

THE COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Community Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Community Foundation, a nonprofit organization, which comprise the Statement of Financial Position as of December 31, 2017, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 auditors' 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 Community Foundation as of December 31, 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited The Community Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California

April 9, 2018

THE COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2017

With comparative totals at December 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 15,791,590	\$ 12,304,274
Grants and contributions receivable (Note 3)	1,759,285	3,731,459
Other receivables	85,917	115,048
Prepaid expenses and deposits	49,466	49,002
Investments (Note 4)	86,799,955	75,084,416
Assets held in remainder trusts (Note 5)	943,154	965,493
Furniture and equipment (Note 6)	41,063	37,927
TOTAL ASSETS	<u>\$ 105,470,430</u>	<u>\$ 92,287,619</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 187,229	\$ 127,500
Grants payable	561,485	151,181
Capital lease obligation (Note 7)	12,374	16,734
Obligation under charitable gift annuities	219,237	242,115
Custodial funds	275,916	300,458
Agency funds (Note 8)	23,335,176	19,031,643
TOTAL LIABILITIES	<u>24,591,417</u>	<u>19,869,631</u>
NET ASSETS		
Unrestricted (Note 10)	9,741,080	8,747,669
Temporarily restricted (Note 10)	71,137,933	63,670,319
TOTAL NET ASSETS	<u>80,879,013</u>	<u>72,417,988</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 105,470,430</u>	<u>\$ 92,287,619</u>

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	2017	2016
REVENUE AND SUPPORT				
REVENUE				
Unrealized gain on investments	\$ 801,117	\$ 6,190,212	\$ 6,991,329	\$ 3,333,747
Realized gain on investments	509,044	3,959,369	4,468,413	855,724
Realized and unrealized gains on investments	1,310,161	10,149,581	11,459,742	4,189,471
Interest and dividend income, net of fees	190,393	1,476,877	1,667,270	1,557,318
Investment income, net (Note 4)	1,500,554	11,626,458	13,127,012	5,746,789
Less: investment (income) from agency funds (Note 8)	-	(3,401,409)	(3,401,409)	(1,440,715)
Investment income (loss), net of fees and agency funds income	1,500,554	8,225,049	9,725,603	4,306,074
Management fees - agency funds	249,850	-	249,850	213,538
Prior years' grants returned	-	14,167	14,167	100,491
Special events - net of expenses of \$7,381	-	10,400	10,400	(60,101)
Loss on sale of fixed assets	(782)	-	(782)	-
Change in value of split-interest agreements	-	(164,237)	(164,237)	(12,330)
Total revenue	1,749,622	8,085,379	9,835,001	4,547,672
Net assets released from purpose restrictions	8,249,711	(8,249,711)	-	-
 SUPPORT				
Contributions, bequests, and grants	24,086	10,268,716	10,292,802	7,961,309
Less: support from agency funds (Note 8)	-	(2,636,770)	(2,636,770)	(2,800,028)
Total support, net	24,086	7,631,946	7,656,032	5,161,281
 TOTAL REVENUE AND SUPPORT				
	10,023,419	7,467,614	17,491,033	9,708,953
 EXPENSES				
Program services:				
Grants awarded	8,812,076	-	8,812,076	11,283,318
Less: agency fund expenses and grants awarded	(1,484,796)	-	(1,484,796)	(3,669,767)
Grants awarded, net	7,327,280	-	7,327,280	7,613,551
Grant related expenses	343,787	-	343,787	350,119
Community leadership	248,504	-	248,504	208,215
Supporting services:				
Administration	483,100	-	483,100	523,822
Development	627,337	-	627,337	632,886
 TOTAL EXPENSES				
	9,030,008	-	9,030,008	9,328,593
 CHANGES IN NET ASSETS				
	993,411	7,467,614	8,461,025	380,360
 NET ASSETS, BEGINNING OF YEAR				
	8,747,669	63,670,319	72,417,988	72,037,628
 NET ASSETS, END OF YEAR				
	\$ 9,741,080	\$ 71,137,933	\$ 80,879,013	\$ 72,417,988

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	Grants and				Total Expenses	
	Related Program Expenses	Community Leadership	Administrative	Development	2017	2016
GRANTS						
Grants awarded	\$ 7,327,280	\$ -	\$ -	\$ -	\$ 7,327,280	\$ 7,613,551
Total grants	7,327,280	-	-	-	7,327,280	7,613,551
OPERATING EXPENSES						
Salaries	191,707	135,644	231,270	352,966	911,587	949,140
Outside services	31,314	22,156	37,776	57,654	148,900	78,273
Employee benefits	24,678	17,461	29,771	45,437	117,347	118,150
Occupancy	21,827	15,444	26,331	40,187	103,789	100,050
Marketing	25,191	25,191		25,198	75,580	82,728
Payroll taxes	15,633	11,062	18,860	28,784	74,339	75,185
Travel and seminars	9,181	6,496	11,076	16,905	43,658	59,420
Miscellaneous			42,030		42,030	82,729
Dues and subscriptions	6,872	4,862	8,290	12,652	32,676	32,448
Accounting			27,000		27,000	22,000
Legal	2,500		11,871	11,871	26,242	8,203
Office expenses	4,531	3,206	5,466	8,342	21,545	26,797
Depreciation			19,146		19,146	17,934
Staff meetings	3,155	2,232	3,806	5,808	15,001	14,748
Telephone	3,118	2,206	3,762	5,741	14,827	16,798
Printing	2,210	1,564	2,666	4,069	10,509	12,005
Insurance	1,870	980	3,979	2,209	9,038	9,072
Awards and recognition				5,181	5,181	3,615
Website				2,577	2,577	4,104
Donor life insurance				1,756	1,756	1,643
Total operating expenses	343,787	248,504	483,100	627,337	1,702,728	1,715,042
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 7,671,067	\$ 248,504	\$ 483,100	\$ 627,337	\$ 9,030,008	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 7,963,670	\$ 208,215	\$ 523,822	\$ 632,886		\$ 9,328,593

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	2017	2016
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Change in net assets	\$ 8,461,025	\$ 380,360
Adjustments to reconcile change in net assets to net cash provided (used) provided by operating activities:		
Change in cash surrender value of life insurance	1,756	1,643
Depreciation expense	19,146	17,934
Loss on disposal of fixed assets	782	-
Realized (gains) on investments	(6,991,329)	(3,333,747)
Unrealized (gains) on investments	(4,468,413)	(855,724)
Change in value of split-interest agreements	164,237	12,330
(Increase) decrease in operating assets:		
Grants and contributions receivable	1,972,174	(865,979)
Other receivables	29,131	(46,580)
Prepaid expenses and deposits	(464)	(7,382)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	59,729	(52,550)
Grants payable	410,304	32,668
Agency funds	4,303,533	357,438
	3,961,611	(4,359,589)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS (TO) FROM INVESTING ACTIVITIES:		
Purchase of equipment	(23,614)	(9,849)
Proceeds from sale of investments	5,755,850	10,402,244
Purchase of investments	(6,202,171)	(8,408,719)
	(469,935)	1,983,676
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS TO FINANCING ACTIVITIES:		
Principal payments on capital lease	(4,360)	(4,088)
	(4,360)	(4,088)
NET CASH (USED) BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,487,316	(2,380,001)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,304,274	14,684,275
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 15,791,590	\$ 12,304,274
SUPPLEMENTAL DISCLOSURES:		
Operating activities reflects interest paid:	\$ 789	\$ 1,061

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Community Foundation (“the Foundation”) is a California nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and a non-private foundation under Section 509(a)(1) of the Internal Revenue Code 1986. The Foundation serves as a leader, catalyst, and resource for philanthropy and seeks to improve the lives of individuals in Riverside and San Bernardino Counties. The Foundation accomplishes this by developing partnerships with philanthropic individuals, community leaders, and the non-profit sector to ensure that together they can build permanent endowments, make prudent grants for charitable causes, be a catalyst to solve community concerns and strengthen non-profit organizations.

Established in 1941 as a community trust, it was known as the Riverside Foundation until 1983 when the name was changed to the Riverside Community Foundation. In 1997, the name became The Community Foundation of Riverside County. And in 2000 it became The Community Foundation, with the tag line, *Serving Riverside and San Bernardino Counties*. The Foundation is an independent, publicly supported philanthropic organization, founded for the purpose of improving the quality of life in the Riverside and San Bernardino Counties through grants to tax-exempt organizations and through educational scholarships.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. Consist of donations and bequests that are available for the support of the operations of the Foundation, and for discretionary and donor advised granting needs. Generally accepted accounting principles provide that when the governing body of an organization, such as a community foundation, has the unilateral power to redirect the use of donors’ contributions to another beneficiary, such contributions must be classified as unrestricted net assets. The Board of Directors of the Foundation has such power (variance power). However, the Board of Directors would exercise this authority if the stated purpose of a contribution is no longer applicable and incapable of fulfillment. It is the expressed intention of the Foundation to honor the designations of the donors.

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets for a specific purpose or are not available for use until a specific time. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets consist of contributions that are limited by donor-imposed stipulations to invest the principal in perpetuity and to expend the income by making distributions from permanently endowed funds as grants for charitable purposes. The Foundation has no permanently restricted net assets at December 31, 2017.

Grants and Contributions Receivable

All grants and contributions receivable at December 31, 2017 are expected to be collected in less than one year with the exception of the following: Evans Charitable Remainder Trust, for which the Foundation is the beneficiary following the lifetimes of one income beneficiary plus two years of distribution to a successor income beneficiary; and The William C. Hunter Charitable Lead Trust, for which the Foundation will receive annual distributions through 2026. No discount has been recorded on the receivable greater than one year, as the amount is not deemed material to the financial statements. See grants and contributions receivable details in Note 3.

Concentration of Credit Risks

The Foundation places its cash and cash equivalents in bank deposit accounts at high-credit, quality financial institutions. At times, such accounts may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Foundation has not incurred losses related to these accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investment securities, in general 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 Statement of Financial Position. The Board routinely reviews the performance of its investments.

Investments

Investments in money market funds and marketable securities are reported at their fair market values based upon published quotations. Investments for which the fair market values are not readily determinable are recorded at cost or, if received as a contribution, at their fair market values as determined at the time of the gift. Securities are generally held in custodial investment accounts administered by financial institutions. Cash and cash equivalents held at securities institutions and not used for operations are treated as investments.

continued

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Interest and dividend income is recorded when earned. Gains or losses and interest and dividend income are reflected in the Statement of Activities as net investment income (loss) (see Note 4).

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

The Foundation is required to measure contribution receivable, certain investments, and charitable gift annuities at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five hundred dollars and the useful life is greater than one year.

Since its inception, the Foundation has received donated equipment and furniture the value of which did not meet its criteria for capitalization. As such, these items were expensed when donated.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended December 31, 2017, the Foundation did not receive donated materials and/or services which met the criteria for recognition.

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

The Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing the Foundation's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Foundation uses payroll hours to allocate indirect costs.

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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could vary from those estimates.

Comparative Totals

The financial statements included certain prior-year summarized comparative information in total but not by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassification

Certain accounts from the December 31, 2016 financial statements have been reclassified for comparative purposes to conform to December 31, 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through April 9, 2018, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

3. Grants and Contribution Receivable

Grants and contributions receivable at December 31, 2017 and 2016 consist of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Evans Charitable Remainder Trust (CRT)	\$ 564,253	\$ 750,000
William C. Hunter Charitable Lead Trust (CLT)	464,335	493,193
College Futures Foundation	459,750	1,645,000
San Bernardino City Unified School District	128,148	-
County of San Bernardino	75,000	-
Other	42,699	135,704
Making Hope Happen Foundation	25,000	-
Estate of Robert A. Dailey-Dechomai	100	57,562
California Community Foundation	-	300,000
Estate of Brammer	-	250,000
The California Endowment	-	25,000
Edison International – Gala Sponsor	-	25,000
Pechanga Resort & Casino	-	25,000
Altria Client Services LLC	-	25,000
	<u>\$1,759,285</u>	<u>\$3,731,459</u>

4. Investments

Investments at December 31, 2017 and 2016 consist of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Mutual funds	\$80,565,172	\$73,372,228
Money market funds	5,987,097	1,460,582
Cash value of life insurance	194,242	195,998
Annuity contract	53,443	55,607
Real estate partnership	<u>1</u>	<u>1</u>
	<u>\$86,799,955</u>	<u>\$75,084,416</u>

Investment income, net

<u>December 31, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized gain	\$1,310,161	\$10,149,581	\$11,459,742
Interest and dividends	205,898	1,632,039	1,837,937
Less: investment fees and charges	<u>(15,505)</u>	<u>(155,162)</u>	<u>(170,667)</u>
Net investment income	<u>\$1,500,554</u>	<u>\$11,626,458</u>	<u>\$13,127,012</u>

continued

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

<u>December 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized (loss)	\$490,174	\$3,699,297	\$4,189,471
Interest and dividends	197,825	1,533,737	1,731,562
Less: investment fees and charges	<u>(16,207)</u>	<u>(158,037)</u>	<u>(174,244)</u>
Net investment income	<u>\$671,792</u>	<u>\$5,074,997</u>	<u>\$5,746,789</u>

Interest and dividend income is accrued as the income is earned. Interest and dividend income is shown on the Statement of Activities net of related investment fees of \$170,667 and \$174,244 for the years ended December 31, 2017 and 2016, respectively.

5. Split-interest Agreements

Split-interest agreements of \$943,154 and \$965,493 at December 31, 2017 and 2016, respectively, consist of charitable gift annuity agreements (“CGAs”). Under the terms of CGAs, the Foundation receives assets from the grantors and in return agrees to pay annual distributions to the grantors during their life or joint lives, if applicable, and then to the survivor for the remainder of his/her life. The Foundation records the assets received at fair value on the date of receipt and records a liability equal to the estimated present value of the future required distributions to the grantors. For CGAs with donor-directed beneficiaries, the difference between the fair value of the assets and the liabilities is included in the Statement of Activities as a temporarily restricted contribution during the year of receipt. The Foundation is to distribute the residual under these agreements to donor designated charitable causes. Adjustments to the liability to reflect the revaluation of the present value of the estimated future payments to the grantors, amortization of the discount, and revaluation of the assets are recognized as a *change in the value of the charitable gift annuity agreements* in temporarily restricted net assets class.

The Foundation also has a beneficial interest in two charitable remainder trusts of which the Foundation is the trustee. The beneficial interest is based on underlying investments. Those investments in marketable securities with readily determinable fair values and all debt instruments are valued at their current fair values. Liabilities to the beneficiaries with lead interests are based on the present value of the estimated future payments to be made less estimated return on trust assets. Income and gains and losses on trust assets and distributions to the other beneficiaries are reflected in the statement of financial position. Adjustments to the liability to reflect the revaluation of the present value of the estimated future payments to the other beneficiaries, amortization of the discount, and revaluation of the investments held by the trust are recognized as a change in the value of the charitable remainder trust agreement in the temporarily restricted net assets class.

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

6. Furniture and Equipment

Furniture and equipment at December 31, 2017 and 2016 consist of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Furniture, equipment, and software	\$ 241,116	\$ 228,251
Accumulated depreciation	<u>(200,053)</u>	<u>(190,324)</u>
	<u>\$ 41,063</u>	<u>\$ 37,927</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$19,146 and \$17,934, respectively.

7. Capital Lease Obligation

The Foundation leased a copier under a non-cancellable agreement expiring in June 2020 for a total cost of \$22,465. Depreciation for the copier amounted to \$4,493 for 2017 and \$4,493 for 2016 and is included in depreciation expense.

Future minimum payments under the lease are as follows:

<u>Year ended December 31,</u>	
2018	\$ 5,149
2019	5,149
2020	<u>3,004</u>
	13,302
Less: portion representing interest	<u>(928)</u>
Present value of net minimum lease payments	<u>\$12,374</u>

8. Agency Funds

The Foundation receives and distributes assets under certain agency and intermediary arrangements. The Foundation accepts these contributions from donors and agrees to transfer those assets, the return on investment of those assets, or both, to an entity that is specified by the donors. When a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the Foundation accounts for the transfer of such assets as a liability. The liability for such funds has been established at the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organizations. The agency fund activity at December 31, 2017 and 2016 was as follows:

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

8. Agency Funds, continued

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Beginning balances	\$19,031,643	\$18,674,205
New agency funds	2,636,770	2,800,028
Realized gain	1,203,937	242,591
Unrealized gain	1,777,962	814,991
Interest and dividends, net of bank fees	419,510	383,133
Grants awarded and expenses	(1,484,796)	(3,669,767)
Management fees	<u>(249,850)</u>	<u>(213,538)</u>
Ending balances	<u>\$23,335,176</u>	<u>\$19,031,643</u>

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Blend	\$23,890,421	\$ -	\$ -	\$23,890,421
Bonds	18,088,801			18,088,801
Growth	13,630,700			13,630,700
Allocation	10,896,280			10,896,280
Value	4,514,376			4,514,376
Emerging markets	4,022,185			4,022,185
Real estate	3,052,327			3,052,327
Hedge fund	<u>78,095,090</u>	<u>2,470,083</u>	<u>-</u>	<u>80,565,173</u>
Money market funds	5,987,097			5,987,097
Other:				
Cash value				
of life insurance			194,242	194,242
Annuity contract	<u>53,443</u>	<u>-</u>	<u>194,242</u>	<u>247,685</u>
	<u>84,135,630</u>	<u>2,470,083</u>	<u>194,242</u>	<u>86,799,955</u>
Assets held in				
remainder trusts	943,154			943,154
Contribution receivable,				
remainder trust			564,253	564,253
Contribution receivable,				
Estate of Robert				
A. Dailey-Dechomai			100	100
	<u>\$85,078,784</u>	<u>\$2,470,083</u>	<u>\$758,595</u>	<u>\$88,307,462</u>

continued

THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurements, continued

The table below presents the balances of assets measured at fair value at December 31, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Blend	\$22,905,375	\$ 63,804	\$ -	\$22,969,179
Bonds	17,016,252			17,016,252
Growth	13,257,232			13,257,232
Allocation	6,613,579			6,613,579
Value	5,584,980			5,584,980
Emerging markets	3,443,689			3,443,689
Real estate	2,602,183			2,602,183
Hedge fund		<u>1,885,134</u>		<u>1,885,134</u>
	<u>71,423,290</u>	<u>1,948,938</u>	-	<u>73,372,228</u>
Money market funds	1,460,583			1,460,583
Other:				
Cash value				
of life insurance			195,998	195,998
Annuity contract	<u>55,607</u>			<u>55,607</u>
	<u>55,607</u>	-	<u>195,998</u>	<u>251,605</u>
	<u>72,939,480</u>	<u>1,948,938</u>	<u>195,998</u>	<u>75,084,416</u>
Assets held in				
remainder trusts	965,493			965,493
Contribution receivable,				
remainder trust			750,000	750,000
Contribution receivable,				
Estate of Brammer			250,000	250,000
Contribution receivable,				
Estate of Robert				
A. Dailey-Dechomai			<u>57,562</u>	<u>57,562</u>
	<u>\$73,904,973</u>	<u>\$1,948,938</u>	<u>\$1,253,560</u>	<u>\$77,107,471</u>

The fair value of investments has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs), and quoted prices in active or inactive markets for the same or similar assets (Level 2 inputs).

The fair value of assets held in remainder trusts is measured on a recurring basis by calculating the change in value of the client's beneficial interest in the trust, which has underlying assets invested in the market (Level 1 inputs).

The fair value of the contribution receivables were measured based on information received from the trusts' attorneys and the Foundation's estimate (Level 3 inputs).

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THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurements, continued

The following table provides further details of the Level 3 fair value measurements as of December 31, 2017 and 2016:

	<u>Cash Value of Life Insurance</u>	<u>Contribution Receivable</u>	<u>Total</u>
<u>December 31, 2017</u>			
Fair value at January 1, 2017	\$195,998	\$1,057,562	\$1,253,560
Addition			-
Change in value in remainder trust		(185,747)	(185,747)
Cash received		(307,462)	(307,462)
Total loss	<u>(1,756)</u>	<u> </u>	<u>(1,756)</u>
Fair value at December 31, 2017	<u>\$194,242</u>	<u>\$ 564,353</u>	<u>\$ 758,595</u>
<u>December 31, 2016</u>			
Fair value at January 1, 2016	\$197,641	\$ 343,480	\$ 541,121
Addition		750,000	750,000
Cash received		(35,918)	(35,918)
Total loss	<u>(1,643)</u>	<u> </u>	<u>(1,643)</u>
Fair value at December 31, 2016	<u>\$195,998</u>	<u>\$1,057,562</u>	<u>\$1,253,560</u>

The gain is reported in contributions in the Statement of Activities.

10. Unrestricted and Temporarily Restricted Net Assets

Unrestricted and Temporarily restricted assets consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Undesignated	\$1,943,293	\$1,736,390
Board designated funds:		
Community impact funds	2,958,104	2,640,874
Operating reserve	861,832	754,869
Current operations	143,398	139,925
Peggy Fouke Wertz Funds	<u>3,834,453</u>	<u>3,475,611</u>
Total unrestricted net assets	<u>\$9,741,080</u>	<u>\$8,747,669</u>
Temporarily restricted		
Donor designated to meet community needs	\$67,578,417	\$58,847,641
Gift annuities and trusts	1,007,621	1,188,830
Specific grant programs	<u>2,551,895</u>	<u>3,633,848</u>
Temporarily restricted net assets	<u>71,137,933</u>	<u>63,670,319</u>
	<u>\$80,879,013</u>	<u>\$72,417,988</u>

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THE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

10. Unrestricted and Temporarily Restricted Net Assets, continued

Net assets released from program restrictions by incurring expenses satisfying the purpose as specified by donors for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Grants made to meet community needs	\$7,093,766	\$7,339,485
College Futures Foundation	994,914	837,500
County of San Bernardino contracts	101,548	96,540
Youth Grantmakers Committee	58,699	53,737
Bank of America Environmental Education Grant	784	2,467
The California Endowment	-	48,258
San Bernardino Community Clinics Grant	-	20,000
James Irvine Foundation Grants	-	985
Total net assets released	<u>\$8,249,711</u>	<u>\$8,398,972</u>

11. Retirement Plan

The Foundation has a defined contribution 401(k) profit-sharing plan covering substantially all employees with at least one-quarter year of service who have attained age 18. The plan includes non-elective safe harbor 3% contribution and a 1% of profit sharing for all participants. The contribution is made each pay period. At December 31, 2017 and 2016, the Foundation's expense for contributions to the plan totaled \$35,506 and \$28,775, respectively.

12. Commitments and Contingencies

Obligation Under an Operating Lease

The Foundation leases its administrative office space under a non-cancelable operating lease expiring in September, 2022. Future minimum payments, by year and in the aggregate under this lease, consist of the following:

<u>Year ended December 31,</u>	
2018	\$ 90,139
2019	90,619
2020	93,173
2021	95,805
2022	65,062
Thereafter	<u>434,798</u>
	<u>\$869,596</u>

Rent expense under the operating lease for the years ended December 31, 2017 and 2016 was \$103,789 and \$100,050, respectively.