

LONG BEACH COMMUNITY FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Long Beach Community Foundation

We have audited the accompanying consolidated financial statements of Long Beach Community Foundation (the "Foundation"), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 consolidated 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 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 financial position of Long Beach Community Foundation as of December 31, 2015, 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.



Long Beach, California
July 12, 2016

**LONG BEACH COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

ASSETS

Cash and cash equivalents held by Greater Horizons	\$ 1,722,949
Cash and cash equivalents	10,619
Investments held by Greater Horizons	23,372,145
Investments	23,760
Beneficial interest in split-interest agreements	685,220
Prepaid expenses	1,405
Property and equipment, net	<u>1,500,034</u>

TOTAL ASSETS	<u><u>\$ 27,316,132</u></u>
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 7,959
Reserve for agency funds	<u>8,087,533</u>

Total Liabilities	<u>8,095,492</u>
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Net Assets

Unrestricted	15,772,004
Temporarily restricted	804,507
Permanently restricted	<u>2,644,129</u>

Total Net Assets	<u>19,220,640</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 27,316,132</u></u>
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The accompanying notes are an integral part of these consolidated financial statements.

**LONG BEACH COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 2,033,415	\$ 67,413	\$ 1,315,150	\$ 3,415,978
Rental income	80,168	-	-	80,168
Change in value of split-interest agreements	-	(18,827)	-	(18,827)
Investment income (loss), net	39,468	(17,821)	-	21,647
Agency fund administration	75,640	-	-	75,640
Other income	6,014	864	-	6,878
Subtotal - support and revenue	<u>2,234,705</u>	<u>31,629</u>	<u>1,315,150</u>	<u>3,581,484</u>
Net assets released from restrictions and reclassifications	<u>1,053,091</u>	<u>(1,053,091)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u><u>3,287,796</u></u>	<u><u>(1,021,462)</u></u>	<u><u>1,315,150</u></u>	<u><u>3,581,484</u></u>
EXPENSES				
Program services				
Grants	2,026,880	-	-	2,026,880
Other program expenses	155,562	-	-	155,562
Total program services	<u>2,182,442</u>	<u>-</u>	<u>-</u>	<u>2,182,442</u>
Supporting services				
Management and general	234,156	-	-	234,156
Fundraising	74,002	-	-	74,002
Total supporting services	<u>308,158</u>	<u>-</u>	<u>-</u>	<u>308,158</u>
TOTAL EXPENSES	<u><u>2,490,600</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,490,600</u></u>
CHANGE IN NET ASSETS	797,196	(1,021,462)	1,315,150	1,090,884
BEGINNING NET ASSETS	<u>14,974,808</u>	<u>1,825,969</u>	<u>1,328,979</u>	<u>18,129,756</u>
ENDING NET ASSETS	<u><u>\$ 15,772,004</u></u>	<u><u>\$ 804,507</u></u>	<u><u>\$ 2,644,129</u></u>	<u><u>\$ 19,220,640</u></u>

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

**LONG BEACH COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Total Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Grants					
From donor advised funds	\$ 1,726,777	\$ -	\$ -	\$ -	\$ 1,726,777
Other grants and allocations	300,103	-	-	-	300,103
	<u>2,026,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,026,880</u>
Other					
Accounting services	-	20,540	-	20,540	20,540
Advertising and marketing	-	-	9,012	9,012	9,012
Annual report	-	400	-	400	400
Building repairs and maintenance	20,135	-	-	-	20,135
Contract services	-	23,500	-	23,500	23,500
Conferences and meetings	-	2,198	-	2,198	2,198
Consultants	-	-	600	600	600
Credit card and bank fees	-	1,764	-	1,764	1,764
Depreciation	17,442	775	-	775	18,217
Equipment repairs and maintenance	20	6,456	22	6,478	6,498
Insurance	5,758	3,330	860	4,190	9,948
Investment management fees	-	30,567	-	30,567	30,567
Legal	-	2,480	-	2,480	2,480
Occupancy	-	17,335	-	17,335	17,335
Office supplies	-	4,189	-	4,189	4,189
Payroll service	-	1,538	-	1,538	1,538
Payroll taxes	6,089	7,962	4,684	12,646	18,735
Postage	-	2,484	-	2,484	2,484
Projects and events	-	11,157	-	11,157	11,157
Property taxes	13,293	-	-	-	13,293
Publications and printing	14	29	164	193	207
Registration fees	-	215	-	215	215
Staff development	-	584	-	584	584
Salaries	76,258	99,722	58,660	158,382	234,640
Subscriptions	-	1,240	-	1,240	1,240
Telephone	-	1,032	-	1,032	1,032
Travel	-	1,568	-	1,568	1,568
Utilities	16,553	-	-	-	16,553
Website	-	193	-	193	193
Total Expenses	<u>2,182,442</u>	<u>241,258</u>	<u>74,002</u>	<u>315,260</u>	<u>2,497,702</u>
Less expenses included with revenues on the statement of activities	<u>-</u>	<u>(7,102)</u>	<u>-</u>	<u>(7,102)</u>	<u>(7,102)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 2,182,442</u>	<u>\$ 234,156</u>	<u>\$ 74,002</u>	<u>\$ 308,158</u>	<u>\$ 2,490,600</u>

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

**LONG BEACH COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,090,884
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	18,217
Contributions restricted for endowment	1,315,150
Donated stocks and investments	(352,903)
Net realized and unrealized gain on investments	430,165
Change in value of split-interest agreements	18,827
Decrease in:	
Contribution receivable	258,000
Increase in:	
Accounts payable and accrued expenses	3,484
Reserve for agency funds	<u>790,487</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,572,311</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(15,523)
Proceeds from sale of investments	9,095,720
Purchase of investments	<u>(11,325,314)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,245,117)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from contributions restricted for endowment	<u>(1,315,150)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,315,150)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	12,044
BEGINNING CASH AND CASH EQUIVALENTS	<u>1,721,524</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 1,733,568</u></u>
RECONCILIATION TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION	
Cash and cash equivalents held by Greater Horizons	\$ 1,722,949
Cash and cash equivalents	<u>10,619</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 1,733,568</u></u>

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

LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – ORGANIZATION, MISSION, AND ACTIVITIES

Reporting Entity and Nature of Activities

Long Beach Community Foundation (the "Foundation") was incorporated in the State of California under the Nonprofit Public Benefit Corporation Law in 2006 as a public charity established under the Internal Revenue Service (IRS) Code section 501(c)(3). The Foundation's mission is to initiate positive change for Long Beach through charitable giving, stewardship, and strategic grant making.

To fulfill its mission, the Foundation becomes an enabling vehicle that provides charitable tax deductions for contributions received in connection with individualized giving programs. The Foundation then provides investment management oversight for all funds under its stewardship and assures that such funds receive diversified and comprehensive investment management. Grants to eligible nonprofit agencies and governmental subdivisions are recommended by the Foundation's Board of Directors, donor advisors, and creators of special purpose charitable funds and endowments. Most grants are intended to benefit Long Beach, California. Strict due diligence and review procedures are applied to each grant to assure compliance with federal and state tax laws. Operating expenses of the Foundation are primarily supported through fees charged to each philanthropic fund.

These consolidated financial statements include the accounts of LBCF Properties Foundation, incorporated in 2012, to receive, hold, manage, and administer donations of real estate and certain other non-liquid types of property for the benefit of the Foundation. It is separately recognized by the Internal Revenue Service as a section 501(c)(3) exempt organization and is classified as an IRS Type 1 Supporting Organization under IRS Code section 509(a)(3). LBCF Properties Foundation owns a commercial office building and leases commercial office space to qualified local charitable organizations.

The Foundation partners with Greater Horizons (administered by the Greater Kansas City Community Foundation) for financial management and investment accounting services for all funds under its stewardship. These "Back Office Operations" are covered by a Service Organization Control Report (SOC 1) issued by KPMG LLP. Through the partnership with Greater Horizons, the Foundation pools its assets with more than two dozen other community foundations. Combined pooled assets exceed \$2 billion held in more than 3,300 charitable funds. Greater Horizons is compensated for these services, and provides fund accounting and enhanced donor services to the Foundation's donors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Consolidated Statement of Financial Position does not classify assets and liabilities as current or non-current because the operating cycle of a community foundation is presumed to be *in perpetuity*.

LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

The Long Beach Community Foundation and LBCF Properties Foundation are under common management and control. In accordance with generally accepted accounting principles, the financial statements have been prepared on a consolidated basis. All intercompany transactions and balances have been eliminated in consolidation. Each entity holds a separate Internal Revenue Service (IRS) exempt determination letter and is required to file its own IRS Form 990 Informational Return and the corresponding California Form 199. Unless otherwise stated, the two entities are collectively referred to as the “Foundation” in these consolidated financial statements.

Use of Estimates

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

Significant Estimates

The Foundation has been named beneficiary of various estates. Bequests received under such estates are not recorded until the Foundation has a legal right to such assets, the distribution of assets to the Foundation is probable, and the amount of the distribution can be reasonably estimated. The Foundation’s estimate of the beneficial interest in split-interest agreements is subject to uncertainty because it involves significant assumptions. The nature of the uncertainty is a result of the lack of information regarding the life expectancies of lead beneficiaries, the remainder amounts of trust assets, and the value of underlying trust assets. It is at least reasonably possible that a change in the estimate will occur in the near term and the effect of the change would be material to the financial statements.

Cash and Cash Equivalents

The carrying value of cash and cash equivalents approximates fair value. Cash equivalents consist of highly liquid investments with an initial maturity of three months or less.

Investments

Investments in all mutual funds and equity securities with readily determinable market values are recorded at fair market value. Fair market value is determined from quoted market prices.

Investments held at Greater Horizons are made according to the Investment Objectives and Policies adopted by the Foundation’s Board of Directors. Prairie Capital Management provides independent investment management and consulting.

Investment guidelines provide for investment in equities and fixed income securities with performance measured against appropriate indices. Securities are held in custodial investment accounts administered by certain financial institutions. The Foundation maintains master investment accounts for all the Foundation’s accounts including donor-restricted and board-designated endowment accounts.

Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual accounts based on the relationship of the market value of each account to the total market value of the master investment accounts. Earnings on short-term, pass-through, and special purpose accounts accrue to the Foundation.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and Bequests Receivable

The Foundation has been named beneficiary of various estates. Bequests received under such estates are not recorded until the Foundation has a legal right to such assets, the distribution of assets to the Foundation is probable, and the amount of the distribution can be reasonably estimated.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of the gift, if donated and significant. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation has been recorded using the straight-line method over the estimated useful lives of the assets, generally 10 to 39 years for buildings and improvements, and 5 to 10 years for furniture and equipment. Land has an indefinite useful life and is therefore not depreciated. The acquisition cost or value of property and equipment for LBCF Properties Foundation in excess of \$1,000 is capitalized. Acquisitions of property and equipment for LBCF in excess of \$5,000 are capitalized.

Repairs, maintenance and minor acquisitions are expensed as incurred, and the Foundation uses the direct expense method to account for planned major maintenance activities.

Reserve for Agency Funds

The Foundation follows guidance provided by Generally Accepted Accounting Principles (GAAP) which establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to an entity that is specified by the donor. The standards specifically require that if a 501(c)(3) public charity organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

Net Assets

The Foundation reports net assets based upon the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be fulfilled by the actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Foundation.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

All contributions, including bequests and unconditional promises to give, are measured at fair market value and recognized as revenue in the Consolidated Statement of Activities in the period received at estimated net realizable value. Bequests are recognized only when the Foundation's right to receive the proceeds is assured and the value is subject to reasonable estimation.

Fair Value Measurements and Disclosures

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

GAAP emphasizes that fair value is a market-based measurement, not an entity-specific measurement. As a basis for considering market participant assumptions in fair market value measurements, GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 Inputs utilize quoted prices in active markets for identical assets or liabilities that are able to be accessed.
- Level 2 Inputs utilize data other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly and may include:
 - Quoted prices for similar assets or liabilities in active markets.
 - Quoted prices for identical or similar assets or liabilities in inactive markets.
 - Inputs other than quoted prices that are observable for the asset or liability.
 - Inputs and data that are derived from, or corroborated by, observable market data at commonly quoted intervals or by other means.
- Level 3 Inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Fair value measurements within the fair value hierarchy are based on the lowest level of any input that is significant to the measurement of a particular asset or liability. Valuations will maximize the use of observable inputs and minimize the use of unobservable inputs.

Variance Power

The Foundation's governing documents include a variance provision giving the Board of Directors the power to modify any restriction or condition placed on any gift given to the Foundation. This includes funds with donor-imposed restrictions, if, in its sole judgment, the Board determines that the restriction becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community. The Foundation's governing documents further provide that, absent contrary directions given in the transferring instrument regarding the use of the principal, all or part of the principal of any fund may be used subject to certain conditions. Accordingly, such contributions are reported as unrestricted net assets.

LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted contributions are recognized as an increase in unrestricted net assets when received. Temporarily restricted contributions are recognized as an increase in temporarily restricted net assets when received.

When restrictions are satisfied, either by the passage of time or by the accomplishment of purpose, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the activity statement as net assets released from restrictions. When restrictions are satisfied in the same accounting period as the receipt of the contribution, the Foundation reports both the revenue and the related expense in the unrestricted net assets class.

Other Donated Assets, Services and Facilities

Donated marketable securities are recorded at the mean quoted market price on the active trading day closest to the date received. Other noncash donations are recorded as contributions at their estimated fair values at the date of donation. The Foundation also receives donations of other noncash assets including the use of facilities and ancillary services from its supporters. These donations, if significant, are recorded at estimated fair market value at the date of donation. The Foundation received contributed facilities during the year ended December 31, 2015 with a fair value of \$15,780.

It is the policy of the Foundation to record a value for contributed services when such services require a special skill or enhance a non-financial asset. No amounts have been reflected in the financial statements for donated volunteer time, since no objective basis is available to measure the value of such services; however, volunteers and Board members have donated time in the accomplishment of program objectives.

Allocation of Expenses by Function

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. Media and public relations costs incurred to promote the mission and programs of the Foundation are charged to "advertising and marketing" as incurred. Such costs are identified in the Consolidated Statement of Functional Expenses.

Income Taxes

The Long Beach Community Foundation and LBCF Properties Foundation are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California.

The Foundation evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions will, more likely than not, be sustained upon examination. As of December 31, 2015 management does not believe the Foundation has any uncertain tax positions requiring accrual or disclosure. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting of Subsequent Events

In 2015, the noncharitable lead beneficiary of a life estate passed away and the Foundation received an ownership interest in a property located in Avalon, California. Subsequent to fiscal year-end, the property was placed on the market. An offer was accepted and the property is in escrow. Upon closing escrow, the Foundation is expected to receive approximately \$840,000.

The Foundation has evaluated events and transactions for potential recognition or disclosure through July 12, 2016, which represents the date the financial statements were available to be issued.

NOTE 3 – INVESTMENTS

Investments consisted of the following at December 31, 2015:

Marketable securities	
Equity pool	\$13,195,457
Short-term fixed income pool	5,335,953
Intermediate-term fixed income pool	3,252,020
Other	1,588,715
Units in limited partnerships	23,760
	<hr/>
Total investments	\$23,395,905
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Investment return is summarized as follows:

Investment income	\$ 315,903
Net realized and unrealized losses on investments	(287,154)
Advisory fees	(7,102)
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Total investment income	\$ 21,647
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Because of the “pooling” of investments with Greater Horizons, the Foundation does not disclose the carrying amounts of investments by major types of security; however the pools are generally invested as follows:

- Equity Pool – The goal of the Equity Pool is to provide a broad market exposure with passive, cost effective investments in segmented and indexed stock mutual funds that diversify across market capitalizations and regions.
- Short-Term and Intermediate-Term Fixed Income Pools – The purpose of the Fixed Income Pools is to provide capital preservation and current income in using passive, cost effective investments in U.S. Treasury notes and bonds, corporate bonds, bank loans, mortgage backed securities and U.S. Treasury Inflation Protected Securities.
- Separately Managed Accounts (Other) – The Foundation allows donors to use their own trusted financial advisor to manage a customized charitable investment portfolio under the umbrella of the Foundation. These separately managed accounts are able to make use of any of the above types of investments.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 – BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS

In January 2010 the Foundation received notice that a \$100,000 cash gift from a revocable trust became irrevocable. The Foundation will receive the distribution upon the death of the surviving spouse.

In May 2010 the Foundation received information necessary to record the value of a beneficial interest in six charitable remainder trusts. Upon the death of each trust's noncharitable lead beneficiary, the Foundation will receive a distribution equal to twenty percent of each trust's remaining assets. Annually the assets are re-measured at fair market value based on the noncharitable lead beneficiaries' life expectancies. The asset is measured at the present value of the expected future cash flows, using an expected payout rate of 6% and applicable mortality tables.

Changes in the value of these assets are recorded as increases or decreases to the assets with a corresponding amount recorded in the consolidated statement of activities and changes in net assets. The beneficial interest in these split-interest agreements at December 31, 2015 were determined to be \$685,220.

NOTE 5 – FAIR VALUE MEASUREMENTS

The following table summarizes the valuation of the Foundation's fair value measurements at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Equity pool	\$ 13,195,457	\$ -	\$ -	\$ 13,195,457
Short-term fixed income pool	5,335,953	-	-	5,335,953
Intermediate-term fixed income pool	3,252,020	-	-	3,252,020
Other	1,588,715	-	-	1,588,715
Units in limited partnerships	-	-	23,760	23,760
Split-interest agreements	-	-	685,220	685,220
Total	<u>\$ 23,372,145</u>	<u>\$ -</u>	<u>\$ 708,980</u>	<u>\$ 24,081,125</u>

Fair values for the beneficial interest in split-interest agreements is determined by calculating the present value of the estimated future interest expected to be received by the Foundation. The units in limited partnerships were received as a contribution during the year, and recorded at fair market value as of the date of donation, less a management determined discount. Alternative investments are recorded at the net asset value.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 – FAIR VALUE MEASUREMENTS (continued)

The following table reconciles beginning and ending balances for these Level 3 assets for the year ended December 31, 2015:

	Alternative investment pool	Units in limited partnerships	Split-interest agreements	Total of Level 3 Fair Value Measurements
Balance, January 1, 2015	\$ 1,339,606	\$ 23,760	\$ 1,620,123	\$ 2,983,489
Receipt of beneficial interest	-	-	(916,076)	(916,076)
Change in value of split- interest agreements	-	-	(18,827)	(18,827)
Net unrealized gains	44,719	-	-	44,719
Purchases	58,426	-	-	58,426
Sales	(1,442,751)	-	-	(1,442,751)
Balance, December 31, 2015	<u>\$ -</u>	<u>\$ 23,760</u>	<u>\$ 685,220</u>	<u>\$ 708,980</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2015:

Land	\$ 890,963
Building and improvements	615,642
Furniture and equipment	38,920
	<u>1,545,525</u>
Less accumulated depreciation	(45,491)
Total property and equipment, net	<u>\$ 1,500,034</u>

Depreciation expense was \$18,217 for the year ended December 31, 2015.

NOTE 7 – RESERVE FOR AGENCY FUNDS

Unaffiliated nonprofit organizations have set up funds with the Foundation for their own benefit under agency agreements. The net investment activity and related management fees are allocated on a prorated basis to each separate fund account. Assets related to agency agreements are held in cash and investments. The balance of such funds at December 31, 2015 was \$8,087,533.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 – NET ASSETS

Unrestricted

Undesignated

Undesignated net assets are available for operating and grant making purposes.

Donor Advised Funds

Donor advised funds represent undesignated net assets even though grant recommendations are accepted from donors or other advisors of most donor advised funds. The Foundation is the owner of all such funds and has the ultimate authority and approval regarding the use of those funds.

Board-Designated

Board-designated net assets consist of Board designated funds in which the principal and earnings are to be available for unrestricted grants to the community. The Board has also designated any net investment earnings to be included as part of those funds.

Unrestricted net assets are summarized as follows:

Undesignated	\$ 2,035,230
Donor advised funds	11,769,141
Board-designated – endowed	1,955,933
Board-designated – non-endowed	<u>11,700</u>
Total unrestricted	<u>\$ 15,772,004</u>

Temporarily Restricted

Net assets which are temporarily restricted, primarily for the passage of time, are summarized as follows:

Split-interest agreements	\$ 635,219
Purpose restricted contributions	24,771
Time restricted earnings on endowment	<u>144,517</u>
Total temporarily restricted	<u>\$ 804,507</u>

Restricted assets, consisting of the following, are presented as temporarily restricted net assets as of December 31, 2015:

Cash	\$ 48,058
Investments	121,230
Split-interest agreements	<u>635,219</u>
	<u>\$ 804,507</u>

**LONG BEACH COMMUNITY FOUNDATION
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NOTE 8 – NET ASSETS (continued)

Permanently Restricted

Permanently restricted net assets consist of donor-restricted endowment funds, of which the earnings are temporarily restricted in accordance with donor stipulations. The balance of permanently restricted funds at December 31, 2015 was \$2,644,129.

Restricted assets, consisting of the following, are presented as permanently restricted net assets as of December 31, 2015:

Cash	\$ 115,333
Investments	2,478,796
Split-interest agreements	50,000
	\$ 2,644,129

NOTE 9 – ENDOWMENTS

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

General Board Policy on Administration of Endowment Funds

The Foundation has determined that the majority of the Foundation's contributions are subject to its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. The Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets:

- (a) the original value of the gifts donated to the permanent endowment,
- (b) the original value of subsequent gifts to the permanent endowment, and
- (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Investment Policy for Endowment Funds

The remaining portion of donor-restricted endowment funds, which is generally composed of investment income from the endowed investment, will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA, which became effective in California on January 1, 2009. When appropriated for expenditure, such assets will be reclassified to unrestricted net assets.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – ENDOWMENTS (continued)

Under the policy adopted by the Foundation, the Foundation has the ability to distribute as much of the corpus of any trust or separate gift, devise, bequest or fund as the boards of directors in their sole discretion shall determine. As a result, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Although the Foundation retains variance power over the distributions from these unrestricted funds, to the extent that the donors or boards of directors have recommended that certain funds function as endowment funds, the Foundation manages these funds as endowments.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations and granting. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under the investment policy, as approved by the Foundation's Board of Directors, the endowment assets are invested in a manner which attempts to achieve over time, after fees and expenses, a reasonable rate of return consistent with the risk levels established by the investment committee for all permanently restricted endowment assets. 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 focused on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy for Endowment Funds

The Foundation has a policy of appropriating a spendable amount for distribution as of January 1 of each year (currently five percent) of each endowment fund's average fair value over the prior twelve quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to maintain the purchasing power of the endowment assets held in perpetuity.

Endowment net assets consisted of the following as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 144,517	\$ 2,644,129	\$ 2,788,646
Board-designated endowment	1,955,933	-	-	1,955,933
	<u>\$ 1,955,933</u>	<u>\$ 144,517</u>	<u>\$ 2,644,129</u>	<u>\$ 4,744,579</u>

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – ENDOWMENTS (continued)

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	<u>\$ 2,002,010</u>	<u>\$ 231,267</u>	<u>\$ 1,328,979</u>	<u>\$3,562,256</u>
Investment return:				
Investment income	40,366	32,316	-	72,682
Net depreciation (realized and unrealized)	<u>(37,837)</u>	<u>(25,100)</u>	-	<u>(62,937)</u>
Total investment return	<u>2,529</u>	<u>7,216</u>	-	<u>9,745</u>
Investment fees	(26,037)	(20,451)	-	(46,488)
Contributions	46,463	-	1,315,150	1,361,613
Amounts appropriated	<u>(69,032)</u>	<u>(73,515)</u>	-	<u>(142,547)</u>
Endowment assets, end of year	<u>\$ 1,955,933</u>	<u>\$ 144,517</u>	<u>\$ 2,644,129</u>	<u>\$4,744,579</u>

NOTE 10 – PROGRAM SERVICES

Program service expenses consisting of grants and philanthropic distributions and other program expenses for the years ended December 31, 2015 totaled \$2,182,442.

NOTE 11 – CONCENTRATIONS

Cash

The Foundation maintains cash balances in a financial institution. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash balances maintained by the Foundation as of December 31, 2015 are less than the FDIC insurance limit.

The Foundation also has cash balances held by Greater Horizons. Greater Horizons maintains cash balances in financial institutions and in money market funds. As of December 31, 2015, the uninsured cash balances totaled \$1,392,414.

Contribution Receivable and Support

Two donors each contributed 29% of contribution support for the year ended December 31, 2015. See Note 12 on Related Parties.

**LONG BEACH COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 – CONCENTRATIONS (continued)

Market and Interest Rate Risks

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the Consolidated Statement of Financial Position.

NOTE 12 – RELATED PARTIES

The Foundation received approximately 4% of contributions, for the year ended December 31, 2015, from Board Members.

NOTE 13 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During the year ended December 31, 2015, the Foundation paid no interest and no income taxes. The Foundation received non-monetary contributions during the year ended December 31, 2015 of \$352,903, which are comprised of stock donations received and not immediately converted to cash. The Foundation received an ownership interest in property located in Avalon, California through the receipt of a remainder interest of a trust of \$916,076.