



REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

ORANGE COUNTY
COMMUNITY FOUNDATION

June 30, 2019, with Summarized Comparative
Information for June 30, 2018

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated statement of financial position	3
Consolidated statement of activities	4
Consolidated statement of cash flows	5–6
Notes to consolidated financial statements	7–25

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 statement of financial position as of June 30, 2019, 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.

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, 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Orange County Community Foundation and its supporting organizations adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Orange County Community Foundation and its supporting organizations' fiscal year 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 3, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived, except as discussed in Note 2, to the consolidated financial statements changes that relate to the retrospective application of ASU 2016-14.

Moss Adams LLP

Irvine, California
October 2, 2019

Orange County Community Foundation
Consolidated Statement of Financial Position
(With Summarized Comparative Information for 2018)

	June 30, 2019			June 30, 2018
	Without Donor Restrictions	With Donor Restrictions	Total	
ASSETS				
Cash and cash equivalents	\$ 74,976,000	\$ -	\$ 74,976,000	\$ 70,723,000
Investments	178,892,000	141,017,000	319,909,000	294,314,000
Contributions receivable, net	2,604,000	-	2,604,000	6,929,000
Land, building, and equipment, net	3,044,000	-	3,044,000	3,119,000
Other assets	3,709,000	553,000	4,262,000	3,164,000
Total assets	<u>\$ 263,225,000</u>	<u>\$ 141,570,000</u>	<u>\$ 404,795,000</u>	<u>\$ 378,249,000</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Grants payable	\$ 10,821,000	\$ -	\$ 10,821,000	\$ 12,358,000
Accounts payable and accrued liabilities	1,569,000	-	1,569,000	1,526,000
Pledges payable, net	3,371,000	-	3,371,000	4,430,000
Mortgage and notes payable	2,662,000	-	2,662,000	2,739,000
Due to other agencies	5,700,000	-	5,700,000	5,080,000
Total liabilities	<u>24,123,000</u>	<u>-</u>	<u>24,123,000</u>	<u>26,133,000</u>
Commitments (Note 11)				
Net assets				
Total net assets	<u>239,102,000</u>	<u>141,570,000</u>	<u>380,672,000</u>	<u>352,116,000</u>
Total liabilities and net assets	<u>\$ 263,225,000</u>	<u>\$ 141,570,000</u>	<u>\$ 404,795,000</u>	<u>\$ 378,249,000</u>

Orange County Community Foundation
Consolidated Statement of Activities
(With Summarized Comparative Information for 2018)

	Year Ended June 30, 2019			Year Ended June 30, 2018
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE AND SUPPORT				
Contributions	\$ 72,793,000	\$ 11,553,000	\$ 84,346,000	\$ 136,912,000
Investment income, net	11,660,000	6,867,000	18,527,000	17,876,000
Other income	676,000	-	676,000	639,000
Net assets released from restriction	4,751,000	(4,751,000)	-	-
Total revenue and support	89,880,000	13,669,000	103,549,000	155,427,000
EXPENSES				
Program services				
Grants and scholarships	68,692,000	-	68,692,000	79,482,000
Special projects	1,258,000	-	1,258,000	887,000
Other program expenses	2,219,000	-	2,219,000	1,693,000
Total program services expenses	72,169,000	-	72,169,000	82,062,000
Supporting services				
General and administrative	1,787,000	-	1,787,000	1,868,000
Fundraising and development	1,037,000	-	1,037,000	916,000
Total supporting services	2,824,000	-	2,824,000	2,784,000
Total expenses	74,993,000	-	74,993,000	84,846,000
CHANGE IN NET ASSETS	14,887,000	13,669,000	28,556,000	70,581,000
NET ASSETS				
Beginning of year	224,215,000	127,901,000	352,116,000	281,535,000
End of year	\$ 239,102,000	\$ 141,570,000	\$ 380,672,000	\$ 352,116,000

Orange County Community Foundation
Consolidated Statement of Cash Flows
(With Summarized Comparative Information for 2018)

	Years Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Changes in net assets	\$ 28,556,000	\$ 70,581,000
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	175,000	158,000
Net realized and unrealized gains on investments	(15,257,000)	(15,916,000)
Non-cash contributions of stock and property	(460,000)	(49,202,000)
Contributions restricted for endowments	(11,553,000)	(417,000)
Changes in operating assets and liabilities:		
Contributions receivable, net	(2,731,000)	(5,573,000)
Other assets	(1,098,000)	132,000
Grants payable	(1,537,000)	5,564,000
Accounts payable and accrued liabilities	43,000	(267,000)
Pledges payable, net	(1,059,000)	17,000
Due to other agencies	620,000	407,000
	620,000	407,000
	620,000	407,000
Net cash (used in) provided by operating activities	(4,301,000)	5,484,000
INVESTING ACTIVITIES		
Purchases of investments	(32,062,000)	(46,848,000)
Proceeds from sale of investments	24,419,000	45,393,000
Proceeds from sale of real estate investments	3,373,000	1,447,000
Purchases of land, building, and equipment	(100,000)	(115,000)
Net cash (used in) investing activities	(4,370,000)	(123,000)
FINANCING ACTIVITIES		
Contributions restricted for endowments	11,553,000	417,000
Receipt of contributions receivable restricted for endowments	1,448,000	250,000
Proceeds from refinance of mortgage note payable	-	2,500,000
Payoff of mortgage note payable	-	(2,255,000)
Payments on mortgage and notes payable	(77,000)	(39,000)
Net cash provided by financing activities	12,924,000	873,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,253,000	6,234,000
CASH AND CASH EQUIVALENTS		
Beginning of year	70,723,000	64,489,000
End of year	\$ 74,976,000	\$ 70,723,000

Orange County Community Foundation
Consolidated Statement of Cash Flows (continued)
(With Summarized Comparative Information for 2018)

	Years Ended June 30,	
	<u>2019</u>	<u>2018</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 136,000</u>	<u>\$ 96,000</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Contributions of securities	<u>\$ 34,164,000</u>	<u>\$ 23,413,000</u>

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 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, 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 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, 2018, from which the summarized information was derived.

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 for the years ended June 30, 2019 and 2018.

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.

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.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 value 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.

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 investments. NAV amounts provided by external investment managers are adjusted for receipts and disbursements of cash and securities to the most recently available NAV date.

Orange County Community Foundation

Notes to Consolidated Financial Statements

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 an 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 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 has been provided using the straight-line method over the estimated useful life, which ranges from 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.

Grants and pledges payable – Grants and pledges payable represent unconditional grants that have been authorized prior to year-end, but remain unpaid at June 30, 2019 and 2018. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. The Community Foundation had conditional grants and pledges payable at June 30, 2019 and 2018, of approximately \$1,000,000 and \$589,000, respectively.

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.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 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, 2019 and 2018.

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.

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 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;
- 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.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Reclassifications – Certain reclassifications have been made to the 2018 consolidated financial statements to conform with the 2019 presentation. Reclassifications of prior year amounts have no impact beyond that described below for the adoption of ASU 2016-14.

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 2, 2019, which is the date the consolidated financial statements are available for issuance.

Recently adopted accounting standard – In August 2016, the Financial Accounting Standards Board (“FASB”) issued the ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. This guidance revises not-for-profit reporting and requires expenses to be disclosed by both functional and natural classification, reduces the net asset classifications to two (with and without donor restrictions), and requires new disclosures on liquidity. The guidance was adopted by the Community Foundation on July 1, 2018, and applied retrospectively for all disclosures required by the ASU.

In accordance with ASU 2016-14, net assets are presented as follows at June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Unrestricted	\$ 224,215,000	\$ -	\$ 224,215,000
Temporarily restricted	-	15,170,000	15,170,000
Permanently restricted	-	112,731,000	112,731,000
	<u>\$ 224,215,000</u>	<u>\$ 127,901,000</u>	<u>\$ 352,116,000</u>

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, 2019 and 2018, 31 and 52 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 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Fixed income investments	\$ 34,810,000	\$ 29,493,000
Domestic equity securities	7,059,000	7,527,000
Mutual funds - equity securities	17,357,000	22,844,000
Alternative investments	<u>260,683,000</u>	<u>234,450,000</u>
Total investments	<u>\$ 319,909,000</u>	<u>\$ 294,314,000</u>

Investment income, net of related expenses consists of the following for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gains, net	\$ 14,630,000	\$ 15,296,000
Interest and dividends	<u>3,897,000</u>	<u>2,580,000</u>
Total investment income, net	<u>\$ 18,527,000</u>	<u>\$ 17,876,000</u>

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, 2019:

	2019				Total
	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value (or Equivalent)	
Mutual funds - fixed income	\$ 34,810,000	\$ -	\$ -	\$ -	\$ 34,810,000
Domestic equity securities	7,059,000	-	-	-	7,059,000
Mutual funds - equity securities:					
Domestic	11,766,000	-	-	-	11,766,000
International	5,591,000	-	-	-	5,591,000
Alternative investments:					
Limited partnerships	-	-	-	167,861,000	167,861,000
Closely-held entities	-	-	72,957,000	-	72,957,000
Private equity funds	-	-	-	19,865,000	19,865,000
Total	\$ 59,226,000	\$ -	\$ 72,957,000	\$ 187,726,000	\$ 319,909,000

The following table presents the investments carried at fair value on the accompanying consolidated statement of financial position at June 30, 2018:

	2018				Total
	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value (or Equivalent)	
Mutual funds - fixed income	\$ 29,493,000	\$ -	\$ -	\$ -	\$ 29,493,000
Domestic equity securities	7,527,000	-	-	-	7,527,000
Mutual funds - equity securities:					
Domestic	9,895,000	-	-	-	9,895,000
International	12,949,000	-	-	-	12,949,000
Alternative investments:					
Limited partnerships	-	-	-	154,175,000	154,175,000
Closely-held entities	-	-	69,032,000	-	69,032,000
Private equity funds	-	-	-	11,243,000	11,243,000
Total	\$ 59,864,000	\$ -	\$ 69,032,000	\$ 165,418,000	\$ 294,314,000

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 the Community Foundation's Level 3 classified assets for the years ended June 30, 2019 and 2018:

	Closely-Held Entities
Balance, July 1, 2017	\$ 22,871,000
Additions	48,670,000
Net realized losses	(577,000)
Net unrealized gains	1,150,000
Distributions	(3,082,000)
Balance, June 30, 2018	69,032,000
Additions	4,620,000
Net realized gains	197,000
Net unrealized gains	2,264,000
Distributions	(3,156,000)
Balance, June 30, 2019	\$ 72,957,000

Transfers between levels are made as of the beginning of the Community Foundation's fiscal year. There were no transfers during the years ended June 30, 2019 and 2018.

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

The nature and risk of investments at June 30, 2019, 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
Limited partnerships (a)	\$ 167,861,000	\$ -	Quarterly	0-90 Days
Private equity funds (b)	19,865,000	38,569,000	N/A	N/A
	\$ 187,726,000	\$ 38,569,000		

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Disclosures (continued)

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

	Percentage of Fair Value	Number of Partnerships
International equities/emerging markets	31%	7
U.S. equities	20%	2
Lower-equity diversifiers invested across managers to minimize manager-specific risk	19%	13
Global equity	13%	2
U.S. and global fixed income	9%	2
Real estate	8%	2
	<u>100%</u>	<u>28</u>

The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Sixty-four percent of the class is redeemable monthly with notice ranging from 6 business days to 30 calendar days at the current net asset value. Thirteen percent of the class is redeemable weekly on Wednesdays with three to five business days' notice. Eleven percent of the class is redeemable quarterly on the last business day of each calendar quarter with redemption notices ranging from 45 to 60 days at the current net asset value. Seven percent of the value of the class is redeemable semi-monthly with twenty calendar days' notice. Five percent of the class is redeemable daily. The balance of the class, less than one percent, is redeemable at the general partner's discretion.

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

	Percentage of Fair Value
Oil and gas, minerals, and information technology in underperforming middle market companies	35%
U.S. real estate investments, including distressed real estate	33%
Buyout, venture capital, special situation, real estate, and secondary private equity	18%
Global private energy/mining and seed investments in international markets	14%
	<u>100%</u>

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 six percent of the funds will be liquidated over the next 3 to 7 years and the balance within the next 10 years.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 4 – Investments and Fair Value Disclosures (continued)

The significant unobservable inputs related to material categories of Level 3 assets at June 30, 2019, are as follows:

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Closely-held entities (a)	\$ 72,957,000	Company	Company	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 segment and interest in real property. Approximately ninety-one 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 one to five years. Approximately three percent of this class 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 the asset is one to two years. Approximately six percent of this class represents a limited partnership interest in eight apartment complexes in California. The estimated timeframe for liquidation of these assets is greater than 10 years. The balance of this class, less than one percent, is invested in real property in California and is available for sale.

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.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 5 – Land, Building, and Equipment

Land, building, and equipment consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 560,000	\$ 560,000
Buildings and improvements	3,781,000	3,713,000
Furniture and equipment	<u>430,000</u>	<u>398,000</u>
	4,771,000	4,671,000
Less: Accumulated depreciation	<u>(1,727,000)</u>	<u>(1,552,000)</u>
Land, building, and equipment, net	<u>\$ 3,044,000</u>	<u>\$ 3,119,000</u>

Depreciation expense for the years ended June 30, 2019 and 2018, was \$175,000 and \$158,000, respectively.

Note 6 – Pledges Payable

Pledges payable, net of discount, at June 30, 2019, consist of approved grant commitments that are expected to be paid during the following years:

Years ending June 30,	
2020	\$ 2,584,000
2021	603,000
2022	265,000
2023	<u>10,000</u>
	3,462,000
Less: Discount	<u>(91,000)</u>
Pledges payable, net	<u>\$ 3,371,000</u>

The pledges have been discounted to net present value using risk-free rates of return ranging from 0.7 to 3.0 percent determined at year of origination of the pledges.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 7 – Mortgage and Notes Payable

Mortgage notes payable include a \$2.5 million note with a bank which 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, 2019 and 2018, was \$2,463,000 and \$2,500,000, respectively.

Additionally, there is a note payable 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 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, 2019 and 2018, was \$199,000 and \$239,000, respectively.

At June 30, 2019, future annual principal payments under the mortgage and notes payable are as follows:

Years ending June 30,	
2020	\$ 102,000
2021	85,000
2022	89,000
2023	93,000
2024	48,000
Thereafter	<u>2,245,000</u>
	<u>\$ 2,662,000</u>

Interest expense for the years ended June 30, 2019 and 2018, was \$136,000 and \$96,000, respectively.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 8 – Net Assets

Net assets are comprised of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Without donor restrictions:		
Designated for donor-advised grants	\$ 235,586,000	\$ 220,679,000
Designated for discretionary grants	<u>3,516,000</u>	<u>3,536,000</u>
Total without donor restrictions	<u>239,102,000</u>	<u>224,215,000</u>
With donor restrictions:		
Restricted in perpetuity - endowment	125,401,000	112,764,000
Restricted subject to the Community Foundation's spending policy	15,553,000	14,541,000
Restricted for the passage of time	671,000	629,000
Endowment funds with deficiencies	<u>(55,000)</u>	<u>(33,000)</u>
Total with donor restrictions	<u>141,570,000</u>	<u>127,901,000</u>
Total net assets	<u><u>\$ 380,672,000</u></u>	<u><u>\$ 352,116,000</u></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, 2019, the Community Foundation had endowment funds with deficiencies with an original fair value of \$592,000 at the date of the gift and a current fair value of \$537,000. At June 30, 2018, 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 \$394,000. 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 policies 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 2019 and 2018. 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, 2019 and 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2017	\$ 14,961,000	\$ 107,789,000	\$ 122,750,000
Contributions	-	6,025,000	6,025,000
Investment income, net of fees	306,000	9,299,000	9,605,000
Appropriations	5,134,000	(5,134,000)	-
Grants paid	(4,437,000)	(147,000)	(4,584,000)
Redesignations	1,282,000	9,440,000	10,722,000
Endowment net assets, June 30, 2018	17,246,000	127,272,000	144,518,000
Contributions	-	11,546,000	11,546,000
Investment income, net of fees	1,408,000	6,831,000	8,239,000
Appropriations	5,819,000	(5,819,000)	-
Grants paid	(5,723,000)	-	(5,723,000)
Redesignations	263,000	1,069,000	1,332,000
Endowment net assets, June 30, 2019	<u>\$ 19,013,000</u>	<u>\$ 140,899,000</u>	<u>\$ 159,912,000</u>

Included in endowment net assets without donor restrictions at June 30, 2019 and 2018, was \$2,794,000 and \$2,717,000, respectively, of board-designated endowment.

Included in endowment net assets with donor restrictions is \$15,553,000 and \$14,541,000 of accumulated earnings on endowment funds as of June 30, 2019 and 2018, 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, 2019 and 2018, are as follows:

	2019	2018
Field of interest	\$ 51,019,000	\$ 50,996,000
Donor advised	39,986,000	28,518,000
Board discretionary	13,915,000	13,915,000
Scholarships	8,068,000	8,071,000
Agency	7,712,000	6,585,000
Operating	4,646,000	4,646,000
Total endowment net assets with specific purpose	<u>\$ 125,346,000</u>	<u>\$ 112,731,000</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, 2019 and 2018, were \$105,000 and \$81,000, respectively.

Note 10 – Guarantees

In December 2016, the Community Foundation provided a \$1.35 million limited guarantee to a bank on behalf of an unrelated not-for-profit tax exempt 501(c)(3) organization. During the year ended June 30, 2019, the loan was repaid in full by that organization and the Community Foundation was released from its obligation under the guarantee.

See Note 14 for discussion of a guarantee entered into subsequent to June 30, 2019.

Note 11 – 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, 2019, are as follows:

Years ending June 30,	
2020	\$ 516,000
2021	534,000
2022	552,000
2023	<u>377,000</u>
 Total commitments	 <u>\$ 1,979,000</u>

Rent expense for the years ended June 30, 2019 and 2018, was \$522,000 and \$486,000, respectively.

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, 2019, comprise the following:

Cash and cash equivalents	\$ 74,976,000
Contributions receivable	1,250,000
Investments	<u>124,281,000</u>
 Total financial assets available	 <u><u>\$ 200,507,000</u></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.

Note 13 – Classification of Expenses

The following table reflects the classification of the Community Foundation’s expenses by both the underlying nature of the expense and function, for the year ended June 30, 2019. An individual expense is allocated to the underlying activity to which it was incurred.

Expense Class	Program Services	Supporting Services		Total
		General and Administrative	Fundraising and Development	
Grants awarded	\$ 68,692,000	\$ -	\$ -	\$ 68,692,000
Project expenses	1,258,000	-	-	1,258,000
Salaries and benefits	1,380,000	1,153,000	691,000	3,224,000
Occupancy	234,000	198,000	90,000	522,000
Professional services	24,000	190,000	3,000	217,000
Technology	91,000	43,000	48,000	182,000
Depreciation	137,000	38,000	-	175,000
Community education events	105,000	-	56,000	161,000
Administration	5,000	129,000	17,000	151,000
Interest expense	136,000	-	-	136,000
Other expense	43,000	13,000	54,000	110,000
Marketing and advertising	39,000	-	61,000	100,000
Staff training and development	<u>25,000</u>	<u>23,000</u>	<u>17,000</u>	<u>65,000</u>
 Total expenses	 <u><u>\$ 72,169,000</u></u>	 <u><u>\$ 1,787,000</u></u>	 <u><u>\$ 1,037,000</u></u>	 <u><u>\$ 74,993,000</u></u>

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 14 – Subsequent Event

In August 2019, the Community Foundation provided a \$700,000 guarantee to a bank on behalf of an unrelated not-for-profit tax exempt 501(c)(3) organization. The not-for-profit organization entered into a \$500,000 loan due in full on August 20, 2022, and a \$200,000 revolving line of credit that is due in full on August 20, 2020. The line of credit is renewable through August 20, 2022. 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.