



INLAND EMPIRE COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Inland Empire Community Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Inland Empire Community Foundation, a nonprofit organization, which comprise the Statement of Financial Position as of December 31, 2019, 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 Inland Empire Community Foundation as of December 31, 2019, 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited Inland Empire Community Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California

June 8, 2020

INLAND EMPIRE COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2019

With comparative totals at December 31, 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 21,444,909	\$ 18,264,128
Grants and contributions receivable (Note 4)	1,608,305	1,408,749
Other receivables	42,608	97,334
Prepaid expenses and deposits	35,451	50,383
Investments (Note 5)	84,078,267	73,892,665
Assets held in remainder trusts (Note 6)	4,030,557	3,967,016
Furniture and equipment (Note 7)	71,041	38,201
	\$ 111,311,138	\$ 97,718,476
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 166,293	\$ 184,494
Grants payable	2,047,112	499,861
Capital lease obligation (Note 8)	43,796	7,791
Obligation under charitable gift annuities	1,293,850	1,100,967
Custodial funds	106,223	225,835
Agency funds (Note 9)	24,594,947	22,143,672
	28,252,221	24,162,620
NET ASSETS		
Without donor restrictions (Note 11)	9,767,291	8,784,765
With donor restrictions (Note 11)	73,291,626	64,771,091
	83,058,917	73,555,856
	\$ 111,311,138	\$ 97,718,476

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

INLAND EMPIRE COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
REVENUE AND SUPPORT				
REVENUE				
Unrealized gain (loss) on investments	\$ 946,960	\$ 8,345,697	\$ 9,292,657	\$ (10,082,568)
Realized gain on investments	153,918	1,516,544	1,670,462	1,744,203
Realized and unrealized gain (loss) on investments	1,100,878	9,862,241	10,963,119	(8,338,365)
Interest and dividend income, net of fees	233,553	1,988,576	2,222,129	1,990,334
Investment gain (loss) income, net (Note 5)	1,334,431	11,850,817	13,185,248	(6,348,031)
Less: investment (gain) loss income from agency funds (Note 9)		(3,785,437)	(3,785,437)	1,881,126
Investment gain (loss) income, net of fees and agency funds income	1,334,431	8,065,380	9,399,811	(4,466,905)
Management fees - agency funds	269,563		269,563	266,325
Prior years' grants returned		187,912	187,912	32,938
Special events - net of expenses of \$36,617		35,218	35,218	31,888
(Loss) on sale of fixed assets	(5,201)		(5,201)	-
Change in value of split-interest agreements		127,455	127,455	109,284
Total revenue	1,598,793	8,415,965	10,014,758	(4,026,470)
Net assets released from restrictions	14,703,477	(14,703,477)	-	-
 SUPPORT				
Contributions, bequests, and grants	43,844	16,801,908	16,845,752	13,019,287
Less: support from agency funds (Note 9)		(1,993,861)	(1,993,861)	(3,775,529)
Total support, net	43,844	14,808,047	14,851,891	9,243,758
 TOTAL REVENUE AND SUPPORT				
	16,346,114	8,520,535	24,866,649	5,217,288
 EXPENSES				
Program services:				
Grants awarded	16,094,743		16,094,743	13,518,726
Less: agency fund expenses and grants awarded	(3,058,459)		(3,058,459)	(2,819,583)
Grants awarded, net	13,036,284		13,036,284	10,699,143
Grants and program related expenses	470,215		470,215	421,952
Community leadership	579,581		579,581	219,916
Supporting services:				
Administrative	561,281		561,281	556,347
Development	716,227		716,227	643,087
Total expenses	15,363,588	-	15,363,588	12,540,445
 CHANGE IN NET ASSETS				
	982,526	8,520,535	9,503,061	(7,323,157)
 NET ASSETS, BEGINNING OF YEAR				
	8,784,765	64,771,091	73,555,856	80,879,013
 NET ASSETS, END OF YEAR				
	\$ 9,767,291	\$ 73,291,626	\$ 83,058,917	\$ 73,555,856

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

INLAND EMPIRE COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	Grants and				Total Expenses	
	Related Program Expenses	Community Leadership	Administrative	Development	2019	2018
GRANTS						
Grants awarded, net	\$ 13,036,284	\$ -	\$ -	\$ -	\$ 13,036,284	\$ 10,699,143
Total grants	<u>13,036,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,036,284</u>	<u>10,699,143</u>
OPERATING EXPENSES						
Salaries	285,318	228,328	304,880	388,918	1,207,444	1,059,084
Outside services	12,349	210,744	13,196	16,834	253,123	136,500
Marketing	38,131	30,514		92,720	161,365	80,971
Employee benefits	34,766	27,822	37,150	47,390	147,128	147,679
Occupancy	19,471	13,975	47,289	39,015	119,750	112,132
Payroll taxes	21,852	17,488	23,351	29,787	92,478	80,552
Office expenses	15,425	16,505	22,039	28,114	82,083	26,391
Travel and seminars	17,156	13,730	18,333	23,386	72,605	48,959
Printing	9,794	7,838	10,465	13,350	41,447	11,057
Dues and subscriptions	6,866	5,495	7,337	9,359	29,057	24,500
Accounting			28,500		28,500	24,065
Telephone	4,451	3,562	4,756	6,067	18,836	15,417
Depreciation			18,500		18,500	15,772
Staff meetings	3,054	2,444	3,264	4,163	12,925	13,767
Legal			7,590	2,771	10,361	21,085
Insurance	1,582	1,136	3,844	3,171	9,733	9,265
Miscellaneous			8,537		8,537	5,911
Awards and recognition				7,163	7,163	4,677
Board development			2,250		2,250	-
Website				2,157	2,157	1,800
Donor life insurance				1,862	1,862	1,718
Total operating expenses	<u>470,215</u>	<u>579,581</u>	<u>561,281</u>	<u>716,227</u>	<u>2,327,304</u>	<u>1,841,302</u>
TOTAL 2019 FUNCTIONAL EXPENSES	<u>\$ 13,506,499</u>	<u>\$ 579,581</u>	<u>\$ 561,281</u>	<u>\$ 716,227</u>	<u>\$ 15,363,588</u>	
TOTAL 2018 FUNCTIONAL EXPENSES	<u>\$ 11,121,095</u>	<u>\$ 219,916</u>	<u>\$ 556,347</u>	<u>\$ 643,087</u>		<u>\$ 12,540,445</u>

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

INLAND EMPIRE COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	2019	2018
CASH FLOWS (TO) FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 9,503,061	\$ (7,323,157)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Change in cash surrender value of life insurance	1,862	1,719
Depreciation expense	18,500	15,772
Loss on disposal of fixed assets	5,201	-
Realized (gain) loss on investments	(153,918)	943,723
Unrealized (gain) on investments	(946,960)	(157,053)
Change in value of split-interest agreements	(127,455)	(109,284)
(Increase) decrease in operating assets:		
Grants and contributions receivable	(199,556)	350,536
Other receivables	54,726	(11,417)
Prepaid expenses and deposits	14,932	(917)
Assets held in remainder trust	(63,541)	(3,023,862)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(18,201)	(2,735)
Grants payable	1,547,251	(61,624)
Obligations under charitable gift annuities	192,883	881,730
Custodial funds	(119,612)	(50,081)
Agency funds	2,451,275	(1,191,504)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	12,160,448	(9,738,154)
CASH FLOWS FROM (TO) INVESTING ACTIVITIES:		
Purchase of equipment	(56,541)	(12,910)
Proceeds from sale of investments	3,313,552	6,957,464
Purchase of investments	(4,399,018)	(4,079,667)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(1,142,007)	2,864,887
CASH FLOWS (TO) FROM FINANCING ACTIVITIES:		
Restricted realized (gain) loss on investments	(1,516,544)	9,138,845
Restricted unrealized (gain) on investments	(8,345,697)	(1,587,150)
Interest and dividends, net, restricted for reinvestment	1,988,576	1,798,693
Principal payments on capital lease	36,005	(4,583)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(7,837,660)	9,345,805
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,180,781	2,472,538
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,264,128	15,791,590
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 21,444,909	\$ 18,264,128
SUPPLEMENTAL DISCLOSURES:		
Operating activities reflects interest paid:	\$ 1,023	\$ 566

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

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization

Inland Empire 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 from (1941-1983); Riverside Community Foundation from (1983-1997); The Community Foundation of Riverside County from (1997-2000); The Community Foundation, with the tag line, *Serving Riverside and San Bernardino Counties* from (2000-2019). 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.

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Grants and Contributions Receivable

All grants and contributions receivable at December 31, 2019 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:

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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, 2019, 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.

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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.

Revenue and Revenue Recognition

The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Consequently, at December 31, 2019, all contributions have been recognized in the accompanying consolidated statement of activities because either there were no conditions or the condition(s) on which they depend have been met.

A portion of the Foundation's revenue is derived from cost-reimbursable state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

State grant and contract revenue recognized at December 31, 2019 includes only those for which the performance requirements and/or the allowable qualifying expenses have been met. Therefore, no advance payment is recognized in the statement of financial position as a refundable advance.

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.

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncement

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. We have implemented Topic 606 and have adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on the net assets.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

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, 2018, from which the summarized information was derived.

Reclassification

Certain accounts from the December 31, 2018 financial statements have been reclassified for comparative purposes to conform to December 31, 2019 presentation.

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO 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	\$21,444,909
Other receivable and other assets	78,059
Short term investments	<u>2,029,590</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$23,552,558</u>

The assets above include \$19,020,216 in donor advised funds as of December 31, 2019. 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, 2019, 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.

4. Grants and Contribution Receivable

Grants and contributions receivable at December 31, 2019 and 2018 consist of the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Evans Charitable Remainder Trust (CRT)	\$ 685,603	\$ 603,746
William C. Hunter Charitable Lead Trust (CLT)	314,335	364,335
State of California (Listos)	266,759	-
State of California (Census)	218,323	-
Other	123,185	30,668
Estate of Robert A. Dailey-Dechomai	100	-
The James Irvine Foundation	-	275,000
County of San Bernardino	-	75,000
College Futures Foundation	-	60,000
	<u>\$1,608,305</u>	<u>\$1,408,749</u>

continued

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

5. Investments

Investments at December 31, 2019 and 2018 consist of the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Mutual funds	\$61,025,352	\$54,365,227
Bonds	21,023,248	17,982,713
Money market funds	1,839,005	1,300,560
Cash value of life insurance	190,661	192,523
Annuity contract	-	51,641
Real estate partnership	<u>1</u>	<u>1</u>
	<u>\$84,078,267</u>	<u>\$73,892,665</u>

Investment income, net

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
<u>December 31, 2019</u>	<u>Restrictions</u>	<u>Restrictions</u>	
Net realized and unrealized gain	\$1,100,878	\$ 9,862,241	\$10,963,119
Interest and dividends	246,557	2,126,470	2,373,027
Less: investment fees and charges	<u>(13,004)</u>	<u>(137,894)</u>	<u>(150,898)</u>
Net investment income	<u>\$1,334,431</u>	<u>\$11,850,817</u>	<u>\$13,185,248</u>
<u>December 31, 2018</u>			
Net realized and unrealized gain	\$(786,670)	\$(7,551,695)	\$(8,338,365)
Interest and dividends	205,431	1,952,002	2,157,433
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>\$ 6,348,031</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 \$150,898 and \$167,099 for the years ended December 31, 2019 and 2018, respectively.

6. Split-interest Agreements

Split-interest agreements of \$4,030,557 and \$3,967,016 at December 31, 2019 and 2018, 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.

continued

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

6. Split-interest Agreements, continued

The Foundation also has a beneficial interest in one 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.

7. Furniture and Equipment

Furniture and equipment at December 31, 2019 and 2018 consist of the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Furniture, equipment, and software	\$ 242,297	\$ 254,025
Accumulated depreciation	<u>(171,256)</u>	<u>(215,824)</u>
	<u>\$ 71,041</u>	<u>\$ 38,201</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$18,500 and \$15,772, 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. In August 2019, the Foundation leased a new copier under a non-cancellable agreement for a total cost of \$36,469. Depreciation for the copier amounted to \$5,660 for 2019 and \$4,493 for 2018 and is included in depreciation expense.

Future minimum payments under the lease are as follows:

<u>Year ending December 31,</u>	
2020	\$19,170
2021	8,359
2022	8,359
2023	8,359
2024	4,876
Less: portion representing interest	<u>(5,327)</u>
Present value of net minimum lease payments	<u>\$43,796</u>

continued

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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, 2019 and 2018 was as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balances	\$22,143,672	\$23,335,177
New agency funds	1,993,861	3,775,529
Realized gain	485,045	473,794
Unrealized gain (loss)	2,689,740	(2,914,119)
Interest and dividends, net of bank fees	<u>610,652</u>	<u>559,199</u>
Sub-total, investment gain (loss)	3,785,437	(1,881,126)
Grants awarded and expenses	(3,058,459)	(2,819,583)
Management fees	<u>(269,563)</u>	<u>(266,325)</u>
Ending balances	<u>\$24,594,947</u>	<u>\$22,143,672</u>

10. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2019 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Blend	\$23,148,571	\$ -	\$ -	\$23,148,571
Bonds	21,023,248			21,023,248
Growth	13,896,194			13,896,194
Allocation	9,303,488			9,303,488
Value	4,386,118			4,386,118
Emerging markets	3,729,877			3,729,877
Real estate	3,567,999			3,567,999
MLP	2,909,446			2,909,446
Core	43,694			43,694
Stocks	23,306			23,306
Loan	<u>16,659</u>			<u>16,659</u>
	82,048,600	-	-	82,048,600

continued

INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

10. Fair Value Measurements, continued

Money market funds	1,839,005			1,839,005
Other:				
Real estate partnership	1			1
Cash value of life insurance			<u>190,661</u>	<u>190,661</u>
	<u>83,887,606</u>	<u>-</u>	<u>190,661</u>	<u>84,078,267</u>
Assets held in remainder trusts	4,030,557			4,030,557
Contribution receivable, remainder trust			685,603	685,603
Contribution receivable, Estate of Robert A. Dailey-Dechomai			<u>100</u>	<u>100</u>
	<u>\$87,918,163</u>	<u>\$-</u>	<u>\$876,364</u>	<u>\$88,794,527</u>

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>

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INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

10. Fair Value Measurements, continued

The fair value of investments has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 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 cash value of life insurance and contribution receivables were measured based on information received from the trusts' attorneys and the Foundation's estimate (Level 3 inputs).

The following table provides further details of the Level 3 fair value measurements as of December 31, 2019 and 2018:

	Cash Value of Life Insurance	Contribution Receivable	Total
<u>December 31, 2019</u>			
Fair value at January 1, 2019	\$192,523	\$603,746	\$796,269
Addition			-
Change in value in remainder trust		81,857	81,857
Cash received			-
Total loss	<u>(1,862)</u>	<u> </u>	<u>(1,862)</u>
Fair value at December 31, 2019	<u>\$190,661</u>	<u>\$685,603</u>	<u>\$876,264</u>
<u>December 31, 2018</u>			
Fair value at January 1, 2018	\$194,242	\$564,353	\$758,595
Addition			-
Change in value in remainder trust		39,393	39,393
Cash received			
Total loss	<u>(1,719)</u>	<u> </u>	<u>(1,719)</u>
Fair value at December 31, 2018	<u>\$192,523</u>	<u>\$603,746</u>	<u>\$796,269</u>

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

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INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

11. Net Assets Without Donor Restrictions and With Donor Restrictions

Net assets without donor restrictions and with donor restrictions consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions	\$1,928,462	\$1,653,197
Without donor restrictions - Board designated funds:		
Community impact funds	2,994,318	2,658,454
Operating reserve	1,058,230	833,160
Current operations	148,293	144,451
Peggy Fouke Wortz funds	<u>3,637,988</u>	<u>3,495,503</u>
Total net assets without donor restrictions	<u>\$9,767,291</u>	<u>\$8,784,765</u>
Net assets with donor restrictions		
Donor designated to meet community needs	\$69,429,853	\$61,552,606
Gift annuities and trusts	1,821,927	1,751,345
Specific grant programs	<u>2,039,846</u>	<u>1,467,140</u>
Total net assets with donor restrictions	<u>73,291,626</u>	<u>64,771,091</u>
	<u>\$83,058,917</u>	<u>\$73,555,856</u>

Net assets released from purpose restrictions by incurring expenses satisfying the purpose as specified by donors for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Grants made to meet community needs	\$13,255,031	\$10,102,084
College Futures Foundation	865,745	1,551,722
James Irvine Foundation Grants	520,501	22,498
Youth Grantmakers Committee	61,345	66,451
County of San Bernardino contracts	<u>855</u>	<u>99,106</u>
Total net assets released	<u>\$14,703,477</u>	<u>\$11,841,861</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, 2019 and 2018, the Foundation's expense for contributions to the plan totaled \$42,019 and \$34,693, respectively.

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INLAND EMPIRE COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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>	
2020	\$ 99,128
2021	99,877
2022	<u>67,831</u>
	<u>\$266,836</u>

Rent expense under the operating lease for the years ended December 31, 2019 and 2018 was \$119,750 and \$112,132, respectively.

14. Subsequent Events

Management has evaluated subsequent events through June 8, 2020, the date which the financial statements were available for issue. Except for the events noted below, no other events or transactions have occurred during this period that appear to require recognition or disclosure.

Beginning around March 2020, the COVID-19 virus was declared a global pandemic as it spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries were severely impacted for months or beyond as governments and their citizens took significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty. However, subsequent to December 31, 2019, the investment and credit markets have experienced significant volatility. As a result, a substantial portion of The Foundation's investments have experienced significant declines. The decline in investments will impact the foundation's primary source of operating revenue.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), signed into law on March 27, 2020, may provide additional avenues of relief to small businesses and nonprofits through programs administered by the Small Business Administration ("SBA"). The CARES Act established a Paycheck Protection Program ("PPP"), whereby certain small businesses and nonprofits are eligible for a loan to fund payroll expenses, rent, and related costs. The loan may be forgiven if the funds are used for payroll and other qualified expenses. The Foundation has been approved for a PPP loan in the amount of \$242,000. There is no certainty that the loan will qualify for forgiveness, in whole or in part.