



*Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information*

North Valley Community Foundation

June 30, 2019



Table of Contents

REPORT OF INDEPENDENT AUDITORS.....	1
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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Changes in Net Assets	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8

SUPPLEMENTARY INFORMATION

Consolidating Statement of Financial Position.....	19
Consolidating Statement of Statement of Activities and Changes in Net Assets	20

Report of Independent Auditors

To the Board of Directors
North Valley Community Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of North Valley Community Foundation and affiliates (“the Foundation”), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows, for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of North Valley Community Foundation and affiliates as of June 30, 2019, 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.

Emphasis of Matters

As discussed in Note 9 to the consolidated financial statements, the Foundation has restated certain balances and changed the presentation of its affiliates to correct errors related to the consolidation of its affiliates. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the consolidated financial statements, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 19 to 21 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Moss Adams LLP

Rancho Cordova, California

April 14, 2020

Consolidated Financial Statements

North Valley Community Foundation
Consolidated Statement of Financial Position
June 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 4,403,837
Short-term investments	43,350,483
Notes receivable, current portion	3,570
Contributions receivable, current portion	<u>1,000,000</u>

Total current assets 48,757,890

NONCURRENT ASSETS

Notes receivable, net of current portion	158,844
Contributions receivable, net of current portion	1,000,000
Long-term investments - marketable securities	15,216,890
Investment in Limited Partnership	217,938
Property and equipment, net	9,844,034
Deposits	<u>7,339</u>

Total noncurrent assets 26,445,045

Total assets \$ 75,202,935

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 50,451
Grants payable	<u>2,308,453</u>

Total current liabilities 2,358,904

NONCURRENT LIABILITIES

Amounts held on behalf of others	<u>1,681,608</u>
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Total liabilities 4,040,512

NET ASSETS

Without donor restrictions	68,812,620
With donor restrictions	<u>2,349,803</u>

Total net assets 71,162,423

Total liabilities and net assets \$ 75,202,935

North Valley Community Foundation
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2019

REVENUES WITHOUT DONOR RESTRICTIONS

Contributions	\$ 64,778,840
Program and administration fees	767,136
Investment income	599,328
Net realized and unrealized investment gains	512,382
Revenue from Smallfoot, LLC	5,501
Revenue from Hignell Family Paradise Shopping Center, LLC	999,173
Other income	333,166
Net loss from interest in Limited Partnership	(34,786)
Net assets released from restriction	227,539

Total revenues	68,188,279
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EXPENSES

Program	20,893,883
Management and general	1,337,428

Total expenses	22,231,311
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CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	45,956,968
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NET ASSETS WITH DONOR RESTRICTIONS

Investment income	86,004
Net realized and unrealized investment gains	35,383
Net assets released from restriction	(227,539)

CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(106,152)
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CHANGE IN NET ASSETS	45,850,816
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NET ASSETS, beginning of year	25,311,607
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NET ASSETS, end of year	\$ 71,162,423
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North Valley Community Foundation
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	<u>Program services</u>	<u>Supporting services</u>	
	<u>Community</u>	<u>Management and</u>	<u>Total</u>
	<u>programs</u>	<u>general and</u>	<u>expenses</u>
		<u>administrative fees</u>	
Grants awarded	\$ 18,789,945	\$ 5	\$ 18,789,950
Administrative fees	723,492	-	723,492
Project expenses	998,904	58,811	1,057,715
Salaries and benefits	66,568	567,648	634,216
Smallfoot, LLC expenses	-	20,555	20,555
Hignell Family Paradise Shopping Center, LLC expenses	-	397,957	397,957
Investment and bank fees	314,974	3,518	318,492
Facility and equipment expenses	-	93,538	93,538
Other operational expenses	-	195,396	195,396
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 20,893,883</u>	<u>\$ 1,337,428</u>	<u>\$ 22,231,311</u>

North Valley Community Foundation
Consolidated Statement of Cash Flows
Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 45,850,816
Adjustments to reconcile change in net assets to cash flows provided by operating activities:	
Depreciation	100,641
Net realized and unrealized investment gains	(547,765)
Net loss from interest in Limited Partnership	34,786
Changes in assets and liabilities	
Notes receivable	1,733
Contributions receivable	(2,000,000)
Deposits	(62)
Accounts payable and accrued liabilities	41,290
Grants payable	2,308,453
Agency endowments	230,034
	<u>46,019,926</u>
Cash flows provided by operating activities	<u>46,019,926</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	36,035,939
Purchases of investments	(78,855,539)
Proceeds from sales of property and equipment	2,852
Purchases of property and equipment	(65,522)
	<u>(42,882,270)</u>
Cash flows used in investing activities	<u>(42,882,270)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments of notes payable	(46,084)
	<u>(46,084)</u>
Cash flows used in financing activities	<u>(46,084)</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	3,091,572
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,312,265</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 4,403,837</u></u>
SUPPLEMENTAL CASH-FLOW DISCLOSURES	
Interest paid	<u>\$ 3,571</u>
Unrelated business income tax paid	<u><u>\$ 24,285</u></u>

North Valley Community Foundation

Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – North Valley Community Foundation (“NVCF”) is a not-for-profit corporation responsible for charitable funds and the income generated by funds of many donors. NVCF is committed to promoting the well-being of mankind and to serving the general charitable, educational, and scientific needs to the inhabitants of Butte, Colusa, Glenn, and Tehama Counties in Northern California through charitable grants at the discretion of the Board of Directors.

Principles of consolidation – The accompanying consolidated financial statements reflect the consolidation of NVCF and affiliates (collectively, the “Foundation”). Material transactions between the entities have been eliminated in consolidation. The affiliated entities are as follows:

Smallfoot, LLC, and Highnell Paradise Shopping Center, LLC, are single-member limited liability companies considered as disregarded entities for Internal Revenue Service (IRS) purposes. Ownership of both affiliates were donated to NVCF to hold the title to land and buildings that are income producing assets. Each affiliate is part of a donor advised fund established at time of the donation.

NVCF Properties, LLC, is a single-member liability company considered as disregarded entity for IRS purposes. NVCF Properties, LLC, was organized in June 2019 with the purpose of receiving real estate gifts. During the year ended June 30, 2019, NVCF Properties, LLC, had no operations.

Basis of presentation – The consolidated financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Foundation has adopted the standard as of July 1, 2018, and has adjusted the presentation in these consolidated financial statements accordingly, through inclusion of information about liquidity and availability of resources (Note 2), inclusion of information provided about allocation of functional expenses (Note 1), and changes to the presentation of net asset classification on the financial statements (Note 1).

Use of estimates – The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents – The Foundation considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash and cash equivalents for the consolidated statement of financial position and consolidated statement of cash flow purposes.

Investments – Investments consist of mutual funds, certificate of deposits, equities, fixed income and exchange traded products. Investments with maturity dates less than one year are presented as current on the consolidated statement of financial position. Investments are stated at fair value, with all gains and losses included in the consolidated statement of activities and changes in net assets.

North Valley Community Foundation

Notes to Consolidated Financial Statements

Contributions receivable – Contributions receivable represent unconditional promises to contribute specified amounts to the Foundation in the future. The contributions are recognized as contributions within the consolidated statement of activities and changes in net assets when made. Discounts related to contributions receivable are insignificant and have not been recorded.

Contributions receivable are measured at their fair value and reported as an increase in net assets. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction is satisfied or a stipulated time restriction ends, net assets are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Contributions are subject to variance power and give the Board the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. Based on that provision, the Foundation classifies contributions as without donor restrictions for financial statement presentation. One grantor accounted for 100% of the contributions receivable as of June 30, 2019.

Allowance for uncollectible contributions – An allowance is maintained to provide for uncollectible contributions that can be expected to occur in the normal course of operations. The allowance is based on management's analysis of the outstanding pledges and general business and economic conditions in the community. The allowance is established through a provision for pledge losses, which reduces gross revenue. As of June 30, 2019, management determined that no allowance for uncollectible contributions was necessary.

Investment in Limited Partnership – The Foundation accounts for its interest in companies in which it has no control by using the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted by the Foundation's share of undistributed earnings or losses, contributions, and distributions of such companies. As of June 30, 2019, the Foundation's investments in Fred and Eileen Hignell Limited Partnership consists of 99% ownership interest. The limited partnership interest was donated to the Foundation to hold ownership of the income producing asset as part of a donor advised fund established at time of the limited partnership interest donation.

Property and equipment – Property and equipment are stated at cost or at fair value at the date of gift, if donated, net of accumulated depreciation. All donated assets are reported as revenues without donor restrictions unless donors' stipulations specify how the assets must be used. The Foundation capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally ranging from three to thirty years. Expenditures for maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Long-lived assets – Long-lived assets consist primarily of property and equipment. The assessment of recoverability of carrying value is based on an analysis of operating results and consideration of other significant events or changes in the business environment. If the Foundation has indicators of impairment, management evaluates whether impairment exists on the basis of undiscounted expected future cash flows from operations, over the remaining useful life of the related assets. If impairment exists, the carrying amount of the long-lived assets would be reduced to its estimated fair value. At June 30, 2019, management determined that long-lived assets were not impaired.

North Valley Community Foundation

Notes to Consolidated Financial Statements

Grants payable – Grants payable represent unconditional grants that have been authorized prior to year end, but remain unpaid as of the statement of financial position date. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. There were no conditional grants as of June 30, 2019. All grants payable balances as of June 30, 2019, are payable within one year.

Amounts held on behalf of others – The Foundation accepts funds from unrelated not-for-profit organizations who desire to have the Foundation provide efficient investment management, programmatic expertise, and technical assistance. A liability is recorded at the estimated fair value of assets deposited with the Foundation by not-for-profit organizations and is reflected under amounts held on behalf of others on the accompanying consolidated statement of financial position. Assets are invested in the Foundation's investment pools.

Revenue recognition – Contributions are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years, are recognized at fair value based on discounted cash flows. The discount on these amounts are computed using the rate applicable in the year the promises were received. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at appraised value on the date of the gift. Contributions of public stock are sold immediately and recorded at the net selling price on the date of donation.

Hignell Family Paradise Shopping Center, LLC, revenue consists primarily of rental income and it is recognized as revenue when earned in accordance with the terms of the rental agreements.

Functional expense allocations – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. The expenses are tracked by fund and are directly assigned to program expenses. Supporting services are shared over the entire Foundation and are tracked separately from program expenses.

Marketing – The Foundation expenses marketing costs as incurred, which amounted to \$18,481 for the year ended June 30, 2019, and are included in management and general expense in the consolidated statement of activities and changes in net assets.

Income taxes – NVCF is a nonprofit corporation exempt from federal income taxes under Internal Revenue Code section 501(c)(3) and from State of California income taxes, except on unrelated business income. Therefore, these consolidated financial statements contain no provision for such taxes. Informational returns are filed annually with federal and state taxing authorities. NVCF is not aware of any transactions that would affect its tax-exempt status. Unrelated business income tax is generated through the Fred and Eileen Hignell Limited Partnership. For the year ended June 30, 2019, the IRS tax paid was \$15,284 and the Franchise Tax Board tax paid was \$9,001.

Smallfoot, LLC, and Hignell Family Paradise Shopping Center, LLC, are considered disregarded entities for IRS purposes. As a result, all transactions are reported on the Foundation's Form 990. For the California Franchise Tax Board purposes, these are considered a separate legal entity and subject to a fee based on gross income. For the year ended June 30, 2019, the gross receipts fees for both affiliates totaled \$2,500.

The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation had no unrecognized tax benefits as of June 30, 2019.

North Valley Community Foundation

Notes to Consolidated Financial Statements

Concentrations of risk – Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of investments in excess of Securities Investor Protection Corporation (SIPC) insurance and cash deposits in excess of the Federal Deposit Insurance Corporation (FDIC). The Foundation periodically maintains balances in depository and brokerage accounts in excess of the respective FDIC and SIPC insurance limits. Management monitors the financial condition of these institutions on a regular basis and does not believe it is exposed to any significant credit risk on uninsured amounts.

Recent accounting pronouncements – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, which provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfied a performance obligation. In August 2015, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date (ASU 2015-14)*, which deferred the effective date of ASU 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08)*, which clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing (ASU 2016-10)*, which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance in ASU 2014-09, while retaining the related principles for those areas. In May 2016, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients (ASU 2016-12)*, which provides narrow-scope improvements and practical expedients to ASU 2014-09. ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 are effective for the Foundation beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)*, to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This update will address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The adoption of ASU 2016-01 is effective for the Foundation beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU 2016-01 on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) (ASU 2016-02)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for the Foundation beginning July 1, 2021. Management is currently evaluating the impact of the provisions of ASU No. 2016-02 on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18)*, which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 is effective for the Foundation beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU 2016-18 on the consolidated financial statements.

North Valley Community Foundation

Notes to Consolidated Financial Statements

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)*, which assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit-Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The adoption of ASU 2018-08 is effective for the Foundation beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU 2018-08 on the consolidated financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date, but before consolidated financial statements are available to be issued. The Foundation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position, but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued. Subsequent events have been evaluated through April 14, 2020, the date the consolidated financial statements were available to be issued.

Near the end of 2019, a novel coronavirus known as COVID-19 was first detected, causing outbreaks of the disease that have since spread globally. A public health emergency has been declared by the World Health Organization and the U.S. Secretary of Health and Human Services, and a national emergency has been declared by the U.S. Federal Government. In addition, the State of California, in which the Center's operations are concentrated, has issued a statewide "shelter-in-place" order, restricting residents to their homes. As a result, economic uncertainties have risen that are likely to negatively impact the ability for donors to donate funds. Additionally, a short-term impact in the market value of investments is expected. The Foundation continues to monitor the situation closely; however, given the uncertainty of the situation and the dynamic nature of these circumstances, the impact to the consolidated financial statements cannot be estimated.

North Valley Community Foundation

Notes to Consolidated Financial Statements

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's consolidated financial assets available within one year of the financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 4,403,837
Short-term investments	43,350,483
Notes receivable, current portion	3,570
Contributions receivable, current portion	<u>1,000,000</u>
Net financial assets available within one year	48,757,890
Less amounts unavailable for general expenditures - required to satisfy donor restrictions	<u>(2,349,803)</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 46,408,087</u></u>

The Foundation has a goal to maintain cash and short-term investment balances on hand to meet at least 90 days of ordinary business expenses, which are on average \$400,000. The Foundation's working capital for the 2019 fiscal year-end was \$46,398,986. The Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

As a consequence of the coronavirus outbreak mentioned in Note 1, the Foundation anticipates a significant short-term impact on the investments, but given the uncertainty about the situation, the Foundation cannot estimate the impact to the consolidated financial statements.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Foundation applies the guidance FASB ASC 820, *Fair Value Measurements*, for all financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for the asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of nonperformance risk including the Foundation's own credit risk.

In addition to defining fair value, the standard states the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities.

North Valley Community Foundation

Notes to Consolidated Financial Statements

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed. Those differences could be material.

As of June 30, 2019, investments - marketable securities fair values are based on either quoted market prices, quoted market prices for similar securities, indications of values provided by brokers or derived from model-based valuation techniques that use assumptions not observable in the market.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the consolidated financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. There were no such transfers for the year ended June 30, 2019.

The following tables present information about the Foundations' assets measured at fair value on a recurring basis as of June 30, 2019:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Mutual funds	\$ 8,337,573	\$ -	\$ -	\$ 8,337,573
Certificate of deposits	-	200,100	-	200,100
Equities	296,327	-	-	296,327
Fixed income	47,105,666	-	-	47,105,666
Exchange traded products	2,627,707			2,627,707
Total investments	<u>\$ 58,367,273</u>	<u>\$ 200,100</u>	<u>\$ -</u>	<u>\$ 58,567,373</u>

There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2019.

NOTE 4 – NOTES RECEIVABLE

Notes receivable consisted of a note in the original amount of \$165,000 that was gifted to the Foundation during the year ended June 30, 2018. The note is payable in monthly installments of \$625 including interest at 3%. The note is unsecured and is due March 1, 2025. Interest received on the note as of June 30, 2019, amounted to \$3,268 and is included in other income in the consolidated statement of activities and changes in net assets.

North Valley Community Foundation

Notes to Consolidated Financial Statements

NOTE 5 – PROPERTY AND EQUIPMENT

As of June 30, 2019, property and equipment consists of the following:

Land	\$ 6,024,146
Building	3,828,937
Furniture and fixtures	53,853
Computer equipment	<u>47,748</u>
Total property and equipment	9,954,684
Less accumulated depreciation	<u>(110,650)</u>
Total property and equipment, net	<u>\$ 9,844,034</u>

The land and building amounts are held in the two affiliates that produce income for associated donor-advised funds. The furniture, fixtures and computer equipment are held by NVCF for its operations. Depreciation expense for the year ended June 30, 2019, was \$76,817 for the buildings and \$23,824 for furniture and equipment and is included in supporting services on the consolidated statement of activities and changes in net assets.

NOTE 6 – NET ASSETS

Net assets are classified based on existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions – Represent resources available to support the Foundation's operations, and resources with no use or time restrictions that have become available for use by the Foundation, in accordance with the intention of the donor. A portion of these net assets may be designated by the Board of Directors for specific purposes. As of June 30, 2019, the Foundation had no Board-designated net assets.

The Foundation retains a variance power in its bylaws that allows the Board to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board (without the necessity of the approval of any other party), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. That provision has rarely been used by the Board during the Foundation's history and in all such cases, the Board's actions attempt to follow the donor's original intent as closely as is practicable. However, based on that provision, the Foundation classifies contributions otherwise restricted by donors and their related activity as net assets without donor restrictions for financial statement presentation.

As of June 30, 2019, net assets without donor restrictions were \$68,812,620 on the consolidated statement of financial position, of which \$5,057,253 represents operating funds that the Foundation may use for general operations without the Board having to exercise its variance power. The remaining amount of \$63,755,367 is considered by management as having some type of purpose restriction (donor contributions to funds held and managed by the Foundation that have a specific charitable purpose such as Camp Fire donations), are scholarship funds with criteria for distribution, or donor advised-funds. These assets are subject to the variance power but would almost never be reclassified for use by the Foundation for general operations.

North Valley Community Foundation

Notes to Consolidated Financial Statements

Net assets with donor restrictions – Represent those resources the use of which has been restricted by donors to specific use or the passage of time. The release of net assets from restrictions results from the satisfaction of the restricted purposes specified by the donors, or the passage of time, or both. Based on the variance of power provision described under net assets without donor restrictions, management determined that only endowment funds shall be recognized as net assets with donor restrictions (Note 7). Total net assets with donor restrictions was \$2,349,803 as of June 30, 2019.

NOTE 7 – ENDOWMENT NET ASSETS

Endowment – The Foundation accounts for endowment gifts under the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the Foundation may allow an endowed fund to spend into historic gift value if it can prudently do so after consideration of seven factors that affect the spending and future earnings of the fund. The factors in making a determination as to the appropriation of assets for expenditure are: 1) the duration and preservation of the fund, 2) the purposes of the organization and the endowment fund with donor restrictions, 3) general economic conditions, 4) the possible effect of inflation and deflation, 5) the expected total return from income and the appreciation of investments, 6) other resources of the Foundation, and 7) the investment policies of the Foundation.

Investment and spending policies – The Foundation has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for programs supported by endowments while seeking to maintain the purchasing power of the endowed assets. The investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The Foundation has a policy of appropriating for distribution of an amount not greater than 5% of an endowment fund after deduction of Foundation's administrative. The current long-term return objective is an annualized total rate of return over a three-year period that exceeds an appropriate index rate return by 1.5 percentage points compounded annually, net of investment fees, for equity funds and 0.75 percentage points for fixed income. The Foundation's spending policy is reviewed annually in light of economic conditions and relationship to the overall long-term benchmark.

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 with an emphasis on equity-based investments, within prudent risk parameters.

North Valley Community Foundation

Notes to Consolidated Financial Statements

Classifications include endowment that is designated by donors. The changes in endowment net assets for the year ended June 30, 2019, were as follows:

Endowment net assets, July 1, 2019	\$ 2,455,955
Investment return:	
Investment income	86,004
Net appreciation (realized and unrealized)	<u>35,383</u>
Total investment return	<u>121,387</u>
Appropriation of endowment assets for expenditure	<u>(227,539)</u>
Endowment net assets, June 30, 2019	<u><u>\$ 2,349,803</u></u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Lease obligation – The Foundation leases its office premises with a term of one year, expiring in June 30, 2020. The Foundation entered into a new agreement on April 2020 to lease its offices with a five-year term. The Foundation also leases certain equipment under noncancelable leases. Following is a schedule of future minimum rental payments under its noncancelable operating leases:

Years Ending June 30,

2020	\$ 62,333
2021	104,613
2022	109,734
2023	111,802
2024	<u>112,862</u>
Total	<u><u>\$ 501,344</u></u>

Rental expense consisted of \$40,137 for the year ended June 30, 2019.

Contingencies – The Foundation is subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Foundation.

NOTE 9 – PRIOR-PERIOD ADJUSTMENT

A review of investments as of June 30, 2019, indicated that the Foundation's affiliates, Smallfoot, LLC, and Hignell Family Paradise Shopping Center, LLC, were improperly recorded using the equity method. The affiliates should have been consolidated. Accordingly, the Foundation restated the beginning balance of cash, investments, and property and equipment to reflect the correction of this error, and changed the presentation of these entities from equity method investments in 2018 to consolidated affiliates in the 2019 consolidated financial statements. The effect of the restatement increases cash by \$334,739, property and equipment by \$9,853,083, and decreases investments by \$10,187,822 for the fiscal year ended June 30, 2018. There was no impact to net assets as of July 1, 2018, nor to the increase in net assets for the year ended June 30, 2018.

Supplementary Information

North Valley Community Foundation
Consolidating Statement of Financial Position
June 30, 2019

	North Valley Community Foundation	Smallfoot, LLC	Highnell Family Paradise Shopping Center, LLC	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,456,119	\$ 8,918	\$ 938,800	\$ 4,403,837
Short-term investments	43,350,483	-	-	43,350,483
Notes receivable	3,570	-	-	3,570
Contributions receivable, current portion	1,000,000	-	-	1,000,000
Total current assets	47,810,172	8,918	938,800	48,757,890
NONCURRENT ASSETS				
Notes receivable, net of current portion	158,844	-	-	158,844
Contributions receivable, net of current portion	1,000,000	-	-	1,000,000
Long-term investments - marketable securities	15,216,890	-	-	15,216,890
Investment in Limited Partnership	217,938	-	-	217,938
Property and equipment, net	67,768	5,159,445	4,616,821	9,844,034
Deposits	7,339	-	-	7,339
Total noncurrent assets	16,668,779	5,159,445	4,616,821	26,445,045
Total assets	\$ 64,478,951	\$ 5,168,363	\$ 5,555,621	\$ 75,202,935
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 50,451	\$ -	\$ -	\$ 50,451
Grants payable	2,308,453	-	-	2,308,453
Total current liabilities	2,358,904	-	-	2,358,904
NONCURRENT LIABILITIES				
Agency endowments	1,681,608	-	-	1,681,608
Total liabilities	4,040,512	-	-	4,040,512
NET ASSETS				
Without donor restrictions	58,088,636	5,168,363	5,555,621	68,812,620
With donor restrictions	2,349,803	-	-	2,349,803
Total net assets	60,438,439	5,168,363	5,555,621	71,162,423
Total liabilities and net assets	\$ 64,478,951	\$ 5,168,363	\$ 5,555,621	\$ 75,202,935

North Valley Community Foundation
Consolidating Statement of Statement of Activities and Changes in Net Assets
Year ended June 30, 2019

	North Valley Community Foundation	Smallfoot, LLC	Highnell Family Paradise Shopping Center, LLC	Consolidated
REVENUES WITHOUT DONOR RESTRICTIONS				
Contributions	\$ 64,778,840	\$ -	\$ -	\$ 64,778,840
Program and administration fees	767,136	-	-	767,136
Investment income	599,328	-	-	599,328
Net realized and unrealized investment gains	512,382	-	-	512,382
Revenue from Smallfoot, LLC	-	5,501	-	5,501
Revenue from Highnell Family Paradise Shopping Center, LLC	-	-	999,173	999,173
Other income	333,166	-	-	333,166
Net loss from interest in partnership	(34,786)	-	-	(34,786)
Net assets released from restriction	227,539	-	-	227,539
	<u>67,183,605</u>	<u>5,501</u>	<u>999,173</u>	<u>68,188,279</u>
Total revenues	67,183,605	5,501	999,173	68,188,279
EXPENSES				
Program	20,893,883	-	-	20,893,883
Management and general	918,916	20,555	397,957	1,337,428
	<u>21,812,799</u>	<u>20,555</u>	<u>397,957</u>	<u>22,231,311</u>
Total expenses	21,812,799	20,555	397,957	22,231,311
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	45,370,806	(15,054)	601,216	45,956,968
NET ASSETS WITH DONOR RESTRICTIONS				
Investment income	86,004	-	-	86,004
Net realized and unrealized investment gains	35,383	-	-	35,383
Net assets released from restriction	(227,539)	-	-	(227,539)
	<u>(106,152)</u>	<u>-</u>	<u>-</u>	<u>(106,152)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(106,152)	-	-	(106,152)
CHANGE IN NET ASSETS	45,264,654	(15,054)	601,216	45,850,816
NET ASSETS, beginning of year	15,173,785	5,183,417	4,954,405	25,311,607
	<u>15,173,785</u>	<u>5,183,417</u>	<u>4,954,405</u>	<u>25,311,607</u>
NET ASSETS, end of year	\$ 60,438,439	\$ 5,168,363	\$ 5,555,621	\$ 71,162,423
	<u>\$ 60,438,439</u>	<u>\$ 5,168,363</u>	<u>\$ 5,555,621</u>	<u>\$ 71,162,423</u>

