

# WARSH-MOTT LEGACY

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2016

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Warsh-Mott Legacy  
Freestone, California

We have audited the accompanying financial statements of Warsh-Mott Legacy (a private foundation), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities 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.



**Goranson and Associates, Inc.**

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Warsh-Mott Legacy as of September 30, 2016, 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**

Another accountant had previously audited the Warsh-Mott Legacy's financial statements for the year ended September 30, 2015, and expressed an unmodified audit opinion on those audited financial statements in their report dated June 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Goranson and Associates, Inc.*

October 10, 2017

Santa Rosa, California

WARSH-MOTT LEGACY  
STATEMENT OF FINANCIAL POSITION  
September 30, 2016

(With summarized comparative totals for the year ended September 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash	\$ 165,397	\$ 29,579
Investments	27,398,124	25,817,554
Total assets	\$ 27,563,521	\$ 25,847,133
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 10,000	
Grants payable	770,000	\$ 700,000
Total current liabilities	780,000	700,000
Non-current liabilities		
Grants payable-net of current portion	160,000	-
Total liabilities	940,000	700,000
Net assets, unrestricted	26,623,521	25,147,133
Total liabilities and net assets	\$ 27,563,521	\$ 25,847,133

The accompanying notes are an integral part of these financial statements

WARSH-MOTT LEGACY  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(With summarized comparative totals for the year ended September 30, 2015)

	2016	2015
SUPPORT AND REVENUE:		
Contributions	\$ 1,800,000	\$ 1,800,000
Interest and dividends	541,418	587,124
Realized gains on investment, net of management fees of \$30,310	907,854	565,947
Other revenue	18,517	-
Total support and revenue	3,267,789.00	2,953,071.00
EXPENSES:		
Program service expenses:		
Grants	2,259,940	1,959,545
Management and general expenses:		
Grant administration	994,310	838,595
Taxes	6,938	82,020
Other	43,850	38,205
Total management and general expenses	1,045,098.00	958,820
Total expenses	3,305,038	2,918,365
Unrestricted support and revenues in excess of expenses	(37,249)	34,706
Change in unrealized gains and losses on investments, net	1,513,637	(3,004,231)
CHANGE IN NET ASSETS	1,476,388	(2,969,525)
NET ASSETS, BEGINNING	25,147,133	28,116,658
NET ASSETS, ENDING	\$ 26,623,521	\$ 25,147,133

The accompanying notes are an integral part of these financial statements

WARSH-MOTT LEGACY  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
(With summarized comparative totals for the year ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,476,388	\$ (2,969,525)
Adjustments to reconcile change in net assets to cash from operations		
Contributions of investments	(1,490,745)	(1,800,000)
Change in unrealized gains and losses on investments , net	(1,513,637)	3,004,231
Realized losses on investment, net	(938,164)	565,947
Increase in:		
Accounts payable	10,000	-
Grants payable	230,000	700,000
Net cash used by operating activities	<u>(2,226,158)</u>	<u>(499,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	8,310,278	11,893,497
Contributions of investments	1,490,745	1,800,000
Net gain on investments	-	(3,570,178)
Purchases of investments	(7,439,047)	(9,632,901)
Net cash provided by investing activities	<u>2,361,976</u>	<u>490,418</u>
NET INCREASE (DECREASE) IN CASH	135,818	(8,929)
CASH, beginning of year	<u>29,579</u>	<u>38,508</u>
CASH, end of year	<u>\$ 165,397</u>	<u>\$ 29,579</u>

The accompanying notes are an integral part of these financial statements

WARSH-MOTT LEGACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 1            ORGANIZATION

Warsh-Mott Legacy is a not-for-profit tax-exempt private foundation as defined under Sections 501(c)(3) and 509(a) of the Internal Revenue Code. Warsh-Mott Legacy distributes funds for philanthropic purposes. Distribution of funds is made to other tax-exempt organizations through a grant making program

NOTE 2            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – Warsh-Mott Legacy reports information regarding its financial position and activities on an accrual basis according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

*Temporarily Restricted Net Assets* – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of Warsh-Mott Legacy to meet the stipulations or that become unrestricted at the date specified by the donor.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be retained and invested permanently by Warsh-Mott Legacy to use all or part of the investment return on these net assets for specified or unspecified purposes. There are no permanently restricted net assets.

As of September 30, 2016, the fund has no temporarily or permanently restricted net assets.

Other Basis of Presentation Policies – Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions are fulfilled in the same time period the revenue or support is received, Warsh-Mott Legacy reports the revenue or support as unrestricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents – Cash equivalents consist primarily of checking accounts, money market accounts and other investments with an original maturity of 90 days or less.

WARSH-MOTT LEGACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fair Value Measurements – The Agency reports its fair value measures by using a fair value hierarchy defined by generally accepted accounting principles (GAAP) that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

The three levels of the fair value hierarchy under GAAP are:

*Level 1* – Unadjusted quoted prices in active markets accessible at the measurement date for identical, unrestricted assets or liabilities.

*Level 2* – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3* – Prices for valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (inputs are supported by little or no market activity).

Concentrations of Credit Risk – Warsh-Mott Legacy maintains cash balances at local financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the year, Warsh-Mott Legacy held cash and cash equivalent balances in excess of federally insured limits. There is no excess of the FDIC limit at September 30, 2016.

Property and equipment – Warsh-Mott Legacy capitalizes all expenditures for property and equipment in excess of \$2,500. Property and equipment are stated at cost or, if donated, at fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Estimated useful lives	3-5 years
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Warsh-Mott Legacy has no fixed assets at September 30, 2016.

WARSH-MOTT LEGACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes – Warsh-Mott Legacy is exempt from federal income taxes and classified as a private foundation under Section 501 of the Internal Revenue Code (IRC). It is subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including realized gains, as defined by the IRC.

Deferred tax liabilities arise because the accrual basis is used for recognition of investment income, gains, and losses, but the cash basis is used for tax purposes. Taxes are payable when dividends, interest, and other investment income are received in cash and when gains are realized by selling the investments. Realized losses can be used to offset any gains realized in the same year; the excess of realized losses over realized gains cannot be carried back or carried forward to offset gains in prior or future tax years. Thus, because there are net unrealized gains on the investments held by the Foundation, the tax expense exceeds the taxes payable and results in a deferred federal excise tax liability.

At September 30, 2016, there was no excise tax due.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Summarized Financial Information – 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 conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Warsh-Mott Legacy's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

WARSH-MOTT LEGACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 3 FAIR VALUE MEASUREMENTS AND INVESTMENTS

The following table presents the assets and liabilities recognized in the accompanying statements of financial position that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which those fair value measurements fall at September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Cash equivalents	\$ 263,217			\$ 263,217
Bond Funds	2,739,824			2,739,824
Equity Funds	10,693,323	\$ 5,828,796		16,522,120
Other assets	-	-	\$ 7,872,963	7,872,963
Total	<u>\$ 13,696,364</u>	<u>\$ 5,828,796</u>	<u>\$ 7,872,963</u>	<u>\$ 27,398,124</u>

Investment earnings are as follows for the year ended September 30, 2016:

Interest and dividends	\$ 541,418
Realized gains	907,854
Unrealized losses	<u>1,513,637</u>
Total investment income	<u>\$ 2,962,909</u>

The following table presents a reconciliation from the opening balances of Level 3 Fair Value Measurements:

	<u>Level 3 Fair Value Measurements</u>			
	<u>Balance</u>	<u>Unrealized</u>	<u>Purchases/</u>	<u>Balance</u>
	<u>9/30/2015</u>	<u>Gains (Losses)</u>	<u>Sales</u>	<u>6/30/2016</u>
Investments:				
Other investments	\$ 6,281,884	\$ 80,281	\$ 1,510,798	\$ 7,872,963

Investments are reported at fair value as of the date of the financial statements. When possible, the fair value of investments are determined by reference to quoted market prices. When quoted market prices are not available, fair value is estimated by reference to market values for similar investments.

WARSH-MOTT LEGACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 4           CONCENTRATIONS

Warsh-Mott Legacy receives all contribution revenue from one individual. There were \$1,800,000 contributions for the year ended September 30, 2016.

NOTE 5           GRANTS PAYABLE

Grants approved for distribution by Warsh-Mott Legacy's board of directors are recorded as grants payable. As of September 30, 2016, Warsh-Mott Legacy had \$930,000 unpaid grants.

NOTE 6           GRANTS

Grants approved for distribution by Warsh-Mott Legacy's board of directors are recorded as grants expense. The grants expense in these financial statements may differ from the tax returns filed by Wash-Mott Legacy, which are prepared on a cash basis. Awarded grants totaled \$2,059,940 for the year ended September 30, 2016.

NOTE 7           RELATED PARTY TRANSACTIONS

Warsh-Mott Legacy shares space and staff with CS Fund, a separate entity with officers on Warsh-Mott Legacy's Board. Warsh-Mott Legacy paid \$994,000 in reimbursements to CS Fund for these incurred expenses during the year ended September 30, 2016. The amount paid was for actual costs incurred by CS Fund.

NOTE 8           SUBSEQUENT EVENTS

Warsh-Mott Legacy has evaluated subsequent events through October 10, 2017, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to September 30, 2016 that would have a material impact on Warsh-Mott Legacy's results of operations or financial position.