

**Community Foundation of
Mendocino County**



Financial Statements
Years ended June 30, 2016 and 2015

THE COMMUNITY FOUNDATION

OF MENDOCINO COUNTY

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THE COMMUNITY FOUNDATION

OF MENDOCINO COUNTY

INFORMATION ABOUT THE ORGANIZATION

Name of organization.....	Community Foundation of Mendocino County
Address.....	204 South Oak Street Ukiah, CA 95482
Telephone number.....	707 468-9882
Web site address.....	http://www.communityfound.org/
E-mail address.....	info@communityfound.org
Executive Director.....	Susanne Norgard



JEREMIAH K. MURPHY
CERTIFIED PUBLIC ACCOUNTANT
1102 S. MAIN STREET
FORT BRAGG, CA 95437

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Officers
Community Foundation of Mendocino County
Ukiah, CA

We have audited the accompanying financial statements of the Community Foundation of Mendocino County (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2016 and 2015, as well as the related statement of activities and statements of 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 audit. Our audit was conducted 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 of 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.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of Mendocino County as of June 30, 2016 and 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of operating expenses on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Fort Bragg, California
September 20, 2016

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015	Change
ASSETS			
<i>Current assets:</i>			
Cash and equivalents	\$ 258,448	\$ 268,250	\$ (9,802)
Accounts and pledges receivable	1,000	1,680	(680)
Prepaid expenses	14,313	6,835	7,478
Total current assets	273,761	276,765	(3,004)
<i>Noncurrent assets:</i>			
Fixed assets, net of accumulated deprec.	576,730	480,750	95,980
Investments	26,813,741	19,274,797	7,538,944
Total noncurrent assets	27,390,471	19,755,547	7,634,924
TOTAL	\$ 27,664,232	\$ 20,032,312	\$ 7,631,920
 LIABILITIES AND NET ASSETS			
<i>Current liabilities:</i>			
Accounts payable	\$ 6,072	\$ 15,668	\$ (9,596)
Grants payable	120,300	96,800	23,500
Accrued expenses	28,752	20,308	8,444
Deferred income	2,700	-	2,700
Total current liabilities	157,824	132,776	25,048
<i>Noncurrent liabilities:</i>			
Agency funds held for others	776,613	288,416	488,197
Liabilities under charitable trust agreement	118,526	150,309	(31,783)
Total noncurrent liabilities	895,139	438,725	456,414
TOTAL LIABILITIES	1,052,963	571,501	481,462
<i>Net assets:</i>			
Unrestricted net assets	26,532,745	19,371,425	7,161,320
Temporarily restricted net assets	78,524	89,386	(10,862)
Total net assets	26,611,269	19,460,811	7,150,458
TOTAL	\$ 27,664,232	\$ 20,032,312	\$ 7,631,920

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

**COMMUNITY FOUNDATION OF MENDOCINO COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Total
REVENUES AND GAINS (LOSSES)			
Gifts, grants, and contributions	\$ 8,577,913	\$ 100	\$ 8,578,013
Investment income (loss):			
Interest and dividends	408,963	-	408,963
Realized gains or (losses), net	426,376	(19,498)	406,878
Unrealized gains (losses), net	(935,029)	-	(935,029)
Total investment income (loss)	<u>(99,690)</u>	<u>(19,498)</u>	<u>(119,188)</u>
Change in value of split-interest	-	13,194	13,194
Administrative fee to manage funds	289,882	-	289,882
Net assets released from restrictions	<u>4,658</u>	<u>(4,658)</u>	<u>-</u>
Total revenues, gains and (losses)	<u>8,772,763</u>	<u>(10,862)</u>	<u>8,761,901</u>
GRANTS AND OTHER EXPENSES:			
Grants to the community	824,409	-	824,409
Program services	420,258	-	420,258
Administrative and fundraising	<u>366,776</u>	<u>-</u>	<u>366,776</u>
Total grants and other expenses	<u>1,611,443</u>	<u>-</u>	<u>1,611,443</u>
CHANGE IN NET ASSETS	\$ 7,161,320	\$ (10,862)	\$ 7,150,458
NET ASSETS - beginning of the year	19,371,425	89,386	19,460,811
Adjustment of opening balance	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - end of the year	<u>\$ 26,532,745</u>	<u>\$ 78,524</u>	<u>\$ 26,611,269</u>

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

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUES AND GAINS (LOSSES)			
Gifts, grants, and contributions	\$ 2,658,912	\$ 1,915	\$ 2,660,827
Investment income (loss):			
Interest and dividends	306,207	-	306,207
Realized gains (losses), net	620,570	52,793	673,363
Unrealized gains (losses), net	(298,578)	-	(298,578)
Investment expenses			
Total investment income (loss)	628,199	52,793	680,992
Change in value of split-interest agreements		(41,154)	(41,154)
Administrative fees to manage funds	252,628	-	252,628
Net assets released from restrictions	643,836	(643,836)	-
Total revenues, gains and (losses)	<u>4,183,575</u>	<u>(630,282)</u>	<u>3,553,293</u>
GRANTS AND OTHER EXPENSES:			
Grants	713,225		713,225
Program services	279,404		279,404
Administrative and fundraising	378,705		378,705
Total grants and other expenses	<u>1,371,334</u>	<u>-</u>	<u>1,371,334</u>
CHANGE IN NET ASSETS	\$ 2,812,241	\$ (630,282)	\$ 2,181,959
NET ASSETS - beginning of the year	<u>16,559,184</u>	<u>719,668</u>	<u>17,278,852</u>
NET ASSETS - end of the year	<u>\$ 19,371,425</u>	<u>\$ 89,386</u>	<u>\$ 19,460,811</u>

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

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 7,150,458	\$ 2,181,959
Adjustments to reconcile the change in net assets to net cash provided by or (used by) operating activities:		
Depreciation and amortization	10,848	4,617
Accounts and pledges receivable	680	(1,680)
Deferred income	2,700	-
Grants payable	23,500	96,451
Prepaid expenses	(7,478)	(1,447)
Other assets		
Accounts payable	(9,597)	6,966
Accrued liabilities	8,445	(7,324)
Assets held in charitable trusts	(31,783)	(208,700)
Transfer of balances		
	<hr/>	<hr/>
Net cash provided (used) by operating activities	\$ 7,147,773	\$ 2,070,842
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase or (decrease) in amounts held for others	488,197	(7,844)
Other investing activities	-	-
	<hr/>	<hr/>
Net cash provided (used) by investing activities	\$ 488,197	\$ (7,844)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Increase) or decrease in other assets		
Purchases of fixed assets, net of disposals	(106,828)	(189,043)
(Increase) or decrease in investments	(7,538,944)	(1,868,192)
	<hr/>	<hr/>
Net cash provided (used) by investing activities	\$ (7,645,772)	\$ (2,057,235)
	<hr/>	<hr/>
Net increase (decrease) in cash	\$ (9,802)	\$ 5,763
Cash and cash equivalents at beginning of year	268,250	\$262,487
	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 258,448	\$ 268,250
	<hr/>	<hr/>
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid for:		
Interest	\$ -	\$ -
Taxes	\$ 10	\$ 10

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

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS

1. Description of the Organization:

The Community Foundation of Mendocino County (the Foundation) is a nonprofit public benefit corporation formed in October 1993 under the laws of the State of California for the purpose of developing philanthropy in Mendocino County. The Foundation accomplishes its purpose by building a permanent endowment for the benefit of the community and offering people effective ways to engage in the well-being of local communities. Funds are contributed by individuals, corporations and non-profit agencies and support a wide variety of organizations that contribute to educational, cultural, health, civic, economic/social development in Mendocino County communities and the Foundation's service areas. The Foundation operates a grants program that seeks out opportunities for the effective use of its resources in a manner that is consistent with donor intent.

2. Summary of Significant Accounting Policies:

Basis of Accounting and Presentation

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of the Foundation are reported in the following net asset categories:

Unrestricted Net Assets

Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and accumulated investment gains and income on endowment investments that have not been appropriated for expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Foundation to expend the income earned thereon.

The bylaws of the Foundation include a variance provision giving the Board of Directors the power, whenever any restriction or condition on the distribution of funds becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable, educational, and scientific needs of the communities we serve, to modify any restriction or condition placed on the distribution of funds and to apply the whole or any part of the principal or income of funds as in its judgment is necessary to serve more effectively the charitable, educational and scientific purposes of the Foundation.

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued):

Basis of Accounting and Presentation (Continued)

Based on this provision all contributions and assets not classified as temporarily restricted are classified as unrestricted. Contributions of pledges for which the cash has not been received and assets and liabilities held in charitable trust agreements or life estate agreements are classified as temporarily restricted. The Foundation has no assets that are permanently restricted.

The Foundation's assets consist of approximately 175 individual funds established by donors for a variety of purposes. As noted above, the Foundation classifies these funds as unrestricted net assets; however, the Foundation manages funds established by donors as endowed funds in accordance with terms set forth in the individual fund agreements.

Accordingly, the Foundation further classifies its unrestricted net assets as of June 30, 2016 and 2015 as follows:

	2016	2015
ENDOWMENT FUNDS		
Discretionary	\$4,042,781	\$4,043,273
Field of Interest	4,781,066	4,733,726
Designated	11,244,041	3,638,775
Scholarship	1,922,237	1,961,080
Donor Advised	<u>2,527,370</u>	<u>2,583,444</u>
Total Endowment Funds	\$24,517,495	\$16,960,298
NON-ENDOWED		
Operating and reserve funds	2,015,250	2,407,494
Charitable Unitrust	46,740	88,136
Total Unrestricted Net Assets	<u>\$26,579,485</u>	<u>\$19,455,928</u>

None of the Foundation's temporarily restricted net assets are endowment funds.

Cash and Cash Equivalents

For purposes of the Statement of Financial Position and the Statement of Cash Flows, the Foundation considers highly liquid bank investments that are readily convertible into known amounts of cash and have maturities of three months or less when acquired to be cash equivalents. The Foundation does not usually report money market investments in investment accounts as cash equivalents. At June 30, 2016, management believes that the carrying amount of cash equivalents approximates fair value because of the short maturity of these financial instruments.

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued):

Certificates of Deposit

Certificates of deposits available for operations, if any, would be included in cash in the accompanying financial statements. To be listed as cash or cash equivalents the certificates would have maturities of less than one year. Certificates of deposit that are part of investment accounts are included with investment accounts and not with cash or cash equivalents.

Investments

Investment securities are stated at fair value. The fair value of debt securities and marketable equity securities are based on quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities. The Foundation invests cash in excess of daily requirements, unitrust payments, and certain required term and permanent endowments in cash equivalents.

Investment Pools

The Foundation maintains master investment accounts for all funds. Realized and unrealized gains and losses and income from the master investment accounts are allocated monthly to individual funds based on individual average daily fund balances.

Contributions

Contributions are recorded at fair value at the date of receipt or unconditional promise to give.

Grants and Program Services

The Foundation's programs consist of grants made from available income and principal in accordance with designations by the donors and as approved by the Board of Directors and are recorded after the grant documentation has been finalized.

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years, or over the lesser of the term of the lease or the estimated useful life of the asset for assets under capital lease. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the improvements. Normal repairs and maintenance are expensed as incurred whereas significant improvements that materially increase values or extend useful lives are capitalized and depreciated over the remaining estimated useful lives of the related assets.

Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation or amortization are removed from the accounts. Any gain or loss on the sale or retirement is recognized in current operations.

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued):

Fixed Assets (Continued)

The Foundation has adopted a capitalization policy requiring all assets acquired, whether purchased or received by donation, with a cost or value of more than \$1,000 to be capitalized. Those below that threshold are expensed in the period received.

The Foundation has received grants for the purchase of equipment and the equipment purchased under those grants is not capitalized and depreciated but instead is expensed in the period that it is acquired and the grant revenue is reported. The Foundation has non-depreciated assets of \$31,790.

Income taxes

The Foundation has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3) and is, therefore, generally exempt from federal and state income taxes. Accordingly, no taxes have been provided for in the accompanying financial statements.

The Foundation follows the guidance of FASB ASC 740- Accounting for Uncertainty in Income Taxes. As of June 30, 2016, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had taken no uncertain tax positions that require adjustments to the financial statements.

Estimates

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

Program Advances

Program advances represent conditional contributions for which the condition has not been substantially met.

Expense Allocations

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

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued):

Concentration of Credit Risk

The Foundation maintains cash balances at several financial institutions located in northern California. The Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC), where applicable, insure accounts up to \$250,000 at each institution. In addition to SIPC protection, cash balances held with Charles Schwab and Vanguard custodial investment companies are insured through Lloyd of London insurers. At June 30, 2016, the Foundation had uninsured cash balances of approximately \$478,966.

Money market accounts and certificates of deposit that are in investment accounts or pools are not classified as cash or cash equivalents even if they meet the organization's definition of cash equivalents. Instead they are reported as part of the investments that the Foundation has for grant making purposes.

Also, the Foundation maintains long-term investments of over \$26,000,000 with various investment companies. The institutional brokers where the Foundation maintains accounts have indemnity insurance, professional liability insurance, and bonding in amounts that satisfy regulatory requirements.

These investments are exposed to numerous risks, including interest rate fluctuation, market volatility and credit risks. Due to the level of risk associated with certain investments, changes in value of the investments could occur, which would materially affect the Foundation's financial statements and future financial position. The risk associated with the investments is reduced through diversification.

Classification of Net Assets

The Foundation considers contributions to be restricted if they are received with donor stipulations that restrict the timing of expending the donated assets. Accordingly, all such contributions are reported as temporarily restricted. Gains and losses in the investment of these assets are classified as temporarily restricted. Investment income subject to restrictions is classified as temporarily restricted until the period in which the funds are spent, at which time temporarily restricted assets are released to unrestricted assets. Such transfers are reported in the statement of activities as "net assets released from restrictions". All other funds are classified as unrestricted net assets. Income derived from unrestricted assets is classified as unrestricted. The fund agreements of the Foundation provide for variance power which allows the redirection of spending. In addition, all donor funds are subject to an annual spending policy which may require the use of principal from time to time to regulate the flow of grant dollars in order to optimize total investment return on the fund assets and grant dollars delivered to the community.

**COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)**

3. Agency Funds:

Accounting Standards Codification 958-605, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. It is required that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability rather than as a contribution. The Foundation refers to such funds as agency funds.

The Foundation holds four agency funds and below is a schedule of those agencies:

Fund	Fair Market Value at June 30, 2016	Fair Market Value at June 30, 2015
Mendocino Unified School Enrichment	\$36,905	\$37,327
Mendocino County Museum	103,259	108,073
Mendocino Coast Audubon Society Gardens Legacy Fund	500,000 136,449	 143,016
Total of the Agency Funds	\$776,613	\$288,416

4. Endowment Investments and Spending Policies:

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted in California (SB 1329) and effective January 1, 2009. UPMIFA allows a charity to appropriate for expenditure, or accumulate, so much of an endowment fund as the charity determines is prudent for the purposes for which the fund was established. Considerations include the duration and preservation of the endowment fund, the purposes of the charity and the fund, general economic condition, effects of inflation and deflation, expected total return from income and appreciation, the charity's other resources, and the charity's investment policy.

The Board of Trustees, on the advice of legal counsel, has determined that the majority of the Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Board of Trustees has the ability to distribute so much of the original principal of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

The goal of the Foundation's investment program for funds held as permanent endowment is to achieve a total rate of return that will allow the Foundation to respond to today's needs and the long-term growth necessary to respond to future needs. Therefore, the Endowment Investment and Spending Policies employ an intergenerational perspective.

**COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)**

4. Endowment Investments and Spending Policies (Continued):

The long-term investment objective for endowed funds is to retain and when possible increase the purchasing power of the funds, while at the same time producing a reasonable return for a distribution to meet current community needs. To meet this investment objective, the Foundation follows a total-return strategy in which investment decisions are made with the intent of maximizing the long-term return of the portfolio, combining market-value changes (realized and unrealized) and current yield (interest and dividends). Foundation assets are invested in a mixture of equities, fixed income investments and cash or cash equivalents.

The Foundation has adopted a spending policy to determine the annual amount available for distributions from funds held as permanent endowment. Each year the board sets an annual payout rate for the coming year. For 2015 – 2016, the payout for grants was 3.5% of market value using a 16-quarter trailing average of fund market value. By using this average, grant amounts are more predictable for beneficiaries. Administrative support is assessed quarterly depending on the size of the fund (.1875% - .375%).

Spending Policy and Grant Making	June 30, 2016	June 30, 2015
Funds available for grant making	\$439,861	\$352,687
Grants Made	\$371,946	\$335,031

5. Fair Value Measurements:

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)**

5. Fair Value Measurements (Continued):

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

The schedule below presents the balance of investment assets measured at fair value on a recurring basis as of June 30, 2016 and 2015; all of the assets are measured at Level 1 inputs.

	2016	2015
Cash and cash equivalents	\$2,652,091	\$1,929,507
Mutual Bond funds	121	292,132
Multi-strategy funds	4,264,548	2,520,876
Common stocks	14,622,884	11,745,250
Corporate bonds	1,613,928	1,152,626
Government bonds	2,128,592	1,149,036
Other investments	1,531,577	485,370
Total	\$26,813,741	\$19,274,797

6. Fixed Assets:

Fixed assets consist of the following as of June 30, 2016 and 2015:

	2016	2015
Furniture, fixtures and computer software	\$33,958	\$33,958
Building and improvements	477,725	370,897
	511,683	404,855
Less accumulated depreciation	(44,953)	(34,105)
Book value of depreciable fixed assets	466,730	370,750
Land (at cost)	110,000	110,000
	\$576,730	480,750

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)

6. Fixed Assets (Continued):

The Foundation depreciates its fixed assets using the straight-line method over the assets expected useful life, which is generally 3 – 10 years except for buildings which are depreciated using a straight line method over a period of 40 years. Depreciation and amortization expenses were \$10,848 for the fiscal year ended June 30, 2016 and \$4,617 for the fiscal year ended June 30, 2015.

The Foundation has purchased, and is using, fixed assets not included in the general ledger fixed asset category because the assets were purchased with grant funds and are expensed annually under the terms of the grants. As of June 30, 2016 the Foundation had \$31,790 invested in these assets.

7. Guarantees:

The Foundation is a guarantor of student loans set up under the E. Albertson Trust Fund. The Foundation's guarantee is not to exceed 180% of the E. Albertson Trust fund balance, which is \$280,173 as of June 30, 2016. Also as of that date, there was approximately \$89,907 in student loans outstanding. The guarantee arose under the terms of the E. Albertson Trust which was set up to make low interest loans available to students. The Trust, and now the Foundation, subsidizes the lending institution for the difference between the market rate of the loan interest and the amount charged to the student. Management does not believe that an allowance for bad debts is appropriate for these loans and intends to write off any guarantees required under this agreement in the period that they are notified of the default by the student. During the fiscal year there were no loan defaults written off and there was no recovery of previously written off loans by the Foundation.

8. Deferred Income:

The balance of the deferred income account represents payments that the Foundation received that were not fully expended by the end of the current fiscal year. The balance of the deferred income as of June 30, 2016 is \$2,700.

9. Retirement and Deferred Compensation Plans:

The Foundation has adopted a "Savings Incentive Match Plan for Employees (SIMPLE) IRA plan beginning March 2009. Eligible employees may elect to participate in the plan and have salary deferrals made on their behalf. The Foundation is required to contribute to each employee's SIMPLE IRA an amount that is not to exceed 3% of each participant's regular compensation. For this fiscal year, the amount of employer contribution that was owed is \$819.

10. Split-Interest Agreements:

The Foundation serves as trustee for various charitable trusts. Under the terms of these trust agreements, the Foundation makes distributions to income beneficiaries for a given term or for the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to the Foundation. The

**COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)**

10. Split-Interest Agreements (Continued):

Foundation records the assets held in charitable trusts at their fair market value based on current quoted market prices and records a liability under charitable trust agreements for the estimated discounted value of the amounts due to the income beneficiaries based on Internal Revenue Service annuity and mortality tables.

	June 30, 2016 Totals	June 30, 2015 Totals
Invested assets for the trust	\$197,050	\$238,445
Less the liability for future payments	118,526	150,309
Net assets in the trust	\$78,524	\$88,136

11. Temporarily Restricted Net Assets:

The following are funds, which by their nature are temporarily restricted as to the time that the funds can be used by the Foundation, are classified as temporarily restricted funds:

Fund Description	June 30, 2016	June 30, 2015
Bishoff Charitable Remainder Trust	\$0	\$90
Pruett Charitable Remainder Trust	78,524	88,046
Other funds	0	1,250
Total	\$78,524	\$89,386

12. Management Review of Transactions:

Management has reviewed the financial transactions subsequent to the financial statement date and reports no material transaction happened that could affect the carrying value of the assets reported on June 30, 2016.

13. Self-funded Real Estate Purchase:

On July 25, 2012 the Foundation purchased real estate in Ukiah, California which is to be the new headquarters for the organization. The purchase price was \$251,900 and it was funded with donations totaling \$100,000 with the rest of the purchase price being self-funded. The Foundation used its own Administrative Reserve Fund to pay for the purchase and is now repaying the Administrative Reserve Fund with monthly payments of \$680. The terms of the loan are that the principal will be amortized over a 30 year period at a variable rate of interest, currently 1.6%. The amount of loan principal paid in the current fiscal year was \$5,332 and interest paid was \$2,829.

COMMUNITY FOUNDATION OF MENDOCINO COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)

13. Self-funded Real Estate Purchase (Continued):

Because the loan balance owed and receivable is the same amount, and the interest earned and expenses are the same amounts, the balances offset each other in the financial statements and so they have no impact on the financial condition and the results of operations for the year.

14. Commitment:

The Board engaged Painter Executive Search to conduct a search process for a new CEO. The process began in 2015 fiscal year, and is due to conclude in 2016 fiscal year. As of June 30, 2016, there was an outstanding contractual commitment of \$15,000.

Supplemental Information

**COMMUNITY FOUNDATION OF MENDOCINO COUNTY
SUPPLEMENTAL INFORMATION
SCHEDULE I
STATEMENT OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	Program	Management and General	Fundraising	2016 Total	2015 Total
Total Admin Fee	\$ 285,758	\$ -	\$ -	\$ 285,758	\$ 249,512
<i>Other Expenses</i>					
Salaries and wages	\$ 55,656	\$ 129,882	\$ 59,273	\$ 244,811	\$ 210,794
Pension plan contributions	1,636	3,403	1,505	6,544	-
Other employee benefits	7,780	16,182	7,157	31,119	35,848
Payroll taxes	4,480	9,317	4,121	17,918	16,382
Fees:				-	-
Legal	7,106	-	969	8,075	14,224
Accounting	8,158	28,554	4,079	40,791	23,433
Bank	-	2,319	-	2,319	4,904
Other	-	-	-	-	17,507
Advertising	-	-	78	78	-
Offices expenses	4,863	4,979	1,736	11,578	5,121
Information technology	14,114	11,291	2,823	28,228	14,928
Occupancy	4,946	5,063	1,766	11,775	9,444
Travel and mileage	2,923	1,948	4,871	9,742	7,194
Conferences and meetings	2,069	1,552	1,552	5,173	11,030
Depreciation	-	10,848	-	10,848	4,617
Insurance	-	5,106	-	5,106	4,364
Postage and shipping	741	988	741	2,470	3,365
Printing and publications	3,170	-	7,396	10,566	16,203
Receptions and hospitality	3,605	-	1,202	4,807	2,311
Recruitment	-	20,456	-	20,456	-
Memberships	1,141	978	1,141	3,260	-
Contract labor	1,428	6,424	2,345	10,197	-
Board expenses	1,257	3,770	1,257	6,284	-
Professional services	-	-	(296)	(296)	-
Technical assistance	9,427	-	-	9,427	-
Miscellaneous	-	-	-	-	6,928
<i>Total Other Expenses</i>	<u>134,500</u>	<u>263,060</u>	<u>103,716</u>	<u>501,276</u>	<u>408,597</u>
Total	<u>\$ 420,258</u>	<u>\$ 263,060</u>	<u>\$ 103,716</u>	<u>\$ 787,034</u>	<u>\$ 658,109</u>

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