

LOS ALTOS COMMUNITY FOUNDATION

Financial Statements
and
Report of Independent Auditors

For the year ended June 30, 2017
with comparative totals as of and for the year ended June 30, 2016

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**NOVOGRADAC
& COMPANY** LLP®
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Board of Directors of
Los Altos Community Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of Los Altos Community Foundation, a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Los Altos Community Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Los Altos Community Foundation's financial statements for the year ended June 30, 2016, and our report dated January 10, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Novogradac & Company LLP

San Rafael, California
November 8, 2017

LOS ALTOS COMMUNITY FOUNDATION**STATEMENT OF FINANCIAL POSITION**

June 30, 2017

with comparative totals as of June 30, 2016

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-----------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 456,346 | \$ 493,639 |
| Contributions receivable | - | 30,000 |
| Notes receivable, current portion | - | 10,000 |
| Total current assets | <u>456,346</u> | <u>533,639</u> |
| Notes receivable | - | 11,714 |
| Investments | 8,757,676 | 5,962,793 |
| Land, property and equipment, net | <u>1,476,554</u> | <u>1,527,266</u> |
| Total assets | <u><u>\$ 10,690,576</u></u> | <u><u>\$ 8,035,412</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 42,129 | \$ 37,729 |
| Scholarships payable | 151,086 | 110,302 |
| Total current liabilities | <u>193,215</u> | <u>148,031</u> |
| Deposits held for others | <u>875,399</u> | <u>767,006</u> |
| Total liabilities | <u>1,068,614</u> | <u>915,037</u> |
| Net assets | | |
| Unrestricted | 6,139,825 | 3,668,593 |
| Temporarily restricted | 2,768,063 | 2,721,946 |
| Permanently restricted | 714,074 | 729,836 |
| Total net assets | <u>9,621,962</u> | <u>7,120,375</u> |
| Total liabilities and net assets | <u><u>\$ 10,690,576</u></u> | <u><u>\$ 8,035,412</u></u> |

see accompanying notes

LOS ALTOS COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2017
with comparative totals for the year ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2017 Total | 2016 Total |
|--|-------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
| REVENUE AND OTHER SUPPORT | | | | | |
| Contributions | \$ 3,231,758 | \$ 694,510 | \$ - | \$ 3,926,268 | \$ 1,888,531 |
| In-kind donations | 167 | 457 | - | 624 | 31,039 |
| Grants | - | 495,000 | - | 495,000 | 523,215 |
| Administrative income | 73,936 | - | - | 73,936 | 65,909 |
| Event income | 26,240 | 28,286 | - | 54,526 | 95,422 |
| Program income | 13 | 123,221 | - | 123,234 | 107,899 |
| Interest/dividend income | 73,665 | 57,522 | - | 131,187 | 105,688 |
| Realized gain (loss) on investments | 28,443 | 7,592 | - | 36,035 | (78,819) |
| Unrealized gain (loss) on investments | 328,878 | 216,412 | - | 545,290 | (53,852) |
| Net assets released from restrictions: | | | | | |
| Satisfaction of program restrictions | 1,592,645 | (1,576,883) | (15,762) | - | - |
| Total revenue and other support | 5,355,745 | 46,117 | (15,762) | 5,386,100 | 2,685,032 |
| EXPENSES | | | | | |
| Grantmaking | 1,656,320 | - | - | 1,656,320 | 1,072,030 |
| Programs | 1,036,107 | - | - | 1,036,107 | 933,895 |
| Development | 100,769 | - | - | 100,769 | 52,661 |
| Administration | 91,317 | - | - | 91,317 | 104,281 |
| Total expenses | 2,884,513 | - | - | 2,884,513 | 2,162,867 |
| CHANGE IN NET ASSETS | 2,471,232 | 46,117 | (15,762) | 2,501,587 | 522,165 |
| NET ASSETS AT BEGINNING OF YEAR | 3,668,593 | 2,721,946 | 729,836 | 7,120,375 | 6,598,210 |
| NET ASSETS AT END OF YEAR | <u>\$ 6,139,825</u> | <u>\$ 2,768,063</u> | <u>\$ 714,074</u> | <u>\$ 9,621,962</u> | <u>\$ 7,120,375</u> |

see accompanying notes

LOS ALTOS COMMUNITY FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2017
with comparative totals for the year ended June 30, 2016

| | <u>2017</u> | <u>2016</u> |
|--|--------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 2,501,587 | \$ 522,165 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Contributions of stock | (655,352) | (563,677) |
| Contributions restricted for endowments | - | (15,762) |
| Depreciation | 50,712 | 52,009 |
| Realized loss (gain) on sale of investments | (36,035) | 78,819 |
| Unrealized loss on investments | (545,290) | 53,852 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 30,000 | (30,000) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 4,400 | 9,476 |
| Scholarships payable | 40,784 | 21,282 |
| Net cash provided by operating activities | <u>1,390,806</u> | <u>128,164</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Collection of notes receivable | 21,714 | 10,000 |
| Purchase of property | - | (1) |
| (Purchase of) proceeds from securities, net | <u>(1,449,813)</u> | <u>86,536</u> |
| Net cash (used in) provided by investing activities | <u>(1,428,099)</u> | <u>96,535</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for endowments | <u>-</u> | <u>15,762</u> |
| Net cash provided by financing activities | <u>-</u> | <u>15,762</u> |
| Net (decrease) increase in cash and cash equivalents | (37,293) | 240,461 |
| Cash and cash equivalents at beginning of year | <u>493,639</u> | <u>253,178</u> |
| Cash and cash equivalents at end of year | <u>\$ 456,346</u> | <u>\$ 493,639</u> |

see accompanying notes

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

1. Organization

Los Altos Community Foundation (the "Foundation"), a California nonprofit corporation, was organized in 1991 as a public benefit 501(c)(3) nonprofit corporation and has been determined not to be a private foundation under Section 509(a)(1) of the Internal Revenue Code ("IRC"). The Foundation engages primarily in the administration of funds, which are established by donors who prescribe either the general or specific purposes for which grants are to be made.

The Foundation's goals include providing grants and assistance to develop and strengthen community organizations, to operate and fiscally sponsor programs that meet community needs and encourage civic engagement, to host Donor Advised and other charitable funds for increased philanthropy, and to build a permanent community endowment for the long-term benefit of Los Altos, Los Altos Hills, and neighboring communities.

2. Summary of significant accounting policies

Basis of accounting

The Foundation prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. The Foundation's year end for tax and financial reporting purposes is June 30.

Basis of presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net assets

Unrestricted Net Assets

The portion of net assets that have no use or time restrictions is considered unrestricted net assets. The bylaws of the Foundation include a variance power provision giving the Board of Directors 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 of Directors (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. Based on these provisions, the Foundation classifies contributions, except as noted below, as unrestricted for financial statement presentation.

Temporarily Restricted Net Assets

The portion of net assets that consists of a restriction on the specific use or the occurrence of a certain future event is considered temporarily restricted net assets. The accumulation of assets, above historic gift value, in donor restricted endowment funds is classified as temporarily restricted until appropriated for use based on the Foundation's spending policy. The Foundation also receives grants from charitable foundations and local agencies for initiatives and special projects for which purpose restrictions apply. Such grants and contributions are recorded as temporarily restricted until the purpose restrictions are met. When the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Net assets (continued)

Permanently Restricted Net Assets

The portion of net assets consisting of the fair value of the gifts where the donor has specified that the assets donated are to be retained in an endowment, providing a permanent source of revenue for charitable purposes, is considered permanently restricted net assets.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Concentration of credit risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments. The Foundation places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposed to any one financial institution. The Board of Directors monitors the investments and changes are made to the investment policy as conditions change. The Foundation has not experienced any losses in such accounts.

Contributions and grants

Contributions and grants are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In-kind donations

In-kind donations, which require a specialized skill and which the Foundation would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Foundation has an objective measurable method to determine fair value. A number of unpaid professionals providing consulting services have made significant contributions of their time to the Foundation. For the years ended June 30, 2017 and 2016, the fair value of the contributed time of \$624 and \$31,039, respectively, has been reflected as a donated services contribution in these financial statements.

The Foundation also receives donated services that do not require specific expertise but which are nonetheless essential to the Foundation's operations. These donated services are not reflected in the financial statements.

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Revenue recognition

Revenue resulting from special events, fees charged by the Foundation, refunded grants and other income is recorded when earned.

Investments and beneficial interest in assets held by others

Investments include those held in individual funds established by donors, supporting organizations, and a variety of investment pools made available to donor funds for investment of gifted assets. Separate asset allocations are maintained for each investment pool, the endowment and supporting organizations. The asset allocation of any individual donor fund is dependent on the donor's choice of approved investment pools.

Beneficial interest in assets held by others includes funds held with the Silicon Valley Community Foundation to invest in a revocable nonprofit investment fund which was not subject to variance power. As of June 30, 2017, all SVCF assets held by others had been transferred to investment accounts managed by Los Altos Community Foundation.

Realized gains or losses on the sale of marketable securities are calculated using the average cost method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year.

Accounts receivable

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Notes receivable and allowance for note losses

Notes receivable is reported net of an allowance for note losses. Management's estimate of the allowance is based on historical collection experience and a review of the current status and collections of notes receivable. As of June 30, 2017 and 2016, management has determined no allowance is needed.

Fair value measurements

The Foundation applies the accounting provisions related to fair value measurements. These provisions define fair value 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, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Foundation's own assumptions.

The following tables present the Foundation's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2017 and 2016:

| | June 30, 2017 | | | Fair Value Measurements |
|---------------------------------------|---------------|---------|---------|----------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Certificates of deposit | \$ 1,039,806 | \$ - | \$ - | \$ 1,039,806 |
| Fixed income mutual funds | 2,354,378 | - | - | 2,354,378 |
| Domestic equity mutual funds and ETFs | 3,373,772 | - | - | 3,373,772 |
| Foreign equity mutual funds | 1,739,492 | - | - | 1,739,492 |
| Domestic common stock | 250,228 | - | - | 250,228 |
| Total assets | \$ 8,757,676 | \$ - | \$ - | \$ 8,757,676 |
| Liabilities | | | | |
| Deposits held for others | \$ 875,399 | \$ - | \$ - | \$ 875,399 |
| Total liabilities | \$ 875,399 | \$ - | \$ - | \$ 875,399 |

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

| | June 30, 2016 | | | Fair Value Measurements |
|--|---------------------|-------------------|-------------|----------------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Beneficial interest in assets held by others | \$ 492,740 | \$ 211,174 | \$ - | \$ 703,914 |
| Certificates of deposit | 1,483,136 | - | - | 1,483,136 |
| Fixed income mutual funds | 1,054,177 | - | - | 1,054,177 |
| Domestic equity mutual funds and ETFs | 2,083,387 | - | - | 2,083,387 |
| Foreign equity mutual funds | 534,944 | - | - | 534,944 |
| Domestic common stock | 103,047 | - | - | 103,047 |
| Insured deposit funds | 188 | - | - | 188 |
| Total assets | <u>\$ 5,751,619</u> | <u>\$ 211,174</u> | <u>\$ -</u> | <u>\$ 5,962,793</u> |
| Liabilities | | | | |
| Deposits held for others | \$ 767,006 | \$ - | \$ - | \$ 767,006 |
| Total liabilities | <u>\$ 767,006</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 767,006</u> |

Property and equipment and depreciation

Property and equipment is recorded at cost or fair market value at the date of acquisition. Depreciation on property and equipment is provided over the estimated useful lives of the respective assets ranging from 5 to 39 years on a straight-line basis.

Income taxes

The Foundation is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and therefore, is generally exempt from both federal and state income taxes, except on net income derived from unrelated business activities.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Foundation to report information regarding its exposure to various tax positions taken. Management has determined whether any tax positions have met the recognition threshold and has measured its exposure to those tax positions. Management believes that the Foundation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Foundation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Endowment funds

In August 2008, the Financial Accounting Standards Board provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). This guidance also improves disclosures about an organization’s endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Foundation is subject to the required disclosures in that the Foundation classifies its unrealized gains and losses on donor-restricted endowed funds as temporarily restricted net assets. To the extent unrealized losses exceed previous unrealized gains, the unrealized losses are recorded to unrestricted net assets. Any gains in subsequent years will first offset any previous losses recorded in unrestricted net assets before recording unrealized gains and losses as temporarily restricted net assets. As of June 30, 2017 and 2016, the Foundation had one endowment funds, with deficiencies of this nature totaling \$0 and \$3,848 respectively. These deficiencies are reflected in unrestricted net assets.

Endowment investing and spending policies

On March 25, 2015, the board approved a new spending policy. The spending policy for endowment funds strives to provide a predictable stream of funding for programs supported by their endowment while seeking to maintain the purchasing power of the endowed assets. The policy allows for granting 4% of the average of the fund balances as of December 31 of the prior year combined with the eleven prior trailing quarter end balances. The original value of the gifts donated to the permanent endowments are to be classified as permanently restricted and any earnings are classified as temporarily restricted until appropriated for expenditure.

Deposits held for others

The Foundation accepts funds from unrelated nonprofit organizations who desire to have the Foundation provide efficient investment management, programmatic expertise, and technical assistance. A liability is recorded at the readily determinable estimated fair values of assets deposited with the Foundation by nonprofit organizations.

Grant expense

Grants are recognized when all significant conditions are met, all due diligence has been completed and they are approved by staff or board committee. Grant refunds are recorded as a reduction of grant expense at the time the Foundation receives or is notified of the refund.

Fees charged by the Foundation

The Foundation charges fees to the individual funds for administration costs. For donor advised funds, an annual 1% fee is charged each month based on an average daily balance. For fiscally sponsored programs and designated funds, generally an annual 3% - 5% fee is charged based on monthly income. For the years ended June 30, 2017 and 2016, the Foundation recorded fees charged to deposits held for others by the operating fund to the multiple funds administration fee on a net basis, amounting to \$8,136 and \$8,330, respectively. For the years ended June 30, 2017 and 2016, the total fees charged by the operating fund were \$73,936 and \$65,909, respectively.

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

2. Summary of significant accounting policies (continued)

Functional allocation of expenses

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Foundation's management.

Recently issued accounting pronouncements

In August 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Updates (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The major changes revolve around net asset classifications. ASU 2016-14 eliminates the distinction between resources with permanent restrictions and those with temporary restrictions by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes: net assets with donor restrictions and net assets without donor restrictions.

In addition to the fundamental change in net asset classifications, the new standard also includes a number of specific amendments, such as the following:

- Reporting requirements of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and disclosures about underwater endowments;
- Disclosure requirements of qualitative information on how the organization manages its liquid available resources and liquidity risks;
- Reporting requirements of the investment return, net of external and direct internal investment expenses (disclosure of those netted expenses is no longer required).

ASU 2016-14 applies to all non-profit organizations and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted.

The Foundation is currently evaluating the impact the adoption of this standard will have on the financial statements.

Subsequent events

Subsequent events have been evaluated through November 8, 2017, which is the date the financial statements were available to be issued. There are no subsequent events requiring disclosure.

3. Notes receivable

The Foundation has two unsecured note receivable agreements with donor advised funds with interest due quarterly in arrears at 2.82% maturing in December 2017. As of June 30, 2017 and 2016, the notes totaled \$0 and \$21,714, respectively. For the years ended June 30, 2017 and 2016, the principal repaid on the notes in the amount of \$21,714 and \$10,000, respectively.

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

4. Investments and beneficial interest in assets held by others

Investments are stated at current market value and consist of the following:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Beneficial interest in assets held by others | \$ - | \$ 703,914 |
| Certificates of deposit | 1,039,806 | 1,483,136 |
| Fixed income mutual funds | 2,354,378 | 1,054,177 |
| Domestic equity mutual funds and ETFs | 3,373,772 | 2,083,387 |
| Foreign equity mutual funds | 1,739,492 | 534,944 |
| Domestic common stock | 250,228 | 103,047 |
| Insured deposit funds | - | <u>188</u> |
| Total investments | <u>\$ 8,757,676</u> | <u>\$ 5,962,793</u> |

The following schedule summarizes the return on investments and beneficial interest in assets held by others and its classification in the Statement of Activities for the years ended June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--------------------------|-------------------|--------------------|
| Interest/dividends | \$ 131,187 | \$ 105,688 |
| Realized gain (loss) | 36,035 | (78,819) |
| Unrealized gain (loss) | <u>545,290</u> | <u>(53,852)</u> |
| Total investment returns | <u>\$ 712,512</u> | <u>\$ (26,983)</u> |

5. Property and equipment

Property and equipment, net as of June 30, 2017 and 2016, consist of the following:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|
| Land | \$ 1,065,659 | \$ 1,065,659 |
| Buildings | 915,093 | 915,093 |
| Equipment | 10,765 | 10,765 |
| Less: accumulated depreciation | <u>(514,963)</u> | <u>(464,251)</u> |
| Furniture and equipment, net | <u>\$ 1,476,554</u> | <u>\$ 1,527,266</u> |

For the years ended June 30, 2017 and 2016, depreciation expense was \$50,712 and \$52,009, respectively.

LOS ALTOS COMMUNITY FOUNDATION

Notes to Financial Statements

June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

6. Deposits held for others

As of June 30, 2017 and 2016, the Foundation held assets for three nonprofit organizations. The assets are held in funds that are managed by the Foundation on an agency relationship basis. The activity in such funds is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Nonprofit fund balances, beginning of year | \$ 767,006 | \$ 810,788 |
| Amounts raised in contribution | 20,000 | - |
| Dividends and interest income | 18,060 | 6,459 |
| Realized and unrealized investment returns | 83,575 | (30,610) |
| Expenses | <u>(13,242)</u> | <u>(19,631)</u> |
| Nonprofit fund balances, end of year | <u>\$ 875,399</u> | <u>\$ 767,006</u> |

7. Borrowing from designated fund

The Foundation has a promissory note agreement in order to reimburse borrowed designated fund. The agreement provides for borrowings of up to \$575,000 with interest of 0.4% and a maturity date of July 1, 2022. The terms of the note were amended by board resolution on November 19, 2014 to consider this loan the fixed-income and cash portion of the long term growth fund investment allocation and as such would carry an interest rate equal to the total return of that portion of the fund each quarter. As of June 30, 2017 and 2016, the outstanding balance of the amount borrowed was \$164,465 and \$192,843, respectively. For the years ended June 30, 2017 and 2016, interest income of approximately \$1,359 and \$4,102, respectively, is included in temporarily restricted investment income on the statements of activities.

As the promissory note agreement is an internal agreement, there is no effect on the statements of financial position as of June 30, 2017 and 2016.

8. Temporarily restricted net assets

Temporarily restricted net assets consist of the following as of June 30:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Education and community | \$ 1,122,163 | \$ 949,112 |
| Community building projects | 297,703 | 268,135 |
| Scholarships | 322,147 | 297,773 |
| Community facilities | 857,802 | 743,815 |
| Other | <u>168,248</u> | <u>463,111</u> |
| Total temporarily restricted net assets | <u>\$ 2,768,063</u> | <u>\$ 2,721,946</u> |

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8. Temporarily restricted net assets (continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|-------------------|
| Education and community | \$ 513,833 | \$ 400,001 |
| Community building projects | 174,778 | 135,141 |
| Scholarships | 29,670 | 85,848 |
| Community facilities | 36,140 | 42,542 |
| Other | <u>822,462</u> | <u>282,905</u> |
| Total temporarily restricted net assets | <u>\$ 1,576,883</u> | <u>\$ 946,437</u> |

9. Permanently restricted net assets

For the years ended June 30, 2017 and 2016, the changes in permanently restricted net assets are as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Permanently restricted net assets, beginning of year | \$ 729,836 | \$ 714,074 |
| Contributions | - | 15,762 |
| Reclassification of LACF Endowment Fund | <u>(15,762)</u> | <u>-</u> |
| Permanently restricted net assets, end of year | <u>\$ 714,074</u> | <u>\$ 729,836</u> |

10. Endowment disclosures

The Foundation is required to provide information about net assets which are defined as endowment, which includes endowment which is permanently restricted by donors (permanently restricted net assets) and endowment which has been board designated. As of June 30, 2017 and 2016, endowment net assets consisted of the following:

| | <u>June 30, 2017</u> | | | |
|--------------------------------|----------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor restricted endowments | <u>\$ 1,883,136</u> | <u>\$ -</u> | <u>\$ 714,074</u> | <u>\$ 2,597,210</u> |
| | <u>June 30, 2016</u> | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor restricted endowments | <u>\$ (3,848)</u> | <u>\$ -</u> | <u>\$ 729,836</u> | <u>\$ 725,988</u> |

LOS ALTOS COMMUNITY FOUNDATION

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June 30, 2017

with comparative totals as of and for the year ended June 30, 2016

10. Endowment disclosures (continued)

For the years ended June 30, 2017 and 2016, the changes in endowment net assets are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Endowment net assets | | | | |
| July 1, 2015 | \$ - | \$ - | \$ 714,074 | \$ 714,074 |
| Investment return: | | | | |
| Investment income | - | 21,977 | - | 21,977 |
| Net depreciation (realized and unrealized) | - | (25,825) | - | (25,825) |
| Total investment loss | - | (3,848) | - | (3,848) |
| Contributions | - | - | 15,762 | 15,762 |
| Reclassification of deficit endowment fund activity | (3,848) | 3,848 | - | - |
| June 30, 2016 | (3,848) | - | 729,836 | 725,988 |
| Investment return: | | | | |
| Investment income | 12,989 | 16,992 | - | 29,981 |
| Net appreciation (realized and unrealized) | 31,449 | 63,914 | - | 95,363 |
| Total investment gain | 44,438 | 80,906 | - | 125,344 |
| Contributions | 1,890,334 | - | - | 1,890,334 |
| Appropriation for spending | (63,550) | (80,906) | - | (144,456) |
| Reclassification of LACF endowment fund | 15,762 | - | (15,762) | - |
| Endowment net assets | | | | |
| June 30, 2017 | <u>\$ 1,883,136</u> | <u>\$ -</u> | <u>\$ 714,074</u> | <u>\$ 2,597,210</u> |

11. Prior year comparison

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which the summarized information was derived.