THE JAMES IRVINE FOUNDATION

FINANCIAL STATEMENTS

December 31, 2017 and 2016

THE JAMES IRVINE FOUNDATION

FINANCIAL STATEMENTS
December 31, 2017 and 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION 2

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS 3

STATEMENTS OF CASH FLOWS 4

NOTES TO FINANCIAL STATEMENTS 5

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The James Irvine Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The James Irvine Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The James Irvine Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

San Francisco, California
June 13, 2018

THE JAMES IRVINE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash – interest-bearing deposits	$ 71,191	$ 46,823
Collateral under securities lending program	47,333,277	94,121,420
Receivable from sales/redemptions of investments	3,863,653	6,796,758
Interest and dividends receivable	1,376,157	1,471,137
Investments—including $45,636,440 and $90,170,106 of securities loaned for 2017 and 2016, respectively, at fair value	2,315,510,555	2,108,500,876
Property and equipment, net	1,613,153	2,025,710
Other assets	1,326,597	1,711,332
Total assets	$ 2,371,094,583	$ 2,214,674,056
LIABILITIES AND NET ASSETS		
Liabilities:		
Payable for purchases of securities	$ 587,830	$ 3,449,761
Payable on line of credit	10,000,000	-
Payable under securities lending program	47,333,277	94,121,420
Accounts payable and other accrued liabilities	4,750,043	5,438,404
Deferred federal excise taxes	12,726,000	9,064,000
Grants payable, net	50,191,851	49,258,522
Total liabilities	125,589,001	161,332,107
Net assets—unrestricted	2,245,505,582	2,053,341,949
Total liabilities and net assets	$ 2,371,094,583	$ 2,214,674,056

See accompanying notes to the financial statements.

THE JAMES IRVINE FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2017 and 2016

	2017	2016
Investment income:		
Interest	$ 5,190,517	$ 6,735,791
Dividends and other income	7,511,720	8,122,346
Securities lending income	205,591	238,909
Investment income before net realized and unrealized gains on investments	12,907,828	15,097,046
Net realized and unrealized gains on investments	298,597,215	89,825,156
Total investment income	311,505,043	104,922,202
Investment expenses	(9,428,626)	(9,575,352)
Net investment income before excise and income taxes	302,076,417	95,346,850
Excise and income taxes expense	(6,116,334)	(860,249)
Net investment income	295,960,083	94,486,601
Expenses:		
Grants approved by the Board of Directors	90,943,023	83,113,562
Conditional grant activity and other, net	292,823	(254,842)
Grant expense, net	91,235,846	82,858,720
Program administration expenses	12,560,604	13,988,687
Total noninvestment expenses	103,796,450	96,847,407
Change in unrestricted net assets	192,163,633	(2,360,806)
Net assets, beginning of year	2,053,341,949	2,055,702,755
Net assets, end of year	$ 2,245,505,582	$ 2,053,341,949

See accompanying notes to the financial statements.

THE JAMES IRVINE FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets, unrestricted	$ 192,163,633	$ (2,360,806)
Adjustments to reconcile change in net assets, unrestricted to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	471,340	603,461
Loss on disposal of property and equipment	10,694	-
Net realized and unrealized gains on investments	(298,597,215)	(89,825,156)
Changes in operating assets and liabilities:		
Interest and dividends receivable	94,980	(68,372)
Other assets	384,735	(33,410)
Accounts payable and other accrued liabilities	(688,361)	240,296
Deferred federal excise taxes	3,662,000	(462,332)
Grants payable	933,329	(2,853,736)
Net cash used in operating activities	(101,564,865)	(94,760,055)
Cash flows from investing activities:		
Purchases of investments	(992,229,385)	(644,654,557)
Proceeds from sales, maturities, and distributions from investments	1,083,888,095	739,450,720
Change in collateral under securities lending program	46,788,143	(31,550,593)
Purchases of property and equipment	(69,477)	(46,673)
Net cash provided by investing activities	138,377,376	63,198,897
Cash flows from financing activities:		
Change in payable under securities lending program	(46,788,143)	31,550,593
Cash received from line of credit	40,052,000	32,700,000
Cash paid on line of credit	(30,052,000)	(32,700,000)
Net cash (used in) provided by financing activities	(36,788,143)	31,550,593
Net change in cash	24,368	(10,565)
Cash, beginning of year	46,823	57,388
Cash, end of year	$ 71,191	$ 46,823
Supplemental disclosure of cash flow information:		
Excise and income taxes paid	$ 2,465,863	$ 1,389,170
Interest paid	$ 82,152	$ 62,904

See accompanying notes to the financial statements.

NOTE 1 - ORGANIZATION

The James Irvine Foundation (the "Foundation") is a private foundation dedicated to expanding opportunity for the people of California. Until 2016, the Foundation's grantmaking was organized around three program areas: Arts, Youth, and California Democracy.

In December 2015, the Foundation's Board of Directors approved plans for future grantmaking to expand economic and political opportunity for Californians who are working but struggling with poverty. The basis for this change emerged after meetings with hundreds of diverse community and political leaders across the state, whose stories reinforced research findings on the fact that economic and political opportunity are not accessible for millions of hardworking Californians.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. At December 31, 2017 and 2016, the Foundation had no temporarily or permanently restricted net assets.

Cash: Consists of interest bearing deposits held in banks.

Investments: The Foundation maintains the following categories of investments:

- Short-term, fixed-income investments include commercial paper, demand notes, foreign currency, and corporate and government bonds.
- Equity securities primarily consist of investments in both domestic and foreign corporate common stock securities.
- Fixed-income securities include holdings in corporate and municipal bonds, as well as U.S. government securities, various mortgage- and asset-backed bonds, and convertible corporate debentures.
- Alternative investments represent investments in limited partnerships, limited liability companies, onshore and offshore hedge funds, private real estate investment trusts, and other nonpublic investments.
- Derivatives are financial instruments or contracts whose values depend on or are derived from (in whole or in part) the variability of one or more underlying instruments and may include forward currency contracts, futures contracts, and total return swaps.

Derivatives: The Foundation does not designate any derivatives as hedges. Thus, the changes in fair value of derivative instruments are reported in net realized and unrealized gains (losses) on investments in the statements of activities and changes in net assets. Derivative investments are discussed further in Note 3.

Property and Equipment: Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term.

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants: Grants are expensed when the unconditional promise to give is approved by the Board of Directors. Conditional promises to give, consisting primarily of grants with matching requirements, are recognized as grant expense in the period in which the recipient meets the terms of the condition. Such conditions may also include other requirements, such as the requirement for a newly formed organization to successfully establish its 501(c)(3) status before the grant becomes unconditional. Grant refunds are recorded as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded.

Functional Expense Allocations: Expenses, such as salaries and payroll taxes, travel and meeting expense, depreciation and amortization, and rent, are allocated among investment expenses and program administration expenses based on employee ratios and estimates made by the Foundation's management. Investment expenses include investment management fees, custodial fees, and an allocation of the Foundation's operating expenses.

Retirement plan: The Foundation provides a defined contribution plan for all its employees. The plan is funded by the Foundation and maintained by an independent trustee. The Foundation's contributions to this plan were approximately $1,180,000 and $1,205,000 in 2017 and 2016, respectively.

The Foundation also has an unfunded deferred compensation plan for a select group of highly compensated or management employees under Internal Revenue Code (the "Code") Section 457(b). Subject to statutory limits, the Foundation contributes to the plan on behalf of eligible employees who did not receive their full contributions to the defined contribution plan due to the Internal Revenue Service limits covering that plan. At December 31, 2017 and 2016, the Foundation held approximately $852,000 and $723,000, respectively, in other assets that are designated to pay future deferred compensation liabilities under the plan of approximately $852,000 and $723,000, respectively, that are included in accounts payable and other accrued liabilities in the statements of financial position.

Estimated Fair Value of Financial Instruments: The carrying amounts of cash, receivable from sales of securities, interest and dividends receivable, accounts payable and other accrued liabilities, and payable for purchases of securities approximate fair value because of the short maturity of these financial instruments. The carrying amount of grants payable approximates fair value because such liabilities are recorded at estimated net present value based on anticipated future cash flows.

Investments are held at estimated fair value. In general, where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund-provided net asset values per share or ownership interest (NAV) as allowed under the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Fair value is discussed further in Note 3.

Concentration of Risks: In the ordinary course of business, the Foundation manages a variety of risks, including market risk and credit risk. Market conditions such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in law, and trade barriers may affect the level and volatility of the prices of financial instruments and the liquidity of the Foundation's investments. Market risk is a risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements and volatility in commodity or security prices. The Foundation is also subject to credit and counterparty risks when entering into transactions, including, cash, cash equivalents, investments and derivatives.

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation maintains cash and cash equivalents with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits.

Tax Exempt Status: The Foundation is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Code and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code.

Income Taxes: The Foundation recognizes and measures its unrecognized tax benefits in accordance with ASC 740-10, which requires the Foundation to determine whether tax positions of the Foundation are "more likely than not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2017, the Foundation has analyzed the inventory of tax positions taken with respect to all applicable income tax issues for all open tax years (in each respective jurisdiction) and has concluded that no reserve for uncertain tax positions is required.

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates reflected in the Foundation's financial statements include the determination of the fair value of investments (including alternative investments), the discount on grants payable, the calculation of federal excise tax expense, and the functional expense allocation. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous U.S. GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2019. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Topic 958.* The amendments in this update affect not-for-profit entity's (NFP's) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

Subsequent Events: The Foundation has evaluated subsequent events through June 13, 2018, the date the financials were available to be issued.

(Continued)

NOTE 3 - INVESTMENTS

Net realized and unrealized gains (losses) on investments for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Net realized gains on investments sold	$ 115,491,473	$ 112,947,822
Net unrealized gains (losses) on investments	183,105,742	(23,122,666)
Net realized and unrealized gains on investments	$ 298,597,215	$ 89,825,156

Fair Value Measurements - The Foundation is subject to the provisions of ASC 820-10, *Fair Value Measurement*. ASC 820-10 defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. ASC 820 permits the Foundation, as a practical expedient, to estimate the fair value of certain investments based on their NAV, if the NAV of such investments is calculated in a manner consistent with the measurement principles of ASC 946, *Financial Services—Investment Companies* in arriving at their reported NAV.

ASC 820-10 also establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories. The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. This category includes active exchange traded money market funds, equity securities and U.S. Treasury securities.

Level II – Pricing inputs for assets held as collateral under securities lending programs and fixed income securities are other than quoted prices in active markets for identical instruments. Fair value for these investments is primarily determined using models or other valuation methodologies that utilize market prices of similar securities as inputs to determine fair value. These inputs are either directly or indirectly observable as of the reporting date.

Level III – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format. Reported valuations of Level III securities may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The financial assets carried in the statements of financial position by level within the valuation hierarchy as of December 31, 2017, are as follows:

	Fair Value Measurements 2017				
	Level I	Level II	Level III	Other[1]	Total
Assets:					
Collateral under securities lending program:					
Cash fund	$ -	$ 23,458,755	$ -	$ -	$ 23,458,755
Non-cash	-	23,874,522	-	-	23,874,522
Total collateral under securities lending program	-	47,333,277	-	-	47,333,277
Short-term, fixed-income investments	-	37,981,384	-	-	37,981,384
Equity securities	271,467,311	-	402,388	472,340,891[2]	744,210,590
Fixed-income securities	14,455,279	114,943,958	-	-	129,399,237
Alternative investments:					
Private investments	-	-	-	788,791,572	788,791,572
Special situations	-	-	-	363,374,666	363,374,666
Stable value	-	-	-	251,753,106	251,753,106
Total investments	285,922,590	152,925,342	402,388	1,876,260,235	2,315,510,555
Total assets	$ 285,922,590	$ 200,258,619	$ 402,388	$ 1,876,260,235	$ 2,362,843,832

[1] Investments using NAV as a practical expedient are not included in the fair value hierarchy.

[2] These investments represent holdings in commingled trust funds that invest primarily in U.S and international equity securities. The Foundation's ability to redeem these investments ranges from daily to quarterly.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The financial assets carried in the statements of financial position by level within the valuation hierarchy as of December 31, 2016, are as follows:

	Fair Value Measurements 2016				
	Level I	Level II	Level III	Other[1]	Total
Assets:					
Collateral under securities lending program:					
Cash fund	$ -	$ 42,556,069	$ -	$ -	$ 42,556,069
Non-cash	-	51,565,351	-	-	51,565,351
Total collateral under securities lending program	-	94,121,420	-	-	94,121,420
Short-term, fixed-income investments	-	25,451,061	-	-	25,451,061
Equity securities	299,365,831	-	881,268	333,383,460[2]	633,630,559
Fixed-income securities	2,507,275	124,265,164	-	-	126,772,439
Alternative investments:					
Private investments	-	-	-	809,109,637	809,109,637
Special situations	-	-	-	291,992,326	291,992,326
Stable value	-	-	-	221,544,854	221,544,854
Total investments	301,873,106	149,716,225	881,268	1,656,030,277	2,108,500,876
Total assets	$ 301,873,106	$ 243,837,645	$ 881,268	$ 1,656,030,277	$ 2,202,622,296

Quantitative information regarding unobservable inputs used in determining fair value of certain investments classified as Level III as of December 31, 2017, is presented as follows:

Asset	Fair Value	Valuation Technique	Unobservable Input	Range
Equity securities	$ 402,388	Distribution price	Distribution price	NA

Quantitative information regarding unobservable inputs used in determining fair value of certain investments classified as Level III as of December 31, 2016, is presented as follows:

Asset	Fair Value	Valuation Technique	Unobservable Input	Range
Equity securities	$ 881,268	Distribution price	Distribution price	NA

(Continued)

NOTE 3 - INVESTMENTS (Continued)

At December 31, 2017 and 2016, the Foundation held a total of $402,388 and $881,268, respectively, in investments classified as Level III investments in equity securities, whose values have been estimated by the Foundation in the absence of readily ascertainable market values. These securities have been distributed to the Foundation by one of the Foundation's alternative investment funds. The Foundation's estimate of fair value is based on the fair value of the security on the date it was distributed to the Foundation. Management believes the distribution price approximates fair value.

At December 31, 2017 and 2016, the Foundation held a total of $1,403,919,344 and $1,322,646,817, respectively, in investments in private equity funds, hedge funds, venture capital funds and other alternatives, which are collectively referred to as "alternative investments", whose values have been estimated by the Foundation in the absence of readily ascertainable market values. The Foundation's estimate of fair value is generally based on the NAV provided to the Foundation by each alternative investment fund, supported by the independently audited financial statements of the alternative investment fund, when available. For those alternative investment funds for which independently audited financial statements in accordance with accounting principles generally accepted in the United States of America are not provided, the Foundation bases its estimate of fair value on the unaudited information calculated by the respective alternative investment fund's management and reported to the Foundation.

Total realized and unrealized gains and losses recorded for Level III investments, if any, are reported in "Net realized and unrealized gains on investments" in both the statements of activities and changes in net assets and the statements of cash flows.

There were no significant transfers between Level I, Level II, and Level III of the fair value hierarchy during 2017 or 2016.

Alternative Investment Capital Contributions: The Foundation made capital contributions to alternative investments as called for by the investment agreements in 2017 and 2016, as follows:

Investment Strategies	2017	2016
Private investments	$ 85,159,927	$ 62,771,877
Special situations	92,485,915	36,659,417
Stable value	80,000,000	26,000,000
Total	$ 257,645,842	$ 125,431,294

NOTE 3 - INVESTMENTS (Continued)

Alternative Investment Strategy and Redemption Information**:** The investment strategy types, commitments to additional capital contributions, and various features of the alternative investment portfolio as of December 31, 2017, are as follows:

	Fair Value	Unfunded Commitments
Private investments (a)	$ 788,791,572	$ 248,792,666
Special situations (b)	363,374,666	113,087,567
Stable value (c)	251,753,106	-
Total	$ 1,403,919,344	$ 361,880,233

(a) These funds invest in various public and private companies, both domestic and international and in U.S. and international commercial real estate, private debt and natural resources. With the exception of two funds, these investments can never be redeemed. Rather, proceeds will be received when the funds' assets are liquidated. It is estimated that the underlying assets of all but those two funds will be liquidated over the next 1 - 11 years (by the year 2018 or 2028), including likely extension agreements. Of the two remaining funds, one extends until the year 2039 and the other indefinitely. One of the latter two funds resets every four years, at which time the Foundation can opt out with proper notice.

(b) These funds primarily invest both long and short in U.S. and international equity or credit securities, as well as in various timberland holdings, both domestic and international, along with other types of investments. Some of these investments contain withdrawal restrictions up to three years. Some of the funds in partnership formats do not allow for redemption. Rather, proceeds will be received when the funds' assets are liquidated. For the funds that are eligible for redemption, the redemption frequency varies from quarterly to annually, with a required redemption notice period between 45 days and 180 days.

(c) These funds invest both long and short, primarily in U.S. and international equity or credit securities or derivatives based on those securities. Management of the hedge funds has the ability to shift investment strategies. The redemption frequency varies from monthly to annually, with a required redemption notice period between 45 days and 90 days.

Derivatives: The Foundation accounts for derivative financial instruments as either assets or liabilities measured at fair value.

The Foundation uses derivative instruments to manage its exposure to market risks, including inflation, for income enhancement and to provide diversification without actual ownership of the underlying asset. The Foundation's management believes the use of such instruments in its investment management program is appropriate in providing for the long- and short-term financial needs of the Foundation. Though the use of these instruments reduces certain investment risks and generally adds value to the portfolio, the instruments themselves do involve some investment and counterparty risk.

NOTE 3 - INVESTMENTS (Continued)

Investment managers retained by the Foundation may enter into forward currency contracts with various counterparties, primarily to facilitate securities settlements. Forward currency contracts are over-the-counter contracts for delayed delivery of currency in which the buyer agrees to buy and the seller agrees to deliver a specified currency at a specified price on a specified date. Because the terms of forward contracts are not standardized, they are not traded on organized exchanges and generally can be terminated or closed out only by the agreement of both parties to the contract. During the period the forward contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the forward contract is closed, the Foundation records a realized gain or loss equal to the difference between the proceeds from or the cost of the closeout of the contract and the original contract price. As of December 31, 2017 and 2016, forward currency contract activity is not material to the financial statements.

The Foundation may enter into futures contracts to manage exposure to financial markets. Futures contracts are standardized contracts traded on an exchange, to buy or sell a particular commodity or financial instrument at a predetermined price in the future. During the period the futures contracts are open, changes in the values of the contracts are recognized as unrealized gains or losses. When the futures contracts are closed, the Foundation records a realized gain or loss equal to the difference between the proceeds from or the cost of the closeout and the original contract price. At December 31, 2017 and 2016, the Foundation was not party to any futures contracts.

The Foundation may also enter into swap contracts as part of its investment strategy. Total return swaps involve the exchange by the Foundation with another party of respective commitments to pay or receive interest or total return based on the value of a security, index, or some other instrument applied to a notional amount throughout the lives of the agreements. Swaps may involve greater risks than if the Foundation had invested in the underlying security or index directly. In addition to the general market risks, swaps may be subject to greater liquidity risk and counterparty credit risk. The Foundation enters into swaps with counterparties that it considers to be well established and that meet certain criteria for financial strength. The notional amount of swaps is not recorded in the financial statements. Swaps are carried at fair value in the statements of financial position. The change in fair value is recorded as an unrealized gain or loss until the termination of the swap, at which time a realized gain or loss is recorded.

The notional and fair values of derivative investments as of December 31, 2017 and 2016 and the realized or unrealized gains and losses on derivatives for 2017 and 2016 were not material to the financial statements.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 and 2016, consist of the following:

	2017	2016
Office furniture and equipment	$ 1,493,030	$ 2,214,691
Leasehold improvements	2,984,102	2,988,382
Total	4,477,132	5,203,073
Accumulated depreciation and amortization	(2,863,979)	(3,177,363)
Property and equipment, net	$ 1,613,153	$ 2,025,710

(Continued)

NOTE 5 - GRANTS

The Foundation's grant activity for the years ended December 31, 2017 and 2016, is summarized as follows:

	2017	2016
Grants approved by the Board of Directors	$ 90,943,023	$ 83,113,562
Add (deduct) conditional grant activity and other:		
Conditional grants made	(575,000)	(620,000)
Conditions met on conditional grants made in prior years	445,000	-
Change in discounts on multiyear grants, net	(40,850)	(79,124)
Other	(19,835)	-
Matching gifts program	483,508	444,282
Conditional grant activity and other, net	292,823	(254,842)
Grant expense, net	$ 91,235,846	$ 82,858,720

Future minimum grant disbursements as of December 31, 2017, are scheduled as follows:

	Unconditional	Conditional
2018	$ 44,016,513	$ 750,000
2019	5,883,334	-
2020	450,000	-
Total	50,349,847	750,000
Less discounts on multiyear grants	(157,996)	-
Grants payable, net	$ 50,191,851	$ 750,000

NOTE 6 - LINE OF CREDIT

In June 2011, the Foundation obtained a $15,000,000 unsecured line of credit (the "Line") from a major commercial bank. The unsecured Line bears interest rates selected by the Foundation based on prime or London InterBank Offered Rate, as defined, as well as nonusage fees. The Line's current expiration date is November 30, 2018 and is subject to standard renewal practices and covenants over financial reporting, liquidity, and customary corporate governance matters. During 2016 and 2017 the Line was temporarily increased at times, most recently in December 2017 when the Line was amended to $20,000,000 with nonusage fee of 0.4% per annum until November 2018.

Interest expense and nonusage fees totaled approximately $82,000 and $63,000 for the years ended December 31, 2017 and 2016, respectively. The outstanding balance of $10,000,000 at December 31, 2017, is included in the statement of financial position. There was no outstanding balance at December 31, 2016.

(Continued)

NOTE 7 - EXCISE AND INCOME TAXES

In accordance with the applicable provisions of the Code, the Foundation is subject to an excise tax of 2% (1% if minimum payout requirements prescribed by the Code are met) on its net investment income, excluding unrealized gains, as defined, and is subject to corporate income tax rates on unrelated business income. The Foundation was subject to the 1% rate in 2017 and 2016. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula.

Deferred excise taxes arise primarily from unrealized gains on investments. At December 31, 2017, deferred federal excise tax is estimated at 2%, which is the maximum rate payable.

The provision for current and deferred federal excise and income taxes for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Current	$ 2,454,334	$ 1,322,581
Deferred	3,662,000	(462,332)
Excise and income tax expense	$ 6,116,334	$ 860,249

NOTE 8 - LEASE COMMITMENTS

The Foundation leases its facilities under long-term non-cancelable operating leases in San Francisco and Los Angeles which were executed in 2012 and 2009, respectively.

Approximate future minimum lease payments, subject to adjustments based on changes in real property taxes and maintenance expenses, as of December 31, 2017, are as follows:

Years Ending December 31,	Total
2018	1,093,000
2019	1,067,000
2020	1,020,000
2021	1,037,000
2022	1,054,000
Thereafter	176,000
Total minimum payments required	$ 5,447,000

Rental expense was approximately $1,212,000 and $1,156,000 in 2017 and 2016, respectively.

(Continued)

NOTE 9 - SECURITIES LENDING

Through a securities lending program, managed by its investment custodian, the Foundation loans certain marketable securities included in its investment portfolio. The Foundation’s investment custodian has indemnified the Foundation against the counterparty risk. The custodian’s loan agreements require the borrowers to maintain collateral in the form of cash or securities equal to 102% to 105% of the fair value of the securities loaned. The Foundation maintains control over the collateral and continues to receive interest or dividends on the securities loaned. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Foundation. The Foundation has the right under the lending agreement to recover the securities from the borrower on demand. The principal risks to the Foundation of securities lending are that the yield earned on the collateral may be insufficient to cover the rebate owed to the borrower and that an investment purchased via the collateral reinvestment process may become impaired.

The value of securities on loan at December 31, 2017 and 2016, was approximately $45,636,000 and $90,170,000, respectively. The value of collateral received at December 31, 2017 and 2016, was approximately $47,333,000 and $94,121,000, respectively.