LAGUNA BEACH COMMUNITY FOUNDATION

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH INDEPENDENT AUDITOR'S REPORT

KS&Co

Kieckhafer Schiffer & Company LLP
CERTIFIED PUBLIC ACCOUNTANTS

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FOR THE YEAR ENDED DECEMBER 31, 2015

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Independent Auditor's Report

Audit Committee, Board of Directors and Management
Laguna Beach Community Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Laguna Beach Community Foundation, which comprise the statement of financial position as of December 31, 2015, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laguna 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.

Kieckhafer Schiffer & Company LLP

KIECKHAFER, SCHIFFER & COMPANY LLP

Irvine, California
May 26, 2016

LAGUNA BEACH COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$	913,170
Investments		3,036,375
Prepaid expenses		1,550
Total current assets		3,951,095
PROPERTY AND EQUIPMENT, net		2,782
Total assets	$	3,953,877

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	$	2,811
Accrued expenses		10,286
Total current liabilities		13,097
NET ASSETS:		
Unrestricted		
Unrestricted fund		45,200
Organization fund		1,563,113
Donor advised fund		2,007,185
Field of interest fund		306,767
Scholarship fund		13,375
Administrative fund		5,140
Total net assets		3,940,780
Total liabilities and net assets	$	3,953,877

See accompanying notes to financial statements and independent auditor's report.

LAGUNA BEACH COMMUNITY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

REVENUE, GAINS (LOSSES) AND OTHER SUPPORT	
Contributions	$ 2,182,971
Investment loss	(29,735)
Other income	59,216
Total revenue, gains (losses) and other support	2,212,452
EXPENSES:	
Grants awarded	619,914
Investment fees	8,664
Marketing	8,964
General and administrative	366,162
Total expenses	1,003,704
INCREASE IN NET ASSETS	1,208,748
NET ASSETS, beginning of year	2,732,032
NET ASSETS, end of year	$ 3,940,780

See accompanying notes to financial statements and independent auditor's report.

LAGUNA BEACH COMMUNITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	$ 1,208,748
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	1,600
Net realized and unrealized loss on investments	96,302
Changes in assets and liabilities:	
Increase (decrease) in accounts payable	1,317
Increase (decrease) in accrued expenses	10,286
Net cash provided by operating activities	1,318,253
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(1,423,488)
Proceeds from sale of investments	497,054
Net cash used in investing activities	(926,434)
NET INCREASE IN CASH AND CASH EQUIVALENTS	391,819
CASH AND CASH EQUIVALENTS, beginning of year	521,351
CASH AND CASH EQUIVALENTS, end of year	$ 913,170

See accompanying notes to financial statements and independent auditor's report.

LAGUNA BEACH COMMUNITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. Organization

The Laguna Beach Community Foundation (the “Foundation”) is a non-profit charitable trust, established on December 27, 2004.

The purpose of the Foundation, as stated in its mission statement, is to assist Laguna Beach residents in fulfilling their charitable interests. The Foundation utilizes local knowledge and leadership to encourage community philanthropy, develop permanent endowments, provide donor services, and assist charitable organizations.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

b. Basis of Presentation

Unconditional promises to give (pledges) are recorded as receivables and contributions. The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. When a donor restriction expires, that is, when a restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets: Consists of donations that are available for the support of the operations of the Foundation, and for discretionary and donor advised granting needs. U.S. GAAP provides that when the governing body of an organization, such as a community foundation, has the unilateral power to redirect the use of a donor’s contributions to another beneficiary, such contributions must be classified as unrestricted net assets (“Variance Power”). The Board of Directors of the Foundation has such power. However, the Board of Directors would exercise this authority if the stated purpose of the contribution is no longer applicable and incapable of fulfillment. It is the expressed intention of the Foundation to honor the designations of the donors.

Temporarily Restricted Net Assets: Consists of gifts for which donor-imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. The Foundation had no temporarily restricted net assets as of December 31, 2015.

Permanently Restricted Net Assets: Consists of contributions that are limited by donor-imposed stipulations to invest the principal in perpetuity and to expend the income by making distributions from permanently endowed funds as grants for charitable purposes. The Foundation had no permanently restricted net assets as of December 31, 2015.

c. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Concentrations of Credit Risk

Cash instruments that potentially subject the Foundation to concentrations of credit risk consist of demand accounts. At times, the Foundation may maintain balances in excess of the federally insured limit. However, the Foundation restricts cash accounts to financial institutions that management believes have a high credit standing.

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 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 statement of financial position. The board of directors routinely reviews the performance of its investments.

The Foundation received approximately 60% of total revenue from two donors for the year ended December 31, 2015. There were no receivables outstanding as of December 31, 2015 related to these donors.

e. Cash and Cash Equivalents

For the purposes of the statement of financial position and statement of cash flows, the Foundation considers all highly liquid investment instruments with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents may include cash, money market funds, and overnight repurchase agreements.

f. Revenue Recognition

The Foundation records gifts of cash and marketable securities as contribution revenue when the gift is pledged.

g. Investments

The Foundation records investments at fair value. Interest and dividend income is accounted for on the accrual basis. Gains and losses on investments, including changes in market value, are reported in the statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted.

h. Fair Value of Financial Instruments

The Foundation follows ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The following provides a description of the three levels of inputs that may be used to measure fair value under ASC 820, the types of investments that fall under each category, and the valuation methodologies used to measure these investments at fair value.

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date.

Investments in Mutual Funds and U.S. Government Securities:

These investments are public investment securities valued using the Net Asset Value (NAV) provided by TD Ameritrade. The NAV is a quoted price in an active market. All investment assets of the Foundation were valued under this level of the fair value hierarchy.

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies. The Foundation had no investments in 2015 which were appropriate for valuation under level 2.

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. The Foundation had no investments in 2015 which were appropriate for valuation under level 3.

i. Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities and changes in net assets for the respective period.

The Foundation provides for depreciation based on the estimated useful lives of depreciable assets (5 to 7 years) using the straight-line method for financial reporting purposes.

j. Income Taxes

The Foundation is exempt from federal income and California franchise taxes under section 501(c)(3) of the Internal Revenue Code and the corresponding California provisions. The Foundation is subject to income taxes for unrelated business income, if any, realized in connection with unrelated business activities.

The Foundation follows the guidance under Accounting Standards Codification ("ASC") 740, *Income Taxes*, in accounting for uncertainties in income taxes, which defines the thresholds for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. If applicable, the Foundation recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. At December 31, 2015, the Foundation has no unrecognized tax benefits, and the Foundation's statutes of limitations are closed for all federal and state tax years before 2012. The Foundation is not currently under any Internal Revenue Service or state tax examination.

k. Subsequent Events

The Foundation has evaluated subsequent events through May 26, 2016, the date the financial statements were available for issuance.

l. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard was originally effective for reporting periods beginning after December 15, 2017, with early adoption permitted for reporting periods beginning after December 15, 2016. ASU No. 2015-14 simply defers the effective date of ASU No. 2014-09 to reporting periods beginning after December 15, 2018, with early adoption permitted for reporting periods after December 15, 2016. The Foundation is currently evaluating the impact of this accounting standard.

In February 2016, the FASB issued ASU 2016-02, *Leases*, aimed at making leasing activities more transparent and comparable. The new standard requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently classified as operating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Foundation is currently evaluating the impact of ASU 2016-02 on its financial statements and related disclosures.

3. Property and Equipment

Property and equipment consist of the following as of December 31, 2015:

Furniture and equipment	$	9,831
Less: accumulated depreciation		(7,049)
	$	2,782

For the year ended December 31, 2015, depreciation expense for all property and equipment totaled $1,600.

4. Investments

Investments at December 31, 2015 consist of the following:

	Cost	Fair Value
Equity securities	$ 1,651,600	$ 1,786,826
Corporate debt securities	733,147	686,530
U.S. government securities	504,049	500,984
Mortgage backed securities	62,889	62,035
	$ 2,951,685	$ 3,036,375

Investment income (loss) for the year ended December 31, 2015 was comprised of the following:

Interest income	$	74
Dividend income		66,493
Net realized and unrealized losses		(96,302)
	$	(29,735)

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Equity securities	$ 1,786,826	$ -	$ -	$1,786,826
Corporate debt securities	686,530	-	-	686,530
U.S. government securities	500,984	-	-	500,984
Mortgage backed securities	62,035	-	-	62,035
Total investments at fair value	$ 3,036,375	$ -	$ -	$3,036,375

5. Operating Lease

The Foundation leases its building through a month to month operating lease. For the year ended December 31, 2015, rent expense under the operating lease was $19,669.

6. Donor Advised Fund Fees

The Foundation manages certain donor advised funds which are assessed fees based on the average daily fund balance for each calendar quarter. During the year ended December 31, 2015, donor advised fund fees were $58,830 and are included in other income on the statement of activities and changes in net assets.

7. Net Assets

Unrestricted net assets consist of six unrestricted funds over which the Foundation retains Variance Power as follows:

Fund	Purpose
Unrestricted	This type of fund allows the Foundation to determine where annual grant distributions will do the most good.
Organization	This type of fund is established by non-profit charitable organizations to help manage endowment assets and/or special project funds.
Donor Advised	This type of fund allows the donor, donor advisor(s) or advisory committee to recommend charitable grant recipients from time to time.
Field of Interest	This type of fund allows the donor to support an area of charitable interest. A donor can also select a defined geographic area or specific community to benefit from grant distributions.
Scholarship	Donors can support worthy students at an institution (high school, college, technical), students in a particular field of study, students from a particular geographic area, or students who have attended a specific high school or school district, provided that the students are selected through an objective and non-discriminatory competitive selection process.
Administrative	This type of fund is the Foundation's general operating fund.