
NORTH VALLEY COMMUNITY FOUNDATION

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

Years Ended June 30, 2017 and 2016

NORTH VALLEY COMMUNITY FOUNDATION

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Years Ended June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
North Valley Community Foundation
Chico, California

We have audited the accompanying financial statements of North Valley Community Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Valley Community Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tittle & Company, LLP

Chico, California
August 3, 2018

NORTH VALLEY COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,425,604 | \$ 2,529,881 |
| Investments | 17,915,351 | 10,592,973 |
| Other receivables | 2,285 | 3,750 |
| Unconditional promises to give, net of discount | 10,000 | 59,828 |
| Property and equipment, net of accumulated depreciation | 27,423 | 23,214 |
| Deposits | 7,415 | 6,051 |
| Total Assets | \$ 19,388,078 | \$ 13,215,697 |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable and other liabilities | \$ 9,946 | \$ 26,602 |
| Note payable | 63,417 | 75,000 |
| Funds held as agency endowments | 1,192,413 | 758,974 |
| Total Liabilities | 1,265,776 | 860,576 |
| NET ASSETS | | |
| Unrestricted | 15,663,204 | 10,020,360 |
| Temporarily restricted | 2,459,098 | 2,334,761 |
| Total Net Assets | 18,122,302 | 12,355,121 |
| Total Liabilities and Net Assets | \$ 19,388,078 | \$ 13,215,697 |

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NORTH VALLEY COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|--|----------------------|----------------------|
| REVENUES, GAINS AND OTHER SUPPORT | | |
| Total amounts raised | \$ 9,182,737 | \$ 4,150,674 |
| Less: amounts received for agency endowments | (5,098) | (117,629) |
| Contributions | 9,177,639 | 4,033,045 |
| Program/administration fees | 473,626 | 377,921 |
| Total investment income | 304,640 | 385,744 |
| Less: investment income for agency endowments | (36,419) | (45,092) |
| Investment income | 268,221 | 340,652 |
| Total net unrealized and realized investment gains (losses) | 656,132 | (477,091) |
| Less: investment (gains) losses on agency endowments | (76,567) | 54,976 |
| Net unrealized and realized investment gains (losses) | 579,565 | (422,115) |
| Income from interest in partnership | 84,846 | 189,309 |
| Total Revenues, Gains and Other Support | 10,583,897 | 4,518,812 |
| Net assets released from restrictions | 237,591 | 154,148 |
| Total Revenues, Gains and Other Support and Net Assets Released From Restrictions | 10,821,488 | 4,672,960 |
| EXPENSES AND LOSSES | | |
| Grants and program | 4,744,790 | 4,155,362 |
| Management and general | 438,424 | 335,296 |
| Less: expenses/transfers for agency endowments | (4,570) | (4,386) |
| Total Expenses | 5,178,644 | 4,486,272 |
| Increase in Unrestricted Net Assets | 5,642,844 | 186,688 |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Contributions | 86,720 | - |
| Investment income | 82,782 | 82,305 |
| Net unrealized and realized investment gains (losses) | 192,426 | (103,509) |
| Net assets released from restrictions | (237,591) | (154,148) |
| Increase (Decrease) in Temporarily Restricted Net Assets | 124,337 | (175,352) |
| Increase in Net Assets | 5,767,181 | 11,336 |
| Net Assets - Beginning of Year | 12,355,121 | 12,343,785 |
| Net Assets - End of Year | \$ 18,122,302 | \$ 12,355,121 |

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NORTH VALLEY COMMUNITY FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 5,767,181 | \$ 11,336 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | - | 2,200 |
| Net realized and unrealized losses (gains) on investments | (580,598) | 580,600 |
| Income from partnership | (84,846) | (189,309) |
| Donated interest in LLC | (5,180,000) | - |
| Changes in | | |
| Accounts receivable | 51,293 | 44,385 |
| Deposits | (1,364) | 1,180 |
| Accounts payable | (16,656) | 9,071 |
| Agency endowments payable | 433,439 | (166,710) |
| Net Cash Provided by Operating Activities | 388,449 | 292,753 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property | (4,209) | (21,037) |
| Net purchase of investments | (1,653,682) | 12,375 |
| Distributions from partnership | 176,748 | 232,194 |
| Net Cash Provided (Used) by Investing Activities | (1,481,143) | 223,532 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on long-term debt | (11,583) | - |
| Proceeds of long-term debt | - | 35,000 |
| Net Cash Provided (Used) by Financing Activities | (11,583) | 35,000 |
| Net Increase (Decrease) in Cash | (1,104,277) | 551,285 |
| Cash and Cash Equivalents at Beginning of Year | 2,529,881 | 1,978,596 |
| Cash and Cash Equivalents at End of Year | \$ 1,425,604 | \$ 2,529,881 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | \$ 6,977 | \$ 4,188 |

The accompanying notes and independent auditors' report are an integral part of these financial statements.

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

North Valley Community Foundation (the Foundation) is a nonprofit corporation responsible for charitable funds and the income generated by funds of many donors. The Foundation is committed to promoting the well-being of mankind and to serving the general charitable, educational, and scientific needs of the inhabitants of Butte, Colusa, Glenn, and Tehama Counties in northern California through charitable grants at the discretion of the Board of Directors.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting which recognizes income when earned and expenses when incurred.

Basis of Presentation

The Foundation presents its net assets and its revenues and gains based upon the existence of donor-imposed restrictions into these classes: unrestricted, temporarily restricted, and permanently restricted. The Foundation, on the advice of legal counsel, has determined that certain temporarily restricted net assets meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Bylaws of the Foundation also include a variance provision which provides the Foundation's Board of Directors the authority to modify any restriction or condition placed on gifts if, in its sole judgment, the Board determines that the restriction becomes unnecessary, incapable of fulfillment, or inconsistent with its charitable and educational mission or the needs of its constituents. Based on this provision, the Foundation classifies all contributions as unrestricted, except for pledges and bequests that have not yet been received or settled and net assets for endowment funds, which are classified as temporarily restricted net assets. The Foundation has no assets that are permanently restricted.

Grants and expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the stipulated time period has elapsed, or purpose was satisfied) are reported as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates that affect the financial statements. Accordingly, actual results may differ from estimated amounts.

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

Cash and Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less, such as money market accounts and savings, to be cash equivalents. The Foundation maintains its cash accounts in depositories that are insured by the FDIC to \$250,000 per account. It is customary for bank balances to temporarily exceed insurance limits.

Fair Value Measurements

Financial assets required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy for fair value investments. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect the market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. Investments and real estate held for sale are the only assets of the Foundation measured at fair value on a recurring basis.

Investments

The Foundation carries all investments in debt securities and investments in equity securities and equity funds and fixed income funds with readily determinable fair values at their fair values based on quoted prices in active markets (all Level 1 measurements). Unrealized gains and losses are included in the change in net assets in the accompany Statements of Activities. The Foundation initially records its real estate investments at their fair values at the dates the investments are donated to the Foundation and thereafter carries such investments primarily at current appraised or estimated market values (Level 2 or 3 measurements). Interest income is accrued as earned and reported net of investment advisory fees. Security transactions are recorded on a trade date basis. The Foundation accounts for the interest in investment partnership and the limited liability company using the equity method.

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met. Contributions of other than cash are recorded at their estimate fair value. The Foundation determines an allowance for uncollectible accounts based upon management's judgment about such factors as prior collection history, type of contribution, and nature of fundraising activity. No allowance was deemed necessary at June 30, 2017 and 2016. Pledge payments schedule to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments costing over \$1,000 are capitalized.

Agency Endowment Funds

If a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

Because the Foundation maintains variance power and fiduciary responsibility for all funds held under agency endowment agreements, these funds continue to be reported as assets. However, a liability has been established for 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 organization that established the fund for its own benefit.

Release of Restrictions

When a restriction expires or is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets. The time restrictions on contributions receivable expire when the receivable is due, or the payment is made, whichever is earlier, unless the donor has otherwise restricted the use of the contributed assets.

Grants Made

Grants are made from available resources in accordance with donor recommendations. Liabilities for grants made are recognized when approved by the Board of Directors and payment is generally made shortly thereafter.

Functional Allocation of Expenses

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

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been classified as an organization that is not a private foundation under Section 509(a)(2).

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of those endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through use of equity investments. The current long-term return objective is an annualized total rate of return over a three-year period which exceeds an appropriate market index rate of return by 1.5 percentage points compounded annually, net of investment fees, for equity funds and .75 percentage points for fixed income funds. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money actually distributed from the Foundation's endowed funds for grant making and administration. The current spending policy is to distribute an amount no greater than 5% of fund balances after deduction of Foundation administrative fees. Conservative or low distribution rates are encouraged to provide adequate growth of principal during economic and market growth cycles to sustain consistent distributions during market corrections.

2. INVESTMENTS

Investments consisted of the following at June 30:

| | 2017 | 2016 |
|---------------------------------------|----------------------|----------------------|
| Certificates of deposit | \$ 743,791 | \$ 702,810 |
| Corporate/government bonds | 1,250,000 | 1,140,000 |
| Exchange-trade products | 184,455 | 123,970 |
| Other | 30,470 | 47,397 |
| Mutual funds | 10,120,772 | 8,081,031 |
| Interest in limited partnership | 405,863 | 497,765 |
| Interest in limited liability company | 5,180,000 | - |
| Total Investments | \$ 17,915,351 | \$ 10,592,973 |

The Foundation holds a 99% ownership interest in the limited partnership and 100% ownership interest in the limited liability company.

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

Investment return consisted of the following for the year ending June 30:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Investment income | \$ 387,422 | \$ 468,047 |
| Net realized and unrealized (losses) gains on investments | 848,558 | (580,600) |
| Total Investment Return | \$ 1,235,980 | \$ (112,553) |

Net investment expenses totaled approximately \$47,793 and \$48,634 for the years ending June 30, 2017 and 2016, respectively.

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

3. PROMISES TO GIVE

Unconditional promises to give consisted of the following at June 30:

| | 2017 | 2016 |
|---|------------------|------------------|
| Receivable in less than one year | \$ 10,000 | \$ 60,000 |
| Receivable in one to five years | - | - |
| Face value | 10,000 | 60,000 |
| Unamortized discount | - | (172) |
| Net Unconditional Promises to Give | \$ 10,000 | \$ 59,828 |

Unconditional promises to give due beyond one year are reflected at the present value of estimated future cash flows using a discount rate of 4%.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | 2017 | 2016 |
|-------------------------------------|------------------|------------------|
| Furniture and fixtures | \$ 31,267 | \$ 31,267 |
| Computer equipment and software | 51,673 | 47,464 |
| Subtotal | 82,940 | 78,731 |
| Less accumulated depreciation | 55,517 | 55,517 |
| Property and Equipment - Net | \$ 27,423 | \$ 23,214 |

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

Depreciation expense charged to income for the years ended June 30, 2017 and 2016, was \$-0- and \$2,200, respectively.

5. NOTE PAYABLE

Note payable consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Note payable to a nonprofit corporation in monthly installments of \$1,526 per month, which includes interest at 4.00%. The note matures March 2021 and is unsecured. | \$ 63,417 | \$ 75,000 |

Interest expense was \$6,977 and \$4,188 for the years ending June 30, 2017 and 2016.

The following is the five-year minimum principal payments due at June 30, 2017:

| <u>Year Ending June 30</u> | |
|----------------------------|-----------|
| 2018 | \$ 15,994 |
| 2019 | \$ 16,645 |
| 2020 | \$ 17,324 |
| 2021 | \$ 13,454 |
| 2022 | \$ - |

6. OPERATING LEASES

The Foundation has long-term operating leases for its office and an automobile. Rent expense charged to income was \$26,100 and \$24,724 for the years ended June 30, 2017 and 2016. At June 30, 2017, the future minimum lease payments due under these operating leases are as follows:

| <u>Year Ending June 30</u> | |
|----------------------------|-----------|
| 2018 | \$ 31,560 |
| 2019 | \$ 6,930 |
| 2020 | \$ - |
| 2021 | \$ - |
| 2022 | \$ - |

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

7. FUNDS HELD UNDER AGENCY ENDOWMENT AGREEMENTS

Although comingled with the Foundation's investments, the funds held under the agency endowment agreements are separately accounted for because the Foundation has agreed to transfer those assets, the return on investment of assets, or both, to the nonprofit organizations at some point in the future. Activity for the year ended June 30 is as follows:

| | 2017 | 2016 |
|------------------------------------|--------------|------------|
| Beginning balance | \$ 758,974 | \$ 925,684 |
| Additions: | | |
| Contributions | 5,098 | 117,629 |
| Investment income | 112,986 | (9,884) |
| Interfund gifts | - | 500 |
| Other income | 362,672 | - |
| Total income | 480,756 | 108,245 |
| Deductions: | | |
| Grants | (14,531) | (11,242) |
| Project expenses | (9,763) | (182,161) |
| Interfund gifts | (7,541) | (66,352) |
| Administrative and investment fees | (15,482) | (15,200) |
| Total deductions | (47,317) | (274,955) |
| Ending balance | \$ 1,192,413 | \$ 758,974 |

8. DESIGNATIONS OF UNRESTRICTED NET ASSETS

The Foundation manages funds established by donors in accordance with terms set forth in the individual fund agreements. Because the Foundation holds variance power under these fund agreements, they are classified as unrestricted net assets. Accordingly, the Foundation further classifies its unrestricted net assets as of June 30 as follows:

| | 2017 | 2016 |
|---------------------------------------|----------------------|----------------------|
| Operating funds | \$ (19,523) | \$ (24,944) |
| Donor-advised funds (quasi-endowment) | 6,855,761 | 6,682,986 |
| Donor-advised funds | 8,826,454 | 3,360,798 |
| Grant funds | 512 | 1,520 |
| Total Unrestricted Net Assets | \$ 15,663,204 | \$ 10,020,360 |

NORTH VALLEY COMMUNITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

9. TEMPORARILY RESTRICTED NET ASSETS

Because of the variance provision included in its Bylaws (discussed in the Basis of Presentation section of Note 2), most net assets of the Foundation are unrestricted. However, there are time restrictions on certain net assets (contributions receivable are restricted until due) and certain funds that meet the definition of endowment under the UPMIFA. Temporarily restricted net assets at June 30 are as follows:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Contributions receivable (operating funds) | \$ 10,000 | \$ 59,828 |
| Endowment funds | 2,449,098 | 2,274,933 |
| Total Temporarily Restricted Net Assets | \$ 2,459,098 | \$ 2,334,761 |

Changes in endowment net assets for the year ending June 30 are as follows:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Endowment net assets, beginning of year | \$ 1,910,996 | \$ 2,086,348 |
| Reclassification of funds | 363,937 | - |
| Contributions | 86,720 | - |
| Investment income | 82,782 | 82,305 |
| Net appreciation (realized and unrealized) | 192,426 | (103,509) |
| Amounts appropriated for expenditure | (187,763) | (154,148) |
| Endowment net assets, end of year | \$ 2,449,098 | \$ 1,910,996 |

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 3, 2018, the date the financial statements were available to be issued.