Report of Independent Auditors and
Consolidated Financial Statements for

Orange County
Community Foundation

June 30, 2016

(with summarized financial information for June 30, 2015)

MOSS ADAMS LLP

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REPORT OF INDEPENDENT AUDITORS

The Board of Governors
Orange County Community Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Orange County Community Foundation and its supporting organizations, which comprise the consolidated statements of financial position as of June 30, 2016 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

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 auditors' 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 organization'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 organization'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.

MOSS ADAMS LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Community Foundation and its supporting organizations as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Orange County Community Foundation and its supporting organization's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Moss Adams LLP

San Diego, California
October 7, 2016

ORANGE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)

	June 30, 2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	June 30, 2015
ASSETS					
Cash and cash equivalents	$ 56,733,000	$ -	$ -	$ 56,733,000	$ 42,506,000
Investments	101,000,000	3,648,000	92,954,000	197,602,000	193,867,000
Contributions receivable, net	802,000	364,000	360,000	1,526,000	1,443,000
Land, building, and equipment, net	3,141,000	-	-	3,141,000	3,267,000
Other assets	2,484,000	-	3,363,000	5,847,000	5,508,000
Total assets	$ 164,160,000	$ 4,012,000	$ 96,677,000	$ 264,849,000	$ 246,591,000
LIABILITIES AND NET ASSETS					
Liabilities					
Grants payable	$ 13,665,000	$ -	$ -	$ 13,665,000	$ 13,207,000
Accounts payable and accrued liabilities	1,627,000	-	-	1,627,000	1,104,000
Pledges payable, net	3,395,000	-	-	3,395,000	3,031,000
Notes payable	2,636,000	-	-	2,636,000	2,839,000
Due to other agencies	3,766,000	-	-	3,766,000	3,537,000
Total liabilities	25,089,000	-	-	25,089,000	23,718,000
Commitments (Note 12)					
Net Assets					
Unrestricted	139,071,000	-	-	139,071,000	122,154,000
Temporarily restricted	-	4,012,000	-	4,012,000	8,156,000
Permanently restricted	-	-	96,677,000	96,677,000	92,563,000
Total net assets	139,071,000	4,012,000	96,677,000	239,760,000	222,873,000
Total liabilities and net assets	$ 164,160,000	$ 4,012,000	$ 96,677,000	$ 264,849,000	$ 246,591,000

ORANGE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	Year Ended June 30, 2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Year Ended June 30, 2015
REVENUE AND SUPPORT					
Contributions	$ 77,689,000	$ 30,000	$ 4,089,000	$ 81,808,000	$ 78,555,000
Investment income	880,000	(758,000)	-	122,000	945,000
Other income	556,000	-	-	556,000	558,000
Net assets released from restrictions	3,416,000	(3,416,000)	-	-	-
Total revenue and support	82,541,000	(4,144,000)	4,089,000	82,486,000	80,058,000
EXPENSES					
Program Services					
Grants and scholarships	59,858,000	-	-	59,858,000	59,095,000
Special projects	1,438,000	-	-	1,438,000	1,299,000
Other program expenses	2,289,000	-	-	2,289,000	2,208,000
Total program services expenses	63,585,000	-	-	63,585,000	62,602,000
Supporting Services					
General and administrative	1,163,000	-	-	1,163,000	1,052,000
Development	851,000	-	-	851,000	980,000
Total supporting services	2,014,000	-	-	2,014,000	2,032,000
Total expenses	65,599,000	-	-	65,599,000	64,634,000
CHANGE IN NET ASSETS BEFORE RECLASSIFICATIONS	16,942,000	(4,144,000)	4,089,000	16,887,000	15,424,000
Donor reclassifications	(25,000)	-	25,000	-	-
CHANGE IN NET ASSETS	16,917,000	(4,144,000)	4,114,000	16,887,000	15,424,000
NET ASSETS					
Beginning of year	122,154,000	8,156,000	92,563,000	222,873,000	207,449,000
End of year	$ 139,071,000	$ 4,012,000	$ 96,677,000	$ 239,760,000	$ 222,873,000

ORANGE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	Years Ended June 30, 2016	2015
OPERATING ACTIVITIES		
Changes in net assets	$ 16,887,000	$ 15,424,000
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	188,000	222,000
Net realized and unrealized losses on investments	2,489,000	3,184,000
Non-cash contributions of stock and property	(10,027,000)	(1,923,000)
Contributions restricted for endowments	(4,089,000)	(5,416,000)
Changes in operating assets and liabilities:		
Contributions receivable, net	(74,000)	(111,000)
Other assets	(339,000)	329,000
Grants payable	458,000	2,085,000
Accounts payable and accrued liabilities	523,000	(324,000)
Pledges payable, net	364,000	(7,000)
Due to other agencies	229,000	668,000
Net cash provided by operating activities	6,609,000	14,131,000
INVESTING ACTIVITIES		
Purchases of investments	(143,644,000)	(86,974,000)
Proceeds from sales of investments	147,447,000	68,312,000
Purchases of land, building, and equipment	(62,000)	(71,000)
Net cash provided by (used in) investing activities	3,741,000	(18,733,000)
FINANCING ACTIVITIES		
Contributions restricted for endowments	4,089,000	5,416,000
(Increase) decrease in contributions receivable restricted to endowment	(9,000)	4,675,000
Proceeds from notes payable	-	122,000
Payments on notes payable	(203,000)	(96,000)
Net cash provided by financing activities	3,877,000	10,117,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,227,000	5,515,000
CASH AND CASH EQUIVALENTS		
Beginning of year	42,506,000	36,991,000
End of year	$ 56,733,000	$ 42,506,000

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2016	2015
Cash paid during the year for:		
Income taxes, including interest and penalties	$ -	$ 245,000
Interest	$ 109,000	$ 112,000

Note 1 – Description of the Community Foundation

Orange County Community Foundation (the "Community Foundation") is a publicly supported, not-for-profit organization incorporated in the state of California in September 1989. The Community Foundation serves as a partner and resource to nonprofits and donors improving the quality of life in Orange County and those who want to give back locally, nationally and internationally.

The Community Foundation established OCCF Supporting Organization and Orange County Shared Spaces Foundation, which are under the Community Foundation's effective control and are consolidated for financial statement purposes.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The accompanying consolidated financial statements have been prepared using the accrual basis of accounting.

The accompanying consolidated financial statements include the financial statements of the Community Foundation and the supporting organizations listed in Note 1 above. Inter-organizational transactions and balances have been eliminated in consolidation.

Prior-year information – The consolidated 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 the Community Foundation's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Cash and cash equivalents – The Community Foundation considers all highly-liquid instruments purchased with an original maturity of 90 days or less to be cash equivalents.

Description of net assets – Contributions of cash and other assets are classified based on the existence or absence of donor-imposed restrictions as follows:

> **Unrestricted** – Net assets not subject to donor-imposed time restrictions or restrictions as to use. The bylaws of the Community Foundation include a variance provision giving the Board of Governors 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 Governors (without the necessity of approval of the donor), 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 the provision, the Community Foundation classifies contributions, except as noted below, as unrestricted for financial statement purposes.

Note 2 – Summary of Significant Accounting Policies (continued)

Temporarily restricted – Net assets subject to donor-imposed time restrictions or restrictions as to use. The accumulation of assets above historic gift value in endowment funds is classified as temporarily restricted until appropriated for use based on the Community Foundation's spending policy. Expirations of temporary restrictions on net assets (i.e., the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Temporarily restricted contributions with donor restrictions which are met in the same year have been recorded as unrestricted revenue on the accompanying consolidated statements of activities.

Permanently restricted – Net assets subject to donor-imposed restrictions that the corpus be maintained as a permanent endowment.

Income taxes – The Community Foundation and its supporting organizations, OCCF Supporting Organization and Orange County Shared Spaces Foundation, are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701d of the California Code. The Community Foundation and its supporting organizations are required to report unrelated business income as defined under IRC sections 511 through 515. There was no unrelated business income tax expense, including interest and penalties, for the fiscal year ended June 30, 2016. Unrelated business income tax expense, including interest and penalties, for the fiscal year ended June 30, 2015 was $245,000.

The Community Foundation and its supporting organizations do not have any material uncertain tax positions. The Community Foundation and its supporting organizations file informational organization returns and applicable unrelated business income tax returns in the United States federal jurisdiction and with the Franchise Tax Board in the State of California.

Investments – Investments are presented in the consolidated financial statements at fair value.

Realized and unrealized gains and (losses) on investments are reflected in the consolidated statements of activities as investment income (loss).

The Community Foundation adopted the May 2015 accounting standards update related to Topic 820 – Fair Value Measurement promulgated by the Financial Accounting Standards Board ("FASB"). This update removes the requirement to categorize investments measured using the net asset value per share/unit practical expedient within the fair value hierarchy. This update has been applied retrospectively and prior year disclosures have been revised accordingly.

Note 2 – Summary of Significant Accounting Policies (continued)

The fair value of fixed income investments is based on quoted prices in active markets for identical assets or if there are no such active markets the fixed income investments are valued using quoted prices for similar assets or quoted prices in markets that are not active. Fixed income mutual funds, domestic equity securities and mutual funds that hold equity securities are based on quoted prices in active markets for identical assets.

Alternative investments include hedge funds, private equity, and interests in closely-held entities. The fair value of the hedge funds and private equity funds are based on the net asset value of the fund and the Community Foundation's shares/ownership interest in the respective fund. The fair value of interests in closely-held entities is based on appraisals and management's review and assessment of current financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of marketable debt and equity securities are based on quoted market prices from national security exchanges. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An investment's categorization is based upon the lowest level of input that is significant to the fair value measurement. The estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

Three levels of inputs are used to measure fair value of financial instruments:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 2 – Summary of Significant Accounting Policies (continued)

The Vice President of Finance and Administration under the supervision of the Community Foundation's Investment Committee, determines the fair value based on the Community Foundation's approved policies and procedures in consultation with the Community Foundation's outside investment consultant. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on a quarterly or annual basis, or as necessary based on current market conditions and other third party information. In determining the reasonableness of the methodology the Community Foundation evaluates a variety of factors including a review of existing agreements, economic conditions, and industry and market developments. Certain unobservable inputs are assessed through review of contract terms while others are substantiated utilizing available market data including but not limited to market comparables, qualified opinions and discount rates.

The Community Foundation believes the carrying amounts of these financial instruments are a reasonable estimate of their fair value. For those investments that are not traded on a ready market, the estimates of their fair values may differ from the values that would have been used had a ready market for those investments existed.

Land, building and equipment – Land, building and equipment are stated at cost. Land, building and equipment purchased at a cost of $1,000 or more is capitalized. Depreciation has been provided using the straight-line method over the estimated useful life of 5 to 39 years.

Impairment of long-lived assets – The Community Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Other assets – Other assets include three promissory notes secured by real estate. The notes were received in connection with a permanently-restricted estate gift, with terms of up to 30 years, bearing interest at 2.00 to 3.49 percent with payments receivable monthly.

Pledges payable – Pledges payable represent unconditional grants that have been authorized prior to year end, but remain unpaid at June 30, 2016 and 2015. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. There was a $9 million conditional grant as of June 30, 2016. The conditional grant is due in increments and is not recorded as grant expenses until the conditions are satisfied. Payment of the first increment totaling $2.5 million was paid in August 2016 when the first condition was satisfied.

Note 2 – Summary of Significant Accounting Policies (continued)

Due to other agencies – "Due To Other Agencies" represents monies received from unrelated not-for-profit organizations that desire to have the Community Foundation serve as the charitable steward for their endowment fund and provide technical assistance. A liability is recorded at the estimated fair value of assets deposited with the Community Foundation by not-for-profit organizations.

Revenue recognition – Contributions are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years are recognized as contributions receivable when the promise is made at fair value based on discounted cash flows. Amortization of the discounts is included in contributions. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at fair value using a current appraisal on the date of the gift and is generally made available for sale as soon as practicable. Contributions of public stock are recorded at the mean of the quoted market price on the date of receipt of donation. Conditional promises to give are not recorded until the conditions are substantially met. An allowance for estimated uncollectible contributions receivable will be recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Accounts are written off against the allowance when deemed uncollectible. Management has determined that no allowance for uncollectible contributions receivable is necessary as of June 30, 2016 and 2015.

Donor advised funds – The Community Foundation permits donor advisors to recommend allocation of their fund between a money market pool and approved investments. The asset allocation of any individual fund is dependent on the donor's recommendation between these approved options.

Special projects – Special projects expense represents charitable activities managed by the Community Foundation often on behalf of donors who request that the Community Foundation exercise a heightened level of oversight regarding expenditures.

Functional allocation of expenses – Expenses which apply to more than one functional category have been allocated between program and supporting services based on the activity. The remaining costs are charged directly to the appropriate functional category.

Use of estimates – The preparation of the consolidated 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 of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before consolidated financial statements are issued. The Community Foundation and its supporting organizations recognize in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued. The Community Foundation and its supporting organizations have evaluated subsequent events through October 7, 2016, which is the date the consolidated financial statements are available for issuance.

Note 3 – Concentrations of Risk

Cash and cash equivalents – In the regular course of business, the Community Foundation may maintain balances in bank accounts in excess of the federally insured limits. The Community Foundation has not experienced any losses in such accounts.

Major contributions – For the fiscal years ended June 30, 2016 and 2015, 37 and 42 percent, respectively, of contributions were received from three donors.

Investments – Investments are exposed to various risks such as interest rates, market, and credit risk. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations and regular communication with investment managers. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the consolidated financial statements.

To address market risk of investments, the Community Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers' performance. Investments are managed by multiple investment managers who have responsibility for investing funds in various types of investments. An investment consultant is also utilized.

Note 4 – Investments and Fair Value Disclosures

Investments at fair value consist of the following at June 30, 2016 and 2015:

	2016	2015
Fixed income investments	$ 42,710,000	$ 62,384,000
Domestic equity securities	13,295,000	45,314,000
Mutual funds - equity securities	28,257,000	65,518,000
Alternative investments	113,340,000	20,651,000
Total investments	$ 197,602,000	$ 193,867,000

Investment income consists of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Net realized and unrealized losses	$ (2,489,000)	$ (3,184,000)
Interest and dividends	2,611,000	4,129,000
Total investment income	$ 122,000	$ 945,000

See Note 2 for the valuation methodologies used for assets measured at fair value on a recurring basis and reflected in the accompanying consolidated statements of financial position.

Note 4 – Investments and Fair Value Disclosures (continued)

The following table presents the investments carried at fair value on the accompanying consolidated statements of financial position as of June 30, 2016:

	2016				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	Total
Fixed income:					
Government bonds	$ -	$ 1,764,000	$ -	$ -	$ 1,764,000
Corporate bonds	-	12,505,000	-	-	12,505,000
Mutual funds - fixed income	28,441,000	-	-	-	28,441,000
Domestic equity securities	13,295,000	-	-	-	13,295,000
Mutual funds - equity securities:					
Domestic	11,288,000	-	-	-	11,288,000
International	16,969,000	-	-	-	16,969,000
Alternative investments:					
Hedge funds	-	-	-	102,471,000	102,471,000
Closely-held entities	-	-	7,864,000	-	7,864,000
Private equity funds	-	-	-	3,005,000	3,005,000
Total	$ 69,993,000	$ 14,269,000	$ 7,864,000	$ 105,476,000	$ 197,602,000

The following table presents the investments carried at fair value on the accompanying consolidated statements of financial position as of June 30, 2015:

	2015				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	Total
Fixed income:					
Government bonds	$ -	$ 1,400,000	$ -	$ -	$ 1,400,000
Corporate bonds	-	12,730,000	-	-	12,730,000
Mutual funds - fixed income	48,254,000	-	-	-	48,254,000
Domestic equity securities	45,314,000	-	-	-	45,314,000
Mutual funds - equity securities:					
Domestic	17,327,000	-	-	-	17,327,000
International	48,191,000	-	-	-	48,191,000
Alternative investments:					
Hedge funds	-	-	-	15,430,000	15,430,000
Closely-held entities	-	-	2,702,000	-	2,702,000
Private equity funds	-	-	-	2,519,000	2,519,000
Total	$ 159,086,000	$ 14,130,000	$ 2,702,000	$ 17,949,000	$ 193,867,000

Note 4 – Investments and Fair Value Disclosures (continued)

The following table presents the summary of changes in the fair value of the Community Foundation's Level 3 classified assets for the years ended June 30, 2016 and 2015:

	Closely-Held Entities
Balance, July 1, 2014	$ 2,269,000
Purchases	450,000
Net realized and unrealized gains	64,000
Distributions	(81,000)
Balance, June 30, 2015	2,702,000
Purchases	5,658,000
Net realized and unrealized losses	(18,000)
Distributions	(478,000)
Balance, June 30, 2016	$ 7,864,000

Transfers between Levels are made as of the beginning of the Community Foundation's fiscal year. There were no transfers during the years June 30, 2016 and 2015.

Total net realized and unrealized gains (losses) are included in investment income in the consolidated statement of activities. Net unrealized losses of $181,000 and net unrealized gains of $64,000 on Level 3 assets held at year end are included in total net realized and unrealized (losses) gains for the years ended June 30, 2016 and 2015, respectively.

The nature and risk of investments as of June 30, 2016 for which fair value is based on net asset value are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge funds (a)	$ 102,471,000	$ -	Quarterly	65-95 Days
Private equity funds (b)	3,005,000	12,286,000	N/A	N/A
	$ 105,476,000	$ 12,286,000		

Note 4 – Investments and Fair Value Disclosures (continued)

(a) This class represents investments in hedge funds. Approximately 16 percent of the class is invested in two funds that can invest in global equities. Approximately 15 percent of the class is invested in two funds that invest in international equities. Approximately 15 percent of the class is invested in two funds that invest in real assets by investing in long-only diversified exposure to MLP's and active global REITs. Approximately 14 percent of the class is invested in five funds that are low equity diversifiers which includes global fixed income comprised of bonds, money market instruments and foreign exchange.

Approximately 13 percent of the class is invested one fund that invests in U.S. equities using a daily optimization strategy. Approximately 10 percent of the class is invested in three funds that invest in emerging market equity, each fund with its own bias from small-cap to large-cap. The balance of the class is invested in six separate funds and is allocated between a fixed income fund of funds and funds that invest in growth oriented equities. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Sixty-two percent of the class is redeemable monthly with notice ranging from 5 business days to 60 calendar days at the current net asset value. Eleven percent of the class is redeemable quarterly on the last business day of each calendar quarter with redemption notices ranging from 45 to 90 days at the current net asset value. Three percent have an initial one-year lockup. Eight percent of the value of this class is redeemable weekly on Wednesdays with five business days' notice. Eight percent of the value of this class is redeemable semi-monthly with nineteen calendar days' notice. Six percent of the value of the class is redeemable daily. The balance of the class is redeemable biannually, on month end with 45 days' notice.

(b) This class includes investments in private equity funds that invest primarily in the following industry sectors: Leverage, Buyout, Venture Capital, Special Situation, Real Estate, Oil and Gas Exploration, Production, Mining, and Secondary Private Equity. Investments are made through private equity limited partnerships. The fair values of the investments in this class have been estimated using the net asset value of the Community Foundation's ownership interest in partners' capital. Assets are purchased and sold within the limited partnership as deemed beneficial to the partnership. Current distributions are utilized to offset capital calls, if any, and the balance is distributed to the limited partners. There are no early withdrawals. It is estimated that the underlying assets of seventy-four percent of the funds will be liquidated over the next 3 to 7 years and the balance within the next 10 years.

The significant unobservable inputs related to material categories of Level 3 assets as of June 30, 2016 are as follows:

	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Closely-held entities (a)	$ 7,864,000	Company Valuation or Market Comparables	Company Financials or General Partners' Estimates	N/A*

Note 4 – Investments and Fair Value Disclosures (continued)

*Not included due to the wide range of possible values given the diverse nature of the underlying investments.

(a) This class includes minority interests in closely-held entities in the real estate segment and interest in real property. Approximately sixty-five percent of this class represents shares in a real estate mixed-use development in Tracy, California that will be part of a Master Planned Community. The estimated time for liquidation of the asset is five years. Approximately twenty-three percent of this class represents an investment in Section 8 Property (low cost housing). This investment will be liquidated upon refinance or sale of the property. The estimated timeframe for liquidation of the asset is two to five years. Approximately eight percent of this class is invested in two pieces of real property in California and are available for sale. The balance of this class, approximately four percent represents stock in a company invested in real estate, which is in the process of being sold.

While the Community Foundation and its supporting organizations believe their valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Investment Committee, in conjunction with the external investment advisors, monitors the valuation and performance of the investments on a quarterly basis. The Investment Committee reports to the Board of Governors of the Community Foundation.

Note 5 – Contributions Receivable

Contributions receivable, net of discount, at June 30, 2016, represent unconditional promises to give to the Community Foundation that remain uncollected at year end and are expected to be collected as follows:

Less than one year	$ 309,000
Two to five years	100,000
More than five years	1,413,000
	1,822,000
Less: Discount on long-term contributions receivable	(296,000)
Contributions receivable, net	$ 1,526,000

Contributions receivable have been discounted to net present value using risk-free rates of return ranging from 3 to 6 percent determined at the year of origination of the gifts.

Note 6 – Land, Building and Equipment

Land, building and equipment consists of the following at June 30, 2016 and 2015:

	2016	2015
Land and improvements	$ 560,000	$ 560,000
Buildings and improvements	3,559,000	3,500,000
Furniture and equipment	270,000	267,000
	4,389,000	4,327,000
Less: Accumulated depreciation	(1,248,000)	(1,060,000)
Land, building, and equipment, net	$ 3,141,000	$ 3,267,000

Depreciation expense for the fiscal years ended June 30, 2016 and 2015 was $188,000 and $222,000, respectively.

Note 7 – Pledges Payable

Pledges payable, net of discount, at June 30, 2016, consist of approved grant commitments that are expected to be paid during the following years:

Years ending June 30,	
2017	$ 1,963,000
2018	882,000
2019	397,000
2020	220,000
	3,462,000
Less: Discount	(67,000)
Pledges payable, net	$ 3,395,000

The pledges have been discounted to net present value using risk-free rates of return ranging from 0.6 to 1.5 percent determined at year of origination of the pledges.

Note 8 – Notes Payable

Notes payable include a $2.5 million note with a bank which is due July 1, 2023, bears interest at the rate of 4 percent per annum, is amortized over 30 years and is payable in monthly installments of principal and interest of $13,000. The note is secured by a deed of trust and assignment of rents on a building in Santa Ana, California, that is being utilized as a multi-tenant non-profit center and is guaranteed by a member of Orange County Shared Spaces Foundation's Board of Directors. The balance outstanding at June 30, 2016 and 2015 was $2,321,000 and $2,385,000, respectively.

A second note consists of $400,000 which is split equally between two members of Orange County Shared Spaces Foundation's Board of Directors and $100,000 payable to the Community Foundation. The note is due June 30, 2023, bears interest at the rate of 4 percent per annum, is amortized over 10 years and is payable in quarterly installments of principal and interest of $15,000. The note is secured by a deed of trust and assignment of rents on the Santa Ana building. The liability is limited to the assets of Orange County Shared Spaces Foundation. The balance outstanding at June 30, 2016 and 2015 was $315,000 and $332,000, respectively.

In June 2015, the Community Foundation entered into a $122,000 non-interest bearing note payable, due upon the earlier of receipt of a specific grant or November 30, 2015. The proceeds were used to fund an initiative of the Community Foundation. The balance was paid in full during fiscal 2016.

At June 30, 2016, future annual principal payments under the notes payable are as follows:

Years ending June 30,	
2017	$ 122,000
2018	108,000
2019	113,000
2020	117,000
2021	122,000
Thereafter	2,054,000
Notes payable	$ 2,636,000

Interest expense for the fiscal years ended June 30, 2016 and 2015 was $109,000 and $112,000, respectively.

Note 9 – Endowments

The Community Foundation's endowment policy requires the preservation of the fair value of original gifts as of the gift date and all subsequent gifts where the donor has indicated the gift be retained permanently. The value of assets in excess of original gifts in donor-restricted endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Community Foundation.

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets. At June 30, 2016, the Community Foundation had 17 endowment funds with deficiencies of this nature totaling $189,000. At June 30, 2015, the Community Foundation had two endowment funds with deficiencies of this nature totaling $47,000. These deficiencies are reflected in unrestricted net assets on the accompanying consolidated statements of financial position.

The Community Foundation considers the following factors in making a determination as to the appropriation of assets for expenditure: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Community Foundation, and (7) the investment policies of the Community Foundation.

Investment and spending policies – The Community Foundation has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for operations and granting while seeking to maintain the purchasing power of the endowed assets. The investment and spending policies work together to achieve this objective.

The investment policy establishes a reasonable return objective through diversification of asset classes. Under the investment policy, as approved by the Board of Governors, the endowed assets are invested in a manner which attempts to achieve, after fees and expenses, a reasonable rate of return consistent with the risk levels established by the Investment Committee for all permanently restricted endowed assets. To accomplish the long-term rate-of-return objectives, the Community 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 Community Foundation targets a diversified asset allocation primarily focused on equity and fixed income based investments to achieve its long-term return objectives within prudent risk constraints.

Note 9 – Endowments (continued)

The spending policy determines the amount of money to be distributed annually from the Community Foundation's various endowed funds for grantmaking and operational support. The Community Foundation has a policy of appropriating for distribution as of January 1 of each year, 5 percent of its endowment fund's average fair value over the prior 16 quarters. In establishing this policy, the Community Foundation considered the long-term expected return on its endowment. The Community Foundation expects the current spending policy to allow its endowment to maintain the purchasing power of the endowed assets as well as to provide stable support to the community.

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 8,372,000	$ 11,721,000	$ 86,953,000	$ 107,046,000
Contributions	-	-	5,416,000	5,416,000
Investment income, net of fees	1,845,000	-	-	1,845,000
Realized and unrealized losses	(1,162,000)	(519,000)	-	(1,681,000)
Appropriations	3,530,000	(3,530,000)	-	-
Grants paid	(4,466,000)	-	(5,000)	(4,471,000)
Other changes/transfers	777,000	-	199,000	976,000
Endowment net assets, June 30, 2015	8,896,000	7,672,000	92,563,000	109,131,000
Contributions	-	-	4,089,000	4,089,000
Investment income, net of fees	802,000	-	-	802,000
Realized and unrealized losses	(191,000)	(770,000)	-	(961,000)
Appropriations	3,416,000	(3,416,000)	-	-
Grants paid	(3,402,000)	-	(101,000)	(3,503,000)
Other changes/transfers	(465,000)	-	126,000	(339,000)
Endowment net assets, June 30, 2016	$ 9,056,000	$ 3,486,000	$ 96,677,000	$ 109,219,000

Included in unrestricted endowment net assets at June 30, 2016 and 2015 was $2,096,000 and $2,239,000, respectively, of board-designated endowment.

Note 9 – Endowments (continued)

Distributions from the grantable amount of endowment funds are identified toward a specific purpose based on instructions from donors when the contributions were received. The specific purposes of the permanent endowment are as follows at June 30, 2016 and 2015:

	2016	2015
Field of interest	$ 50,799,000	$ 48,373,000
Board discretionary	13,976,000	13,920,000
Donor advised	13,282,000	11,876,000
Scholarships	7,803,000	7,734,000
Agency	6,171,000	6,014,000
Operating	4,646,000	4,646,000
Total permanently restricted net assets	$ 96,677,000	$ 92,563,000

Note 10 – Retirement Plan

Effective January 1, 2014, the Community Foundation has a defined-contribution plan covering substantially all employees. Employees are eligible beginning on their first day of employment. The Community Foundation matches up to 1 percent of the annual compensation of the participants. In addition, an annual contribution is calculated at a specified percentage of salary for all employees, up to statutory limits. The Community Foundation had a Simple IRA retirement plan through December 31, 2013 covering all employees who met the eligibility requirements. The Community Foundation matched up to 3 percent of the annual compensation of participants. Retirement plan expenses for the fiscal years ended June 30, 2016 and 2015 was $83,000 and $95,000, respectively.

Note 11 – Guarantee

In January 2015, the Community Foundation provided a $1 million guarantee plus interest to a bank on behalf of an unrelated not-for-profit organization. The not-for-profit organization entered into a $6.6 million installment note with a bank that is secured by a Deed of Trust. The guarantee is based on the not-for-profit organization meeting a specified debt service coverage requirement. The Community Foundation will be released from its obligation under the guarantee after December 19, 2016 provided the debt service coverage requirement has been met by the borrower.

Note 12 – Commitments

Aggregate future minimum rent payments required under operating leases for office space that have a non-cancelable lease term, in excess of one year at June 30, 2016 are as follows:

Years ending June 30,	
2017	$ 388,000
2018	403,000
2019	498,000
2020	516,000
2021	534,000
Thereafter	929,000
Total commitments	$ 3,268,000

Rent expense for the fiscal years ended June 30, 2016 and 2015 was $287,000 and $190,000, respectively.