



CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
California Community Foundation and Affiliates:

We have audited the accompanying consolidated statements of financial position of the California Community Foundation and affiliates (the Foundation) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the California Community Foundation and affiliates as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 19, 2012

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(In thousands)

Assets	2012	2011
Cash and cash equivalents	\$ 31,505	15,073
Investments (note 3)	1,099,340	1,155,082
Notes receivable	6,790	3,665
Contributions receivable, net (note 5)	25,000	20,635
Prepaid expenses and other assets	576	1,218
Beneficial interest in trusts	30,471	31,912
Leasehold improvements and equipment, net (note 6)	1,481	905
Real estate	9,662	13,912
Total assets	<u>\$ 1,204,825</u>	<u>1,242,402</u>
Liabilities and Net Assets		
Accounts payable and other liabilities	\$ 1,897	5,238
Funds held for others	55,613	55,454
Grants payable, net (note 6)	47,523	35,652
Note payable and line of credit (note 7)	3,000	3,000
Liabilities under split-interest agreements	18,932	19,573
Deferred revenue	7,560	7,607
Total liabilities	<u>134,525</u>	<u>126,524</u>
Commitments and contingencies (note 8)		
Net assets (notes 10 and 11):		
Unrestricted	952,332	993,592
Temporarily restricted	49,990	54,894
Permanently restricted	67,978	67,392
Total net assets	<u>1,070,300</u>	<u>1,115,878</u>
Total liabilities and net assets	<u>\$ 1,204,825</u>	<u>1,242,402</u>

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2012

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue:				
Support:				
Amounts raised	\$ 109,340	16,083	2,217	127,640
Less amounts raised or received on behalf of others	<u>(12,293)</u>	<u>—</u>	<u>—</u>	<u>(12,293)</u>
Net contributions and bequests raised	<u>97,047</u>	<u>16,083</u>	<u>2,217</u>	<u>115,347</u>
Other revenue:				
Interest, dividends, and other revenue	21,923	1,240	—	23,163
Realized and unrealized gains and losses on investments and real estate, net	<u>(47,275)</u>	<u>(4,934)</u>	<u>(1,631)</u>	<u>(53,840)</u>
Change in value of split-interest agreements	<u>—</u>	<u>554</u>	<u>—</u>	<u>554</u>
Other revenue before allocation of investment income	<u>(25,352)</u>	<u>(3,140)</u>	<u>(1,631)</u>	<u>(30,123)</u>
Less net investment income allocated to funds held for others	<u>1,352</u>	<u>—</u>	<u>—</u>	<u>1,352</u>
Net other revenue	<u>(24,000)</u>	<u>(3,140)</u>	<u>(1,631)</u>	<u>(28,771)</u>
Net assets released from restrictions	<u>17,847</u>	<u>(17,847)</u>	<u>—</u>	<u>—</u>
Total support and revenue and net assets released from restrictions	<u>90,894</u>	<u>(4,904)</u>	<u>586</u>	<u>86,576</u>
Expenses:				
Program services:				
Grants and philanthropic distributions	131,204	—	—	131,204
Less amounts distributed on behalf of others	<u>(19,178)</u>	<u>—</u>	<u>—</u>	<u>(19,178)</u>
Total grants and philanthropic distributions	112,026	—	—	112,026
Program services expense	11,971	—	—	11,971
Less program services expenses allocated to funds held for others	<u>(419)</u>	<u>—</u>	<u>—</u>	<u>(419)</u>
Total grants, philanthropic distributions, and program services	<u>123,578</u>	<u>—</u>	<u>—</u>	<u>123,578</u>
Support services:				
Management and general administrative	3,321	—	—	3,321
Development and fundraising	1,803	—	—	1,803
Investment management fees	3,657	—	—	3,657
Less administrative expenses and investment management fees allocated to funds held for others	<u>(205)</u>	<u>—</u>	<u>—</u>	<u>(205)</u>
Total support services	<u>8,576</u>	<u>—</u>	<u>—</u>	<u>8,576</u>
Total expenses	<u>132,154</u>	<u>—</u>	<u>—</u>	<u>132,154</u>
Change in net assets	<u>(41,260)</u>	<u>(4,904)</u>	<u>586</u>	<u>(45,578)</u>
Net assets at beginning of year	<u>993,592</u>	<u>54,894</u>	<u>67,392</u>	<u>1,115,878</u>
Net assets at end of year	<u>\$ 952,332</u>	<u>49,990</u>	<u>67,978</u>	<u>1,070,300</u>

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2011

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue:				
Support:				
Amounts raised	\$ 92,218	13,900	479	106,597
Less amounts raised or received on behalf of others	<u>(9,448)</u>	<u>—</u>	<u>—</u>	<u>(9,448)</u>
Net contributions and bequests raised	<u>82,770</u>	<u>13,900</u>	<u>479</u>	<u>97,149</u>
Other revenue:				
Interest, dividends, and other revenue	22,289	1,008	—	23,297
Realized and unrealized gains and losses on investments, net	131,308	8,068	2,125	141,501
Change in value of split-interest agreements	<u>—</u>	<u>2,821</u>	<u>—</u>	<u>2,821</u>
Other net losses before allocation of investment income	153,597	11,897	2,125	167,619
Less net investment income allocated to funds held for others	<u>(9,203)</u>	<u>—</u>	<u>—</u>	<u>(9,203)</u>
Net losses	144,394	11,897	2,125	158,416
Net assets released from restrictions	<u>33,461</u>	<u>(33,461)</u>	<u>—</u>	<u>—</u>
Total support and revenue and net assets released from restrictions	<u>260,625</u>	<u>(7,664)</u>	<u>2,604</u>	<u>255,565</u>
Expenses:				
Program services:				
Grants and philanthropic distributions	117,608	—	—	117,608
Less amounts distributed on behalf of others	<u>(19,812)</u>	<u>—</u>	<u>—</u>	<u>(19,812)</u>
Total grants and philanthropic distributions	97,796	—	—	97,796
Program services expense	10,718	—	—	10,718
Less program services expenses allocated to funds held for others	<u>(451)</u>	<u>—</u>	<u>—</u>	<u>(451)</u>
Total grants, philanthropic distributions, and program services	<u>108,063</u>	<u>—</u>	<u>—</u>	<u>108,063</u>
Support services:				
Management and general administrative	3,147	—	—	3,147
Development and fundraising	1,518	—	—	1,518
Investment management fees	3,454	—	—	3,454
Less administrative expenses and investment management fees allocated to funds held for others	<u>(185)</u>	<u>—</u>	<u>—</u>	<u>(185)</u>
Total support services	<u>7,934</u>	<u>—</u>	<u>—</u>	<u>7,934</u>
Total expenses	<u>115,997</u>	<u>—</u>	<u>—</u>	<u>115,997</u>
Change in net assets	144,628	(7,664)	2,604	139,568
Net assets at beginning of year	<u>848,964</u>	<u>62,558</u>	<u>64,788</u>	<u>976,310</u>
Net assets at end of year	<u>\$ 993,592</u>	<u>54,894</u>	<u>67,392</u>	<u>1,115,878</u>

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (45,578)	139,568
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized (gains) losses on investments, net	51,410	(133,407)
Gain on sales of real estate	(587)	—
Depreciation and amortization	199	95
Change in value of split-interest agreements	(554)	(2,821)
Contributions restricted for endowments	(2,217)	(479)
Contributed stock	(10,158)	(8,034)
Changes in operating assets and liabilities:		
Contributions receivable	8,010	16,379
Prepaid expenses and other assets	642	752
Accounts payable, other liabilities, and deferred revenue	(3,388)	(20)
Funds held for others	159	(9,891)
Grants payable	11,871	(12,439)
Liabilities under split-interest agreements	(87)	102
Net cash provided by (used in) operating activities	<u>9,722</u>	<u>(10,195)</u>
Cash flows from investing activities:		
Proceeds from repayments of notes receivable	2,039	3,736
Issuance of notes receivable	(5,164)	(946)
Purchase of investments	(649,074)	(791,366)
Proceeds from sale of investments	654,847	795,746
Proceeds from sales of real estate	4,837	—
Purchases of furniture and equipment	(775)	(813)
Net cash provided by investing activities	<u>6,710</u>	<u>6,357</u>
Cash flows from financing activity:		
Proceeds from borrowings	—	1,000
Net cash provided by financing activity	<u>—</u>	<u>1,000</u>
Increase (decrease) in cash and cash equivalents	16,432	(2,838)
Cash and cash equivalents at beginning of year	<u>15,073</u>	<u>17,911</u>
Cash and cash equivalents at end of year	\$ <u><u>31,505</u></u>	\$ <u><u>15,073</u></u>
Supplemental disclosure of noncash financing activities:		
Cash paid for interest, net of capitalized amount	\$ 63	96

See accompanying notes to consolidated financial statements.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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 1,500 individual funds, each established with an instrument of gift describing either the general or 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 Lieblch 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

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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 trustee 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 Measurements and Disclosures* (ASC 820), as discussed in notes 2(d) and 3.

(d) *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 records investments at fair value under the provisions of fair value measurement and disclosures codified in ASC 820.

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.

For certain investments in funds that do not have readily determinable fair values, including private investments, private partnerships, real estate, and other funds, the Foundation follows the measurement provisions of ASC 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The Foundation has \$487,793,000 and \$577,830,000 of investments that are reported at net asset value at June 30, 2012 and 2011, 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, 2012 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.

(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 3.

The Foundation reviews its long-lived assets carried at historical cost for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no events or changes in circumstances that occurred during the years ended June 30, 2012 and 2011 that would indicate impairment of the Foundation's long-lived assets.

(f) Contributions Receivable

Unconditional promises to give are recorded as contributions when received at the net present value of the amounts expected to be collected. Unconditional promises to give that are expected to be received in future periods are discounted using a rate commensurate with the market risks involved applicable to the years in which the promises were received. For the years ended June 30, 2012 and 2011, such unconditional promises to give were recorded at present value using discount rates ranging from 0.8% to 4.0%. The discount is amortized to contribution revenue using the effective-interest method.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(g) 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, 2012 and 2011, these loans totaled \$3,019,000 and \$3,029,000, 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% to 1%. Management has reviewed these loans and believes no allowance is necessary as of June 30, 2012 and 2011. At June 30, 2012, the Foundation had commitments totaling \$6,000,000 under the program-related loans that have not yet been loaned.

(h) 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 terms of the loans range from six months to two years with interest rates ranging from 3.0% to 7.5%. The balance of these loans is \$3,771,000 and \$0 as of June 30, 2012 and 2011, respectively.

The Foundation entered into loans with nonprofits, with terms from 4 years to 11 years and rates ranging from 0% to 6%. The balance of these loans totaled \$0 and \$636,000 as of June 30, 2012 and 2011, respectively.

(i) 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 \$23,992,000 and \$25,623,000 as of June 30, 2012 and 2011, 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. Beneficial interest in remainder trusts totaled \$6,479,000 and \$6,289,000 as of June 30, 2012 and 2011, respectively.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(j) ***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)

(k) ***Funds Held for Others***

The Foundation receives and distributes assets under certain agency and intermediary arrangements. ASC 958-605-05, *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. ASC 958-605-05 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 on the accompanying consolidated statements of activities.

(l) ***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 reported at the present value of their estimated future cash flows using discount rates ranging from 0.33% to 3.89% at June 30, 2012 and 2011.

(m) ***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

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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. The Foundation did not enter into any new charitable remainder trusts during the years ended June 30, 2012 and 2011. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of split-interest agreements in the accompanying consolidated statements of activities. The discount rates used for the years ended June 30, 2012 and 2011 ranged from 3.0% to 6.2%.

Investments held under these split-interest agreements totaled \$24,132,000 and \$25,124,000 at June 30, 2012 and 2011, respectively.

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, 2012 and 2011 ranged from 1.2% to 1.6% and 1.8% to 2.8%, respectively.

(n) 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 carrying value.

(o) Use of Estimates

The preparation of 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 financial statements and reported amounts of revenues 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, 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 financial statements taken as a whole.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The Foundation evaluates uncertain tax positions in accordance with ASC 740-10-25-6, *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, 2012 and 2011, the Foundation had no uncertain tax positions requiring accrual or disclosure.

(q) *Reclassifications*

Certain reclassifications have been made to the 2011 financial data to conform to the 2012 presentation.

(3) *Investments*

Fair Value Measurements

In accordance with ASC 820, fair value is defined as the price that the Foundation would receive upon selling an asset in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset. 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).

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The following tables summarize the Foundation's investments and other assets by major class in the fair value hierarchy as of June 30, 2012 and 2011 (in thousands):

Assets	2012 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	\$ 73,225	73,225	—	—
Common and preferred stock (directly held, publicly traded mutual fund(s), exchange-traded fund(s), and common trust fund(s)):				
U.S.	337,270	245,039	85,107	7,124
Foreign	181,324	28,048	153,276	—
Global	3,321	—	3,321	—
Total common and preferred stock	<u>521,915</u>	<u>273,087</u>	<u>241,704</u>	<u>7,124</u>
Fixed income (directly held, publicly traded mutual fund(s), and common trust fund(s)):				
U.S. Treasury and agency	167,230	—	167,230	—
U.S. corporate	57,801	57,801	—	—
Foreign currency denominated	38,421	36,883	1,538	—
Other	601	—	601	—
Total fixed income	<u>264,053</u>	<u>94,684</u>	<u>169,369</u>	<u>—</u>
Limited partnerships (other than real estate and private equity; primarily publicly traded securities):				
Distressed/credit	19,640	—	—	19,640
Diversified arbitrage and multi-strategy	48,540	—	—	48,540
Event arbitrage	30,381	—	—	30,381
Equity long/short	60,079	—	—	60,079
Global macro	15,304	—	—	15,304
Opportunistic and other	47,940	—	9,347	38,593
Total limited partnerships	<u>221,884</u>	<u>—</u>	<u>9,347</u>	<u>212,537</u>
Limited partnerships (real estate, private equity, and other)	18,263	—	4,245	14,018
Total investments	<u>1,099,340</u>	<u>440,996</u>	<u>424,665</u>	<u>233,679</u>
Beneficial interests in trusts	30,471	—	—	30,471
	<u>\$ 1,129,811</u>	<u>440,996</u>	<u>424,665</u>	<u>264,150</u>

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Assets	2011 Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 76,664	76,664	—	—
Common and preferred stock (directly held, publicly traded mutual fund(s), exchange-traded fund(s), and common trust fund(s)):				
U.S.	351,495	243,819	101,531	6,145
Foreign	197,648	933	196,715	—
Global	<u>5,870</u>	<u>—</u>	<u>5,870</u>	<u>—</u>
Total common and preferred stock	555,013	244,752	304,116	6,145
Fixed income (directly held, publicly traded mutual fund(s), and common trust fund(s)):				
U.S. Treasury and agency	109,083	—	109,083	—
U.S. corporate	60,115	27,746	32,369	—
Foreign currency denominated	59,450	26,041	33,409	—
Other (Floating Rate Notes, MBS, and Bank Loans)	<u>43,290</u>	<u>—</u>	<u>43,290</u>	<u>—</u>
Total fixed income	<u>271,938</u>	<u>53,787</u>	<u>218,151</u>	<u>—</u>
Limited partnerships (other than real estate and private equity; primarily publicly traded securities):				
Distressed/credit	26,659	—	—	26,659
Diversified arbitrage and multi-strategy	44,401	—	—	44,401
Event arbitrage	33,175	—	—	33,175
Equity long/short	58,445	—	—	58,445
Opportunistic and other	<u>42,844</u>	<u>—</u>	<u>8,433</u>	<u>34,411</u>
Total limited partnerships	<u>205,524</u>	<u>—</u>	<u>8,433</u>	<u>197,091</u>
Limited partnerships (real estate, private equity, and other)	<u>45,943</u>	<u>—</u>	<u>33,286</u>	<u>12,657</u>
Total investments	1,155,082	375,203	563,986	215,893
Beneficial interests in trusts	<u>31,912</u>	<u>—</u>	<u>—</u>	<u>31,912</u>
	<u>\$ 1,186,994</u>	<u>375,203</u>	<u>563,986</u>	<u>247,805</u>

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the years ended June 30, 2012 and 2011:

	Common stock and preferred stock	Real estate held by limited partnerships or directly	Private equity	Limited partnerships holding publicly traded securities	Other limited partnership and limited liability corporation holdings and other holdings	Beneficial interests in trust	Total
Beginning balance, July 1, 2011	\$ 6,145	4,299	3,961	197,091	4,397	31,912	247,805
Total gains or losses (realized and unrealized)	(115)	96	249	(3,518)	495	(1,722)	(4,515)
Purchases and issuances	1,294	—	—	58,500	700	327	60,821
Sales and settlements	(200)	—	—	(39,535)	(179)	(46)	(39,960)
Ending balance, June 30, 2012	<u>\$ 7,124</u>	<u>4,395</u>	<u>4,210</u>	<u>212,538</u>	<u>5,413</u>	<u>30,471</u>	<u>264,151</u>
Total gains or losses for 2012 included in income attributable to the change in unrealized gains (or losses) relating to assets held at June 30, 2012	\$ (115)	96	249	(6,742)	495	(1,722)	(7,739)

	Common stock and preferred stock	Real estate held by limited partnerships or directly	Private equity	Limited partnerships holding publicly traded securities	Other limited partnership and limited liability corporation holdings and other holdings	Beneficial interests in trust	Total
Beginning balance, July 1, 2010	\$ 3,812	3,080	3,202	158,131	4,300	28,499	201,024
Total gains or losses (realized and unrealized)	—	(26)	759	16,095	(320)	3,474	19,982
Purchases and issuances	2,528	1,245	—	33,500	277	—	37,550
Sales and settlements	(195)	—	—	(10,635)	140	(61)	(10,751)
Ending balance, June 30, 2011	<u>\$ 6,145</u>	<u>4,299</u>	<u>3,961</u>	<u>197,091</u>	<u>4,397</u>	<u>31,912</u>	<u>247,805</u>
Total gains or losses for 2011 included in income attributable to the change in unrealized gains (or losses) relating to assets held at June 30, 2011	\$ —	(26)	759	14,910	286	3,474	19,403

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 1, Level 2, or Level 3 for the years ended June 30, 2012 and 2011.

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, 2012:

Investments in common collective trust funds invested in publicly traded U.S., foreign, and global equity and debt securities totaling \$258,280,000 have redemption policies ranging from daily to monthly subject to redemption notice periods ranging from 1 to 30 days.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Investments in limited partnerships, other than real estate and private equity, totaling \$221,884,000 are subject to redemption policies ranging from monthly to annually with redemption notice periods ranging from 30 to 180 days. Approximately 35% 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.

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, 2011:

Investments in common collective trust funds invested in publicly traded U.S., foreign, and global equity and debt securities totaling \$365,353,000 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 \$205,524,000 are subject to redemption policies ranging from monthly to annually with redemption notice periods ranging from 30 to 180 days. Approximately 35% 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 \$7,629,000 are not redeemable. The outstanding capital commitments for various private equity funds totaled \$4,168,000 and \$6,556,000 at June 30, 2012 and 2011, respectively.

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, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Dividends and interest income	\$ 22,238	21,752
Net realized and unrealized losses on investments	(51,410)	133,407
Investment expenses	(3,452)	(3,269)
	<u>\$ (32,624)</u>	<u>151,890</u>

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(4) Contributions Receivable

Contributions receivable are expected to be received as follows at June 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 23,741	19,698
Due within two to five years	833	934
Due after five years	725	835
	<u>25,299</u>	<u>21,467</u>
Less discount to present value	(299)	(796)
	<u>25,000</u>	<u>20,671</u>
Less allowance for doubtful accounts	—	(36)
Total	<u>\$ 25,000</u>	<u>20,635</u>

(5) Leasehold Improvements and Equipment

Leasehold improvements and equipment are summarized as follows as of June 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Furniture	\$ 211	283
Office equipment and other	380	253
Computer equipment and software	626	777
Leasehold improvements	1,092	632
	<u>2,309</u>	<u>1,945</u>
Less accumulated depreciation and amortization	(828)	(1,040)
Leasehold improvements and equipment, net	<u>\$ 1,481</u>	<u>905</u>

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 31,337	21,665
Due within two to five years	14,400	11,651
Due after five years	<u>3,049</u>	<u>3,847</u>
	48,786	37,163
Less unamortized discount to reflect grants payable at present value	<u>(1,263)</u>	<u>(1,511)</u>
Total	<u>\$ 47,523</u>	<u>35,652</u>

(7) Note Payable and Line of Credit

In January 2011, 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 3.00% and extended the term to two years. This line was not drawn on during the years ended June 30, 2012 and 2011. The balance was \$0 at both June 30, 2012 and 2011.

In November 2011, the Foundation renewed its second line of credit with a financial institution to borrow up to \$25,000,000 with interest equal to the LIBOR-based rate plus 0.5% and a term of one year. This line was not drawn on during the years ended June 30, 2012 and 2011. The balance was \$0 at both June 30, 2012 and 2011.

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. Principal repayments are due as follows: two equal installments of \$667,000 each on August 24, 2019 and 2020 and one installment of \$666,000 in 2021. The balance at June 30, 2012 and 2011 was \$2,000,000.

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, 2012 and 2011.

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, 2012 and 2011 was \$1,000,000.

On December 20, 2010, this affiliate entered into a line-of-credit agreement with a financial institution for up to \$6,250,000 with an interest rate equal to the greater of 3.00% or the prime rate plus 0.25% per annum

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

and a term to January 1, 2013. The outstanding principal balance and unpaid interest are due and payable at the end of the term. The Foundation has entered into an agreement with the financial institution to guarantee the affiliate's indebtedness. No amounts were outstanding on this line of credit as of June 30, 2012 and 2011.

(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, 2012 (in thousands):

Fiscal year ending June 30:	
2013	\$ 696
2014	716
2015	738
2016	760
2017	783
Thereafter	<u>3,375</u>
	<u>\$ 7,068</u>

Rental expense totaled \$680,000 and \$490,000 for the fiscal years ended June 30, 2012 and 2011, respectively.

(b) Loan Guarantees

In December 2001, the Foundation entered into an agreement with an unaffiliated not-for-profit organization to be contingently liable for a continuing guaranty of indebtedness of up to \$1,800,000. The not-for-profit organization obtained a line of credit with a financial institution for the purpose of rehabilitation and improvement of real property to serve as a youth center. At June 30, 2012 and 2011, there was no outstanding balance under the line of credit. However, the not-for-profit organization is involved in a lawsuit with its contractors, which may result in future drawdowns on the line of credit. Accordingly, the financial institution has not released the Foundation from the guaranty, and the Foundation has no recourse provisions available under the agreement. In the opinion of management, any future requirement to satisfy this guaranty will not have a material adverse effect on the Foundation's consolidated financial position or changes in net assets.

(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.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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 \$509,000 and \$649,000 for the years ended June 30, 2012 and 2011, respectively.

(10) Net Assets

Temporarily restricted net assets consist of the following balances at June 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Remainder interest from split-interest agreements and bequests	\$ 20,962	23,953
Other assets restricted by time	<u>29,028</u>	<u>30,941</u>
	<u>\$ 49,990</u>	<u>54,894</u>

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 \$67,978,000 and \$67,392,000 as of June 30, 2012 and 2011, respectively.

(11) Endowment Funds

The Foundation follows the standards codified in 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.

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(b) Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies 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, 2012 and 2011, 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 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, 2012 and 2011 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, 2012 and 2011 is as follows (in thousands). The Foundation has no board-designated endowments at June 30, 2012 and 2011.

	2012			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Donor-restricted endowment funds	\$ 44,986	(2,765)	6,306	41,445

	2011			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Donor-restricted endowment funds	\$ 50,279	(1,532)	10,565	41,246

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Changes in donor-restricted endowment net assets for the fiscal years ended June 30, 2012 and 2011 follow (in thousands):

	2012			
	Total	Unrestricted	Temporarily restricted	Permanently restricted
Endowment assets, beginning of year	\$ 50,279	(1,532)	10,565	41,246
Investment return:				
Investment income	1,068	—	1,068	—
Net unrealized and realized losses	<u>(3,266)</u>	<u>(1,233)</u>	<u>(2,033)</u>	<u>—</u>
Total investment return	(2,198)	(1,233)	(965)	—
Contributions	199	—	—	199
Appropriation of endowment assets for expenditure	<u>(3,294)</u>	<u>—</u>	<u>(3,294)</u>	<u>—</u>
Endowment assets, end of year	\$ <u><u>44,986</u></u>	<u><u>(2,765)</u></u>	<u><u>6,306</u></u>	<u><u>41,445</u></u>
	2011			
	Total	Unrestricted	Temporarily restricted	Permanently restricted
Endowment assets, beginning of year	\$ 42,550	(3,024)	4,616	40,958
Investment return:				
Investment income	1,125	—	1,125	—
Net unrealized and realized losses	<u>9,827</u>	<u>1,492</u>	<u>8,335</u>	<u>—</u>
Total investment return	10,952	1,492	9,460	—
Contributions	288	—	—	288
Appropriation of endowment assets for expenditure	<u>(3,511)</u>	<u>—</u>	<u>(3,511)</u>	<u>—</u>
Endowment assets, end of year	\$ <u><u>50,279</u></u>	<u><u>(1,532)</u></u>	<u><u>10,565</u></u>	<u><u>41,246</u></u>

CALIFORNIA COMMUNITY FOUNDATION AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
Permanently restricted net assets:		
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 41,445	41,246
Contributions receivable	2,541	523
Beneficial interests in perpetual trusts	<u>23,992</u>	<u>25,623</u>
Total permanently restricted net assets	\$ <u>67,978</u>	<u>67,392</u>
Temporarily restricted net assets:		
The portion of endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions for spending	\$ <u>6,306</u>	<u>10,565</u>
Total endowment funds classified as temporarily restricted net assets	6,306	10,565
Split-interest agreements and contributions receivable	<u>43,684</u>	<u>44,329</u>
Total temporarily restricted net assets	\$ <u>49,990</u>	<u>54,894</u>

(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 \$2,765,000 and \$1,532,000 as of June 30, 2012 and 2011, respectively.

(12) Subsequent Events

The Foundation evaluated events or transactions that occurred subsequent to the balance sheet date through October 19, 2012, the date the accompanying consolidated financial statements were available to be issued.