to thirty-nine years.

The Foundation evaluates the recoverability of its long-lived assets based on whether a particular asset is impaired. An asset is considered impaired if the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. Accordingly, the Foundation evaluates asset recoverability at each balance sheet date or when an event occurs that may impair recoverability of the asset.

Grants Payable

Grants and scholarships are made from available principal and income in accordance with the designations of donors. Grants are recorded at the date of approval by the Board or when a donor-advised grant award is communicated to the grantee.

Split-Interest Agreements

Obligations under split-interest agreements, including charitable remainder trusts and gift annuities, are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives of the beneficiaries or another specified period. Present values are determined using discount rates and actuarially determined expected lives. Split-interest agreements are revalued annually to reflect actual experience; the discount rate is not changed. The net revaluations, together with any remaining recorded obligations after all trust or gift obligations under terminated agreements have been satisfied, are recorded as net changes in the value of split-interest agreements.

Functional Expenses

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

Income Taxes

The Foundation is a nonprofit corporation exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3); therefore, no provision for income tax is provided. The Foundation has been classified as an organization that is not a private foundation and has been designated as a publicly-supported organization. CFX, LLC, CFCP, LLC and CFRSO, LLC are all considered single member LLC's and are disregarded entities for tax purposes. They are included in the information return of the Foundation. Tax positions to consider include, but are not limited to:

- It has not engaged in activities that would jeopardize its tax exempt status
- It has not engaged in any activities that would result in unrelated business income tax
- It has determined that there are no material uncertain tax positions that require recognition in the financial statements

Accordingly, no provision for income taxes has been made. In addition, the Foundation does not expect any material change in uncertain tax positions within the next twelve months.

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Contributed securities are recorded at averaged fair value at the date of donation.

Pension Plan

Employees may elect to participate in a Tax Sheltered Annuity (TSA) plan offered by the Foundation. The program is 50% funded by employees with a match provided by the Foundation of 50%. The program provided up to 8% of the employees' wages to be matched in 2016.

Subsequent Events

Subsequent events have been evaluated through November 8, 2017, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures 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.

Reclassification

Certain items on the 2015 issued consolidated financial statements have been reclassified to conform to the 2016 current year presentation.

NOTE 2 – INVESTMENTS

Total investments consist of the following at December 31:

	2016	2015
Mutual funds	\$ 47,082,585	\$ 39,538,586
Equity securities	10,116,170	8,057,141
Corporate bonds	4,182,341	2,785,281
Certificates of deposit	1,420,710	-
Life insurance policy	68,465	68,465
Real estate	2,417,251	2,407,091
Non-publicly traded stock	10,295,000	10,295,000
Notes receivable	2,900	568,042
LLC ownerships	1,301,472	852,118
Violin	8,000	8,000
	<u>\$ 76,894,894</u>	<u>\$ 64,579,724</u>

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 2 – INVESTMENTS (Continued)

Investments are included in the consolidated statement of financial position as follows:

Investments	2016	2015
Current	\$ 58,889,705	\$ 49,281,831
Long-term	14,090,188	13,630,674
Investments held for split-interest agreements	3,915,001	1,667,219
	<u>\$ 76,894,894</u>	<u>\$ 64,579,724</u>

Investment income consists of the following for the years ended December 31:

	2016	2015
Interest and dividends	\$ 1,415,877	\$ 1,937,084
Net realized and unrealized gains (losses)	1,989,633	(3,036,474)
Investment management fees	(217,865)	(246,678)
	<u>\$ 3,187,645</u>	<u>\$ (1,346,068)</u>

Generally accepted accounting principles requires disclosures regarding fair value measurements which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 category investments have active markets for identical investments as of the reporting date. Level 2 category investments have active markets for identical investments and may have lowered credit ratings, limited market, investment restrictions or other impediments. Level 3 category investments have little or no market activity for the asset or liability or use estimates and assumptions related to the pricing and/or valuation of the asset or liability.

Following is a summary of the changes in Level 3 investments for the years ended December 31:

	2016	2015
Beginning balance	\$ 11,635,721	\$ 12,059,605
Contributions	169,496	8,082
Investment income	-	-
Sale of investments	(205,845)	(431,966)
Ending balance	<u>\$ 11,599,372</u>	<u>\$ 11,635,721</u>

Investments are categorized by level as follows at December 31:

	2016			
	Level 1	Level 2	Level 3	Total
Recurring				
Mutual funds	\$ 38,075,384	\$ 9,007,201	\$ -	\$ 47,082,585
Equity securities	10,116,170	-	-	10,116,170
Corporate bonds	4,182,341	-	-	4,182,341
Certificates of deposit	-	1,420,710	-	1,420,710
Life insurance policy	-	68,465	-	68,465
	<u>52,373,895</u>	<u>10,496,376</u>	<u>-</u>	<u>62,870,271</u>
Nonrecurring				
Real estate	-	2,417,251	-	2,417,251
Non-publicly traded stock	-	-	10,295,000	10,295,000
Notes receivable	-	-	2,900	2,900
LLC ownerships	-	-	1,301,472	1,301,472
Violin	-	8,000	-	8,000
	<u>-</u>	<u>2,425,251</u>	<u>11,599,372</u>	<u>14,024,623</u>
	<u>\$ 52,373,895</u>	<u>\$ 12,921,627</u>	<u>\$ 11,599,372</u>	<u>\$ 76,894,894</u>

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 2 – INVESTMENTS (Continued)

	2015			
	Level 1	Level 2	Level 3	Total
Recurring				
Mutual funds	\$ 33,469,745	\$ 6,148,280	\$ -	\$ 39,618,025
Equity securities	8,057,141	-	-	8,057,141
Corporate bonds	2,785,281	-	-	2,785,281
Life insurance policy	-	68,465	-	68,465
	<u>44,312,167</u>	<u>6,216,745</u>	<u>-</u>	<u>50,528,912</u>
Nonrecurring				
Real estate	-	2,407,091	-	2,407,091
Non-publicly traded stock	-	-	10,295,000	10,295,000
Notes receivable	-	-	488,603	488,603
LLC ownerships	-	-	852,118	852,118
Violin	-	8,000	-	8,000
	<u>-</u>	<u>2,415,091</u>	<u>11,635,721</u>	<u>14,050,812</u>
	<u>\$ 44,312,167</u>	<u>\$ 8,631,836</u>	<u>\$ 11,635,721</u>	<u>\$ 64,579,724</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2016	2015
Software	\$ 34,434	\$ 34,434
Office equipment	44,869	36,588
Leasehold improvements	89,419	89,419
Rental property	1,829,296	1,829,296
	<u>1,998,018</u>	<u>1,989,737</u>
Less accumulated depreciation	(841,265)	(916,364)
	<u>\$ 1,156,753</u>	<u>\$ 1,073,373</u>

Depreciation expense for the year ended December 31, 2015 was reported in excess of the actual amounts. The adjustment to correct the overstated depreciation expense was corrected through the year ended December 31, 2016. The current year expense was \$68,609 and was corrected by \$143,707, netting to a negative expense of \$75,098 being reported in the year ended December 31, 2016.

NOTE 4 – SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist primarily of charitable gift annuities and irrevocable charitable remainder uni-trusts for which the Foundation serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenue for charitable gift annuities and charitable remainder uni-trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries.

The present value of payments to beneficiaries of charitable gift annuities and charitable remainder uni-trusts are calculated using discounted rates which represent the risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount rate are recorded as increases or decreases in the respective net assets in the Consolidated Statement of Activities.

Contributions received for split-interest agreements were \$1,903,540 and \$49,839 for the years ended December 31, 2016 and 2015, respectively.

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 5 – GRANTS PAYABLE

Pledges payable represent promises to give. Following are amounts scheduled to be paid at December 31:

		2016		2015
Due in one year	\$	2,729,239	\$	3,526,617
Due in two to five years		920,897		2,055,590
	\$	3,650,136	\$	5,582,207

NOTE 6 – LEASE TRANSACTIONS

The Foundation entered into a lease agreement to lease office space in Reno, Nevada through January 2022 with a starting monthly amount of \$4,313 per month, increasing annually. In addition, the Foundation leases a copier for \$213 per month. Rent expense, included in occupancy and office expense in the accompanying consolidated financial statements for these leases total \$55,722 and \$53,301 for the years ended December 31, 2016 and 2015, respectively.

Minimum future rental payments under the non-cancelable operating lease for the remaining term of the current lease and subsequent lease is as follows:

2017	\$	56,932
2018		58,292
2019		59,685
2020		59,835
2021		58,557
	\$	293,301

NOTE 7 – TRANSACTIONS IN FUNDS HELD FOR OTHERS

Financial activities related to agency funds are recorded as adjustments to the funds held for agencies' liabilities and, therefore, are not included in the consolidated statement of activities. The agency fund transactions are summarized below.

		2016		2015
Funds held for agencies, beginning of year	\$	7,268,099	\$	7,558,484
Additions				
Contributions		2,197,750		55,549
Investment returns		383,712		81,784
		2,581,462		137,333
Deductions				
Grant distributions		(567,285)		(365,752)
Investment expenses		(60,108)		(58,231)
Expenses to funds		(9,053)		(3,735)
		(636,446)		(427,718)
Change in balance		1,945,016		(290,385)
Funds held for agencies, end of year	\$	9,213,115	\$	7,268,099

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 8 – RESTRICTED NET ASSETS

Restricted net assets are to be held available for the following purposes as of December 31:

	<u>2016</u>	<u>2015</u>
Temporarily restricted		
Donor advised	\$ 6,797,800	\$ 5,628,979
Designated	10,167,403	12,918,490
Endowments	80,046	118,347
Scholarships	2,860,370	2,457,569
Total	<u>\$ 19,905,619</u>	<u>\$ 21,123,385</u>
Permanently restricted		
Donor advised	\$ 131,745	\$ 915,757
Designated	1,612,509	1,153,704
Endowments	7,315,547	7,360,043
Area of interest	138,839	12,000
Scholarships	1,947,091	1,548,845
Total	<u>\$ 11,145,731</u>	<u>\$ 10,990,349</u>

NOTE 9 – ENDOWMENT FUNDS

The Board of Trustees, adopted an internal spending plan allowing up to 5% to be available of the value of each fund as of the close of the last day of December. When initially established, each individual fund adopts a spending policy. In the absence of a specific policy, the Foundation's internal spending policy would be utilized in any instance in which variance provision of the individual funds utilized. The spending policies adopted by the funds are established to ensure the availability of grant making dollars to the community in perpetuity. The funds available for grant making are determined each year based on the previous year's ending balance.

The Foundation's endowment consists of funds established to finance grants and benefit various charities. Its endowment includes donor-restricted funds that are reflected as endowments and scholarships in the temporarily restricted net assets and permanent endowments that are reflected as permanently restricted net assets. As required by the generally accepted accounting principles, net assets associated with endowment funds, including fund's designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Funds have been designated by the Board of Directors and committees of the Foundation for long-term purposes and are included in unrestricted, designated amounts.

Change in endowment net assets for the years ended December 31 are as follows:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Endowment net assets,				
beginning of year	\$ 2,796,221	\$ 118,341	\$ 7,360,043	\$ 10,274,605
Contributions	50,707	-	-	50,707
Investment return	655,464	-	-	655,464
Expenses				
Grants	(48,596)	-	-	(48,596)
Administrative expenses	(55,724)	-	-	(55,724)
Transfer of spendable resources	(65,406)	(38,295)	(44,496)	(148,197)
Endowment net assets,				
end of year	<u>\$ 3,332,666</u>	<u>\$ 80,046</u>	<u>\$ 7,315,547</u>	<u>\$ 10,728,259</u>

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 9 – ENDOWMENT FUNDS (Continued)

	2015			
	Unrestricted	Temporarily	Permanently	Total
Endowment net assets, beginning of year	\$ 3,795,230	\$ 129,740	\$ 7,320,222	\$ 11,245,192
Contributions	62,548	-	-	62,548
Investment return	(199,854)	-	-	(199,854)
Expenses				
Grants	(383,381)	-	-	(383,381)
Administrative expenses	(101,624)	-	-	(101,624)
Transfer of spendable resources	(376,698)	(11,399)	39,821	(348,276)
Endowment net assets, end of year	<u>\$ 2,796,221</u>	<u>\$ 118,341</u>	<u>\$ 7,360,043</u>	<u>\$ 10,274,605</u>

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Fund must hold for a donor specified period, and includes the earnings of those funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a maximum return while assuming a moderate to low level of investment risk that will be measured based upon an annualized rate of return over a five-year continuous time period. The Foundation expects its endowment funds, over time, to provide a positive rate of return annually. Actual returns in any given year may vary.

Strategies Employed to Achieve Objectives: To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividend). The Foundation targets a diversified asset allocation that places an emphasis on balanced accounts by various asset classes including equity, real estate, fixed income instruments and cash equivalents.

Investment Objectives as Related to the Spending Policy: The Foundation's endowments have spending policies adopted as part of the initial agreements which appropriates a set percentage of its endowment fund's value as of the end of the day on December 31 of the preceding year for the planned distribution year. In establishing these agreements, the Foundation considered the expected long-term rate of return on its endowment. Accordingly, over the long-term, Foundation expects the current spending policy to allow its endowment to grow at an average of 5% net of inflation and all other investment expenses annually. This is consistent with the Foundation objective to maintain the purchasing power of the endowment assets held for a specific term as well as provide additional real growth through new gifts and investment return.

NOTE 10 – RELATED PARTIES

For the year ending December 31, 2016, the Board of Directors and employees contributed \$4,051,235, 21% of total contributions received, to the Foundation. In addition, members of the Board of Directors and employees maintain funds in the amount of \$12,674,455, which represents 17% of the total fund balance.

In addition, one of the Board of Directors is on the board of one of the investment holdings, which comprise 13% of total investments held.

NOTE 11 – RENTAL PROPERTY

During 2000, the Foundation received a contribution of a limited liability company, CFX, LLC. This contributed limited liability company has partial ownership of two separate leaseholds. The leaseholds consist of buildings located on land leased from a third party. The buildings are then subleased to grocery stores. During 2006, the Foundation reported an additional \$84,085 in contributions to CFX, LLC.

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 11 – RENTAL PROPERTY (Continued)

The respective ownership interest in each of the properties has been consolidated into the books of the Foundation and has been included in property and equipment in the consolidated statement of financial position.

The rental buildings are located on land that are on ground leases expiring on December 1, 2021. The leases provide for renewal of five consecutively extended terms of five years each.

The minimum rental commitments under the ground leases are:

2017	\$	18,268
2018		18,268
2019		18,268
2020		18,268
2021		16,746
	\$	<u>89,818</u>

The rental income on the properties is received under two subleases in two separate entities.

Future minimum sublease income is due as follows as of December 31:

2017	\$	79,458
2018		79,458
2019		79,458
2020		79,458
2021		72,837
	\$	<u>390,669</u>

Rental income under subleases for the years ended December 2016 and 2015 was \$108,726 and \$125,726, respectively.

SUPPLEMENTARY INFORMATION

**COMMUNITY FOUNDATION OF WESTERN NEVADA,
INCORPORATED AND SUBSIDIARIES**
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016				2015
	Program Services and Grants	General and Administrative Expenses	Fundraising Expenses	Total	Total (Memorandum Only)
Grant expenses					
Grants voted	\$ 7,184,002	\$ -	\$ -	\$ 7,184,002	\$ 4,941,223
Grants individuals	407,859	-	-	407,859	455,193
Grants international	51,600	-	-	51,600	46,000
Total grant expenses	<u>7,643,461</u>	<u>-</u>	<u>-</u>	<u>7,643,461</u>	<u>5,442,416</u>
Other expenses					
Salaries	252,320	252,320	126,160	630,800	568,684
Employee benefits	16,508	16,508	8,254	41,270	41,259
Payroll taxes	20,432	20,432	10,216	51,080	46,801
Consulting services	-	26,287	-	26,287	6,148
Accounting services	-	34,770	-	34,770	34,551
Advertising	14,014	-	15,225	29,239	26,652
Legal services	-	-	-	-	125
Office	9,952	9,950	4,976	24,878	27,806
Information technology	21,887	21,887	10,944	54,718	48,669
Occupancy	21,177	21,177	10,588	52,942	50,630
Travel	-	7,406	-	7,406	8,109
Conference fees	-	2,662	-	2,662	7,057
Interest	2,604	2,604	1,302	6,510	8,800
Depreciation and amortization	(30,039)	(30,039)	(15,020)	(75,098)	213,986
Insurance	3,792	3,792	1,896	9,480	6,091
Initiative expenses	29,045	-	-	29,045	28,891
Direct fund expenses for specific funds	74,724	-	-	74,724	134,949
All other expenses	27,230	24,202	-	51,432	86,257
Total other expenses	<u>463,646</u>	<u>413,958</u>	<u>174,541</u>	<u>1,052,145</u>	<u>1,345,465</u>
Total functional expenses	<u>\$ 8,107,107</u>	<u>\$ 413,958</u>	<u>\$ 174,541</u>	<u>\$ 8,695,606</u>	<u>\$ 6,787,881</u>

See accompanying notes