THE COMMUNITY FOUNDATION FOR PALM BEACH AND MARTIN COUNTIES, INC.

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2017
(*with comparable totals for 2016*)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Community Foundation for
Palm Beach and Martin Counties, Inc.
West Palm Beach, Florida

We have audited the accompanying consolidated financial statements of The Community Foundation for Palm Beach and Martin Counties, Inc. (a not-for-profit corporation) which comprise the consolidated statement of financial position as of June 30, 2017, 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 consolidated 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 for Palm Beach and Martin Counties, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplemental Information

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

Report on Summarized Comparative Information

We have previously audited The Community Foundation for Palm Beach and Martin Counties, Inc.'s 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 1, 2017

As of June 30, 2017 *(with comparable totals for 2016)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals	2016 Totals
ASSETS					
Current assets:					
Cash and cash equivalents	$ 4,068,125	$ -	$ -	$ 4,068,125	$ 5,254,183
Bequest and contributions receivable	-	-	-	-	16,456
Prepaid expenses	164,494	-	-	164,494	236,221
Total current assets	4,232,619	-	-	4,232,619	5,506,860
Investments	71,377,638	996,976	75,393,491	147,768,105	138,600,022
Split-interest agreements	-	1,114,763	-	1,114,763	1,025,915
Other assets	47,824	-	-	47,824	25,646
Property and equipment, net	7,734,256	-	-	7,734,256	7,947,392
Total assets	$ 83,392,337	$ 2,111,739	$ 75,393,491	$ 160,897,567	$ 153,105,835
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	$ 290,867	$ -	$ -	$ 290,867	$ 378,975
Grants and scholarships payable, current portion	547,199	-	-	547,199	600,649
Total current liabilities	838,066	-	-	838,066	979,624
Grants and scholarships payable, non-current portion	4,644,797	-	-	4,644,797	5,698,690
Agency payable	2,115,363	-	-	2,115,363	1,019,322
Bond issue payable	6,310,613	-	-	6,310,613	6,805,250
Total liabilities	13,908,839	-	-	13,908,839	14,502,886
Net assets	69,483,498	2,111,739	75,393,491	146,988,728	138,602,949
Total liabilities and net assets	$ 83,392,337	$ 2,111,739	$ 75,393,491	$ 160,897,567	$ 153,105,835

See accompanying notes to consolidated financial statements.

THE COMMUNITY FOUNDATION FOR PALM BEACH AND MARTIN COUNTIES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017 *(with comparable totals for 2016)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Totals	2016 Totals
Support, revenues, and gains:					
Contributions, grants and bequest	$ 5,727,543	$ -	$ 423,686	$ 6,151,229	$ 9,048,318
Celebration of Philanthropy event, net	183,722		-	183,722	199,853
Investment income, net of fees	1,144,858	33,083	-	1,177,941	557,060
Net realized and change in unrealized gain (loss) on investments	12,251,990	303,094	-	12,555,084	(5,043,801)
Change in value of split-interest agreements	(21,358)		-	(21,358)	(27,692)
Rental and other income	222,247		-	222,247	242,942
Total support, revenues, and gains	19,509,002	336,177	423,686	20,268,865	4,976,680
Net assets released from restrictions	128,437	(120,202)	(8,235)	-	-
Grants awarded to others	8,859,681	-	-	8,859,681	8,601,677
Expenses:					
Program services:					
Competitive grant making	418,529	-	-	418,529	467,422
Non-competitive grant making	424,706	-	-	424,706	386,183
Capacity building	491,569	-	-	491,569	442,108
Supporting services:					
Administrative support	1,007,542	-	-	1,007,542	969,321
Donor services	1,034,024	-	-	1,034,024	936,362
Total expenses	3,376,370	-	-	3,376,370	3,201,396
Total grants awarded to others and expenses	12,236,051	-	-	12,236,051	11,803,073
Other gain and income:					
Realized gain on disposal of fixed assets	352,965	-	-	352,965	-
Increase due to change in variance powers	-	-	-	-	99,498
Total other gain and income	352,965	-	-	352,965	99,498
Change in net assets	7,754,353	215,975	415,451	8,385,779	(6,726,895)
Net assets, beginning	61,729,145	1,895,764	74,978,040	138,602,949	145,329,844
Net assets, ending	$ 69,483,498	$ 2,111,739	$ 75,393,491	$ 146,988,728	$ 138,602,949

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2017 *(with comparable totals for 2016)*

	2017	2016
Cash flows from operating activities:		
Cash received from contributions, grants and bequest	$ 5,608,613	$ 7,066,957
Cash received from Philanthropy event, gross	361,806	386,484
Cash received from rents and other sources	222,247	242,942
Cash paid for grants, program and supporting services	(12,104,905)	(11,973,342)
Investment income, net of fees	1,177,941	557,060
Interest paid	(106,941)	(68,184)
Net cash used in operating activities	(4,841,239)	(3,788,083)
Cash flows from investing activities:		
Proceeds from sale of investments	33,755,889	22,753,114
Purchase of investments	(30,343,053)	(18,884,892)
Proceed from sale of property	446,633	-
Purchase of property and equipment	(127,974)	(108,635)
Net cash provided by investing activities	3,731,495	3,759,587
Cash flows from financing activities:		
Payments on bond issue payable	(500,000)	-
Contribution for restricted endowment	423,686	1,908,397
Net cash provided by financing activities	(76,314)	1,908,397
Net change in cash and cash equivalents	(1,186,058)	1,879,901
Cash and cash equivalents, beginning of year	5,254,183	3,374,282
Cash and cash equivalents, end of year	$ 4,068,125	$ 5,254,183

See accompanying notes to consolidated financial statements.

For the Year Ended June 30, 2017 *(with comparable totals for 2016)*

	2017	2016
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	$ 8,385,779	$ (6,726,895)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	252,807	237,706
Net realized and change in unrealized gain (loss) on investments	(12,555,084)	5,043,801
Change in value of split-interest agreements	21,358	27,692
Realized gain on disposal of assets	(352,965)	-
Gain on change in variance power	-	(99,498)
(Increase) decrease in assets:		
Bequest and contributions receivable	16,456	60,527
Prepaid expenses	71,727	(61,456)
Other assets	(22,180)	998
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(88,108)	125,693
Grants and scholarships payable	(1,107,343)	(854,095)
Agency payable	1,096,041	365,841
Contribution restricted for endowment	(423,686)	(1,908,397)
Net cash used in operating activities	$ (4,841,239)	$ (3,788,083)

See accompanying notes to consolidated financial statements.

1. Nature of Activities

The Community Foundation for Palm Beach and Martin Counties, Inc. (the "Foundation") is a not-for-profit entity, which was incorporated on January 3, 1972. The Foundation is organized exclusively for the support of charitable, religious, educational and scientific endeavors including the making of distributions to such organizations under Section 501(c)(3) of the U.S. Internal Revenue Code (the "IRC").

The Foundation owns and occupies a 33,000 square-foot building resting on 1.3 acres, in downtown West Palm Beach, Florida. The building provides a permanent home for its offices as well as for the Foundation Center Resource Library. The remaining office space is leased to unrelated 501(c) (3) not-for-profit organizations at below market rates. The building includes community rooms and a conference room that are also available to unrelated 501(c) (3) not-for-profit organizations for events at below market rates.

Adjacent to its offices, the Foundation owns a parcel of land used to provide additional parking for its functions, employees, and tenants.

2. Summary of Significant Accounting Policies

Basis of Presentation and Method of Accounting

The accompanying consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting, whereby revenues and support are recognized when earned, and expenses when the corresponding liability is incurred. For the year ended June 30, 2017, the consolidated financial statements include the accounts of the Foundation and the Mary and Robert Pew Public Education Fund ("Pew Fund"), a supporting organization of the Foundation. All material inter-organizational transactions and balances have been eliminated in preparing the consolidated financial statements.

Consolidated Financial Statement Presentation

The Foundation reports net assets and activity under FASB Accounting Standard Codification (ASC) Topic 958-205, *Not-for-Profit Entities, Presentation of Financial Statements.* Under this topic, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of those classifications is as follows:

- *Unrestricted net assets* - this classification includes those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transactions (except income and gains on assets that are restricted by donors or by law) are included in unrestricted net assets by class.

2. *Summary of Significant Accounting Policies, continued*

Consolidated Financial Statement Presentation, continued

- *Temporarily restricted net assets* - this classification includes those net assets whose use by the Foundation has been limited by donors to either a later period of time, after a specified date, or for a specified purpose.
- *Permanently restricted net assets* – this classification includes those net assets that must be maintained by the Foundation in perpetuity. Permanently restricted net assets increase when the Foundation receives contributions for which donor-imposed restrictions limiting the Foundation's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the Foundation meeting certain requirements. In addition, permanently restricted net assets represent the net assets of the permanent endowment where it is stipulated by donors that the principal remain intact and only the income is available as unrestricted or temporarily restricted, per endowment agreements.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to include short-term, highly liquid investments, which are readily convertible to cash. However, cash and cash equivalents that are maintained by the Foundation's investment managers are governed by the Foundation's long-term investment policy and are classified as investments.

In the ordinary course of operations, the Foundation maintains cash reserves in excess of federally insured limits. The Foundation minimizes its risk by depositing cash in financial institutions which management believes to be in sound financial condition. The Foundation has not experienced any losses of such funds and management believes the Foundation is not exposed to significant risk on cash. As of June 30, 2017, cash and cash equivalents exceeded federally insured limits by approximately $5,174,600.

Investments

Investments, except for interests in limited partnerships, are reported at fair value as determined by quoted market prices. Limited partnership interests, principally holding real estate and other equity investments, are reported at fair value, as determined by the general partner, using net asset value ("NAV") per share or capital account information, as provided by the fund managers.

The Foundation uses pooling principles to account for certain investments whereby the individual funds of the Foundation share investment earnings, as well as realized and change in unrealized appreciation (depreciation) on investments, based on each fund's pro rata share of the total dollar amount of all funds in the pool.

As of June 30, 2017, the fair value of pooled investments was approximately $141,314,800, and is part of the investments balance on the Consolidated Statement of Financial Position.

2. ***Summary of Significant Accounting Policies*, continued**

Investments, continued

The Foundation's investment portfolio is managed by outside managers who invest according to the investment guidelines established by the Foundation's Investment Committee and approved by the Board of Directors. The Foundation employs an independent investment consultant for the purpose of assisting the Investment Committee in developing and attaining the financial objectives of the Foundation. Investment income is reported net of related expenses, such as investment management fees. Investment management fees for the year ended June 30, 2017 were approximately $1,483,300. Investment income attributable to the permanently restricted net assets is included in the unrestricted column for financial statement reporting purposes as the investment income earned is available for grants. Furthermore, investment income on temporarily restricted net assets is also shown in the unrestricted column when the associated restrictions are met in the same reporting period as the income earned.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by the endowment while seeking to preserve and enhance the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective.

In general, these policies imply that the Foundation's investment portfolio will be managed to earn an average annual total return equal to the annual spending rate, net of all investment, management and administrative fees, plus the rate of inflation. Most of the Foundation's investment assets are permanent funds with disciplined longer-term investment objectives and strategies. Actual returns in any given year may vary from average annual total return.

The investment policy establishes an achievable return objective through diversification of asset classes. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund.

The overall portfolio is diversified by asset class (i.e. global public equity, global private equity, flexible capital, inflation hedging assets, fixed income and liquid capital) and managers with different investment styles are employed within all asset classes. Each asset class has both an allocation range and a target allocation. The target allocations for the actual asset mix are reviewed by the Investment Committee and investment consultant annually or more frequently, if necessary.

Property and Equipment

Property and equipment are recorded at cost if purchased, or fair value if donated, and depreciated on the straight-line method over useful lives of five to forty years. Additions, improvements, and expenditures that exceed $2,500 and that significantly add to the productivity or that extend the economic life of assets are capitalized. Amounts incurred as recurring expenditures for repairs and maintenance are expensed.

2. ***Summary of Significant Accounting Policies, continued***

Split-Interest Agreements

The Foundation receives contributions of beneficial interest in assets in which the donor or donor-designated beneficiary may retain a life or term interest, specifically, charitable remainder trusts and charitable gift annuities. The beneficial interests in assets are recorded at fair value of the underlying assets when received, net of the present value of estimated future payments to named beneficiaries and are invested and administered according to the policies of a designated third-party trustee. Distributions are made to the beneficiaries under the terms of the agreement over the lives of the beneficiaries or another specific period. Present values are determined using appropriate discount rates and actuarially determined life expectancies. Split-interest agreements are revalued annually as of June 30 to reflect actuarial experience. Initial recognition and subsequent adjustments to the assets' carrying values are reported as a change in value of split-interest agreements in the accompanying consolidated financial statements. Split-interest agreements are reflected in the Consolidated Statement of Financial Position under the captions for investments, for pooled assets, and split-interest agreements, for non-pooled assets.

Grants and Scholarships Payable

The Foundation records grants and scholarships payable when the Board of Directors approves the grants or scholarships.

Contributions

The Foundation accounts for contributions in accordance with the provisions of FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*. In accordance with this standard, contributed goods and services, which meet certain criteria, are recorded as contributions at their estimated fair value at date of receipt. Approximately $79,300 of donated goods and services were included in contributions in the Consolidated Statement of Activities for the year ended June 30, 2017.

The Foundation reports gifts as unrestricted support unless they are received with donor stipulations that limit the use of the gift. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions. However, if the restriction is met in the same period as the restricted income is received, the Foundation classifies such income as unrestricted support.

2. ***Summary of Significant Accounting Policies*, continued**

Special Events

The Foundation records the revenues from special events, net of direct expenses, in the Consolidated Statement of Activities. For the year ended June 30, 2017, revenues and expenses recognized for the events totaled approximately:

Special Event	Tickets	Underwriting	Total	Expenses
Celebration of Philanthropy	$ 78,500	$ 288,300	$ 366,800	$ 183,100
Founder's Award	29,000	82,800	111,800	92,300
Marten's Award	13,300	22,500	35,800	31,300

Comparable Financial Information

The consolidated financial statements include certain prior-year summarized comparable 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 consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived. Certain 2016 amounts may have been reclassified to conform to 2017 classifications. Such reclassifications would have no effect on the change in net assets as previously reported.

Income Taxes

The Internal Revenue Service (the "IRS") has determined the Foundation is an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. Due to the carryover of prior year net operating losses, there is no provision for income taxes made in the accompanying consolidated financial statements. The Foundation files two federal information returns with the IRS, one for the Foundation and one for the Pew Fund.

The Foundation follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. This pronouncement seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. It prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. An entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold.

The Foundation assesses its income tax positions based on management's evaluation of the facts, circumstances, and information available at the reporting date. The Foundation uses the prescribed more likely than not threshold when making its assessment. The Foundation did not accrue any interest expense or penalties related to tax positions and there are currently no open federal or state tax years under audit.

2. *Summary of Significant Accounting Policies, continued*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Expense

The Foundation expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2017 was approximately $191,000.

Derivative Instruments and Hedging Activities

The Foundation follows FASB ASC 815, *Derivatives and Hedging*. The Foundation utilizes certain derivative instruments to enhance its ability to manage risk relating to preserving purchasing power and cash flow. Derivative instruments are entered into for periods consistent with the related underlying exposures and are not entered into for speculative purposes. The Foundation's derivative and hedge instruments include various investment securities (see Note 3).

Fair Value Measurements and Disclosures

The Foundation follows the guidance of FASB ASC 820, *Fair Value Measurement*. This standard defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). If inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level of input that is significant to the fair value measurement of the instrument. The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities of similar characteristics, or discounted cash flows.

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements and Disclosures

Level 3 - Inputs that are unobservable for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The methods and assumptions used by the Foundation in estimating the fair value of financial instruments that are measured at fair value on a recurring basis under FASB ASC 820 is presented below. There has been no change in the methodologies used as of June 30, 2017.

- *Investments*:
  - Level 1 investments are valued based on quoted market prices.
  - Level 2 investments are valued based on quoted prices of securities with similar characteristics and discounted cash flows.
  - Level 3 investments, given the absence of market quotations, are valued using estimates that require varying degrees of judgment and are primarily based on financial data supplied by the investment managers of the underlying funds.
- *Split-interest agreements* - the assets held in split-interest agreements are valued based on quoted market prices of the underlying investments net of the present value of expected cash outflows using estimated life expectancies of the income beneficiaries and appropriate discount rates. Split-interest agreements are valued as Level 2 assets.

The following methods and assumptions were used by the Foundation in estimating the fair value of financial instruments that are not disclosed under FASB ASC 820:

- *Current assets and liabilities* - the carrying amount for cash, bequest and contributions receivable, and accounts payable and accrued expenses approximates fair value due to the short-term nature of those instruments.
- *Grants and scholarships payable* – the carrying amount for these obligations approximate fair value due to the low market interest rates that would apply to such instruments. Each year, the Foundation evaluates the facts and circumstances to determine an appropriate discount rate related to grants and scholarships payable. No discount is deemed necessary for 2017 for these instruments to be fairly stated in relation to the financial statements as a whole.

3. Fair Value Measurements

The fair value of financial instruments is reported using the input guidance and valuation techniques described above. The fair value levels and amounts of assets and liabilities are presented as of June 30, 2017 in the following table:

Assets reported at fair value:

Investments:	Level 1	Level 2	Level 3	Fair Value Total	%
Domestic equities (a)	$ 14,156,212	$ 148,650	$ 14,063,872	$ 28,368,734	19%
Non-US developed equity (b)	18,992,690	14,635,587	-	33,628,277	23%
Hedge strategies (c)	442,529	-	33,672,911	34,115,440	23%
Private equities (d)	-	-	16,314,515	16,314,515	11%
Real assets (e)	3,458,549	-	15,981,878	19,440,427	13%
Total inflation hedging (f)	3,253,996	-	-	3,253,996	2%
Fixed income (g)	12,526,362	120,354	-	12,646,716	8%
	52,830,338	14,904,591	80,033,176	147,768,105	99%
Split-interest agreements	-	1,114,763	-	1,114,763	1%
Total	$ 52,830,338	$ 16,019,354	$ 80,033,176	$148,882,868	100%
	35%	11%	54%	100%	

The investment categories held as limited partnership interests (within hedge strategies) may involve additional capital call provisions (see Note 7).

The following information is provided to enable users of financial statements to understand the nature and risk of the Foundation's Level 2 and Level 3 investments by class and whether the investments are probable of being sold at amounts different from net asset value per share or ownership interest.

	Liquidity Allocation by Investment Class			
	Daily Liquidity	Monthly Liquidity	Semi-liquid *	Illiquid
Domestic equities (a)	-	-	100%	-
Non-US developed equities (b)	68%	32%	-	-
Hedge strategies (c)	3%	-	96%	1%
Private equities (d)	-	-	-	100%
Real assets (e)	-	20%	28%	52%

3. *Fair Value Measurements, continued*

*Semi-liquid redemptions can be processed with in a period greater than 30 days, generally between 30 – 90 days.

a) This category represents funds invested in publicly-traded equities.
b) This category represents global publically-traded equities.
c) This category represents long and short equity hedge funds.
d) This category represents private equity and debt securities in companies that are not publicly traded on a stock exchange, as they are invested in closed end partnerships.
e) This category represents investments to hedge against inflation.

A reconciliation of the Foundation's Level 3 financial instruments for the year ended June 30, 2017 is provided below:

	Assets
Balance, as of July 1, 2016	$ 79,926,538
Net realized and change in unrealized gains (losses)	6,784,531
Investment income and expenses	967,248
Capital calls	(7,645,141)
Balance, as of June 30, 2017	$ 80,033,176

FASB ASC 820 requires disclosures of quantitative information about the unobservable inputs used to measure Level 3 assets and liabilities. The following table provides information about Level 3 unobservable inputs:

Investments:	Fair Value	Valuation Techniques	Unobservable Inputs
Domestic and private equities, hedge strategies, and other	$ 64,051,298	Generally, Net Asset Valuation (NAV) per share, discounted cash flows, pricing models, market comparable, third party valuation specialists	Generally, weighted average cost of capital, revenue or earnings multiples, discounts for lack of marketability, control premiums, historical volatilities, growth rates
Real assets	15,981,878	Initially appraised value, adjusted for material changes in valuation and earnings before income taxes	Consumer price index, discount rate, earnings before income taxes
Total	$ 80,033,176		

4. Property and Equipment

Property and equipment, as of June 30, 2017, consist of the following:

Land	$	3,305,312
Building		7,823,515
Furniture and equipment		1,010,007
		12,138,834
Less accumulated depreciation		4,404,578
Total	$	7,734,256

Depreciation expense for the year ended June 30, 2017 was approximately $247,000.

5. Commitments and Contingencies

Grants and Scholarships Payable

Future grants and scholarships payments are subject to routine performance of stipulated conditions by the intended recipients before payment is made. Outstanding grants and scholarships are payable for each year ending on June 30, as follows:

2018	$	547,199
2019		2,630,550
2020		1,099,421
2021		914,826
Total	$	5,191,996

Limited Partnership Capital Contribution Commitments

In connection with the terms and requirements imposed by the Foundation's investment in limited partnerships, capital contribution commitments are $51,623,318, of which $14,356,085 had not been funded as of June 30, 2017.

Letter of Credit

The Foundation maintains a letter of credit agreement with Northern Trust Bank. The agreement provides for a revolving letter of credit not to exceed $7,001,734 to support the principal and interest balance of the Foundation's bond issuance, which is secured under a trust indenture with The Bank of New York (previously J.P. Morgan Trust Company), as trustee (see Note 9). As of June 30, 2017, the amount held in reserve was approximately $5,600.

Line of Credit

The Foundation has a commitment from Northern Trust Bank for a $2,000,000 line of credit. The interest rate is based on prime less one-half of one percent (0.50%); however, in no event less than two and one-half percent (2.50%). The effective rate was 3.75% as of June 30, 2017. There is no balance outstanding on this obligation as of June 30, 2017. The line of credit expires on March 15, 2019.

6. *Employee Benefit Plans*

Defined contribution plan: The Foundation sponsors a defined contribution plan for its employees. Under the terms of the plan, employees are eligible to participate upon the completion of one year of service. Vesting in any employer contributions is based on a schedule whereby employees are fully vested over 5 years. The Foundation is not required to make an employer contribution in any one year.

Deferred compensation plan: The Foundation maintains a 457(b) deferred compensation plan for a member of management. Approximately $18,000 was contributed to this plan during the fiscal year. This plan is a non-qualified deferred compensation plan subject to the claims of creditors. As of June 30, 2017, approximately $53,500 is reflected as investments, on the Consolidated Statement of Financial Position relating to this plan.

The Foundation contributed a total amount of approximately $77,000 to the retirement plans for the year ended June 30, 2017.

7. *Net Asset Classification*

Interpretation of Relevant Guidance

FASB ASC 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*, provides guidance on the net asset classification of donor restricted endowment funds and also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated funds). The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) which seeks to a) provide consistent investment and spending standards to all forms of charitable funds, b) strengthen the concept of prudent investing, c) abandon historic dollar value as a floor for expenditures and provide more flexibility to the organization in making decisions about whether to expend any portion of an endowment fund, and d) provide a process for the release or modification of restrictions on a gift instrument.

The Board of Directors of the Foundation has interpreted the guidance under FUPMIFA, along with the Foundation's Articles of Incorporation and By-Laws (governing documents), and gift instruments (fund agreements), as requiring the preservation of the original value of the gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the

7. *Net Asset Classification, continued*

Foundation in a manner consistent with the standard of prudence. The Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation (depreciation) of investments
- The investment policies and other resources of the organization

The Foundation's endowment net asset composition by type of fund as of June 30, 2017 consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Donor designated endowment funds:				
Designated	$ 160,642	$ 698,924	$ 2,960,280	$ 3,819,846
Administrative	8,927	71,726	40,030	120,683
Total donor designated endowment funds	169,569	770,650	3,000,310	3,940,529
Other endowment funds:				
Undesignated	3,898,377	-	2,039,830	5,938,207
Field of interest	6,721,377	-	29,481,000	36,202,377
Donor advised	10,222,330	-	29,493,099	39,715,429
Scholarship	2,487,236	-	11,379,252	13,866,488
Total other endowment funds	23,329,320	-	72,393,181	95,722,501
Board designated funds:				
Unrestricted	7,901,583	-	-	7,901,583
Designated	104,791	-	-	104,791
Administrative	7,150,225	-	-	7,150,225
Total board designated funds	15,156,599	-	-	15,156,599
Total endowment net assets	$ 38,655,488	$ 770,650	$ 75,393,491	$ 114,819,629

7. *Net Asset Classification, continued*

In addition to endowment net assets, the Foundation also manages other non-endowed funds. The following table summarizes all Foundation net assets as of June 30, 2017.

Total net asset composition:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Endowment funds	$ 38,655,488	$ 770,650	$ 75,393,491	$ 114,819,629
Non-endowment funds:				
Administrative	5,486,017	-	-	5,486,017
Donor advised	15,679,056	-	-	15,679,056
Designated	9,677	-	-	9,677
Field of interest	61,437	-	-	61,437
Scholarship	160,371	-	-	160,371
Supporting	9,431,452	-	-	9,431,452
Total non-endowment funds	30,828,010	-	-	30,828,010
Split-interest agreements:				
Pooled	-	32,600	-	32,600
Non-pooled	-	1,308,489	-	1,308,489
Total split-interest agreements	-	1,341,089	-	1,341,089
Total net assets	$ 69,483,498	$ 2,111,739	$ 75,393,491	$ 146,988,728

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Endowment net assets, beginning of year	$ 32,394,888	$ 595,555	$ 74,978,040	$ 107,968,483
Interest and dividends, net of investment expense	1,069,768	33,083	-	1,102,851
Market gains (losses)	9,883,859	303,094	-	10,186,953
Contributions	98,930	-	176,988	275,918
Amounts appropriated for expenditure	(3,522,903)	(130,630)	4,854	(3,648,679)
Other changes	(1,269,054)	(30,452)	233,609	(1,065,897)
Change in endowment net assets	6,260,600	175,095	415,451	6,851,146
Endowment net assets, end of year	$ 38,655,488	$ 770,650	$ 75,393,491	$ 114,819,629

7. *Net Asset Classification, continued*

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. When deficiencies occur, unless allowed by the agreement, the Foundation does not appropriate expenditures from funds with deficiencies until the historical value is restored. These fund deficiencies are reported as reductions in unrestricted net assets. As of June 30, 2017, there were seven (7) funds with deficiencies totaling $434,500.

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 for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Specifically, the Foundation's investment portfolio is managed to earn an average annual total return equal to the annual spending rate, net of all investment, management and administrative fees plus the rate of inflation.

Strategies Employed for Achieving 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 both capital appreciation (realized and change in unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term rate-of-return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 1% for operations and 3.75% for programs of its endowment fund's average fair value over the prior 12 quarters through the quarter ending March 31 proceeding the fiscal year in which the distribution is planned.

8. *Supporting Organization*

The Mary and Robert Pew Public Education Fund (the "Pew Fund") was established March 31, 1998, as a supporting organization of the Foundation under Section 509(a)(3) of the IRC. Supporting organizations are created and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported charities.

The mission of the Pew Fund is to improve public education for economically disadvantaged children in Palm Beach and Martin counties by developing, testing, and implementing new strategies for learning in classrooms, schools and neighborhoods, and to support education enrichment programs unavailable as part of the regular school curriculum. For the year ended

8. *Supporting Organization, continued*

June 30, 2017, the Pew Fund awarded grants totaling approximately $1,024,000, less approximately $26,000 in grant refunds.

Realized and change in unrealized gains (losses) associated with marketable equity securities owned by the Pew Fund of approximately $881,800 are included in the accompanying Consolidated Statement of Activities for the year ended June 30, 2017. Also included in the accompanying Consolidated Statement of Activities are program expenses associated with the Pew Fund of approximately $1,192,000 for the year ended June 30, 2017. The Pew Fund paid the Foundation an administrative fee of approximately $52,500, for the year ended June 30, 2017. These fees were eliminated in the preparation of the consolidated financial statements.

9. *Headquarters Building and Bond Issue*

The Foundation offers office space in its 33,000 square-foot headquarters building in West Palm Beach, Florida to other not-for-profit organizations for lease at below-market rates. Rents and related income during the year was approximately $212,000, net of $287,000 that was attributable to the Foundation's rent expense and was eliminated in these consolidated financial statements. Future minimum rents receivable that have initial or remaining terms in excess of one year extend through the year 2023.

The approximate minimum rents to be received in the next five years as of June 30, 2017 are as follows:

2018	$ 314,800
2019	396,400
2020	392,500
2021	354,900
2022	339,700
Thereafter	470,600
Total	$ 2,268,900

Expenses for the operations of the headquarters were approximately $699,400 and are allocated to the capacity building, administrative support, and donor services function in the accompanying Consolidated Statement of Activities. These expenses consist of operating costs, financing costs, leasing commissions, allocation of management salaries and depreciation for the year ended June 30, 2017.

The building and adjacent land were financed through the issuance of $10,900,000 tax exempt, variable rate demand revenue ns, designed specifically for not-for-profit organizations. The bonds were issued pursuant to an indenture of trust between Palm Beach County and a trustee to provide the funds to finance this project, to pay a portion of the interest on the bonds, and to pay certain costs incurred in connection with the issuance of the bonds. The bonds mature March 1, 2034, and interest accrues through one of four interest rate modes: daily, floating,

9. *Headquarters Building and Bond Issue, continued*

adjustable, or fixed, as defined. Bonds bearing interest under the daily rate or floating rate modes may be redeemed at any time at the option of the holder.

The bonds were issued in March 2004 (the "issue date") in the adjustable rate mode at 2.00%, with an adjustable rate reset date of September 2005. Beginning September 2005 (the "conversion date") the bond interest was computed pursuant to a floating rate mode. As of June 30, 2017, the interest rate for the bonds was 0.90%.

10. *Recent Accounting Pronouncement*

The Financial Accounting Standards Board (FASB) recently issued several Accounting Standards Updates (ASU's) that affect the accounting and reporting of not-for-profit entities. The FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issue Costs* (Topic 958), to alter the reporting of debt issue costs, which are now reported net against the related liability, versus the previous guidance that capitalized and reflected such costs as an intangible asset. This ASU is effective for the Foundation's current fiscal year and is applied retrospectively to the 2016 totals for comparison purposes. The FASB also issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958), which imposes new requirements for the presentation and disclosure of not-for-profit financial statements, including a reduction in the number of net asset categories from three classes to two classes, a requirement to present a statement of functional expenses, a requirement to disclose the quantitative and qualitative aspects about liquidity, and other provisions. This ASU will be effective for the Foundation's fiscal period ending June 30, 2019 with early implementation permitted. Management is evaluating the effect that this updated standard will have on the financial statements.

11. *Subsequent Event*

Date of Management Evaluation

Management has evaluated subsequent events through December 1, 2017 the date on which the consolidated financial statements were available to be issued, and determined that there were no further disclosures which should be made in these consolidated financial statements.

SUPPLEMENTAL INFORMATION

As of June 30, 2017

	Community Foundation	Pew Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 4,047,764	$ 20,361	$ 4,068,125
Prepaid expenses	163,464	1,030	164,494
Total current assets	4,211,228	21,391	4,232,619
Investments	137,602,035	10,166,070	147,768,105
Split-interest agreements	1,114,763	-	1,114,763
Other assets	46,824	1,000	47,824
Property and equipment, net	7,734,256	-	7,734,256
Total assets	$ 150,709,106	$ 10,188,461	$ 160,897,567
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	$ 269,989	$ 20,878	$ 290,867
Grants and scholarships payable, current portion	298,199	249,000	547,199
Total current liabilities	568,188	269,878	838,066
Grants and scholarships payable, non-current portion	4,157,664	487,133	4,644,797
Agency payable	2,115,363	-	2,115,363
Bond issue payable	6,310,613	-	6,310,613
Total liabilities	13,151,828	757,011	13,908,839
Net assets	137,557,278	9,431,450	146,988,728
Total liabilities and net assets	$ 150,709,106	$ 10,188,461	$ 160,897,567

See independent auditor's report.

For the Year Ended June 30, 2017

	Community Foundation	Pew Fund	Total
Support, revenues, and gains:			
Contributions, grants and bequest	$ 6,161,229	$ (10,000)	$ 6,151,229
Celebration of Philanthropy event, net	183,722	-	183,722
Investment income, net of fees	1,075,769	102,172	1,177,941
Net realized and change in unrealized gain on investments	11,673,305	881,779	12,555,084
Change in value of split-interest agreements	(21,358)	-	(21,358)
Rental and other income, net	222,247	-	222,247
Total support, revenues, and gains	19,294,914	973,951	20,268,865
Grants awarded to others	7,861,747	997,934	8,859,681
Expenses:			
Program services:			
Competitive grant making	406,061	-	406,061
Non-competitive grant making	230,209	194,496	424,705
Capacity building	490,965	-	490,965
Supporting services:			
Administrative support	1,020,615	-	1,020,615
Donor services	1,034,024	-	1,034,024
Total expenses	3,181,874	194,496	3,376,370
Total grants awarded to others and expenses	11,043,621	1,192,430	12,236,051
Other gain and income:			
Realized gain on disposal of fixed assets	352,965	-	352,965
Total other gain and income	352,965	-	352,965
Change in net assets	8,604,258	(218,479)	8,385,779
Net assets, beginning	128,953,020	9,649,929	138,602,949
Net assets, ending	$ 137,557,278	$ 9,431,450	$ 146,988,728

See independent auditor's report.

Services	Supporting Services			
Capacity Building	Administrative Support	Donor Services	2017 Totals	2016 Totals
$ 2,565	$ 523,837	$ 411,387	$ 1,370,134	$ 1,326,590
176	35,850	28,154	93,397	95,467
426	86,999	69,387	215,219	254,842
3,167	646,686	508,928	1,678,750	1,676,899
-	-	190,754	191,014	249,028
-	-	17,471	17,471	15,889
-	-	11,274	16,212	15,514
28,999	88,605	6,662	194,373	127,163
-	200	106,945	227,560	170,234
3	654	25,605	33,534	32,107
132	26,891	47,900	117,431	91,405
64,973	13,507	10,607	97,386	99,160
74,966	29,088	2,887	106,941	68,183
8,257	7,875	13,535	39,220	48,384
7	1,471	1,156	3,428	8,239
1,433	10,167	11,900	29,774	29,888
11	2,288	4,452	8,659	7,592
21,071	25,904	44,796	108,283	55,903
-	-	-	10,621	10,112
117,844	293	231	118,652	126,349
8,946	-	-	8,946	6,523
-	108	4,783	5,407	10,456
-	9	2,862	8,312	9,577
84,235	6,868	5,393	101,591	105,087
414,044	860,614	1,018,141	3,123,565	2,963,692
(100,295)	91,238	9,057	-	-
177,216	68,763	6,826	252,805	237,704
$ 490,965	$ 1,020,615	$ 1,034,024	$ 3,376,370	$ 3,201,396

See independent auditor's report.

The Foundation's functional expense categories are described as follows:

Program Services:

- *Competitive Grant Making* - includes expenses associated with the grant awards process and expenses necessary to administer the allocation of discretionary (unrestricted) funds disbursed on a yearly basis. These funds are awarded based on an evaluation process in which not-for-profit (i.e., 501(c)(3)) organizations submit proposals that are reviewed by staff and that are recommended to the grant making committee. The final approval is made by the Foundation's Board.

- *Noncompetitive Grant Making* - includes expenses associated with the grant awards process and the expenses necessary to administer the distribution of restricted funds, including those that have been designated (i.e., designated grants) to an organization or for a specific purpose, as well as those that are based on the suggestion of a donor designation (i.e., donor-advised grants).

- *Capacity Building* - includes expenses associated with the operation and maintenance of the Foundation's facilities as it relates to the promotion of its mission in supporting other not-for-profit organizations.

Supporting Services:

- *Administrative Support* - includes expenses incurred to support the Foundation's mission and program services beyond grant making.

- *Donor Services* – includes development and special program expenses to develop new sources of funds to further the Foundation's mission and to ensure the future sustainability of the Foundation in the community.

See independent auditor's report.