

**THE COMMUNITY FOUNDATION**

---

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

## CONTENTS

---

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-18

## 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, 2016, 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, 2016, 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 Matters

#### *Summarized Comparative Information*

We have previously audited The Community Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 28, 2016. 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

March 28, 2017

# THE COMMUNITY FOUNDATION

## STATEMENT OF FINANCIAL POSITION

December 31, 2016

With comparative totals at December 31, 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,304,274	\$ 14,684,275
Grants and contributions receivable (Note 3)	3,731,459	2,865,480
Other receivables	115,048	68,468
Prepaid expenses and deposits	49,002	41,620
Investments (Note 4)	75,084,416	72,873,563
Assets held in remainder trusts (Note 5)	965,493	1,048,841
Furniture and equipment (Note 6)	37,927	46,012
<b>TOTAL ASSETS</b>	<b><u>\$ 92,287,619</u></b>	<b><u>\$ 91,628,259</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 127,500	\$ 180,050
Grants payable	151,181	118,513
Capital lease obligation (Note 7)	16,734	20,822
Obligation under charitable gift annuities	242,115	255,972
Custodial funds	300,458	341,069
Agency funds (Note 8)	19,031,643	18,674,205
<b>TOTAL LIABILITIES</b>	<b><u>19,869,631</u></b>	<b><u>19,590,631</u></b>
<b>NET ASSETS</b>		
Unrestricted (Note 10)	8,747,669	8,572,998
Temporarily restricted (Note 10)	63,670,319	63,464,630
<b>TOTAL NET ASSETS</b>	<b><u>72,417,988</u></b>	<b><u>72,037,628</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 92,287,619</u></b>	<b><u>\$ 91,628,259</u></b>

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

**THE COMMUNITY FOUNDATION**

STATEMENT OF ACTIVITIES

For the year ended December 31, 2016

With comparative totals for the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
<b>REVENUE AND SUPPORT</b>				
<b>REVENUE</b>				
Realized gain on investments	\$ 104,582	\$ 751,142	\$ 855,724	\$ 1,712,661
Unrealized gain (loss) on investments	385,592	2,948,155	3,333,747	(5,438,585)
Realized and unrealized gains on investments	490,174	3,699,297	4,189,471	(3,725,924)
Interest and dividend income, net of fees	181,618	1,375,700	1,557,318	1,519,285
Investment income (loss), net (Note 4)	671,792	5,074,997	5,746,789	(2,206,639)
Less: investment (income) loss from agency funds (Note 8)		(1,440,715)	(1,440,715)	582,400
Investment income (loss), net of fees and agency funds income	671,792	3,634,282	4,306,074	(1,624,239)
Prior years' grants returned	334	100,157	100,491	78,778
Management fees - agency funds	213,538		213,538	201,542
Special events - net of expenses of \$115,952		(60,101)	(60,101)	15,275
Change in value of split-interest agreements		(12,330)	(12,330)	(43,517)
<b>TOTAL REVENUE</b>	<u>885,664</u>	<u>3,662,008</u>	<u>4,547,672</u>	<u>(1,372,161)</u>
Net assets released from purpose restrictions	8,398,972	(8,398,972)	-	-
<b>SUPPORT</b>				
Contributions, bequests, and grants	218,628	7,742,681	7,961,309	16,662,759
Less: support from agency funds (Note 8)		(2,800,028)	(2,800,028)	(4,858,834)
<b>TOTAL SUPPORT, NET</b>	<u>218,628</u>	<u>4,942,653</u>	<u>5,161,281</u>	<u>11,803,925</u>
<b>TOTAL REVENUE AND SUPPORT</b>	<u>9,503,264</u>	<u>205,689</u>	<u>9,708,953</u>	<u>10,431,764</u>
<b>EXPENSES</b>				
Program services:				
Grants awarded	11,283,318		11,283,318	8,004,771
Less: agency fund expenses and grants awarded	(3,669,767)		(3,669,767)	(1,260,493)
Grants awarded, net	7,613,551	-	7,613,551	6,744,278
Grant related expenses	350,119		350,119	316,041
Community leadership	208,215		208,215	214,118
Supporting services:				
Administration	523,822		523,822	377,613
Development	632,886		632,886	587,273
<b>TOTAL EXPENSES</b>	<u>9,328,593</u>	<u>-</u>	<u>9,328,593</u>	<u>8,239,323</u>
<b>CHANGES IN NET ASSETS</b>	174,671	205,689	380,360	2,192,441
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>8,572,998</u>	<u>63,464,630</u>	<u>72,037,628</u>	<u>69,845,187</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 8,747,669</u>	<u>\$ 63,670,319</u>	<u>\$ 72,417,988</u>	<u>\$ 72,037,628</u>

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

**THE COMMUNITY FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016

With comparative totals for the year ended December 31, 2015

GRANTS	Grants and Related Program Expenses	Community Leadership	Administrative	Development	Total Expenses	
					2016	2015
Grants awarded	\$ 7,613,551	\$ -	\$ -	\$ -	\$ 7,613,551	\$ 6,744,278
<b>TOTAL GRANTS</b>	7,613,551	-	-	-	7,613,551	6,744,278
<b>OPERATING EXPENSES</b>						
Salaries	197,516	119,022	241,082	391,520	<b>949,140</b>	843,650
Employee benefits	24,587	14,816	30,010	48,737	<b>118,150</b>	96,976
Occupancy	19,810	9,905	38,559	31,776	<b>100,050</b>	88,155
Miscellaneous			82,729		<b>82,729</b>	13,049
Marketing	27,573	27,573		27,582	<b>82,728</b>	105,788
Outside services	28,761	7,840	15,881	25,791	<b>78,273</b>	60,510
Payroll taxes	15,646	9,428	19,097	31,014	<b>75,185</b>	68,221
Travel and seminars	12,365	7,451	15,093	24,511	<b>59,420</b>	62,658
Dues and subscriptions	6,752	4,069	8,242	13,385	<b>32,448</b>	31,961
Office expenses	5,309	2,650	10,328	8,510	<b>26,797</b>	22,204
Accounting			22,000		<b>22,000</b>	24,000
Depreciation			17,934		<b>17,934</b>	17,346
Telephone	3,498	2,106	4,266	6,928	<b>16,798</b>	15,794
Staff meetings	3,069	1,849	3,746	6,084	<b>14,748</b>	10,572
Printing	2,498	1,506	3,049	4,952	<b>12,005</b>	14,558
Insurance			9,072		<b>9,072</b>	8,439
Legal	2,735		2,734	2,734	<b>8,203</b>	4,564
Website				4,104	<b>4,104</b>	1,800
Awards and recognition				3,615	<b>3,615</b>	3,450
Donor life insurance				1,643	<b>1,643</b>	1,350
<b>TOTAL OPERATING EXPENSES</b>	350,119	208,215	523,822	632,886	<b>1,715,042</b>	1,495,045
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b>\$ 7,963,670</b>	<b>\$ 208,215</b>	<b>\$ 523,822</b>	<b>\$ 632,886</b>	<b>\$ 9,328,593</b>	
TOTAL 2015 FUNCTIONAL EXPENSES	<b>\$ 7,060,319</b>	<b>\$ 214,118</b>	<b>\$ 377,613</b>	<b>\$ 587,273</b>		<b>\$ 8,239,323</b>

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

**THE COMMUNITY FOUNDATION**

STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

With comparative totals for the year ended December 31, 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 380,360	\$ 2,192,441
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Change in cash surrender value of life insurance	1,643	1,350
Depreciation expense	17,934	17,346
Realized (gains) on investments	(855,724)	(1,712,661)
Unrealized (gain) loss on investments	(3,333,747)	5,438,585
Change in value of split-interest agreements	12,330	43,517
(Increase) decrease in operating assets:		
Grants and contributions receivable	(865,979)	(1,888,775)
Other receivables	(46,580)	(41,447)
Prepaid expenses and deposits	(7,382)	(7,543)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(52,550)	73,162
Grants payable	32,668	(4,476)
Agency funds	357,438	2,814,400
	<b>(4,359,589)</b>	<b>6,925,899</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(9,849)	(5,406)
Proceeds from sale of investments	10,402,244	14,297,141
Purchase of investments	(8,408,719)	(18,426,656)
	<b>1,983,676</b>	<b>(4,134,921)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on capital lease	(4,088)	(4,922)
	<b>(4,088)</b>	<b>(4,922)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,380,001)</b>	<b>2,786,056</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>14,684,275</b>	<b>11,898,219</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 12,304,274</b>	<b>\$ 14,684,275</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Operating activities reflects interest paid:	<b>\$ 1,061</b>	<b>\$ 505</b>
Noncash investing and financing transaction:		
Lease of equipment		
Equipment	-	22,465
Capital lease obligation	-	(22,465)
	<b>\$ -</b>	<b>\$ -</b>

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, *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, 2016.

#### Grants and Contributions Receivable

All grants and contributions receivable at December 31, 2016 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 at 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, 2016, 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, 2015, from which the summarized information was derived.

#### **Reclassification**

Certain accounts from the December 31, 2015 financial statements have been reclassified for comparative purposes to conform to December 31, 2016 presentation.

#### **Subsequent Events**

Management has evaluated subsequent events through March 28, 2017, 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.

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 3. Grants and Contribution Receivable

Grants and contributions receivable at December 31, 2016 and 2015 consist of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
College Futures Foundation	\$1,645,000	\$2,100,000
Evans Charitable Remainder Trust (CRT)	750,000	-
William C. Hunter Charitable Lead Trust (CLT)	493,193	-
California Community Foundation	300,000	-
Estate of Brammer	250,000	250,000
Other	135,704	7,000
Estate of Robert A. Dailey-Dechomai	57,562	93,480
The California Endowment	25,000	340,000
Edison International – Gala Sponsor	25,000	-
Pechanga Resort & Casino	25,000	-
Altria Client Services LLC	25,000	-
County of San Bernardino	-	75,000
	<u>\$3,731,459</u>	<u>\$2,865,480</u>

### 4. Investments

Investments at December 31, 2016 and 2015 consist of the following:

	<u>December 31, 2016</u>
Mutual funds	\$73,372,228
Money market funds	1,460,582
Cash value of life insurance	195,998
Annuity contract	55,607
Real estate partnership	<u>1</u>
	<u>\$75,084,416</u>
	<u>December 31, 2015</u>
Mutual funds	\$67,998,855
Money market funds	4,617,751
Cash value of life insurance	197,641
Annuity contract	59,315
Real estate partnership	<u>1</u>
	<u>\$72,873,563</u>

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 4. Investments, continued

#### Investment income, net

	<u>December 31, 2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized gain	\$ 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>

  

	<u>December 31, 2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net realized and unrealized (loss)	\$(415,537)	\$(3,310,387)	\$(3,725,924)
Interest and dividends	204,325	1,505,592	1,709,917
Less: investment fees and charges	<u>(19,318)</u>	<u>(171,314)</u>	<u>(190,632)</u>
Net investment income	<u>\$(230,530)</u>	<u>\$(1,976,109)</u>	<u>\$(2,206,639)</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 \$174,244 and \$190,632 for the years ended December 31, 2016 and 2015, respectively.

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 5. Split-interest Agreements

Split-interest agreements of \$965,493 and \$1,048,841 at December 31, 2016 and 2015, 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.

### 6. Furniture and Equipment

Furniture and equipment at December 31, 2016 and 2015 consist of the following:

	<b>December 31,</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Furniture, equipment, and software	\$ 228,251	\$ 256,172
Accumulated depreciation	<u>(190,324)</u>	<u>(210,160)</u>
	<b><u>\$ 37,927</u></b>	<b><u>\$ 46,012</u></b>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$17,934 and \$17,346, respectively.

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 7. Capital Lease Obligation

The Foundation leased a copier under a non-cancellable agreement expiring in June 2020 for a total cost of \$25,746. Depreciation for the copier amounted to \$4,493 for 2016 and \$5,525 for 2015 and is included in depreciation expense.

Future minimum payments under the lease are as follows:

<u>Year ended December 31,</u>	
2017	\$ 5,149
2018	5,149
2019	5,149
2020	<u>3,004</u>
	18,451
Less: portion representing interest	<u>(1,717)</u>
Present value of net minimum lease payments	<u>\$16,734</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, 2016 and 2015 was as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Beginning balances	\$18,674,205	\$15,859,805
New agency funds	2,800,028	4,858,834
Realized gain	242,591	431,415
Unrealized gain (loss)	814,991	(1,384,569)
Interest and dividends, net of bank fees	383,133	370,755
Grants awarded and expenses	(3,669,767)	(1,260,493)
Management fees	<u>(213,538)</u>	<u>(201,542)</u>
Ending balances	<u>\$19,031,643</u>	<u>\$18,674,205</u>

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### 9. Fair Value Measurements

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>-</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>-</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>

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, 2015 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual Funds:				
Blend	\$20,731,863	\$ 95,029	\$ -	\$20,826,892
Bonds	16,796,790			16,796,790
Growth	11,968,108			11,968,108
Allocation	5,802,146			5,802,146
Value	4,959,301			4,959,301
Real Estate	3,014,044			3,014,044
Emerging Markets	2,933,584			2,933,584
Hedge Fund		<u>1,697,991</u>		<u>1,697,991</u>
	<u>66,205,836</u>	<u>1,793,020</u>	-	<u>67,998,856</u>
Money Market Funds	4,617,751			4,617,751
Other:				
Cash value				
of life insurance			197,641	197,641
Annuity Contract	<u>59,315</u>			<u>59,315</u>
	<u>59,315</u>	-	<u>197,641</u>	<u>256,956</u>
	<u>70,882,902</u>	<u>1,793,020</u>	<u>197,641</u>	<u>72,873,563</u>
Assets held in				
remainder trusts	1,048,841			1,048,841
Contribution receivable,				
Estate of Brammer			250,000	250,000
Contribution receivable,				
Estate of Robert				
A. Dailey-Dechomai			<u>93,480</u>	<u>93,480</u>
	<u>\$71,931,743</u>	<u>\$1,793,020</u>	<u>\$541,121</u>	<u>\$74,265,884</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).

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### 9. Fair Value Measurements, continued

The following is a reconciliation of the Level 3 assets as of December 31, 2016 and 2015:

	<u>December 31, 2016</u>		
	<u>Cash Value of Life Insurance</u>	<u>Contribution Receivable</u>	<u>Total</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>(1,643)</u>
Fair value at December 31, 2016	<u>\$195,998</u>	<u>\$1,057,562</u>	<u>\$1,253,560</u>

	<u>December 31, 2015</u>		
	<u>Cash Value of Life Insurance</u>	<u>Contribution Receivable</u>	<u>Total</u>
Fair value at January 1, 2015	\$198,991	\$ 361,000	\$ 559,991
Addition		250,000	250,000
Cash received		(267,520)	(267,520)
Total loss	<u>(1,350)</u>		<u>(1,350)</u>
Fair value at December 31, 2015	<u>\$197,641</u>	<u>\$ 343,480</u>	<u>\$ 541,121</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:

	<u>2016</u>	<u>2015</u>
Undesignated	<b>\$1,736,390</b>	\$1,697,386
Board designated funds:		
Community impact funds	<b>2,640,874</b>	2,604,351
Operating reserve	<b>754,869</b>	717,347
Current operations	<b>139,925</b>	138,281
Peggy Fouke Wortz Funds	<u><b>3,475,611</b></u>	<u>3,415,633</u>
Total unrestricted net assets	<u><b>\$8,747,669</b></u>	<u>\$8,572,998</u>
Temporarily restricted		
Donor designated to meet community needs	<b>\$58,847,641</b>	\$59,409,335
Gift annuities and trusts	<b>1,188,830</b>	451,300
Specific grant programs	<u><b>3,633,848</b></u>	<u>3,603,995</u>
Temporarily restricted net assets	<u><b>63,670,319</b></u>	<u>63,464,630</u>
	<u><b>\$72,417,988</b></u>	<u>\$72,037,628</u>

continued

# 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 were as follows:

	<u>2016</u>	<u>2015</u>
Grants made to meet community needs	\$7,339,485	\$7,293,755
College Futures Foundation	837,500	
County of San Bernardino contracts	96,540	117,654
Youth Grant makers Committee	53,737	76,588
The California Endowment	48,258	
San Bernardino Community Clinics grant	20,000	
Bank of America Environmental Education grant	2,467	
James Irvine Foundation grants	985	75,044
Weingart Foundation grants		12,133
IEHP Children's Health Initiative grant		2,386
California Arts Council grant		
Regional Environmental Leadership		700
Total net assets released	<u>\$8,398,972</u>	<u>\$7,578,260</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 for all participants. The contribution is made each pay period. At December 31, 2016 and 2015, the Foundation's expense for contributions to the plan totaled \$28,775 and \$25,804, 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>	
2017	\$ 91,031
2018	88,139
2019	90,619
2020	93,173
2021	95,805
Thereafter	<u>65,062</u>
	<u>\$523,829</u>

Rent expense under the operating lease for the years ended December 31, 2016 and 2015 was \$93,989 and \$93,870, respectively.