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CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Board of Directors
California Community Foundation and Affiliates:

We have audited the accompanying consolidated financial statements of the California Community Foundation and affiliates (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditors' 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 consolidated financial position of the California Community Foundation and affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matter

As discussed in note 2(q) to the consolidated financial statements beginning July 1, 2017, the Foundation adopted new accounting guidance Accounting Standards Update ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion was not modified with respect to these matters.

KPMG LLP

Los Angeles, California
October 25, 2019

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	27,709	22,682
Investments (note 4)		1,675,252	1,633,719
Program-related notes receivable, net (note 2)		23,312	21,923
Contributions receivable, net (note 5)		51,021	28,495
Prepaid expenses and other assets		138	338
Beneficial interest in trusts (notes 2 and 4)		30,647	31,121
Leasehold improvements and equipment, net (note 6)		527	621
Real estate (note 2)		6,657	6,657
Total assets	$	1,815,263	1,745,556
Liabilities and Net Assets			
Accounts payable and other liabilities (note 2)	$	12,335	11,259
Funds held for others (note 2)		125,507	121,589
Grants payable, net (note 7)		17,315	20,832
Notes payable and line of credit (note 8)		2,050	2,090
Liabilities under split-interest agreements		15,496	16,900
Total liabilities		172,703	172,670
Commitments and contingencies (notes 2 and 9)			
Net assets (notes 2 and 11):			
Net assets without donor restrictions		1,484,719	1,435,882
Net assets with donor restrictions		157,841	137,004
Total net assets		1,642,560	1,572,886
Total liabilities and net assets	$	1,815,263	1,745,556

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2019

(In thousands)

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Support and revenue:			
Support:			
Amounts raised	$ 201,603	54,165	255,768
Less amounts raised or received on behalf of others	(8,377)	—	(8,377)
Net contributions and bequests raised	193,226	54,165	247,391
Other revenue:			
Net investment return	77,239	2,156	79,395
Less net investment return allocated to funds held for others	(6,488)	—	(6,488)
Change in value of split-interest agreements	—	1,041	1,041
Net investment return and other revenue	70,751	3,197	73,948
Net assets released from restrictions	36,525	(36,525)	—
Total support and revenue and net assets released from restrictions	300,502	20,837	321,339
Expenses:			
Program services:			
Grants and philanthropic distributions	232,936	—	232,936
Less amounts distributed on behalf of others	(10,388)	—	(10,388)
Total grants and philanthropic distributions	222,548	—	222,548
Program services expense	21,205	—	21,205
Less program services expenses allocated to funds held for others	(559)	—	(559)
Total grants, philanthropic distributions, and program services	243,194	—	243,194
Support services:			
Management and general administrative	5,369	—	5,369
Development and fundraising	3,102	—	3,102
Total support services	8,471	—	8,471
Total expenses	251,665	—	251,665
Change in net assets	48,837	20,837	69,674
Net assets at beginning of year	1,435,882	137,004	1,572,886
Net assets at end of year	$ 1,484,719	157,841	1,642,560

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2018

(In thousands)

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Support and revenue:			
Support:			
Amounts raised	$ 265,976	27,764	293,740
Less amounts raised or received on behalf of others	(13,707)	—	(13,707)
Net contributions and bequests raised	252,269	27,764	280,033
Other revenue:			
Net investment return	85,757	4,477	90,234
Less net investment return allocated to funds held for others	(8,816)	—	(8,816)
Change in value of split-interest agreements	—	(2,646)	(2,646)
Net investment return and other revenue	76,941	1,831	78,772
Net assets released from restrictions	15,132	(15,132)	—
Total support and revenue and net assets released from restrictions	344,342	14,463	358,805
Expenses:			
Program services:			
Grants and philanthropic distributions	242,295	—	242,295
Less amounts distributed on behalf of others	(9,088)	—	(9,088)
Total grants and philanthropic distributions	233,207	—	233,207
Program services expense	15,620	—	15,620
Less program services expenses allocated to funds held for others	(530)	—	(530)
Total grants, philanthropic distributions, and program services	248,297	—	248,297
Support services:			
Management and general administrative	5,146	—	5,146
Development and fundraising	14,440	—	14,440
Total support services	19,586	—	19,586
Total expenses	267,883	—	267,883
Change in net assets	76,459	14,463	90,922
Net assets at beginning of year	1,359,423	122,541	1,481,964
Net assets at end of year	$ 1,435,882	137,004	1,572,886

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	69,674	90,922
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Realized and unrealized gains on investments, net		(47,800)	(59,149)
Loss on sales of real estate		3,891	96
Depreciation and amortization		223	256
Change in value of split-interest agreements		(1,041)	2,646
Change in allowance for credit losses		250	—
Contributions restricted for endowments		—	(3,636)
Contributed noncash assets		(1,515)	(57,475)
Grants of noncash assets		16,414	17,751
Changes in operating assets and liabilities:			
Contributions receivable		(22,526)	(14,133)
Prepaid expenses and other assets		200	6,931
Accounts payable and other liabilities		1,076	(10,212)
Funds held for others		3,918	12,649
Grants payable		(3,517)	(20,276)
Liabilities under split-interest agreements		(1,404)	388
Net cash provided by (used in) operating activities		17,843	(33,242)
Cash flows from investing activities:			
Proceeds from repayments of notes receivable		5,052	7,714
Issuance of notes receivable		(6,691)	(13,785)
Purchase of investments		(1,085,667)	(1,129,460)
Proceeds from sale and maturity of investments		1,074,659	1,168,199
Purchases of furniture and equipment		(129)	(41)
Net cash (used in) provided by investing activities		(12,776)	32,627
Cash flows from financing activity:			
Payments on notes payable		(40)	(3,500)
Net cash used in financing activity		(40)	(3,500)
Increase (decrease) in cash and cash equivalents		5,027	(4,115)
Cash and cash equivalents at beginning of year		22,682	26,797
Cash and cash equivalents at end of year	$	27,709	22,682
Supplemental information:			
Cash paid for interest	$	15	43
Noncash investing activities:			
Donated investments	$	1,515	57,475
Grants of noncash assets		(16,414)	(17,751)

See accompanying notes to consolidated financial statements.

(1) General Purpose and Activities

The California Community Foundation's (the Foundation) mission is to strengthen Los Angeles communities through effective philanthropy and civic engagement. The Foundation administers more than 1,700 individual funds, each established with an instrument of gift describing either the general or the specific purposes for which grants are to be made.

The consolidated financial statements of the Foundation include its following affiliates:

CCF Community Initiatives Fund	The Ernest Lieblich Foundation
CCF Real Estate Holdings	The Fairbrook Foundation
CCF General Real Estate Holding	The FEDCO Charitable Foundation
Community Foundation Land Corporation	The Pipkin Charitable Foundation
Community Foundation Land Trust	The SahanDaywi Foundation
Los Angeles Community Foundation	Thelma Pearl Howard Foundation
The Rose and David Dortort Foundation	

These affiliated organizations are separately incorporated charitable organizations that are administered by the Foundation. All significant intercompany balances and transactions have been eliminated within the consolidated financial statements. The Foundation and its affiliates are collectively referred to herein as the Foundation.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying consolidated financial statements are prepared using the accrual basis of accounting.

(b) Classification of Net Assets

The Foundation reports information regarding its financial position and activities in two classes of net assets — without donor restrictions and with donor restrictions — based upon the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions – All contributions other than endowments, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance provision gives the board of directors of the Foundation (the Board) the power to modify any restriction placed on gifts to the Foundation that is incapable of fulfillment or is no longer consistent with the charitable needs of the community. Accordingly, unless time restrictions have been imposed on contributions, net assets are generally classified as net assets without donor restrictions. The Foundation's governing documents provide that absent contrary directions given in the transferring instrument regarding expenditure of principal, all or part of the principal of any fund may be expended subject to certain conditions, including approval of the board and trustee holding each fund. Contributions with donor-imposed restrictions that are met during the same fiscal year as the contribution is made are included as support without restrictions that increases net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets with donor restrictions include net assets that are subject to donor-imposed restrictions that will be met by the passage of time or those maintained in perpetuity. The Foundation's net assets with donor restrictions due to the passage of time are contributions receivable, split-interest agreements, beneficial interests in trust, and earnings on endowment funds that have not yet been appropriated.

The investment income generated from assets held in perpetuity is restricted by law until appropriated by the Board in support of the Foundation's programs and operations. The Foundation's net assets with donor restrictions include contributions from and related activity of perpetual trusts trusteed by third parties and those endowment funds held by the Foundation, as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

(c) Cash and Cash Equivalents

Cash and cash equivalents are short term, highly liquid investments with maturities of three months or less at the time of purchase. They are valued using Level 1 inputs in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, as discussed in note 4.

(d) Investments

As further discussed in note 4, investments are reported at fair value and made according to the Investment Objectives and Policies adopted by the Foundation's Board. These guidelines provide for investment in equities, fixed income, limited partnership, and other securities with performance measured against appropriate indices. The Foundation contracts with outside investment managers to provide investment management and consulting services.

Investment purchases and sales are accounted for on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

(e) Real Estate

A consolidated affiliate of the Foundation acquires land, works with community partners to define the development parameters, obtains entitlements, and enters into long-term ground leases and other property use and sale arrangements with selected developers. Real estate held under operating leases to developers is carried at historical cost. Other real estate is carried at the lower of cost or fair value. Fair value is determined through valuation techniques using Level 2 inputs of the fair value hierarchy, as discussed in note 4.

The Foundation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the reported amount of an asset may not be recoverable. There were no events or changes in circumstances that occurred during the years ended June 30, 2019 and 2018 that would indicate impairment of the Foundation's long-lived assets.

(Continued)

(f) Contributions Receivable

Unconditional promises to give that are expected to be received in future periods are initially recognized at fair value using present value discount rates. The Foundation is also the charitable beneficiary of lead trusts for which the Foundation receives distributions. For the years ended June 30, 2019 and 2018, future distributions were recorded at present value using discount rates ranging from 2.5% to 4.0%. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. The discount is amortized to contribution revenue using the effective-interest method.

The Foundation is the residual beneficiary of living trusts that have become irrevocable due to the death of the trustors for fiscal years ended June 30, 2019 and 2018, the trusts' assets consist of cash, securities, property, and other miscellaneous assets. Under the terms of the trusts, the Foundation will receive a distribution of all trusts' assets remaining after the satisfaction of all bequests and expenses related to the administration of the trust. The Foundation applies a discount to the net value reported by the trustee to estimate the net realizable value of such expected distributions.

(g) Program-Related Notes Receivable

The Foundation invests a portion of its funds in projects that advance its philanthropic purposes by providing loans to certain not for profit organizations. At June 30, 2019 and 2018, these loans totaled $20,405,000 and $16,235,000, respectively, and are included in notes receivable in the accompanying consolidated statements of financial position. The loans have various maturity dates and interest rates ranging from 2.0% to 5.0%. Management reviewed the collectibility of these loans and established an allowance of $250,000 and $0 as of June 30, 2019 and 2018, respectively. At June 30, 2019, the Foundation had outstanding commitments totaling $7,045,000 under these programs.

A consolidated affiliate of the Foundation entered into an acquisition and predevelopment loan to finance the development of affordable housing. This loan had an interest rate of 5.0% and an outstanding balance of $950,000 at June 30, 2018. The loan was repaid in July 2018.

The Foundation also entered into loans with unrelated nonprofits generally for operating purposes, with remaining terms of the loans ranging from 4 to 45 months and interest rates ranging from 2.0% to 4.0%. The balance of these loans totaled $3,157,000 and $4,738,000 as of June 30, 2019 and 2018, respectively.

(h) Beneficial Interest in Trusts

The Foundation is named income beneficiary on various perpetual trusts, the corpus of which are not controlled by the management of the Foundation. Under these arrangements, the Foundation has the irrevocable right to receive all income earned on the underlying assets held in perpetuity. Accordingly, contribution revenue and the related assets are recognized at fair value in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to receive specified benefits. Subsequent changes in the value of the underlying assets have been recorded in the accompanying consolidated statements of activities as a component of net assets with donor restrictions realized and unrealized gains and losses on investments. Beneficial interest in perpetual trusts totaled $26,770,000 and $27,542,000 as of June 30, 2019 and 2018, respectively.

The Foundation is also named beneficiary of the remainder interests in various charitable remainder trusts. Contribution revenue and the related assets are recognized using the present value of the assets expected to be received. Subsequent changes to the fair value of the assets and liabilities are recognized as changes in the value of split-interest agreements in the accompanying consolidated statements of activities. Inputs used to determine the fair value estimates are considered Level 3 in the fair value hierarchy. Beneficial interest in remainder trusts totaled $3,877,000 and $3,579,000 as of June 30, 2019 and 2018, respectively.

(i) Leasehold Improvements and Equipment

Leasehold improvements and equipment are carried at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture	7 Years
Office equipment and other	5 Years
Computer equipment and software	3 Years
Leasehold improvements	10 Years (not to exceed lease term)

(j) Funds Held for Others

The Foundation receives and distributes assets under certain agency and intermediary arrangements. FASB ASC Section 958-605-04, *Transfers of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Holds Contributions for Others*, establishes standards for transactions in which a recipient organization accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor.

FASB ASC Section 958-605-04 requires that if a not-for-profit organization establishes a fund at a recipient organization with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the recipient organization must account for the transfer of such assets as a liability. The liability is reflected under funds held for others on the accompanying consolidated statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are presented separately in the accompanying consolidated statements of activities as a reduction of the Foundation's activities.

(k) Grants

Unconditional grants are recognized as an expense in the period in which they are approved by the Foundation's Board for discretionary grants. Grants are made from available principal and income in accordance with the designations of donors. Grants that are conditioned on future uncertain events are expensed when those conditions are substantially met. Grants payable beyond one year are initially recognized at fair value using discount rates ranging from 0.4% to 2.5% at June 30, 2019 and 2018. Inputs used to develop these fair value estimates are considered Level 3 in the fair value hierarchy.

(l) Split-Interest Agreements

The Foundation records assets held in charitable trusts, charitable gift annuities, and life estates as follows:

Charitable Trusts – The Foundation serves as trustee for various charitable remainder trusts. Under the terms of these agreements, the Foundation makes distributions to income beneficiaries for a given term or the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to the Foundation. The Foundation records the assets held in these trusts at their fair value based on current quoted market values, records a liability for the respective agreements at the estimated discounted value of the amounts due to the income beneficiaries, and records contribution revenue for the difference between the two values. The present value of payments to beneficiaries under these arrangements is calculated using present value rates, which were in existence at the date of gift. Gains or losses resulting from changes in actuarial present assumptions and accretions of the discount are recorded as changes in the value of split-interest agreements in the accompanying consolidated statements of activities. The discount rates used for the years ended June 30, 2019 and 2018 ranged from 2.0% to 6.2%.

Charitable Gift Annuities – Donors have contributed assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by, and the liability is a general obligation of, the Foundation. The Foundation records contribution revenue using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The present value of payments to beneficiaries under these arrangements is calculated using present value rates, which were in existence at the date of gift. The discount rates used for the years ended June 30, 2019 and 2018 ranged from 1.2% to 7.4%.

Life Estates – Donors have contributed ownership interests in real estate with the donors retaining the right to use the real estate for a specified time period or until the donor's death. Real property values are initially based on independent appraisals. Foundation management analyzes comparable sales and rent data sourced from independent third parties to estimate changes in real property fair values and use obligations and when necessary performs independent appraisals.

Investments held under these split-interest agreements totaled $27,975,000 and $29,875,000 at June 30, 2019 and 2018, respectively.

Inputs used to develop the fair value estimates of these liabilities under split-interest agreements are considered Level 3 in the fair value hierarchy.

(m) Other Liabilities

Other liabilities include refundable advances. When a donor transfers assets to the Foundation subject to a condition, a refundable advance is accounted for until the condition is substantially met. Refundable advances as of June 30, 2019 and 2018 were $3,915,000 and $2,313,000, respectively.

(n) Fair Value of Financial Instruments

Due to the short-term nature of cash equivalents, contribution and program receivables, prepaid expense, other assets, and accounts payable, fair value approximates reported values.

(o) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

(p) Income Taxes

The Foundation and its affiliates are California nonprofit corporations, generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and California income tax under Section 23701d of the California Revenue and Taxation Code. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

(q) New Accounting Pronouncements

Beginning on July 1, 2017, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This statement amends the requirements for financial statements and notes in ASC Topic 958, *Not-for-Profit Entities*. Provisions of this update include the reduction in the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; the requirement to present expenses by their functional and their natural classifications in one location in the financial statements; the requirement to present quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; the requirement to present expenses by functional and natural classification and the requirement to present investment returns net of expenses. Total net assets for the year ended June 30, 2018 were not restated due to the adoption of this standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires a lessee to recognize a lease asset and a lease liability for most of its operating leases. Prior to the adoption of the update, operating leases are not recognized by a lessee in its statements of financial position. In general, the new leased asset and liability will equal the present value of lease payments. The statement is effective for the fiscal year ending June 30, 2021. The Foundation is currently evaluating the effects the adoption of this statement will have on the consolidated financial statements.

In January 2018, the Board issued ASU No. 2018-08, *Contributions Received and Made*, to clarify and improve the scope and accounting guidance for contributions received and made. The update provides guidance on what is an exchange transaction and what is a contribution. If a transaction is determined to be a contribution, it has to determined if it is conditional or unconditional. A conditional transaction is an agreement, which includes both a ‘barrier’ that must be overcome and either a ‘right of asset return’ or ‘release of promise to give.’ Ambiguous donor stipulations are presumed to be conditional if not clearly unconditional. Barrier indicators are measurable performance requirements before entitlement to assets or stipulations related to the purpose of the agreement or limiting recipient discretion in conducting an activity. This statement is effective for the year ending June 30, 2020 for contributions made and the year ended June 30, 2021 for contributions received. The Foundation is currently evaluating the effect this statement will have on the consolidated financial statements.

(r) Reclassifications

Certain reclassifications have been made to the 2018 financial data to conform to the 2019 presentation.

(3) Liquidity and Availability of Financial Assets

Financial assets available within one year for general expenditures including operating expenses and grant disbursements at June 30, 2019 and 2018 (in thousands):

		June 30, 2019	June 30, 2018
Cash and cash equivalents	$	27,709	22,682
Investments		1,675,252	1,633,719
Less amounts not available for expenditure:			
Investments at net asset value		(215,654)	(188,663)
Donor-restricted endowments		(63,694)	(64,413)
Split interest agreement investments		(27,975)	(29,875)
		1,367,929	1,350,768
Total financial assets available for expenditure	$	1,395,638	1,373,450

As part of the Foundation's liquidity management, its structures it financial assets as its general expenditures, liabilities and other obligations come due. As described in note 11, the Foundation’s endowment funds include both a donor-restricted endowment and funds functioning as endowments. Income from the donor-restricted endowment is restricted for specific purposes and, therefore, if not available for general expenditures. The endowment have a spending rate of 5.5% and 5.7% and $33,411,000 and $33,224,000 has been designated for general expenditures for the year ended June 30, 2019 and 2018. The Foundation does not intend to spend from its funds functioning as endowments other than amounts appropriated for general expenditures as part of its annual budget approval and appropriate process. However, amounts from its funds functioning as endowments could be made available through board action, if necessary. Accordingly, the funds functioning as endowments has been reported as a financial asset available for general use. Additionally, as described in note 8, the Foundation has a $25,000,000 line of credit and a $25,000,000 uncommitted demand note, which are available to provide additional liquidity, as needed.

(Continued)

(4) Fair Value Measurements

In accordance with FASB ASC Topic 820, *Fair Value Measurement*, fair value is defined as the price that the Foundation would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset. FASB ASC Topic 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed as follows:

- Level 1 – Quoted prices in active markets for identical assets
- Level 2 – Other significant observable inputs (including quoted prices for similar assets, interest rates, prepayment speeds, and credit risk)
- Level 3 – Significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of assets).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given asset or liability is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price. These securities are categorized as Level 1 securities. Fair value of some fixed-income securities may be estimated by independent pricing services using matrix systems that consider factors, such as security prices, yields, maturities, ratings, and are categorized as Level 2 securities. Other fixed-income securities, fair value is estimated by trades available on similar securities and are categorized as Level 2.

Investments for which observable market prices in active markets do not exist are reported at fair value, as determined in good faith by the Foundation's management. The valuations of limited partnership investments include assumptions and methods that were prepared by the general partners of the limited partnerships and were reviewed by the Foundation's management. Real property values are initially based on independent appraisals. Additionally, on an annual basis, Foundation's management analyzes comparable sales data sourced from independent third parties to estimate changes in real property fair values and, as necessary, the Foundation will obtain updated independent appraisals.

Investments consisting of closely held common and preferred stock are recorded at fair value based on valuation techniques, such as the sales comparison approach. Unobservable inputs include market comparable rates.

Limited partnerships holding publicly traded securities, limited partnerships holding real estate, and private equity holdings are recorded at estimated fair value based on the net asset value (NAV) of the Foundation's ownership interest in the partners' capital, which includes assumptions and methods that were prepared by the general partner of the limited partnerships and were reviewed by the Foundation's management. The Foundation believes that the NAV amounts reported for these investments are a practical expedient to estimate fair value at June 30, 2019 and 2018.

Other limited partnership and limited liability corporation investments are recorded at fair value based on valuation techniques, such as the sales comparison approach and income approach. Unobservable inputs include market comparable rates and capitalization and occupancy rates.

Beneficial interests in charitable trusts held by others are reported at the net present value of the estimated future amount to be received on such assets. The present value is based on the IAR 2012 Mortality Table published by the Society of Actuaries and approximates fair value.

Liabilities under split-interest agreements are reported at the present value of estimated amounts due to income beneficiaries of the agreements based on the IAR 2012 Mortality Table published by the Society of Actuaries. Present value approximates fair value.

The Foundation uses net asset value (NAV) to determine fair value of those underlying investments that (a) do not have a readily determinable fair value and (b) either have attributes of an investment company or prepare its financial statements consistent with the measurement principles of an investment company. The Foundation has $216,654,000 and $188,663,000 of investments that are reported at NAV at June 30, 2019 and 2018, respectively. For these investments, the Foundation has concluded that the NAV reported by the underlying fund is a practical expedient to estimating fair value. The amounts reported at NAV at June 30, 2019 are redeemable with the fund at NAV under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is, therefore, reasonably possible that if the Foundation were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.

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 consolidated statements of financial position.

(Continued)

The fair value of each asset and liability in the tables below was measured using FASB ASC 820 input guidance and valuation techniques. The following tables set forth estimated fair values of assets and liabilities measured and recorded on a recurring basis at June 30, 2019 and 2018 (in thousands):

Assets	2019 Total	Investments measured at NAV	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 27,709	—	27,709	—	—
Investments:					
Cash and cash equivalents	$ 121,288	—	121,288	—	—
Common and preferred stock (directly held, publicly traded mutual fund(s), exchange-traded fund(s), and common trust fund(s))	909,241	—	468,305	435,763	5,173
Fixed income (directly held, publicly traded mutual fund(s), and common trust fund(s)):					
U.S. Treasury and agency	234,059	—	226,755	7,304	—
Global bonds (corporate, foreign, and high yield)	127,446	—	123,184	4,262	—
Other (floating rate notes, mortgage back securities and bank loans)	50,379	97	18,651	31,631	—
Limited partnerships (other than real estate and private equity; primarily publicly traded securities):					
Distressed/credit	22,817	22,817	—	—	—
Diversified arbitrage and multistrategy	17,443	17,443	—	—	—
Equity long/short	91,380	91,380	—	—	—
Limited partnerships (real estate, private equity, and other)	101,199	84,917	—	7,241	9,041
Total investments	$ 1,675,252	216,654	958,183	486,201	14,214
Beneficial interests in trusts	$ 30,647	—	—	—	30,647

Assets		2018 Total	Investments measured at NAV	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$	22,682	—	22,682	—	—
Investments:						
Cash and cash equivalents	$	124,440	—	124,440	—	—
Common and preferred stock (directly held, publicly traded mutual fund(s), exchange-traded fund(s), and common trust fund(s))		939,189	—	516,776	371,367	51,046
Fixed income (directly held, publicly traded mutual fund(s), and common trust fund(s)):						
U.S. Treasury and agency		170,755	—	160,778	9,977	—
Global bonds (corporate, foreign, and high yield)		145,861	—	141,507	4,354	—
Other (floating rate notes, MBS, and bank loans)		41,709	98	8,587	29,431	3,593
Limited partnerships (other than real estate and private equity; primarily publicly traded securities):						
Distressed/credit		5,429	5,429	—	—	—
Diversified arbitrage and multistrategy		17,231	17,231	—	—	—
Equity long/short		81,076	81,076	—	—	—
Event arbitrage		22,140	22,140	—	—	—
Global macro		29,274	29,274	—	—	—
Opportunistic and other		—	—	—	—	—
Limited partnerships (real estate, private equity, and other)		56,615	33,415	—	17,315	5,885
Total investments	$	1,633,719	188,663	952,088	432,444	60,524
Beneficial interests in trusts	$	31,121	—	—	—	31,121

For the years ended June 30, 2019 and 2018, the change in Level 3 assets and liabilities measured at fair value on a recurring basis is as follows (in thousands):

		Common stock and preferred stock	Other limited partnership and limited liability corporation holdings and other holdings	Beneficial interests in trust	Total
Beginning balance, July 1, 2018	$	51,046	9,478	31,121	91,645
Total gains (losses) (realized and unrealized)		4,150	552	(414)	4,288
Purchases and issuances		—	2,380	—	2,380
Sales and settlements		(50,023)	(3,369)	(60)	(53,452)
Ending balance, June 30, 2019	$	5,173	9,041	30,647	44,861

		Common stock and preferred stock	Other limited partnership and limited liability corporation holdings and other holdings	Beneficial interests in trust	Total
Beginning balance, July 1, 2017	$	16,007	11,750	33,852	61,609
Total gains (losses) (realized and unrealized)		(11,039)	27	(2,671)	(13,683)
Purchases and issuances		47,475	—	—	47,475
Sales and settlements		(1,397)	(2,299)	(60)	(3,756)
Ending balance, June 30, 2018	$	51,046	9,478	31,121	91,645

The following lists the unfunded commitments, redemption frequency, and notice period for common and collective trust funds and for investments for which management uses NAV per share or its equivalent as a practical expedient to determining fair value as of June 30, 2019:

- Investments in limited partnerships, other than real estate and private equity, totaling $131,640,000, are subject to redemption policies ranging from monthly to biannually with redemption notice periods ranging from 45 to 95 days. Approximately 30% of these limited partnerships are subject to gates that range from 10% to 25% of the NAV at the time of the redemption request.
- Private equity funds and limited partnerships invested in real estate totaling $84,917,000 are not redeemable. The outstanding capital commitments for various private equity funds totaled $181,192,000 at June 30, 2019.

The following lists the unfunded commitments, redemption frequency, and notice period for common and collective trust funds and for investments for which management uses NAV per share or its equivalent as a practical expedient to determining fair value as of June 30, 2018:

- Investments in limited partnerships, other than real estate and private equity, totaling $155,150,000, are subject to redemption policies ranging from monthly to biannually with redemption notice periods ranging from 45 to 95 days. Approximately 44% of these limited partnerships are subject to gates that range from 10% to 25% of the NAV at the time of the redemption request.
- Private equity funds and limited partnerships invested in real estate totaling $33,415,000 are not redeemable. The outstanding capital commitments for various private equity funds totaled $89,005,000 at June 30, 2018.

(5) Contributions Receivable

Contributions receivable are expected to be received as follows at June 30, 2019 and 2018 (in thousands):

		2019	2018
Due within one year	$	14,516	26,089
Due within two to five years		2,674	1,916
Due after five years		51,090	753
		68,280	28,758
Less unamortized discount to reflect at present value		(17,259)	(263)
Total present value	$	51,021	28,495

(6) Leasehold Improvements and Equipment

Leasehold improvements and equipment are summarized as follows as of June 30, 2019 and 2018 (in thousands):

		2019	2018
Furniture	$	345	321
Office equipment and other		518	504
Computer equipment and software		498	447
Leasehold improvements		1,214	1,192
		2,575	2,464
Less accumulated depreciation and amortization		(2,048)	(1,843)
Leasehold improvements and equipment, net	$	527	621

(Continued)

(7) Grants Payable

Future anticipated cash flows for grants payable, for which all of the conditions have been met, are summarized as follows at June 30, 2019 and 2018 (in thousands):

		2019	2018
Due within one year	$	11,875	15,824
Due within two to five years		5,650	5,351
		17,525	21,175
Less unamortized discount to reflect grants payable at present value		(210)	(343)
Total	$	17,315	20,832

(8) Notes Payable and Line of Credit

The Foundation has a line of credit with a financial institution allowing borrowing up to $25,000,000 with interest equal to the greater of 2.50% or the prime rate minus 0.25%. This line matures on June 15, 2020. This line was not drawn on during the year ended June 30, 2019 and 2018. No amounts were outstanding on this line of credit as of June 30, 2019 and 2018.

Additionally, the Foundation has an uncommitted demand note with a financial institution to borrow up to $25,000,000 with interest equal to the LIBOR-based rate plus 0.45%. This line was not drawn on during the years ended June 30, 2019 and 2018 and has no expiration. No amounts were outstanding on this demand note as of June 30, 2019 and 2018.

On June 30, 2017, the Foundation entered into a loan agreement with another not-for-profit organization. Funds from this loan will support the Foundation’s program-related loan portfolio. The loan accrues interest of 1.0% and has a maturity date of June 30, 2027. The Foundation is scheduled to begin interest repayments on March 31, 2020. The loan balance at June 30, 2019 and 2018 was $2,000,000, respectively. Additionally, the Foundation has a $50,000 loan due to another not-for-profit organization.

(9) Commitments and Contingencies

(a) Lease Commitments

In April 2011, the Foundation entered a 10-year operating lease for real property commencing July 1, 2011 and expiring June 30, 2022. The following is a schedule of future minimum lease payments under the operating lease at June 30, 2019 (in thousands):

Fiscal year ending June 30:		
2020	$	856
2021		881
	$	1,737

Rental expense totaled $1,077,000 and $962,000 for the fiscal years ended June 30, 2019 and 2018, respectively.

(b) Loan Guarantees

The Foundation has agreed to guarantee certain debts of other not-for-profit organizations. Amounts guaranteed were $446,000 and $841,000 at June 30, 2019 and 2018, respectively.

(c) Legal Matters

The Foundation and its affiliates are subject to various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the Foundation's consolidated financial position or changes in net assets of the Foundation.

(10) Retirement Plan

The Foundation has a defined-contribution plan covering substantially all employees. Employees are eligible beginning with the first day of employment. The Foundation's annual contribution is calculated at a specified percentage of salary for all employees, up to statutory limits. The vesting on the Foundation contributions occurs after four years at 25% per year. Vesting is immediate on all contributions by employees. Retirement expense totaled $666,395 and $673,000 for the years ended June 30, 2019 and 2018, respectively.

(11) Endowment Funds

The Foundation follows the standards codified in FASB ASC Section 958-205-45, *Other Presentation Matters – Reporting Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowments and unrestricted funds functioning as endowments.

(a) Interpretation of Relevant Law

The Board, in concurrence with the advice of legal counsel, has determined a portion of the Foundation's net assets meet the definition of endowment under UPMIFA. As a result of this interpretation, for accounting and financial statement purposes, the Foundation classifies as net assets with restrictions the fair value of the original gift as of the gift date, the original value of subsequent gifts, and any accumulations to the donor-restricted endowments made in accordance with the direction of the applicable gift instruments. Donor-restricted endowments remain net assets with donor restriction until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence defined by UPMIFA.

(b) Endowment Investment and Spending Policies

The Foundation has adopted investment and spending polices for endowment assets that are designed and intended to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the Foundation's endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The current long-term return objective is approximately 7.5%, net of investment fees. Actual returns will vary year to year. The Foundation relies on a total return strategy. The investment strategy targets a diversified asset allocation that includes domestic equities, non-U.S. equities, fixed income, real estate, and private partnerships. The majority of assets are invested in equity or equity-like securities. Fixed income, real estate, and private partnerships are used to lower short-term volatility. Diversification by asset class, investment style, investment manager, etc., is employed to avoid undue risk concentration and enhance total return. Investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy determines the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. For the years ended June 30, 2019 and 2018, amounts to be distributed were subject to limits of no less than 4.0% and no more than 7.0% of the fair value of the assets as of the last of the applicable 12 quarters. The spending policy is approved on an annual basis by the Board for that subsequent fiscal year. The spending policy in effect for the years ended June 30, 2019 and 2018 was to distribute an amount equal to 5.5% and 5.7%, respectively, of a rolling three-year average of the fair value of the assets for each calendar quarter end of the three previous years.

Endowment net asset composition as of June 30, 2019 and 2018 is as follows (in thousands):

		2019	
	Total	**Without restrictions**	**With restrictions**
Donor-restricted endowments	$ 63,694	—	63,694
Funds functioning as endowments	538,299	538,299	—
Total	$ 601,993	538,299	63,694

As of June 30, 2019, there were 90 donor-restricted endowment funds and 429 funds functioning as endowments.

		2018	
	Total	**Without restrictions**	**With restrictions**
Donor-restricted endowments	$ 64,413	—	64,413
Funds functioning as endowments	523,360	523,360	—
Total	$ 587,773	523,360	64,413

As of June 30, 2018, there were 89 donor-restricted endowment funds and 433 funds functioning as endowments.

Changes in endowment net assets for the fiscal years ended June 30, 2019 and 2018 are as follows (in thousands):

	2019		
	Total	**Without restrictions**	**With restrictions**
Endowment assets, beginning of year	$ 587,773	523,360	64,413
Investment return:			
Interest, dividends, and other income	14,533	12,785	1,748
Net unrealized and realized gains	21,125	18,599	2,526
Total investment return	35,658	31,384	4,274
Contributions	11,816	11,816	—
Appropriation of endowment assets for expenditure	(33,254)	(28,261)	(4,993)
Endowment assets, end of year	$ 601,993	538,299	63,694

	2018		
	Total	**Without restrictions**	**With restrictions**
Endowment assets, beginning of year	$ 562,740	503,362	59,378
Investment return:			
Interest, dividends, and other income	14,406	12,708	1,698
Net unrealized and realized gains	38,326	35,061	3,265
Total investment return	52,732	47,769	4,963
Contributions	4,564	928	3,636
Other	366	—	366
Appropriation of endowment assets for expenditure	(32,629)	(28,699)	(3,930)
Endowment assets, end of year	$ 587,773	523,360	64,413

(Continued)

Description of amounts classified as net assets with restrictions is as follows (in thousands):

		2019	2018
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$	50,801	51,301
The portion of endowment funds subject to a time restriction under UPMIFA, without purpose restrictions for spending		12,893	13,112
Beneficial interests in trusts		30,647	31,121
Contributions receivable		51,021	28,495
Split-interest agreements		12,479	12,975
Total net assets with restrictions	$	157,841	137,004

(c) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor or law, or the historical value of the endowment gift. The aggregated deficiencies of this nature for all donor-restricted endowment funds totaled $831,000 and $834,000 as of June 30, 2019 and 2018, respectively.

(12) Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more functions. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Salaries, employee benefits, and occupancy are allocated based on estimates of time and effort. Other natural expense categories are charged to a functional expense category on an invoice by invoice basis based on the nature of the expense.

For the year-end June 30, 2019, total expenses were classified by function as follows (in thousands):

		Program Services	Management and general	Fundraising	Total
Grants, net	$	222,548	—	—	222,548
Salaries		3,219	2,628	1,916	7,763
Employee benefits		907	740	540	2,187
Occupancy		575	466	297	1,338
Office expenses		158	121	77	356
Marketing and communications		4,571	114	158	4,843
Consulting and professional services		9,559	696	72	10,327
Conference, meetings, and travel		291	168	34	493
Other administrative expenses		1,366	436	8	1,810
Total	$	243,194	5,369	3,102	251,665

For the year-end June 30, 2018, total expenses were classified by function as follows (in thousands):

		Program Services	Management and general	Fundraising	Total
Grants, net	$	233,207	—	—	233,207
Salaries		3,051	2,445	1,771	7,267
Employee benefits		898	720	521	2,139
Occupancy		639	499	305	1,443
Office expenses		181	116	71	368
Marketing and communications		4,107	106	120	4,333
Special events		688	—	11,568	12,256
Consulting and professional services		4,541	741	41	5,323
Conference, meetings and travel		201	182	33	416
Other administrative expenses		784	337	10	1,131
Total	$	248,297	5,146	14,440	267,883

(13) Subsequent Events

The Foundation evaluated events or transactions that occurred subsequent to the consolidated balance sheet date through October 25, 2019, the date the accompanying consolidated financial statements were available to be issued.