



REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

**ORANGE COUNTY
COMMUNITY FOUNDATION**

June 30, 2020, with Summarized Comparative
Information for June 30, 2019



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Report of Independent Auditors

To 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, 2020, 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, 2020, 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 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 2, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Moss Adams LLP

Irvine, California
October 14, 2020

Orange County Community Foundation
Consolidated Statement of Financial Position
(With Summarized Comparative Information for 2019)

	June 30, 2020			June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total	
ASSETS				
Cash and cash equivalents	\$ 89,362,000	\$ -	\$ 89,362,000	\$ 74,976,000
Investments	187,232,000	134,256,000	321,488,000	319,909,000
Contributions receivable, net	1,884,000	-	1,884,000	2,604,000
Land, building, and equipment, net	2,976,000	-	2,976,000	3,044,000
Other assets	4,425,000	536,000	4,961,000	4,262,000
Total assets	<u>\$ 285,879,000</u>	<u>\$ 134,792,000</u>	<u>\$ 420,671,000</u>	<u>\$ 404,795,000</u>
LIABILITIES				
Grants payable	\$ 15,644,000	\$ -	\$ 15,644,000	\$ 10,821,000
Accounts payable and accrued liabilities	1,344,000	-	1,344,000	1,569,000
Pledges payable, net	999,000	-	999,000	3,371,000
Mortgage, notes payable, and loan	3,004,000	-	3,004,000	2,662,000
Due to other agencies	6,659,000	-	6,659,000	5,700,000
Total liabilities	<u>27,650,000</u>	<u>-</u>	<u>27,650,000</u>	<u>24,123,000</u>
COMMITMENTS AND CONTINGENCIES (Note 11)				
NET ASSETS				
Total net assets	<u>258,229,000</u>	<u>134,792,000</u>	<u>393,021,000</u>	<u>380,672,000</u>
Total liabilities and net assets	<u>\$ 285,879,000</u>	<u>\$ 134,792,000</u>	<u>\$ 420,671,000</u>	<u>\$ 404,795,000</u>

Orange County Community Foundation
Consolidated Statement of Activities
(With Summarized Comparative Information for 2019)

	Year Ended June 30, 2020			Year Ended June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE AND SUPPORT				
Contributions	\$ 117,344,000	\$ 723,000	\$ 118,067,000	\$ 84,346,000
Investment income (loss), net	3,622,000	(1,474,000)	2,148,000	18,527,000
Other income	653,000	-	653,000	676,000
Net assets released from restriction	6,027,000	(6,027,000)	-	-
Total revenue and support	127,646,000	(6,778,000)	120,868,000	103,549,000
EXPENSES				
Program services				
Grants and scholarships	101,974,000	-	101,974,000	68,692,000
Special projects	1,002,000	-	1,002,000	1,258,000
Other program expenses	2,258,000	-	2,258,000	2,219,000
Total program services	105,234,000	-	105,234,000	72,169,000
Supporting services				
General and administrative	2,112,000	-	2,112,000	1,787,000
Fundraising and development	1,173,000	-	1,173,000	1,037,000
Total supporting services	3,285,000	-	3,285,000	2,824,000
Total expenses	108,519,000	-	108,519,000	74,993,000
CHANGE IN NET ASSETS	19,127,000	(6,778,000)	12,349,000	28,556,000
NET ASSETS				
Beginning of year	239,102,000	141,570,000	380,672,000	352,116,000
End of year	<u>\$ 258,229,000</u>	<u>\$ 134,792,000</u>	<u>\$ 393,021,000</u>	<u>\$ 380,672,000</u>

Orange County Community Foundation Consolidated Statement of Cash Flows

	Years Ended June 30,	
	2020	2019
OPERATING ACTIVITIES		
Changes in net assets	\$ 12,349,000	\$ 28,556,000
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	202,000	175,000
Net realized and unrealized losses (gains) on investments	747,000	(15,257,000)
Non-cash contributions of stock and property	(2,064,000)	(460,000)
Contributions restricted for endowments	(723,000)	(11,553,000)
Changes in operating assets and liabilities		
Contributions receivable, net	869,000	(2,731,000)
Other assets	(699,000)	(1,098,000)
Grants payable	4,823,000	(1,537,000)
Accounts payable and accrued liabilities	(225,000)	43,000
Pledges payable, net	(2,372,000)	(1,059,000)
Due to other agencies	959,000	620,000
Net cash provided by (used in) operating activities	<u>13,866,000</u>	<u>(4,301,000)</u>
INVESTING ACTIVITIES		
Purchases of investments	(92,515,000)	(32,062,000)
Proceeds from sale of investments	68,176,000	24,419,000
Proceeds from sale of closely-held real estate investments	23,928,000	3,373,000
Purchases of land, building, and equipment	<u>(134,000)</u>	<u>(100,000)</u>
Net cash used in investing activities	<u>(545,000)</u>	<u>(4,370,000)</u>
FINANCING ACTIVITIES		
Contributions restricted for endowments	723,000	11,553,000
Receipt of contributions receivable restricted for endowments	-	1,448,000
Proceeds from loan	443,000	-
Payments on mortgage and notes payable	<u>(101,000)</u>	<u>(77,000)</u>
Net cash provided by financing activities	<u>1,065,000</u>	<u>12,924,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,386,000	4,253,000
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>74,976,000</u>	<u>70,723,000</u>
End of year	<u>\$ 89,362,000</u>	<u>\$ 74,976,000</u>

Orange County Community Foundation
Consolidated Statement of Cash Flows (Continued)

	Years Ended June 30,	
	<u>2020</u>	<u>2019</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	<u>\$ 127,000</u>	<u>\$ 136,000</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Contributions of securities	<u>\$ 40,957,000</u>	<u>\$ 34,164,000</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 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, 2019, 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 and for the year ended June 30, 2020, the amount was \$9,000. No unrelated business income taxes were paid during the year ended June 30, 2019.

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 and its Supporting Organizations 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 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.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The Chief Financial Officer, 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 5–39 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 amounts that have been authorized prior to year-end, but remain unpaid at June 30, 2020 and 2019. 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 contingent upon the recipient organizations receiving additional contributions, at June 30, 2020 and 2019, of approximately \$2,700,000 and \$1,000,000, 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.

Contributions receivable – Contributions receivable to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Approximately \$1,155,000 and \$734,000 of contributions receivable are 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. 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, 2020 and 2019.

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 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.

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 14, 2020, which is the date the consolidated financial statements are available for issuance.

Recently adopted accounting standards – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASC 606”). As compared to existing guidance on revenue recognition, ASU 2014-09 significantly enhances comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. On July 1, 2019, the Community Foundation and its Supporting Organizations adopted ASU 2014-09, applying the modified retrospective method. The adoption did not have a material impact on the measurement or the recognition of revenue.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies guidance on revenue recognition and expenses of grants and contracts received by not-for-profit entities. The Community Foundation and its Supporting Organizations adopted ASU 2018-08 as of and for the year ended June 30, 2020, and has applied it prospectively.

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, 2020 and 2019, contributions from the three largest donors each year represented 45 and 31 percent, respectively, of total contributions.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 3 – Concentrations of Risk (continued)

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Fixed income investments	\$ 35,647,000	\$ 34,810,000
Domestic equity securities	7,409,000	7,059,000
Mutual funds – equity securities	13,949,000	17,357,000
Alternative investments	<u>264,483,000</u>	<u>260,683,000</u>
Total investments	<u>\$ 321,488,000</u>	<u>\$ 319,909,000</u>

Investment income, net of related expenses, consists of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gains (losses)	\$ (1,438,000)	\$ 14,630,000
Interest and dividends	<u>3,586,000</u>	<u>3,897,000</u>
Total investment income, net	<u>\$ 2,148,000</u>	<u>\$ 18,527,000</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, 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

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

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, 2020 and 2019:

	Closely-Held Entities
Balance, July 1, 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
Additions	3,915,000
Net realized losses	(160,000)
Net unrealized gains	2,377,000
Distributions	(23,803,000)
Balance, June 30, 2020	\$ 55,286,000

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, 2020 and 2019.

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, 2020, 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)	\$ 128,676,000	\$ -	Monthly	5–60 Days
	19,133,000	-	Weekly	3–5 Days
	17,298,000	-	Quarterly	60–180 Days
	9,416,000	-	Semi-Monthly	20 Days
	8,830,000	-	Daily	0 Days
	88,000	-	At General Partner's Discretion	N/A
	<u>183,441,000</u>	-		
Private equity funds (b)	<u>25,756,000</u>	<u>50,635,000</u>	Upon Dissolution of Partnership	N/A
	<u><u>\$ 209,197,000</u></u>	<u><u>\$ 50,635,000</u></u>		

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

	<u>Percentage of Fair Value</u>
U.S. equity	20%
Diversifiers – low-equity beta and growth oriented	19%
International equity	18%
Emerging markets equity	14%
Global equity	13%
U.S. and global fixed income	9%
Marketable real assets	7%
	<u><u>100%</u></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	41%
Venture and growth capital	21%
Private real estate	20%
Private energy, mining, and life contingent assets	18%
	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 27 percent of this class will be liquidated over the next three 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, 2020, are as follows:

	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Closely-held entities (a)	\$ 55,286,000	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 86 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 two to three years. Approximately seven percent of this class represents a limited partnership interest in eight apartment complexes in California, while approximately four percent, represents preferred membership interest in a Company that owns and renovates properties that serve homeless individuals and families throughout Southern California. The estimated timeframe for liquidation of both of these investments is greater than 10 years. The balance of this class, approximately three 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 consists of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 560,000	\$ 560,000
Buildings and improvements	3,837,000	3,781,000
Furniture and equipment	<u>508,000</u>	<u>430,000</u>
	4,905,000	4,771,000
Less: accumulated depreciation	<u>(1,929,000)</u>	<u>(1,727,000)</u>
Land, building, and equipment, net	<u>\$ 2,976,000</u>	<u>\$ 3,044,000</u>

Depreciation expense for the years ended June 30, 2020 and 2019, was \$202,000 and \$175,000, respectively.

Note 6 – Pledges Payable

Pledges payable, discounted to net present value, at June 30, 2020, consist of approved grant commitments that are expected to be paid during the following years ending June 30:

2021	\$ 656,000
2022	280,000
2023	50,000
2024	<u>40,000</u>
	1,026,000
Less: discount	<u>(27,000)</u>
Pledges payable, net	<u>\$ 999,000</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 1.1–3.0 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, 2020 and 2019, was \$2,424,000 and \$2,463,000, 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, 2020 and 2019, was \$137,000 and \$199,000, 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 approximately \$443,000 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0 percent per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Community Foundation's request and to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program. Qualifying expenses include payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Community Foundation. The Community Foundation intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the Community Foundation will be required to pay interest on the PPP Loan at a rate of 1.0 percent per annum, principal and interest payments would begin in December 2020 and be required through its maturity date in May 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 7 – Mortgage, Notes Payable, and Loan (continued)

At June 30, 2020, future annual principal payments under the mortgage, notes payable, and loan for the years ending June 30 are as follows:

2021	\$ 280,000
2022	337,000
2023	93,000
2024	48,000
2025	50,000
Thereafter	<u>2,196,000</u>
Mortgage, notes payable, and loan	<u>\$ 3,004,000</u>

Interest expense for the years ended June 30, 2020 and 2019, was \$127,000 and \$136,000, respectively.

Note 8 – Net Assets

Net assets are comprised of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Without donor restrictions		
Designated for donor-advised grants	\$ 252,441,000	\$ 233,658,000
Designated for discretionary grants	3,236,000	3,516,000
Undesignated	<u>2,552,000</u>	<u>1,928,000</u>
Total without donor restrictions	<u>258,229,000</u>	<u>239,102,000</u>
With donor restrictions		
Restricted in perpetuity – endowment	126,673,000	125,401,000
Restricted and subject to the Community Foundation's spending policy	7,680,000	15,553,000
Restricted for the passage of time	654,000	671,000
Endowment funds with deficiencies	<u>(215,000)</u>	<u>(55,000)</u>
Total with donor restrictions	<u>134,792,000</u>	<u>141,570,000</u>
Total net assets	<u>\$ 393,021,000</u>	<u>\$ 380,672,000</u>

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 8 – Net Assets (continued)

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, 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. 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. 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.

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 2020 and 2019. In establishing these policies, the Community Foundation considered the long-term expected return on its endowed assets.

Orange County Community Foundation

Notes to Consolidated Financial Statements

Note 8 – Net Assets (continued)

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.

Changes in endowment net assets for the years ended June 30, 2020 and 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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
Amounts appropriated for expenditure	5,819,000	(5,819,000)	-
Grants and scholarships paid	(5,723,000)	-	(5,723,000)
Redesignations	263,000	1,069,000	1,332,000
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	<u>\$ 20,199,000</u>	<u>\$ 134,138,000</u>	<u>\$ 154,337,000</u>

Included in endowment net assets without donor restrictions at June 30, 2020 and 2019, was \$2,500,000 and \$2,794,000, respectively, of board-designated endowment.

Included in endowment net assets with donor restrictions is \$7,680,000 and \$15,553,000 of accumulated earnings on endowment funds as of June 30, 2020 and 2019, respectively.

Orange County Community Foundation Notes to Consolidated Financial Statements

Note 8 – Net Assets (continued)

Distributions from the grantable amount of endowment funds are identified toward a specific purpose based on instructions from donors when the contributions were received. Endowment net assets with donor restrictions held in perpetuity for specific purposes at June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Field of interest	\$ 51,095,000	\$ 51,019,000
Donor advised	40,397,000	39,986,000
Board discretionary	13,914,000	13,915,000
Agency	8,343,000	7,712,000
Scholarships	8,063,000	8,068,000
Operating	<u>4,646,000</u>	<u>4,646,000</u>
Total endowment net assets with specific purpose	<u>\$ 126,458,000</u>	<u>\$ 125,346,000</u>

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, 2020 and 2019, were \$127,000 and \$105,000, respectively.

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 tax exempt 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 that is due in full on August 20, 2020. The line of credit was repaid subsequent to June 30, 2020, 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.

Orange County Community Foundation

Notes to Consolidated Financial Statements

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, 2020, are as follows:

2021	\$ 534,000
2022	552,000
2023	<u>377,000</u>
Total commitments	<u>\$ 1,463,000</u>

Rent expense for the years ended June 30, 2020 and 2019, was \$479,000 and \$522,000, respectively.

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 generally been considered essential in nature and 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.

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, 2020 and 2019, are comprised of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 89,362,000	\$ 74,976,000
Contributions receivable	-	1,250,000
Investments	<u>130,758,000</u>	<u>124,281,000</u>
Total financial assets available for use	<u>\$ 220,120,000</u>	<u>\$ 200,507,000</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, 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	\$ 105,234,000	\$ 2,112,000	\$ 1,173,000	\$ 108,519,000

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, 2019:

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising and Development	
Grants and scholarships	\$ 68,692,000	\$ -	\$ -	\$ 68,692,000
Special projects	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
Depreciation	137,000	38,000	-	175,000
Technology	91,000	43,000	48,000	182,000
Administration	5,000	129,000	17,000	151,000
Community education events	105,000	-	56,000	161,000
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	25,000	23,000	17,000	65,000
Total expenses	<u>\$ 72,169,000</u>	<u>\$ 1,787,000</u>	<u>\$ 1,037,000</u>	<u>\$ 74,993,000</u>