KPMG

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Financial Statements

June 30, 2014 and 2013

(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, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, 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 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, 2014 and 2013, 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.

KPMG LLP

Los Angeles, California
October 10, 2014

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	14,591	35,620
Investments (note 3)		1,322,343	1,207,297
Notes receivable		14,834	11,665
Contributions receivable, net (note 4)		29,382	18,130
Prepaid expenses and other assets		1,005	841
Beneficial interest in trusts		33,862	31,306
Leasehold improvements and equipment, net (note 5)		1,246	1,409
Real estate		7,707	9,662
Total assets	$	1,424,970	1,315,930
Liabilities and Net Assets			
Accounts payable and other liabilities	$	2,516	1,783
Funds held for others		71,771	63,554
Grants payable, net (note 6)		35,082	33,068
Note payable and line of credit (note 7)		1,090	3,000
Liabilities under split-interest agreements		17,154	17,275
Deferred revenue		7,369	7,455
Total liabilities		134,982	126,135
Commitments and contingencies (note 8)			
Net assets (notes 10 and 11):			
Unrestricted		1,161,286	1,070,638
Temporarily restricted		58,032	50,920
Permanently restricted		70,670	68,237
Total net assets		1,289,988	1,189,795
Total liabilities and net assets	$	1,424,970	1,315,930

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2014

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue:				
Support:				
Amounts raised	$ 118,129	8,186	19	126,334
Less amounts raised or received on behalf of others	(12,375)	—	—	(12,375)
Net contributions and bequests raised	105,754	8,186	19	113,959
Other revenue:				
Interest, dividends, and other revenue	25,073	1,551	—	26,624
Realized and unrealized gains and losses on investments and real estate, net	133,263	9,477	2,414	145,154
Change in value of split-interest agreements	—	1,170	—	1,170
Other revenue before allocation of investment income	158,336	12,198	2,414	172,948
Less net investment income allocated to funds held for others	(9,168)	—	—	(9,168)
Net other revenue	149,168	12,198	2,414	163,780
Net assets released from restrictions	13,272	(13,272)	—	—
Total support and revenue and net assets released from restrictions	268,194	7,112	2,433	277,739
Expenses:				
Program services:				
Grants and philanthropic distributions	162,039	—	—	162,039
Less amounts distributed on behalf of others	(4,989)	—		(4,989)
Total grants and philanthropic distributions	157,050	—	—	157,050
Program services expense	11,107	—	—	11,107
Less program services expenses allocated to funds held for others	(320)	—	—	(320)
Total grants, philanthropic distributions, and program services	167,837	—	—	167,837
Support services:				
Management and general administrative	3,270	—	—	3,270
Development and fund-raising	2,539	—	—	2,539
Investment management fees	4,108	—	—	4,108
Less administrative expenses and investment management fees allocated to funds held for others	(208)	—	—	(208)
Total support services	9,709	—	—	9,709
Total expenses	177,546	—	—	177,546
Change in net assets	90,648	7,112	2,433	100,193
Net assets at beginning of year	1,070,638	50,920	68,237	1,189,795
Net assets at end of year	$ 1,161,286	58,032	70,670	1,289,988

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2013

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue:				
Support:				
Amounts raised	$ 169,274	14,784	642	184,700
Less amounts raised or received on behalf of others	(6,517)	—	—	(6,517)
Net contributions and bequests raised	162,757	14,784	642	178,183
Other revenue:				
Interest, dividends, and other revenue	24,773	1,525	—	26,298
Realized and unrealized gains and losses on investments and real estate, net	91,826	7,901	1,060	100,787
Change in value of split-interest agreements	—	1,420	—	1,420
Other revenue before allocation of investment income	116,599	10,846	1,060	128,505
Less net investment income allocated to funds held for others	(6,361)	—	—	(6,361)
Net other revenue	110,238	10,846	1,060	122,144
Net assets released from restrictions	26,143	(24,700)	(1,443)	—
Total support and revenue and net assets released from restrictions	299,138	930	259	300,327
Expenses:				
Program services:				
Grants and philanthropic distributions	164,428	—	—	164,428
Less amounts distributed on behalf of others	(3,345)	—	—	(3,345)
Total grants and philanthropic distributions	161,083	—	—	161,083
Program services expense	10,155	—	—	10,155
Less program services expenses allocated to funds held for others	(318)	—	—	(318)
Total grants, philanthropic distributions, and program services	170,920	—	—	170,920
Support services:				
Management and general administrative	3,063	—	—	3,063
Development and fundraising	3,345	—	—	3,345
Investment management fees	3,669	—	—	3,669
Less administrative expenses and investment management fees allocated to funds held for others	(165)	—	—	(165)
Total support services	9,912	—	—	9,912
Total expenses	180,832	—	—	180,832
Change in net assets	118,306	930	259	119,495
Net assets at beginning of year	952,332	49,990	67,978	1,070,300
Net assets at end of year	$ 1,070,638	50,920	68,237	1,189,795

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	100,193	119,495
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Realized and unrealized gains on investments, net		(144,954)	(100,787)
Gain on sales of real estate		(200)	—
Depreciation and amortization		267	249
Change in value of split-interest agreements		(1,170)	(1,420)
Contributions restricted for endowments		(19)	(515)
Contributions of real estate and notes receivable		(13,532)	—
Noncash grants		11,915	—
Changes in operating assets and liabilities:			
Contributions receivable		(11,252)	7,385
Prepaid expenses and other assets		(164)	(265)
Accounts payable, other liabilities, and deferred revenue		647	(220)
Funds held for others		8,217	7,941
Grants payable		2,014	(14,455)
Liabilities under split-interest agreements		(121)	(1,657)
Net cash (used in) provided by operating activities		(48,159)	15,751
Cash flows from investing activities:			
Proceeds from repayments of notes receivable		26	2,377
Issuance of notes receivable		(3,195)	(7,252)
Purchase of investments		(570,294)	(802,397)
Proceeds from sale and maturity of investments		592,072	795,813
Proceeds from sales of real estate		10,535	—
Purchases of furniture and equipment		(104)	(177)
Net cash provided by (used in) investing activities		29,040	(11,636)
Cash flows from financing activities:			
Payments on notes payable		(2,000)	—
Proceeds from borrowing		90	—
Net cash used in financing activities		(1,910)	—
(Decrease) increase in cash and cash equivalents		(21,029)	4,115
Cash and cash equivalents at beginning of year		35,620	31,505
Cash and cash equivalents at end of year	$	14,591	35,620
Supplemental information:			
Cash paid for interest, net of capitalized amount	$	30	45

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 1,600 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:

- Albert J. & Mary R. Allegretti Foundation
- CCF Community Initiatives Fund
- CCF Real Estate Holdings
- Community Foundation Land Corporation
- Community Foundation Land Trust
- La Kretz Family Foundation
- Los Angeles Community Foundation
- The Rose and David Dortort Foundation
- The Ernest Lieblich Foundation
- The Fairbrook Foundation
- The FEDCO Charitable Foundation
- The Pipkin Charitable Foundation
- The SahanDaywi Foundation
- Thelma Pearl Howard 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 three classes of net assets—unrestricted, temporarily restricted, and permanently restricted—based upon the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets – 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 (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 unrestricted net assets. The Foundation's governing documents further provide that absent contrary directions given in the transferring instrument regarding the use of the principal, all or part of the principal of any fund may be used 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 unrestricted support that increases unrestricted net assets.

Temporarily Restricted Net Assets – These are subject to donor-imposed restrictions that will be met by the passage of time. The Foundation's temporarily restricted net assets primarily consist of contributions received under split-interest agreements wherein the Foundation or a third party serves as trustee and earnings on endowment funds that have not yet been appropriated.

Permanently Restricted Net Assets – These are subject to donor-imposed restrictions that will be maintained in perpetuity. The investment income generated from these assets is temporarily restricted by law until appropriated by the Board in support of the Foundation's programs and operations. The Foundation's permanently restricted net assets consist of 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) 820, *Fair Value Measurement*, as discussed in notes 2(d) and 3.

(d) New Accounting Pronouncements

In October 2012, the FASB issued ASU 2012-05, an amendment to FASB ASC 230, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This update addressed the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows of not-for-profit entities. The Foundation adopted this guidance for the year ended June 30, 2013. This adoption did not have a significant impact on the Foundation's consolidated financial statements.

(e) Investments

Investments are made according to the Investment Objectives and Policies adopted by the Foundation's Board. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. The Foundation contracts with outside parties 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.

The Foundation reports its investments at fair value. 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.

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, which are occasionally updated. Additionally, on an annual basis, Foundation management analyzes comparable sales data sourced from independent third parties to estimate changes in real property fair values.

The Foundation uses net asset value 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 $578,374,000 and $515,278,000 of investments that are reported at net asset value at June 30, 2014 and 2013, respectively. For these investments, the Foundation has concluded that the net asset value reported by the underlying fund is a practical expedient to estimating fair value. The amounts reported at net asset value at June 30, 2014 are redeemable with the fund at net asset value 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 net asset value 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 net asset value. 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 net asset value, 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.

(f) 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 3.

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, 2014 and 2013 that would indicate impairment of the Foundation's long-lived assets.

(Continued)

(g) Contributions Receivable

Unconditional promises to give that are expected to be received in future periods are initially recognized at fair value using fair 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, 2014 and 2013, future distributions were recorded at present value using discount rates ranging from 0.8% to 3.4%. 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. 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, ranging between 0% and 10%, to the net value reported by the trustee as an allowance for trust administration expenses and for potential loss of value of the trusts' assets.

(h) Program-Related Receivables

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, 2014 and 2013, these loans totaled $4,739,000 and $3,759,000, 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 0.0% to 2.0%. Management has reviewed these loans and believes no allowance is necessary as of June 30, 2014 and 2013. At June 30, 2014, the Foundation had outstanding commitments totaling $2,250,000 under the program-related loans.

(i) Notes Receivable

A consolidated affiliate of the Foundation enters into acquisition, predevelopment, and other loans with local nonprofit and for-profit developers to finance the development of affordable housing. The remaining terms of the loans range from 2 months to 5 years with interest rates ranging from 5.0% to 7.5%. The balance of these loans is $8,497,166 and $6,431,000 as of June 30, 2014 and 2013, respectively.

The Foundation entered into loans with nonprofits, with remaining terms of the loans ranging from 4 years to 9 years and interest rates ranging from 0.0% to 2.0%. The balance of these loans totaled $1,468,827 and $1,475,000 as of June 30, 2014 and 2013, respectively.

(j) 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 permanently restricted realized and unrealized gains and losses on investments. Beneficial interest in perpetual trusts totaled $27,465,000 and $25,051,000 as of June 30, 2014 and 2013, 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 $6,397,000 and $6,255,000 as of June 30, 2014 and 2013, respectively.

(k) 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	5 years
Computer equipment and software	3 years
Leasehold improvements	10 years (not to exceed lease term)

(l) Funds Held for Others

The Foundation receives and distributes assets under certain agency and intermediary arrangements. FASB ASC 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 958-605-04 specifically 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.

(m) 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 0.33% to 3.89% at June 30, 2014 and 2013. Inputs used to develop these fair value estimates are considered Level 3 in the fair value hierarchy.

(n) Split-Interest Agreements

The Foundation records assets held in charitable trusts and charitable gift annuities 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 discount rates representing rates commensurate with the risks involved, which were in existence at the date of gift. Gains or losses resulting from changes in actuarial 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, 2014 and 2013 ranged from 3.0% 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 an 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 discount rates representing rates commensurate with the risks involved, which were in existence at the date of gift. The discount rates used for the years ended June 30, 2014 and 2013 ranged from 2.0% to 2.4% and 1.0% to 1.2%, respectively.

Investments held under these split-interest agreements totaled $29,908,000 and $30,307,000 at June 30, 2014 and 2013, 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.

(o) Fair Value of Financial Instruments

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

(p) 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.

(q) Income Taxes

The Foundation and its affiliates are California nonprofit corporations, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and have been determined not to be private foundations under Section 509(a)(1) of the 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.

The Foundation evaluates uncertain tax positions in accordance with FASB ASC 740, *Income Taxes*, whereby the effect of the uncertainty would be recorded if the tax positions will more likely than not be sustained upon examination. As of June 30, 2014 and 2013, management believes that the Foundation had no uncertain tax positions requiring accrual or disclosure.

(3) Fair Value Measurements

In accordance with FASB ASC 820, 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 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 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, 2014 and 2013 (in thousands):

Assets		2014 Total	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	$	14,591	14,591	—	—
Investments:					
Cash and cash equivalents	$	102,205	102,205	—	—
Common and preferred stock (directly held, publicly traded mutual fund(s), exchange-traded fund(s), and common trust fund(s)):					
United States		459,452	361,822	96,084	1,546
Foreign		254,651	34,573	220,078	—
Global		8,409	—	8,409	—
Total common and preferred stock		722,512	396,395	324,571	1,546
Fixed income (directly held, publicly traded mutual fund(s), and common trust fund(s)):					
U.S. Treasury and agency		179,207	—	179,207	—
U.S. corporate		32,846	29,649	3,197	—
Foreign currency denominated		32,071	31,659	412	—
Other		25,424	491	21,633	3,300
Total fixed income		269,548	61,799	204,449	3,300
Limited partnerships (other than real estate and private equity; primarily publicly traded securities):					
Distressed/credit		19,656	—	—	19,656
Diversified arbitrage and multistrategy		41,433	—	—	41,433

(Continued)

Assets		2014 Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Event arbitrage	$	69,768	—	—	69,768
Equity long/short		37,075	—	—	37,075
Global macro		11,614	—	—	11,614
Opportunistic and other		27,315	—	—	27,315
Total limited partnerships		206,861	—	—	206,861
Limited partnerships (real estate, private equity, and other)		21,217	—	8,812	12,405
Total investments	$	1,322,343	560,399	537,832	224,112
Beneficial interests in trusts	$	33,862	—	—	33,862

Assets		2013 Total	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	$	35,620	35,620	—	—
Investments:					
Cash and cash equivalents	$	97,145	97,145	—	—
Common and preferred stock (directly held, publicly traded mutual fund(s), exchange-traded fund(s), and common trust fund(s)):					
United States		395,846	287,209	102,386	6,251
Foreign		225,168	46,347	178,821	—
Global		4,087	—	4,087	—
Total common and preferred stock		625,101	333,556	285,294	6,251

Assets		2013 Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fixed income (directly held, publicly traded mutual fund(s), and common trust fund(s)):					
U.S. Treasury and agency	$	126,761	—	126,761	—
U.S. corporate		108,993	91,784	17,209	—
Foreign currency denominated		30,436	30,436	—	—
Other		601	—	601	—
Total fixed income		266,791	122,220	144,571	—
Limited partnerships (other than real estate and private equity; primarily publicly traded securities):					
Distressed/credit		20,038	—	—	20,038
Diversified arbitrage and multistrategy		41,898	—	—	41,898
Event arbitrage		31,882	—	—	31,882
Equity long/short		59,476	—	—	59,476
Global macro		13,058	—	—	13,058
Opportunistic and other		30,979	—	—	30,979
Total limited partnerships		197,331	—	—	197,331
Limited partnerships (real estate, private equity, and other)		20,929	—	6,200	14,729
Total investments	$	1,207,297	552,921	436,065	218,311
Beneficial interests in trusts	$	31,306	—	—	31,306

The following tables set forth estimated fair values of assets and liabilities measured and recorded on a nonrecurring basis, or for which fair value is required to be disclosed, at June 30, 2014 and 2013 (in thousands):

Assets		**2014 Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Contributions receivable	$	29,382	—	—	29,382
Liabilities					
Grants payable	$	35,082	—	—	35,082
Liabilities under split-interest agreements		17,154	—	—	17,154

Assets		**2013 Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Contributions receivable	$	18,130	—	—	18,130
Liabilities					
Grants payable	$	33,068	—	—	33,068
Liabilities under split-interest agreements		17,275	—	—	17,275

(Continued)

For the years ended June 30, 2014 and 2013, 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	Limited partnerships holding publicly traded securities	Real estate held by limited partnerships or directly	Private equity	Other limited partnership and limited liability corporation holdings and other holdings	Beneficial interests in trust	Total
Beginning balance, July 1, 2013	$ 6,251	197,331	2,400	7,155	5,174	31,306	249,617
Total gains or losses (realized and unrealized)	—	18,955	(10)	1,024	342	1,972	22,283
Purchases and issuances	250	20,000	1,164	968	3,535	1,790	27,707
Sales and settlements	(4,955)	(29,425)	(955)	(4,925)	(167)	(1,206)	(41,633)
Ending balance, June 30, 2014	$ 1,546	206,861	2,599	4,222	8,884	33,862	257,974

Total gains for the year ended June 30, 2014 included in changes in net assets that is attributable to the change in unrealized gains or losses relating to those Level 3 assets measured at fair value on a recurring basis that are still held at June 30, 2014 is $26,880,000, and is reported in realized and unrealized gains and losses on investments and real estate, net.

	Common stock and preferred stock	Limited partnerships holding publicly traded securities	Real estate held by limited partnerships or directly	Private equity	Other limited partnership and limited liability corporation holdings and other holdings	Beneficial interests in trust	Total
Beginning balance, July 1, 2012	$ 7,124	212,537	4,395	4,210	5,413	30,471	264,150
Total gains or losses (realized and unrealized)	(93)	1,369	(1,085)	(160)	(2,239)	835	(1,373)
Purchases and issuances	130	5,000	—	3,105	—	—	8,235
Sales and settlements	(910)	(21,575)	(910)	—	—	—	(23,395)
Ending balance, June 30, 2013	$ 6,251	197,331	2,400	7,155	3,174	31,306	247,617

Total gains for the year ended June 30, 2013 included in changes in net assets that is attributable to the change in unrealized gains or losses relating to those Level 3 assets measured at fair value on a recurring basis that are still held at June 30, 2013 is $4,374,000, and is reported in realized and unrealized gains and losses on investments and real estate, net.

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 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 reported amounts for these investments are a reasonable estimate of fair value at June 30, 2014 and 2013.

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 Internal Revenue Service annuity and mortality tables.

Liabilities under split-interest agreements are reported at the present value of estimated amounts due to income beneficiaries of the agreements based on Internal Revenue Service annuity and mortality tables.

The Foundation's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 3 for the years ended June 30, 2014 and 2013.

The following lists the unfunded commitments, redemption frequency, and notice period for investments for which management uses net asset value per share or its equivalent as a practical expedient to determining fair value as of June 30, 2014:

- Investments in common and collective trust funds invested in publicly traded U.S., foreign, and global equity and debt securities totaling $347,072,547 have redemption policies ranging from daily to monthly subject to redemption notice periods ranging from 1 to 30 days.
- Investments in limited partnerships, other than real estate and private equity, totaling $206,861,446 are subject to redemption policies ranging from monthly to annually with redemption notice periods ranging from 15 to 95 days. Approximately, 43.0% of these limited partnerships are subject to gates that range from 10% to 25% of the net asset value at the time of the redemption request.
- Private equity funds and limited partnerships invested in real estate totaling $6,821,974 are not redeemable. The outstanding capital commitments for various private equity funds totaled $2,709,688 at June 30, 2014.

The following lists the unfunded commitments, redemption frequency, and notice period for investments for which management uses net asset value per share or its equivalent as a practical expedient to determining fair value as of June 30, 2013:

- Investments in common and collective trust funds invested in publicly traded U.S., foreign, and global equity and debt securities totaling $293,026,000 have redemption policies ranging from daily to monthly subject to redemption notice periods ranging from 5 to 30 days.
- Investments in limited partnerships, other than real estate and private equity, totaling $197,331,000 are subject to redemption policies ranging from monthly to annually with redemption notice periods

ranging from 15 to 95 days. Approximately, 35.4% of these limited partnerships are subject to gates that range from 10% to 20% of the net asset value at the time of the redemption request.

- Private equity funds and limited partnerships invested in real estate totaling $9,555,000 are not redeemable. The outstanding capital commitments for various private equity funds totaled $9,005,000 at June 30, 2013.

The Foundation's investment income and expenses, net of investment gains and expenses allocated to funds held for others, consist of the following for the years ended June 30, 2014 and 2013 (in thousands):

		2014	2013
Dividends and interest income	$	24,145	23,645
Net realized and unrealized gains (losses) on investments		137,264	95,379
Investment expenses		(3,900)	(3,504)
	$	157,509	115,520

(4) Contributions Receivable

Contributions receivable are expected to be received as follows at June 30, 2014 and 2013 (in thousands):

		2014	2013
Due within one year	$	23,828	12,226
Due within two to five years		2,296	2,473
Due after five years		3,759	3,944
		29,883	18,643
Less discount to present value		(501)	(513)
Total	$	29,382	18,130

(5) Leasehold Improvements and Equipment

Leasehold improvements and equipment are summarized as follows as of June 30, 2014 and 2013 (in thousands):

		2014	2013
Furniture	$	277	273
Office equipment and other		481	459
Computer equipment and software		705	643
Leasehold improvements		1,112	1,112
		2,575	2,487
Less accumulated depreciation and amortization		(1,329)	(1,078)
Leasehold improvements and equipment, net	$	1,246	1,409

(Continued)

(6) 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, 2014 and 2013 (in thousands):

		2014	2013
Due within one year	$	21,253	19,146
Due within two to five years		12,462	12,383
Due after five years		2,250	2,649
		35,965	34,178
Less unamortized discount to reflect grants payable at present value		(883)	(1,110)
Total	$	35,082	33,068

(7) Note Payable and Line of Credit

In March 2013, the Foundation renewed its line of credit with a financial institution to borrow up to $25,000,000 with interest equal to the prime rate plus 0.25% but not less than 2.50% and extended the term to two years. This line was not drawn on during the years ended June 30, 2014 and 2013. The balance was $0 at both June 30, 2014 and 2013.

In March 2013, the Foundation renewed its second line of credit, 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, 2014 and 2013. No amounts were outstanding on this line of credit as of June 30, 2014 and 2013.

In August 2006, a consolidated affiliate borrowed $2,000,000 from another not-for-profit organization to provide working capital. The Foundation has guaranteed the indebtedness of its consolidated affiliate under the loan agreement. Interest payments at the rate of 1% are due quarterly based upon the unpaid principal balance. This loan was repaid in June 2014. The balance at June 30, 2014 was $0 and was $2,000,000 at June 30, 2013.

On January 15, 2010, this affiliate entered into a line-of-credit agreement with an unaffiliated not-for-profit organization for up to $4,000,000 with an interest rate of 4.5% per annum due semiannually. The principal balance and unpaid interest are due when the agreement expires on January 1, 2015. No amounts were outstanding on this line of credit as of June 30, 2014 and 2013.

On July 7, 2010, this affiliate entered into a loan agreement with a financial institution to borrow $1,000,000 at the rate of 2% per annum and a term of five years. The outstanding principal balance and unpaid interest are due and payable at the end of the term. The balance at June 30, 2014 and 2013 was $1,000,000.

(8) Commitments and Contingencies

(a) Lease Commitments

In April 2011, the Foundation entered into 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, 2014 (in thousands):

Fiscal year ending June 30:		
2015	$	738
2016		760
2017		783
2018		807
2019		830
Thereafter		1,737
	$	5,655

Rental expense totaled $776,000 for each of the fiscal years ended June 30, 2014 and 2013.

(b) Loan Guarantees

In August 2013, the Foundation entered into an agreement with an unaffiliated not-for-profit organization to be contingently liable for up to $1,500,000 of loan losses incurred by the not-for-profit organization in a loan portfolio designated for Los Angeles County community service providers. The Foundation's guarantee reduces by $500,000 every six months and expires December 31, 2014. At June 30, 2014, the payment guarantee was limited to $1,000,000. This not-for-profit organization previously obtained a loan of $1,000,000 from the Foundation in 2009, to partially fund their loan portfolio. At June 30, 2014 and 2013, the outstanding balance under this loan was $1,000,000. In an August 2013 amendment to this loan, the Foundation agreed to forgive up to $1,000,000 of this loan for losses incurred by the not-for-profit organization in the loan portfolio described above, bringing the Foundation's total amount of loan guarantees to this not-for-profit organization to $2,000,000 at June 30, 2014.

Under a loan the Foundation made to another not-for-profit organization in June 2008, the Foundation agreed to forgive up to $1,000,000 of the loan for specific loan losses incurred by this not-for-profit organization. This loan had an outstanding balance of $947,987 at June 30, 2014 and 2013.

(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.

(9) 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. Effective July 1, 2010, the vesting on Foundation contributions occurs after four years at 25% per year. Vesting is immediate on all contributions by employees. Retirement expense totaled $505,000 and $545,000 for the years ended June 30, 2014 and 2013, respectively.

(10) Net Assets

Temporarily restricted net assets consist of the following balances at June 30, 2014 and 2013 (in thousands):

	2014	2013
Remainder interest from split-interest agreements and bequests	$ 28,258	23,239
Other assets restricted by time	29,774	27,681
	$ 58,032	50,920

Permanently restricted net assets consist of contributions from, and related activity of, perpetual trusts held by third parties and those endowment net assets held by the Foundation as defined under UPMIFA. Permanently restricted net assets totaled $70,669,000 and $68,237,000 as of June 30, 2014 and 2013, respectively.

(11) Endowment Funds

The Foundation follows the standards codified in FASB ASC 958-205-65, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the 2006 UPMIFA.

(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 permanently restricted net assets 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.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence defined by UPMIFA.

(Continued)

(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 8%, 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 grantmaking and administration. For the years ended June 30, 2014 and 2013, amounts to be distributed were subject to limits of no less than 4% and no more than 7% 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 each of the years ended June 30, 2014 and 2013 is to distribute an amount equal to 6% of a rolling three-year average of the fair value of the assets for each calendar quarter-end of the three previous years.

Donor-restricted endowment net asset composition as of June 30, 2014 and 2013 is as follows (in thousands). The Foundation has no board-designated endowments at June 30, 2014 and 2013.

		2014			
		Total	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**
Donor-restricted endowment funds	$	58,108	(261)	16,099	42,270

		2013			
		Total	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**
Donor-restricted endowment funds	$	51,378	(1,075)	10,202	42,251

Changes in donor-restricted endowment net assets for the fiscal years ended June 30, 2014 and 2013 are as follows (in thousands):

	2014			
	Total	Unrestricted	Temporarily restricted	Permanently restricted
Endowment assets, beginning of year	$ 51,378	(1,075)	10,202	42,251
Investment return:				
Investment income	1,399	—	1,399	—
Net unrealized and realized gains	9,099	814	8,285	—
Total investment return	10,498	814	9,684	—
Contributions	19	—	—	19
Appropriation of endowment assets for expenditure	(3,787)	—	(3,787)	—
Endowment assets, end of year	$ 58,108	(261)	16,099	42,270

	2013			
	Total	Unrestricted	Temporarily restricted	Permanently restricted
Endowment assets, beginning of year	$ 44,986	(2,765)	6,306	41,445
Investment return:				
Investment income	1,301	—	1,301	—
Net unrealized and realized gains	7,679	1,690	5,989	—
Total investment return	8,980	1,690	7,290	—
Contributions	806	—	—	806
Appropriation of endowment assets for expenditure	(3,394)	—	(3,394)	—
Endowment assets, end of year	$ 51,378	(1,075)	10,202	42,251

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets is as follows (in thousands):

		2014	2013
Permanently restricted net assets:			
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$	42,270	42,251
Contributions receivable		934	934
Beneficial interests in perpetual trusts		27,465	25,052
Total permanently restricted net assets	$	70,669	68,237
Temporarily restricted net assets:			
The portion of endowment funds subject to a time restriction under UPMIFA:			
Without purpose restrictions for spending	$	16,099	10,202
Total endowment funds classified as temporarily restricted net assets		16,099	10,202
Split-interest agreements and contributions receivable		41,933	40,718
Total temporarily restricted net assets	$	58,032	50,920

(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 $261,525 and $1,075,000 as of June 30, 2014 and 2013, respectively.

(12) Subsequent Events

The Foundation evaluated events or transactions that occurred subsequent to the balance sheet date through October 10, 2014, the date the accompanying consolidated financial statements were available to be issued.