



**THE COMMUNITY FOUNDATION**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
The Community Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of The Community Foundation, a nonprofit organization, which comprise the Statement of Financial Position as of December 31, 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## INDEPENDENT AUDITORS' REPORT

continued

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### Other Matters

#### *Report on Summarized Comparative Information*

We have previously audited The Community Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Harrington Group*

Pasadena, California

May 13, 2019

# THE COMMUNITY FOUNDATION

## STATEMENT OF FINANCIAL POSITION

December 31, 2018

With comparative totals at December 31, 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 18,264,128	\$ 15,791,590
Grants and contributions receivable (Note 4)	1,408,749	1,759,285
Other receivables	97,334	85,917
Prepaid expenses and deposits	50,383	49,466
Investments (Note 5)	73,892,665	86,799,955
Assets held in remainder trusts (Note 6)	3,967,016	943,154
Furniture and equipment (Note 7)	38,201	41,063
	<u>97,718,476</u>	<u>105,470,430</u>
<b>TOTAL ASSETS</b>	<b>\$ 97,718,476</b>	<b>\$ 105,470,430</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 184,494	\$ 187,229
Grants payable	499,861	561,485
Capital lease obligation (Note 8)	7,791	12,374
Obligation under charitable gift annuities	1,100,967	219,237
Custodial funds	225,835	275,916
Agency funds (Note 9)	22,143,672	23,335,176
	<u>24,162,620</u>	<u>24,591,417</u>
<b>TOTAL LIABILITIES</b>	<b>24,162,620</b>	<b>24,591,417</b>
<b>NET ASSETS</b>		
Without donor restrictions (Note 11)	8,784,765	9,741,080
With donor restrictions (Note 11)	64,771,091	71,137,933
	<u>73,555,856</u>	<u>80,879,013</u>
<b>TOTAL NET ASSETS</b>	<b>73,555,856</b>	<b>80,879,013</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 97,718,476</b>	<b>\$ 105,470,430</b>

The accompanying notes are an integral part of these financial statements.

**THE COMMUNITY FOUNDATION**

STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018</u>	<u>2017</u>
<b>REVENUE AND SUPPORT</b>				
<b>REVENUE</b>				
Unrealized (loss) gain on investments	\$ (943,723)	\$ (9,138,845)	\$ (10,082,568)	\$ 6,991,329
Realized gain on investments	157,053	1,587,150	1,744,203	4,468,413
Realized and unrealized (loss) gains on investments	(786,670)	(7,551,695)	(8,338,365)	11,459,742
Interest and dividend income, net of fees	191,641	1,798,693	1,990,334	1,667,270
Investment (loss) gain income, net (Note 5)	(595,029)	(5,753,002)	(6,348,031)	13,127,012
Less: investment gain loss income from agency funds (Note 9)		1,881,126	1,881,126	(3,401,409)
Investment (loss) gain income, net of fees and agency funds income	(595,029)	(3,871,876)	(4,466,905)	9,725,603
Management fees - agency funds	266,325		266,325	249,850
Prior years' grants returned	10,690	22,248	32,938	14,167
Special events - net of expenses of \$28,007		31,888	31,888	10,400
(Loss) on sale of fixed assets			-	(782)
Change in value of split-interest agreements		109,284	109,284	(164,237)
Total revenue	<u>(318,014)</u>	<u>(3,708,456)</u>	<u>(4,026,470)</u>	<u>9,835,001</u>
Net assets released from purpose restrictions	11,841,861	(11,841,861)	-	-
<b>SUPPORT</b>				
Contributions, bequests, and grants	60,283	12,959,004	13,019,287	10,292,802
Less: support from agency funds (Note 9)		(3,775,529)	(3,775,529)	(2,636,770)
Total support, net	<u>60,283</u>	<u>9,183,475</u>	<u>9,243,758</u>	<u>7,656,032</u>
<b>TOTAL REVENUE AND SUPPORT</b>	<u>11,584,130</u>	<u>(6,366,842)</u>	<u>5,217,288</u>	<u>17,491,033</u>
<b>EXPENSES</b>				
Program services:				
Grants awarded	13,518,726		13,518,726	8,812,076
Less: agency fund expenses and grants awarded	(2,819,583)		(2,819,583)	(1,484,796)
Grants awarded, net	10,699,143		10,699,143	7,327,280
Grants and program related expenses	421,952		421,952	343,787
Community leadership	219,916		219,916	248,504
Supporting services:				
Administrative	556,347		556,347	483,100
Development	643,087		643,087	627,337
<b>TOTAL EXPENSES</b>	<u>12,540,445</u>	<u>-</u>	<u>12,540,445</u>	<u>9,030,008</u>
<b>CHANGES IN NET ASSETS</b>	(956,315)	(6,366,842)	(7,323,157)	8,461,025
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>9,741,080</u>	<u>71,137,933</u>	<u>80,879,013</u>	<u>72,417,988</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 8,784,765</u>	<u>\$ 64,771,091</u>	<u>\$ 73,555,856</u>	<u>\$ 80,879,013</u>

The accompanying notes are an integral part of these financial statements.

**THE COMMUNITY FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	Grants and				Total Expenses	
	Related Program Expenses	Community Leadership	Administrative	Development	2018	2017
<b>GRANTS</b>						
Grants awarded, net	\$ 10,699,143	\$ -	\$ -	\$ -	\$ 10,699,143	\$ 7,327,280
Total grants	<u>10,699,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,699,143</u>	<u>7,327,280</u>
<b>OPERATING EXPENSES</b>						
Salaries	248,885	135,880	289,448	384,871	1,059,084	911,587
Employee benefits	34,704	18,947	40,361	53,667	147,679	117,347
Outside services	32,078	17,513	37,305	49,604	136,500	148,900
Occupancy	23,278	8,253	54,631	25,970	112,132	103,789
Marketing	19,028	10,389	22,129	29,425	80,971	75,580
Payroll taxes	18,929	10,335	22,015	29,273	80,552	74,339
Travel and seminars	11,506	6,281	13,380	17,792	48,959	43,658
Office expenses	6,207	3,385	7,211	9,588	26,391	21,545
Accounting			24,500		24,500	27,000
Dues and subscriptions	5,655	3,088	6,577	8,745	24,065	32,676
Legal	10,303		1,595	9,187	21,085	26,242
Depreciation			15,772		15,772	19,146
Telephone	3,623	1,978	4,213	5,603	15,417	14,827
Staff meetings	3,235	1,766	3,763	5,003	13,767	15,001
Printing	2,598	1,419	3,022	4,018	11,057	10,509
Insurance	1,923	682	4,514	2,146	9,265	9,038
Miscellaneous			5,911		5,911	42,030
Awards and recognition				4,677	4,677	5,181
Website				1,800	1,800	2,577
Donor life insurance				1,718	1,718	1,756
Total operating expenses	<u>421,952</u>	<u>219,916</u>	<u>556,347</u>	<u>643,087</u>	<u>1,841,302</u>	<u>1,702,728</u>
<b>TOTAL 2018 FUNCTIONAL EXPENSES</b>	<u>\$ 11,121,095</u>	<u>\$ 219,916</u>	<u>\$ 556,347</u>	<u>\$ 643,087</u>	<u>\$ 12,540,445</u>	
<b>TOTAL 2017 FUNCTIONAL EXPENSES</b>	<u>\$ 7,671,067</u>	<u>\$ 248,504</u>	<u>\$ 483,100</u>	<u>\$ 627,337</u>		<u>\$ 9,030,008</u>

The accompanying notes are an integral part of these financial statements.

# THE COMMUNITY FOUNDATION

## STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	2018	2017
<b>CASH FLOWS (TO) FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (7,323,157)	\$ 8,461,025
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Change in cash surrender value of life insurance	1,719	1,756
Depreciation expense	15,772	19,146
Loss on disposal of fixed assets	-	782
Realized loss (gains) on investments	943,723	(801,117)
Unrealized (gains) on investments	(157,053)	(509,044)
Change in value of split-interest agreements	(109,284)	164,237
(Increase) decrease in operating assets:		
Grants and contributions receivable	350,536	1,972,174
Other receivables	(11,417)	29,131
Prepaid expenses and deposits	(917)	(464)
Assets held in remainder trust	(3,023,862)	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(2,735)	59,729
Grants payable	(61,624)	410,304
Obligations under charitable gift annuities	881,730	-
Custodial funds	(50,081)	-
Agency funds	(1,191,504)	4,303,533
	<b>(9,738,154)</b>	<b>14,111,192</b>
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES:</b>		
Purchase of equipment	(12,910)	(23,614)
Proceeds from sale of investments	6,957,464	4,278,973
Purchase of investments	(4,079,667)	(6,202,171)
	<b>2,864,887</b>	<b>(1,946,812)</b>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES:</b>		
Restricted realized loss (gains) on investments	9,138,845	(6,190,212)
Restricted unrealized (gains) on investments	(1,587,150)	(3,959,369)
Interest and dividends, net, restricted for reinvestment	1,798,693	1,476,877
Principal payments on capital lease	(4,583)	(4,360)
	<b>9,345,805</b>	<b>(8,677,064)</b>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,472,538</b>	<b>3,487,316</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>15,791,590</b>	<b>12,304,274</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 18,264,128</b>	<b>\$ 15,791,590</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Operating activities reflects interest paid:	<b>\$ 566</b>	<b>\$ 789</b>

The accompanying notes are an integral part of these financial statements.

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 1. Organization

The Community Foundation (“the Foundation”) is a California nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and a non-private foundation under Section 509(a)(1) of the Internal Revenue Code 1986. The Foundation serves as a leader, catalyst, and resource for philanthropy and seeks to improve the lives of individuals in Riverside and San Bernardino Counties. The Foundation accomplishes this by developing partnerships with philanthropic individuals, community leaders, and the non-profit sector to ensure that together they can build permanent endowments, make prudent grants for charitable causes, be a catalyst to solve community concerns and strengthen non-profit organizations.

Established in 1941 as a community trust, it was known as the Riverside Foundation until 1983 when the name was changed to the Riverside Community Foundation. In 1997, the name became The Community Foundation of Riverside County. And in 2000 it became The Community Foundation, with the tag line, *Serving Riverside and San Bernardino Counties*. The Foundation is an independent, publicly supported philanthropic organization, founded for the purpose of improving the quality of life in the Riverside and San Bernardino Counties through grants to tax-exempt organizations and through educational scholarships.

### 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

#### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**With Donor Restrictions.** Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### **Grants and Contributions Receivable**

All grants and contributions receivable at December 31, 2018 are expected to be collected in less than one year with the exception of the following: Evans Charitable Remainder Trust, for which the Foundation is the beneficiary following the lifetimes of one income beneficiary plus two years of distribution to a successor income beneficiary; and The William C. Hunter Charitable Lead Trust, for which the Foundation will receive annual distributions through 2026. No discount has been recorded on the receivable greater than one year, as the amount is not deemed material to the financial statements. See grants and contributions receivable details in Note 4.

#### **Concentration of Credit Risks**

The Foundation places its cash and cash equivalents in bank deposit accounts at high-credit, quality financial institutions. At times, such accounts may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Foundation has not incurred losses related to these accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investment securities, in general are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position. The Board routinely reviews the performance of its investments.

#### **Investments**

Investments in money market funds and marketable securities are reported at their fair market values based upon published quotations. Investments for which the fair market values are not readily determinable are recorded at cost or, if received as a contribution, at their fair market values as determined at the time of the gift. Securities are generally held in custodial investment accounts administered by financial institutions. Cash and cash equivalents held at securities institutions and not used for operations are treated as investments.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Interest and dividend income is recorded when earned. Gains or losses and interest and dividend income are reflected in the Statement of Activities as investment (loss) gain income, net (see Note 5).

#### **Fair Value Measurements**

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

The Foundation is required to measure contribution receivable, certain investments, and charitable gift annuities at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

#### Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five hundred dollars and the useful life is greater than one year.

Since its inception, the Foundation has received donated equipment and furniture the value of which did not meet its criteria for capitalization. As such, these items were expensed when donated.

#### Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended December 31, 2018, the Foundation did not receive donated materials and/or services which met the criteria for recognition.

#### Income Taxes

The Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### Functional Allocation of Expenses

Costs of providing the Foundation's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Foundation uses payroll hours to allocate indirect costs.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could vary from those estimates.

#### Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. The Foundation's financial statements for year-ended December 31, 2018 are presented in accordance with ASU 2016-14.

#### Comparative Totals

The financial statements included certain prior-year summarized comparative information in total but not by net assets 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 Foundation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### Reclassification

Certain accounts from the December 31, 2017 financial statements have been reclassified for comparative purposes to conform to December 31, 2018 presentation.

#### Subsequent Events

Management has evaluated subsequent events through May 13, 2019, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

### 3. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following:

Cash and cash equivalents	\$18,264,128
Other receivable and other assets	149,973
Short term investments	<u>9,132,552</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$27,546,653</u>

The assets above include \$19,020,216 in donor advised funds as of December 31, 2018. The Foundation generally uses these assets for grantmaking based on donor recommendations.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditure. The Foundation's board-designated endowments are subject to an annual spending rate. For the year ended December 31, 2018, this rate is 4% and \$386,782 of the appropriation from the board-designated endowments will be available during the calendar year ending December 31, 2019. Although the Foundation does not intend to spend from the board-designated endowments (other than amounts appropriated per the board's annual spending rate approval), these amounts could be made available if necessary.

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

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 4. Grants and Contribution Receivable

Grants and contributions receivable at December 31, 2018 and 2017 consist of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Evans Charitable Remainder Trust (CRT)	\$ 603,746	\$ 564,253
William C. Hunter Charitable Lead Trust (CLT)	364,335	464,335
The James Irvine Foundation	275,000	-
County of San Bernardino	75,000	75,000
College Futures Foundation	60,000	459,750
Other	30,668	42,699
San Bernardino City Unified School District	-	128,148
Making Hope Happen Foundation	-	25,000
Estate of Robert A. Dailey-Dechomai	-	100
	<u>\$1,408,749</u>	<u>\$1,759,285</u>

### 5. Investments

Investments at December 31, 2018 and 2017 consist of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Mutual funds	\$54,365,227	\$80,565,172
Bonds	17,982,713	-
Money market funds	1,300,560	5,987,097
Cash value of life insurance	192,523	194,242
Annuity contract	51,641	53,443
Real estate partnership	1	1
	<u>\$73,892,665</u>	<u>\$86,799,955</u>

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 5. Investments, continued

#### Investment income, net

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b><u>December 31, 2018</u></b>			
Net realized and unrealized gain	\$(786,670)	\$(7,551,695)	<b>\$(8,338,365)</b>
Interest and dividends	205,431	1,952,002	<b>2,157,433</b>
Less: investment fees and charges	<u>(13,790)</u>	<u>(153,309)</u>	<u>(167,099)</u>
Net investment income	<u>\$ 595,029</u>	<u>\$ 5,753,002</u>	<u><b>\$ 6,348,031</b></u>
 <u>December 31, 2017</u>			
Net realized and unrealized gain	\$1,310,161	\$10,149,581	\$11,459,742
Interest and dividends	205,898	1,632,039	1,837,937
Less: investment fees and charges	<u>(15,505)</u>	<u>(155,162)</u>	<u>(170,667)</u>
Net investment income	<u>\$1,500,554</u>	<u>\$11,626,458</u>	<u><b>\$13,127,012</b></u>

Interest and dividend income is accrued as the income is earned. Interest and dividend income is shown on the Statement of Activities net of related investment fees of \$167,099 and \$170,667 for the years ended December 31, 2018 and 2017, respectively.

### 6. Split-interest Agreements

Split-interest agreements of \$3,967,016 and \$943,154 at December 31, 2018 and 2017, respectively, consist of charitable gift annuity agreements (“CGAs”). Under the terms of CGAs, the Foundation receives assets from the grantors and in return agrees to pay annual distributions to the grantors during their life or joint lives, if applicable, and then to the survivor for the remainder of his/her life. The Foundation records the assets received at fair value on the date of receipt and records a liability equal to the estimated present value of the future required distributions to the grantors. For CGAs with donor-directed beneficiaries, the difference between the fair value of the assets and the liabilities is included in the Statement of Activities as a donor restricted contribution during the year of receipt. The Foundation is to distribute the residual under these agreements to donor designated charitable causes. Adjustments to the liability to reflect the revaluation of the present value of the estimated future payments to the grantors, amortization of the discount, and revaluation of the assets are recognized as a change in the value of the CGAs in donor restricted net assets class.

The Foundation also has a beneficial interest in two charitable remainder trusts of which the Foundation is the trustee. The beneficial interest is based on underlying investments. Those investments in marketable securities with readily determinable fair values and all debt instruments are valued at their current fair values. Liabilities to the beneficiaries with lead interests are based on the present value of the estimated future payments to be made less estimated return on trust assets. Income and gains and losses on trust assets and distributions to the other beneficiaries are reflected in the statement of financial position. Adjustments to the liability to reflect the revaluation of the present value of the estimated future payments to the other beneficiaries, amortization of the discount, and revaluation of the investments held by the trust are recognized as a change in the value of the charitable remainder trust agreement in the with donor restrictions net assets class.

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 7. Furniture and Equipment

Furniture and equipment at December 31, 2018 and 2017 consist of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Furniture, equipment, and software	\$ 254,025	\$ 241,116
Accumulated depreciation	<u>(215,824)</u>	<u>(200,053)</u>
	<u>\$ 38,201</u>	<u>\$ 41,063</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$15,772 and \$19,146, respectively.

### 8. Capital Lease Obligation

The Foundation leased a copier under a non-cancellable agreement expiring in June 2020 for a total cost of \$22,465. Depreciation for the copier amounted to \$4,493 for 2018 and \$4,493 for 2017 and is included in depreciation expense.

Future minimum payments under the lease are as follows:

<u>Year ending December 31,</u>	
2019	\$5,149
2020	<u>3,004</u>
Less: portion representing interest	<u>(362)</u>
Present value of net minimum lease payments	<u>\$7,791</u>

### 9. Agency Funds

The Foundation receives and distributes assets under certain agency and intermediary arrangements. The Foundation accepts these contributions from donors and agrees to transfer those assets, the return on investment of those assets, or both, to an entity that is specified by the donors. When a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the Foundation accounts for the transfer of such assets as a liability. The liability for such funds has been established at the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organizations. The agency funds activity at December 31, 2018 and 2017 was as follows:

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# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### 9. Agency Funds, continued

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Beginning balances	\$23,335,176	\$19,031,643
New agency funds	3,775,529	2,636,770
Realized gain	473,794	1,203,937
Unrealized (loss) gain	(2,914,118)	1,777,962
Interest and dividends, net of bank fees	559,199	419,510
Grants awarded and expenses	(2,819,583)	(1,484,796)
Management fees	<u>(266,325)</u>	<u>(249,850)</u>
Ending balances	<u>\$22,143,672</u>	<u>\$23,335,176</u>

### 10. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Blend	\$53,988,740	\$ -	\$ -	\$53,988,740
Bonds	17,982,713			17,982,713
Growth	258,242			258,242
Stocks	118,245			118,245
Real estate	<u>1</u>			<u>1</u>
	72,347,941	-	-	72,347,941
Money market funds	1,300,560			1,300,560
Other:				
Cash value of life insurance			192,523	192,523
Annuity contract	<u>51,641</u>			<u>51,641</u>
	<u>73,700,142</u>	<u>-</u>	<u>192,523</u>	<u>73,892,665</u>
Assets held in remainder trusts	3,967,016			3,967,016
Contribution receivable, remainder trust			603,746	603,746
Contribution receivable, Estate of Robert A. Dailey-Dechomai			<u>100</u>	<u>100</u>
	<u>\$77,667,158</u>	<u>\$ -</u>	<u>\$796,369</u>	<u>\$78,463,527</u>

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### 10. Fair Value Measurements, continued

The table below presents the balances of assets measured at fair value at December 31, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Blend	\$23,890,421	\$ -	\$ -	\$23,890,421
Bonds	18,088,801			18,088,801
Growth	13,630,700			13,630,700
Allocation	10,896,280			10,896,280
Value	4,514,376			4,514,376
Emerging markets	4,022,185			4,022,185
Real estate	3,052,327			3,052,327
Hedge fund		<u>2,470,083</u>		<u>2,470,083</u>
	<u>78,095,090</u>	<u>2,470,083</u>	-	<u>80,565,173</u>
Money market funds	5,987,097			5,987,097
Other:				
Cash value				
of life insurance			194,242	194,242
Annuity contract	<u>53,443</u>			<u>53,443</u>
	<u>84,135,630</u>	<u>2,470,083</u>	<u>194,242</u>	<u>86,799,955</u>
Assets held in				
remainder trusts	943,154			943,154
Contribution receivable,				
remainder trust			564,253	564,253
Contribution receivable,				
Estate of Robert				
A. Dailey-Dechomai			<u>100</u>	<u>100</u>
	<u>\$85,078,784</u>	<u>\$2,470,083</u>	<u>\$758,595</u>	<u>\$88,307,462</u>

The fair value of investments has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs), and quoted prices in active or inactive markets for the same or similar assets (Level 2 inputs).

The fair value of assets held in remainder trusts is measured on a recurring basis by calculating the change in value of the client's beneficial interest in the trust, which has underlying assets invested in the market (Level 1 inputs).

The fair value of the contribution receivables were measured based on information received from the trusts' attorneys and the Foundation's estimate (Level 3 inputs).

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### 10. Fair Value Measurements, continued

The following table provides further details of the Level 3 fair value measurements as of December 31, 2018 and 2017:

	<u>Cash Value of Life Insurance</u>	<u>Contribution Receivable</u>	<u>Total</u>
<b><u>December 31, 2018</u></b>			
Fair value at January 1, 2018	\$194,242	\$564,353	<b>\$758,595</b>
Addition			-
Change in value in remainder trust		39,393	<b>39,393</b>
Cash received			-
Total loss	<u>(1,719)</u>		<u>(1,719)</u>
Fair value at December 31, 2018	<u>\$192,523</u>	<u>\$603,746</u>	<u><b>\$796,269</b></u>
<b><u>December 31, 2017</u></b>			
Fair value at January 1, 2017	\$195,998	\$1,057,562	\$1,253,560
Addition			-
Change in value in remainder trust		(185,747)	(185,747)
Cash received		(307,462)	(307,462)
Total loss	<u>(1,756)</u>		<u>(1,756)</u>
Fair value at December 31, 2017	<u>\$194,242</u>	<u>\$ 564,353</u>	<u><b>\$ 758,595</b></u>

The gain is reported in contributions in the Statement of Activities.

### 11. Net Assets Without Restrictions and With Restrictions

With restrictions and without restrictions assets consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Net assets without restrictions	<b>\$1,653,197</b>	\$1,943,293
Without restrictions - Board designated funds:		
Community impact funds	<b>2,658,454</b>	2,958,104
Operating reserve	<b>833,160</b>	861,832
Current operations	<b>144,451</b>	143,398
Peggy Fouke Wortz funds	<u><b>3,495,503</b></u>	<u>3,834,453</u>
Total net assets without restrictions	<u><b>\$8,784,765</b></u>	<u>\$9,741,080</u>
Net assets with restrictions		
Donor designated to meet community needs	<b>\$61,552,606</b>	\$67,578,417
Gift annuities and trusts	<b>1,751,345</b>	1,007,621
Specific grant programs	<u><b>1,467,140</b></u>	<u>2,551,895</u>
Total net assets with restrictions	<u><b>\$64,771,091</b></u>	<u>71,137,933</u>
	<u><b>\$73,555,856</b></u>	<u>\$80,879,013</u>

continued

# THE COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 11. Net Assets Without Restrictions and With Restrictions, continued

Net assets released from purpose restrictions by incurring expenses satisfying the purpose as specified by donors for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Grants made to meet community needs	\$10,102,084	\$7,093,766
College Futures Foundation	1,551,722	994,914
County of San Bernardino contracts	99,106	101,548
Youth Grantmakers Committee	66,451	58,699
James Irvine Foundation Grants	22,498	-
Bank of America Environmental Education Grant	<u>-</u>	<u>784</u>
Total net assets released	<u>\$11,841,861</u>	<u>\$8,249,711</u>

### 12. Retirement Plan

The Foundation has a defined contribution 401(k) profit-sharing plan covering substantially all employees with at least one-quarter year of service who have attained age 18. The plan includes non-elective safe harbor 3% contribution and a 1% of profit sharing for all participants. The contribution is made each pay period. At December 31, 2018 and 2017, the Foundation's expense for contributions to the plan totaled \$34,693 and \$35,506, respectively.

### 13. Commitments and Contingencies

#### Obligation Under an Operating Lease

The Foundation leases its administrative office space under a non-cancelable operating lease expiring in September, 2022. Future minimum payments, by year and in the aggregate under this lease, consist of the following:

<u>Year ending December 31,</u>	
2019	\$ 92,619
2020	93,173
2021	95,805
2022	<u>65,062</u>
	<u>\$346,659</u>

Rent expense under the operating lease for the years ended December 31, 2018 and 2017 was \$112,132 and \$103,788, respectively.