



REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

**ORANGE COUNTY
COMMUNITY FOUNDATION**

June 30, 2021, with Summarized Comparative
Information for June 30, 2020

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Report of Independent Auditors

The Board of Governors
Orange County Community Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Orange County Community Foundation and its supporting organizations, which comprise the consolidated statement of financial position as of June 30, 2021, 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 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.

Auditor's 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 the Orange County Community Foundation and its supporting organizations as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles general accepted in the United States of America.

Other Matters*Report on Summarized Comparative Information*

We have previously audited the Orange County Community Foundation and its supporting organizations' fiscal year 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 25, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Moss Adams LLP

Irvine, California
October 25, 2021

Orange County Community Foundation
Consolidated Statement of Financial Position
(With Summarized Comparative Information for 2020)

	June 30, 2021			June 30, 2020
	Without Donor Restrictions	With Donor Restrictions	Total	
ASSETS				
Cash and cash equivalents	\$ 59,258,000	\$ -	\$ 59,258,000	\$ 89,362,000
Investments	261,798,000	176,155,000	437,953,000	321,488,000
Contributions receivable, net	7,531,000	621,000	8,152,000	1,884,000
Land, building, and equipment, net	2,918,000	-	2,918,000	2,976,000
Other assets	5,081,000	518,000	5,599,000	4,961,000
Total assets	\$ 336,586,000	\$ 177,294,000	\$ 513,880,000	\$ 420,671,000
LIABILITIES				
Grants payable	\$ 13,630,000	\$ -	\$ 13,630,000	\$ 15,644,000
Accounts payable and accrued liabilities	1,191,000	-	1,191,000	1,344,000
Pledges payable, net	2,095,000	-	2,095,000	999,000
Mortgage, notes payable, and loan	2,475,000	-	2,475,000	3,004,000
Due to other agencies	7,907,000	-	7,907,000	6,659,000
Total liabilities	27,298,000	-	27,298,000	27,650,000
COMMITMENTS AND CONTINGENCIES (Note 11)				
NET ASSETS				
Total net assets	309,288,000	177,294,000	486,582,000	393,021,000
Total liabilities and net assets	\$ 336,586,000	\$ 177,294,000	\$ 513,880,000	\$ 420,671,000

Orange County Community Foundation
Consolidated Statement of Activities
(With Summarized Comparative Information for 2020)

	Year Ended June 30, 2021			Year Ended June 30, 2020
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE AND SUPPORT				
Contributions	\$ 99,647,000	\$ 6,206,000	\$ 105,853,000	\$ 118,067,000
Investment income (loss), net	48,184,000	43,368,000	91,552,000	2,148,000
Gain from forgiveness	443,000	-	443,000	-
Other income	446,000	-	446,000	653,000
Net assets released from restriction	7,072,000	(7,072,000)	-	-
Total revenue and support	155,792,000	42,502,000	198,294,000	120,868,000
EXPENSES				
Program services				
Grants and scholarships	98,030,000	-	98,030,000	101,974,000
Special projects	1,190,000	-	1,190,000	1,002,000
Other program expenses	2,453,000	-	2,453,000	2,258,000
Total program services	101,673,000	-	101,673,000	105,234,000
Supporting services				
General and administrative	2,014,000	-	2,014,000	2,112,000
Fundraising and development	1,046,000	-	1,046,000	1,173,000
Total supporting services	3,060,000	-	3,060,000	3,285,000
Total expenses	104,733,000	-	104,733,000	108,519,000
CHANGE IN NET ASSETS	51,059,000	42,502,000	93,561,000	12,349,000
NET ASSETS				
Beginning of year	258,229,000	134,792,000	393,021,000	380,672,000
End of year	<u>\$ 309,288,000</u>	<u>\$ 177,294,000</u>	<u>\$ 486,582,000</u>	<u>\$ 393,021,000</u>

Orange County Community Foundation
Consolidated Statement of Cash Flows

	Years Ended June 30,	
	2021	2020
OPERATING ACTIVITIES		
Changes in net assets	\$ 93,561,000	\$ 12,349,000
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	249,000	202,000
Net realized and unrealized (gains) losses on investments	(88,958,000)	1,438,000
Non-cash contributions of stock and other assets	(15,798,000)	(2,064,000)
Contributions restricted for endowments	(6,199,000)	(723,000)
Gain from forgiveness of Loan	(443,000)	-
Changes in operating assets and liabilities		
Contributions receivable, net	(121,000)	869,000
Other assets	(638,000)	(699,000)
Grants payable	(2,014,000)	4,823,000
Accounts payable and accrued liabilities	(153,000)	(225,000)
Pledges payable, net	1,096,000	(2,372,000)
Due to other agencies	1,248,000	959,000
Net cash provided by (used in) operating activities	(18,170,000)	14,557,000
INVESTING ACTIVITIES		
Purchases of investments	(90,332,000)	(93,206,000)
Proceeds from sale of investments	64,891,000	68,176,000
Proceeds from sale of closely-held real estate investments	7,585,000	23,928,000
Purchases of land, building, and equipment	(191,000)	(134,000)
Net cash used in investing activities	(18,047,000)	(1,236,000)
FINANCING ACTIVITIES		
Contributions restricted for endowments	6,199,000	723,000
Proceeds from loan	-	443,000
Payments on mortgage and notes payable	(86,000)	(101,000)
Net cash provided by financing activities	6,113,000	1,065,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(30,104,000)	14,386,000
CASH AND CASH EQUIVALENTS		
Beginning of year	89,362,000	74,976,000
End of year	\$ 59,258,000	\$ 89,362,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	\$ 124,000	\$ 127,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Contributions of securities	\$ 39,664,000	\$ 40,957,000

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 1 – Description of the Community Foundation

The Orange County Community Foundation (the “Community Foundation”) is a publicly supported, not-for-profit organization that incorporated in the state of California in September 1989. The Community Foundation serves as a partner and resource to not-for-profit organizations 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 (its “Supporting Organizations”), 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.

Principles of consolidation – The accompanying consolidated financial statements include the financial statements of the Community Foundation and its 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 (“U.S. GAAP”). Accordingly, such information should be read in conjunction with the Community Foundation’s consolidated financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Income taxes – The Community Foundation and its Supporting Organizations 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. The Community Foundation and its Supporting Organizations report unrelated business income tax expense when paid. Unrelated business income tax expense for the years ended June 30, 2021 and 2020, was \$64,000 and \$9,000, respectively.

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.

Recently adopted accounting pronouncements – In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which updates certain disclosures of financial instruments. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. The Community Foundation has adopted this standard as of July 1, 2020. The adoption did not have significant impact on the consolidated financial statements.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The Community Foundation and its Supporting Organizations consider 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:

Net assets without donor restrictions – 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 “Board”) 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 (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.

The Board has designated net assets without donor restrictions for the following uses:

Designated for donor-advised grants – Funds designated for donor-advised grants are available for distribution upon recommendation by the donor.

Designated for discretionary grants – Amounts from annual appropriations of board-designated endowments and gifts without donor restrictions designated by the Board to provide perpetual support for community grant-making.

Net assets with donor restrictions – Net assets subject to donor-imposed time restrictions or restrictions as to use or requirements in which the corpus be maintained in perpetuity (endowment funds). The accumulation of assets above historic gift value in endowment funds is classified as with donor restrictions until appropriated for use based on the Community Foundation’s spending policy. Expirations of restrictions on net assets (i.e., the stipulated time period has elapsed) are reported as assets released from restriction. Contributions with donor restrictions that are met in the same year have been recorded as contributions without donor restrictions on the accompanying consolidated statement of activities.

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 statement of activities as investment income (loss) net of external expenses associated with the management of investments.

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.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Alternative investments include limited partnerships, private equity funds, and interests in closely-held entities. The fair values of the limited partnerships 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 of the entities that manage the respective investments.

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 prioritize the use of observable market-based inputs over 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.

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.

Certain investments that are measured at fair value using the net asset value ("NAV") per share (or the equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table in Note 4 are intended to permit the reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position. Investments measured at fair value using NAV include limited partnerships and private equity funds. NAV amounts provided by external investment managers are adjusted for receipts and disbursements of cash and securities to the most recently available NAV date.

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 estimated 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 for building and equipment has been provided using the straight-line method over the estimated useful life, which ranges from 5–39 years.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Grants and pledges payable – Grants and pledges payable represent unconditional commitments to other organizations that have been authorized prior to year-end but remain unpaid at June 30, 2021 or 2020. Conditional grants and pledges are expensed and considered payable in the period the conditions are substantially satisfied. The Community Foundation had conditional grants and pledges payable of approximately \$239,000 and \$2,700,000, at June 30, 2021 and 2020, respectively that are contingent upon the recipient organizations receiving additional contributions.

Due to other agencies – The Community Foundation accepts funds from unrelated not-for-profit organizations that desire to have the Community Foundation serve as the charitable steward for their endowment fund. 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 on the accompanying consolidated statement of activities. 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 the donation is received.

Contributions receivable – Contributions receivable to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. At June 30, 2021, approximately \$7,498,000 of contributions receivable are expected to be collected within one year and the balance of \$654,000 is expected to be collected after five years. At June 30, 2020, approximately \$1,155,000 and \$734,000 of contributions receivable were expected to be collected in one to five years and after five years, respectively. 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. Amounts are written off against the allowance when deemed uncollectible. Management has determined that no allowance for uncollectible contributions receivable was necessary as of June 30, 2021 and 2020.

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 reflects the donors' recommendations.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 such expenditures.

Functional allocation of expenses – Expenses incurred by the Community Foundation which apply to more than one functional category are allocated as follows:

- Program services – Includes awarded grants, support, and education to other not-for-profit organizations, research on the local not-for-profit field, and philanthropic leadership;
- General and administrative – Includes expenses that benefit the Community Foundation as an entity, governance, management, and administration; and
- Fundraising and development – Includes originating and stewarding relationships with donors.

Expenses are allocated on a reasonable basis that is consistently applied. Salaries and benefits are allocated based on time spent on these functions by specified employees as estimated by management. Occupancy, technology, and other operating expenses are allocated on the basis of headcount. All other costs are charged directly to the appropriate functional category.

Use of estimates – The preparation of the consolidated financial statements in conformity with U.S. GAAP 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.

Reclassifications – Certain amounts appearing in the 2020 consolidated financial statements have been reclassified to conform with the 2021 presentation. These reclassifications had no effect on total net assets, changes in net assets, or total cash flows.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be 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 25, 2021, which is the date the consolidated financial statements are available for issuance.

Orange County Community Foundation Notes to Consolidated Financial Statements

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 years ended June 30, 2021 and 2020, contributions from the three largest donors each year represented 35 and 45 percent, respectively, of total contributions.

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 regular review of the investment managers' performance. Investments are managed by multiple investment managers who have responsibility for investing funds using various types of investment strategies. An investment consultant is also utilized.

Note 4 – Investments and Fair Value Disclosures

Investments at fair value consist of the following at June 30, 2021 and 2020:

	2021	2020
Fixed income investments	\$ 38,076,000	\$ 35,647,000
Domestic equity securities	21,018,000	7,409,000
Mutual funds – equity securities	24,558,000	13,949,000
Alternative investments	354,301,000	264,483,000
Total investments	\$ 437,953,000	\$ 321,488,000

Investment income, net of related expenses, consists of the following for the years ended June 30, 2021 and 2020:

	2021	2020
Net realized and unrealized gains (losses)	\$ 88,958,000	\$ (1,438,000)
Interest and dividends	2,594,000	3,586,000
Total investment income, net	\$ 91,552,000	\$ 2,148,000

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Disclosures (continued)

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

The following table presents the investments carried at fair value on the accompanying consolidated statement of financial position at June 30, 2021:

	2021				Total
	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value (or Equivalent)	
Mutual funds – fixed income	\$ 38,076,000	\$ -	\$ -	\$ -	\$ 38,076,000
Domestic equity securities	21,018,000	-	-	-	21,018,000
Mutual funds – equity securities					
Domestic	16,513,000	-	-	-	16,513,000
International	8,045,000	-	-	-	8,045,000
Alternative investments					
Limited partnerships	-	-	-	246,064,000	246,064,000
Closely-held entities	-	-	60,180,000	-	60,180,000
Private equity funds	-	-	-	48,057,000	48,057,000
Total	\$ 83,652,000	\$ -	\$ 60,180,000	\$ 294,121,000	\$ 437,953,000

The following table presents the investments carried at fair value on the accompanying consolidated statement of financial position at June 30, 2020:

	2020				Total
	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value (or Equivalent)	
Mutual funds – fixed income	\$ 35,647,000	\$ -	\$ -	\$ -	\$ 35,647,000
Domestic equity securities	7,409,000	-	-	-	7,409,000
Mutual funds – equity securities					
Domestic	8,262,000	-	-	-	8,262,000
International	5,687,000	-	-	-	5,687,000
Alternative investments					
Limited partnerships	-	-	-	183,441,000	183,441,000
Closely-held entities	-	-	55,286,000	-	55,286,000
Private equity funds	-	-	-	25,756,000	25,756,000
Total	\$ 57,005,000	\$ -	\$ 55,286,000	\$ 209,197,000	\$ 321,488,000

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Disclosures (continued)

The following table presents the summary of changes in the fair value of Level 3 investments for the years ended June 30, 2021 and 2020:

	<u>Closely-Held Entities</u>
Balance, July 1, 2019	\$ 72,957,000
Additions	3,915,000
Net realized losses	(160,000)
Net unrealized gains	2,377,000
Distributions	<u>(23,803,000)</u>
Balance, June 30, 2020	55,286,000
Additions	5,360,000
Net realized losses	(377,000)
Net unrealized gains	4,894,000
Distributions	<u>(4,983,000)</u>
Balance, June 30, 2021	<u>\$ 60,180,000</u>

Total net realized and unrealized gains and losses on Level 3 investments held at year-end are included in net investment income in the consolidated statement of activities.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Disclosures (continued)

The nature and risk of investments at June 30, 2021, for which fair value is based on net asset value are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited partnerships (a)	\$ 169,090,000	\$ -	Monthly	5–60 Days
	26,200,000	-	Weekly	3–5 Days
	19,946,000	-	Quarterly	60–180 Days
	19,348,000	-	Semi-Monthly	6 Days
	11,401,000	-	Daily	0 Days
	<u>79,000</u>	<u>-</u>	At General Partner's Discretion	N/A
	246,064,000	-		
Private equity funds (b)	<u>48,057,000</u>	<u>49,737,000</u>	Upon Dissolution of Partnership	N/A
	<u>\$ 294,121,000</u>	<u>\$ 49,737,000</u>		

(a) The strategies of investments in limited partnerships are summarized as follows:

	<u>Percentage of Fair Value</u>
International equity	21%
Diversifiers – low-equity beta and growth oriented	20%
U.S. equity	17%
Global equity	13%
Emerging markets equity	12%
Marketable real assets	9%
U.S. and global fixed income	<u>8%</u>
	<u>100%</u>

The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Disclosures (continued)

(b) The strategies of investments in private equity funds are summarized as follows:

	Percentage of Fair Value
Buyouts, distressed, secondaries, special situations, and credit strategy	44%
Private real estate	21%
Venture and growth capital	20%
Private energy, minerals, mining, and life contingent assets	15%
	100%

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 the total partners' capital of the fund. 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 53 percent of this class will be liquidated over the next two to five years and the balance within the next 10 years.

The significant unobservable inputs related to material categories of Level 3 investments at June 30, 2021, are as follows:

	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Closely-held entities (a)	\$ 60,180,000	Company Valuation, Market Comparables, or Income Approach	Company Financials, General Partners' Estimates, or Market Yield	N/A*

* 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 sector. Approximately 82 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 this asset is one to two years. Approximately seven percent of this class represents a limited partnership interest in eight apartment complexes in California with an estimated timeframe for liquidation of greater than 10 years. Approximately three percent represents preferred membership interest in a Company that owns and renovates properties that serve homeless individuals and families throughout Southern California with an estimated timeframe for liquidation of less than 10 years. The balance of this class, approximately eight percent, represents an investment in Section 8 Property (low income housing). This investment will be liquidated upon refinance or sale of the property. The estimated timeframe for liquidation of this asset is one to two years.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Disclosures (continued)

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 consultant, monitors the valuation and performance of the investments on a quarterly basis. The Investment Committee reports to the Board of the Community Foundation.

Note 5 – Land, Building, and Equipment

Land, building, and equipment consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 560,000	\$ 560,000
Building and improvements	4,009,000	3,837,000
Furniture and equipment	<u>527,000</u>	<u>508,000</u>
	5,096,000	4,905,000
Less: accumulated depreciation	<u>(2,178,000)</u>	<u>(1,929,000)</u>
Land, building, and equipment, net	<u>\$ 2,918,000</u>	<u>\$ 2,976,000</u>

Depreciation expense for the years ended June 30, 2021 and 2020, was \$249,000 and \$202,000, respectively.

Note 6 – Pledges Payable

Pledges payable, discounted to net present value, at June 30, 2021, consist of approved grant commitments that are expected to be paid during the following years ending June 30:

Years Ending June 30,	
2022	\$ 461,000
2023	350,000
2024	340,000
2025	300,000
Thereafter	<u>750,000</u>
	2,201,000
Less: discount	<u>(106,000)</u>
Pledges payable, net	<u>\$ 2,095,000</u>

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 6 – Pledges Payable (continued)

Pledges payable have been discounted to net present value using risk-free rates of return ranging from 0.10 – 3.00 percent determined at year of origination of the pledges.

Note 7 – Mortgage, Notes Payable, and Loan

Mortgage note payable includes a \$2.5 million note with a bank on a building owned by Orange County Shared Spaces Foundation, a supporting organization of the Community Foundation. The mortgage is due June 1, 2028, bears interest at the rate of 4.9 percent per annum, is amortized over 30 years, and is payable in monthly installments of principal and interest of \$13,000. The mortgage note payable is secured by the deed of trust and assignment of rents on the building. The balance outstanding at June 30, 2021 and 2020, was \$2,382,000 and \$2,424,000, respectively. Additionally, there is a note payable of \$400,000 on the building, 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 payable is due June 30, 2023, bears interest at the rate of 4.0 percent per annum, is amortized over 10 years, and is payable in quarterly installments of principal and interest of \$15,000. The note payable is secured by the deed of trust and assignment of rents on the building. The liability is limited to the assets of Orange County Shared Spaces Foundation. The balance outstanding at June 30, 2021 and 2020, was \$93,000 and \$137,000, respectively.

In May 2020, the Community Foundation qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender, for an aggregate principal amount of \$443,000. The Community Foundation applied for and was formally given forgiveness for the full amount of the loan on November 25, 2020. The outstanding balance has been derecognized as a loan payable at June 30, 2021, and recognized as a gain from loan forgiveness on the consolidated statement of activities during the year ended June 30, 2021.

At June 30, 2021, future annual principal payments under the mortgage and notes payable for the years ending June 30 are as follows:

Years Ending June 30,	
2022	\$ 89,000
2023	93,000
2024	48,000
2025	50,000
2026	52,000
Thereafter	<u>2,143,000</u>
 Mortgage, notes payable, and loan	 <u>\$ 2,475,000</u>

Interest expense for the years ended June 30, 2021 and 2020, was \$124,000 and \$127,000, respectively.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 8 – Net Assets

Net assets are comprised of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Without donor restrictions		
Designated for donor-advised grants	\$ 302,617,000	\$ 252,441,000
Designated for discretionary grants	3,893,000	3,236,000
Undesignated	<u>2,778,000</u>	<u>2,552,000</u>
Total without donor restrictions	<u>309,288,000</u>	<u>258,229,000</u>
With donor restrictions		
Restricted in perpetuity – endowment	132,605,000	126,673,000
Restricted and subject to the Community Foundation's spending policy	44,139,000	7,680,000
Restricted for the passage of time	563,000	654,000
Endowment funds with deficiencies	<u>(13,000)</u>	<u>(215,000)</u>
Total with donor restrictions	<u>177,294,000</u>	<u>134,792,000</u>
Total net assets	<u>\$ 486,582,000</u>	<u>\$ 393,021,000</u>

Net assets with donor restrictions – The Board of the Community Foundation has determined it holds assets which meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). As a result of this interpretation, the corpus of endowment funds subject to UPMIFA is classified as net assets with donor restrictions. The corpus represents the fair value of the original gifts as of the gift date and all subsequent gifts where the donor has indicated the gift be retained in perpetuity. The value of assets in excess of original gifts in donor-restricted endowment funds are also classified as net assets with donor restrictions until appropriated for expenditure by the Community Foundation.

Funds with deficiencies – From time to time, certain donor-restricted endowment funds may have fair values below historic gift value. At June 30, 2021, the Community Foundation had endowment funds with deficiencies with an original fair value of \$427,000 at the date of the gift and a current fair value of \$414,000. At June 30, 2020, the Community Foundation had endowment funds with deficiencies with an original fair value of \$4,251,000 at the date of the gift and a current fair value of \$4,036,000. Deficiencies between original fair values and current fair values are reflected in net assets with donor restrictions on the accompanying consolidated statement 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 fund, (2) the purposes of the donor-restricted endowment fund, (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 policy of the Community Foundation.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 8 – Net Assets (continued)

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, 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 endowed assets held in perpetuity. 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 to achieve its long-term return objectives within prudent risk constraints.

The spending policy determines the amount of money to be distributed annually from the Community Foundation's various endowed funds for grant-making and operational support. The Community Foundation has a policy of appropriating for distribution as of January 1 of each year. The Community Foundation's Board approved a spending policy of 4.5 percent of its endowed assets' average fair value over the prior 16 quarters for 2021 and 2020. In establishing these policies, the Community Foundation considered the long-term expected return on its endowed assets.

The Community Foundation expects the current spending policy to maintain the purchasing power of the endowed assets as well as to provide stable support to the community.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 8 – Net Assets (continued)

Changes in endowment net assets for the years ended June 30, 2021 and 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 19,013,000	\$ 140,899,000	\$ 159,912,000
Contributions	-	723,000	723,000
Investment income, net of fees	1,022,000	(1,561,000)	(539,000)
Amounts appropriated for expenditure	6,312,000	(6,312,000)	-
Grants and scholarships paid	(7,042,000)	-	(7,042,000)
Redesignations	894,000	389,000	1,283,000
Endowment net assets, June 30, 2020	20,199,000	134,138,000	154,337,000
Contributions	-	6,199,000	6,199,000
Investment income, net of fees	2,368,000	43,293,000	45,661,000
Amounts appropriated for expenditure	6,834,000	(6,834,000)	-
Grants and scholarships paid	(7,562,000)	-	(7,562,000)
Redesignations	884,000	(65,000)	819,000
Endowment net assets, June 30, 2021	<u>\$ 22,723,000</u>	<u>\$ 176,731,000</u>	<u>\$ 199,454,000</u>

Included in endowment net assets without donor restrictions at June 30, 2021 and 2020, was \$3,051,000 and \$2,500,000, respectively, of board-designated endowment.

Included in endowment net assets with donor restrictions is \$44,139,000 and \$7,680,000 of accumulated earnings on endowment funds as of June 30, 2021 and 2020, respectively.

Distributions from the grantable amount of endowment funds are identified toward a specific purpose based on instructions from donors when the contributions were received. Endowment net assets with donor restrictions held in perpetuity for specific purposes at June 30, 2021 and 2020, are as follows:

	2021	2020
Field of interest	\$ 51,856,000	\$ 51,095,000
Donor advised	40,303,000	40,397,000
Board discretionary	13,914,000	13,914,000
Agency	13,794,000	8,343,000
Scholarships	8,079,000	8,063,000
Operating	4,646,000	4,646,000
Total endowment net assets with specific purpose	<u>\$ 132,592,000</u>	<u>\$ 126,458,000</u>

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 9 – Retirement Plan

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 one percent of the annual compensation of the participants. In addition, an annual contribution is calculated at a specified percentage of salary for eligible employees, up to statutory limits. Retirement plan expenses for the years ended June 30, 2021 and 2020, were \$130,000 and \$127,000, respectively, and are included within salaries and benefits in the classification of functional expenses in Note 13.

Note 10 – Guarantees

In August 2019, the Community Foundation provided a \$700,000 guarantee to a bank on behalf of an unrelated not-for-profit 501(c)(3) organization as collateral for a \$500,000 loan due in full on August 20, 2022, and a \$200,000 revolving line of credit. As of June 30, 2021, \$100,000 is outstanding on the line of credit which is due in full on November 20, 2021, and is renewable through August 20, 2022. Amounts paid on the loan and the revolving line of credit are interest only with payments due monthly. The guarantee is limited to \$700,000 and the Community Foundation will be released from its obligation under the guarantee when the loan is repaid.

Note 11 – Commitments and Contingencies

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, 2021, are as follows:

2022	\$ 552,000
2023	<u>377,000</u>
Total commitments	<u>\$ 929,000</u>

Rent expense for the years ended June 30, 2021 and 2020, was \$515,000 and \$479,000, respectively, and is included within occupancy expense in the classification of functional expenses in Note 13.

In March 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and the California Governor declared a state of emergency. During the COVID-19 pandemic, the Community Foundation’s services have not been materially interrupted. As the situation continues to evolve, the Community Foundation is closely monitoring the impact of the COVID-19 pandemic on all aspects of operations, including how it impacts its donors, employees, and ability to provide services.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 12 – Liquidity and Availability

Financial assets available for general expenditures without donor or other restrictions limiting their use within one year as of June 30, 2021 and 2020, are comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 59,258,000	\$ 89,362,000
Investments	200,123,000	130,758,000
Contributions receivable	6,626,000	-
Other assets	<u>908,000</u>	<u>-</u>
Total financial assets available for use	<u>\$ 266,915,000</u>	<u>\$ 220,120,000</u>

As part of the Community Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Community Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 13 – Classification of Expenses

The following tables reflect the classification of the Community Foundation's expenses by both the underlying nature of the expense and the function. An individual expense is allocated to the underlying activity to which it was incurred.

Expenses by function and nature consist of the following for the year ended June 30, 2021:

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising and Development	
Grants and scholarships	\$ 98,030,000	\$ -	\$ -	\$ 98,030,000
Special projects	1,190,000	-	-	1,190,000
Salaries and benefits	1,624,000	1,282,000	749,000	3,655,000
Occupancy	218,000	223,000	82,000	523,000
Administration	17,000	201,000	53,000	271,000
Depreciation	195,000	54,000	-	249,000
Technology	99,000	86,000	32,000	217,000
Professional Services	27,000	146,000	15,000	188,000
Interest expense	124,000	-	-	124,000
Other expense	59,000	16,000	37,000	112,000
Marketing and advertising	38,000	-	63,000	101,000
Community education events	47,000	-	13,000	60,000
Staff training and development	5,000	6,000	2,000	13,000
Total expenses	\$ 101,673,000	\$ 2,014,000	\$ 1,046,000	\$ 104,733,000

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 13 – Classification of Expenses (continued)

Expenses by function and nature consist of the following for the year ended June 30, 2020:

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising and Development	
Grants and scholarships	\$ 101,974,000	\$ -	\$ -	\$ 101,974,000
Special projects	1,002,000	-	-	1,002,000
Salaries and benefits	1,447,000	1,449,000	804,000	3,700,000
Occupancy	203,000	203,000	73,000	479,000
Professional services	32,000	192,000	4,000	228,000
Depreciation	159,000	43,000	-	202,000
Technology	72,000	52,000	61,000	185,000
Administration	4,000	134,000	45,000	183,000
Community education events	102,000	-	68,000	170,000
Interest expense	127,000	-	-	127,000
Other expense	60,000	16,000	43,000	119,000
Marketing and advertising	42,000	-	63,000	105,000
Staff training and development	10,000	23,000	12,000	45,000
Total expenses	<u>\$ 105,234,000</u>	<u>\$ 2,112,000</u>	<u>\$ 1,173,000</u>	<u>\$ 108,519,000</u>