



Certified Public Accountants, LLP

PASADENA COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pasadena Community Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Pasadena Community Foundation (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2017, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pasadena Community Foundation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited Pasadena Community Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California

August 1, 2018

PASADENA COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2017

With comparative totals at December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
ASSETS					
Cash	\$ 991,245	\$ -	\$ -	\$ 991,245	\$ 685,265
Prepaid expense	13,919			13,919	8,385
Investments (Note 3)	41,200,326	11,635,310	26,760,925	79,596,561	63,801,207
TOTAL ASSETS	\$ 42,205,490	\$ 11,635,310	\$ 26,760,925	\$ 80,601,725	\$ 64,494,857
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 70,434	\$ -	\$ -	\$ 70,434	\$ 70,400
Accrued liabilities	117,490			117,490	83,718
Agency funds (Note 6)	3,478,791			3,478,791	2,131,986
TOTAL LIABILITIES	3,666,715	-	-	3,666,715	2,286,104
NET ASSETS					
Unrestricted:					
Undesignated	2,418,669			2,418,669	1,852,618
Donor-advised funds	12,833,906			12,833,906	10,577,483
Board designated/quasi endowment	23,286,200			23,286,200	20,156,104
Temporarily restricted (Note 9)		11,635,310		11,635,310	6,343,377
Permanently restricted (Note 10)			26,760,925	26,760,925	23,279,171
TOTAL NET ASSETS	38,538,775	11,635,310	26,760,925	76,935,010	62,208,753
TOTAL LIABILITIES AND NET ASSETS	\$ 42,205,490	\$ 11,635,310	\$ 26,760,925	\$ 80,601,725	\$ 64,494,857

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
REVENUE AND SUPPORT					
SUPPORT					
Contributions and bequests	\$ 6,699,057	\$ 606,460	\$ 3,344,226	\$ 10,649,743	\$ 17,006,959
Less: amounts received for agency funds	(894,816)			(894,816)	(342,210)
	5,804,241	606,460	3,344,226	9,754,927	16,664,749
Special events, net of expense of \$142,816	226,134			226,134	-
Total support	6,030,375	606,460	3,344,226	9,981,061	16,664,749
REVENUE					
Management fund fees				-	46,350
Agency fund fees	26,875			26,875	18,666
Other income	19,129			19,129	21,065
Change in value of split-interest agreement				-	(55,124)
Investment income, net (Note 3)	5,435,722	6,182,225		11,617,947	3,259,545
Total revenue	5,481,726	6,182,225	-	11,663,951	3,290,502
Net assets released from purpose restrictions (Note 9)	1,636,058	(1,636,058)		-	-
TOTAL REVENUE AND SUPPORT	13,148,159	5,152,627	3,344,226	21,645,012	19,955,251
EXPENSES					
Program	6,344,702			6,344,702	7,317,875
Administrative and general	324,352			324,352	236,134
Development	249,701			249,701	298,297
TOTAL EXPENSES	6,918,755	-	-	6,918,755	7,852,306
CHANGE IN NET ASSETS	6,229,404	5,152,627	3,344,226	14,726,257	12,102,945
NET ASSETS, BEGINNING OF YEAR	32,586,205	6,343,377	23,279,171	62,208,753	50,105,808
CHANGE IN DONOR INTENT (NOTE 2)	(276,834)	139,306	137,528	-	-
NET ASSETS, END OF YEAR	<u>\$ 38,538,775</u>	<u>\$ 11,635,310</u>	<u>\$ 26,760,925</u>	<u>\$ 76,935,010</u>	<u>\$ 62,208,753</u>

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

				Total Expenses	
	Program	Administrative and General	Development	2017	2016
GRANTS					
Donor advised grants	\$ 4,723,833	\$ -	\$ -	\$ 4,723,833	\$ 6,164,879
Discretionary grants	706,239			706,239	570,745
Field of interest grants	353,436			353,436	218,781
Charitable Gift Annuity Expense	125,102			125,102	-
Total grants	5,908,610	-	-	5,908,610	6,954,405
OPERATING EXPENSES					
Salaries	257,306	169,288	124,985	551,579	488,190
Employee benefits	47,753	31,418	23,196	102,367	91,467
Technology	28,573	18,799	13,879	61,251	-
Rent	27,250	17,928	13,236	58,414	56,799
Payroll taxes	20,245	13,320	9,834	43,399	38,045
Office expenses	17,534	11,536	8,517	37,587	50,530
Printing	16,245	10,688	7,891	34,824	28,125
Professional fees	1,283	26,899		28,182	33,020
Marketing expense			23,274	23,274	51,343
Membership dues	3,651	10,952	3,651	18,254	14,916
Event expense			17,365	17,365	17,987
Conference and meetings	8,277	8,277		16,554	10,232
Insurance	4,850	3,191	2,356	10,397	11,492
Telephone	1,829	1,203	888	3,920	3,666
Postage	1,296	853	629	2,778	2,089
Total operating expenses	436,092	324,352	249,701	1,010,145	897,901
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 6,344,702	\$ 324,352	\$ 249,701	\$ 6,918,755	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 7,317,875	\$ 236,134	\$ 298,297		\$ 7,852,306

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 14,726,257	\$ 12,102,945
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Contributions of donated securities	(3,765,686)	(12,681,406)
Reinvested interest and dividends	(2,049,594)	(1,647,579)
Realized and unrealized (gain) on investments, net	(10,064,334)	(1,754,132)
Permanently restricted contributions received	(3,344,226)	(12,153,854)
Change in value of split-interest agreement	-	55,124
(Increase) decrease in operating assets:		
Contributions receivable	-	2,500
Prepaid expense	(5,534)	11,105
Increase (decrease) in operating liabilities:		
Accounts payable	34	19,674
Accrued expenses	33,772	22,865
Agency funds	1,346,805	430,314
NET CASH (USED) BY OPERATING ACTIVITIES	(3,122,506)	(15,592,444)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of investments	3,798,538	9,609,266
Purchases of investments	(3,714,278)	(6,591,844)
NET CASH PROVIDED BY INVESTING ACTIVITIES	84,260	3,017,422
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions received	3,344,226	12,153,854
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,344,226	12,153,854
NET INCREASE (DECREASE) IN CASH	305,980	(421,168)
CASH, BEGINNING OF YEAR	685,265	1,106,433
CASH, END OF YEAR	\$ 991,245	\$ 685,265

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

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Pasadena Community Foundation (“the Foundation”) is a California nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and a non-private foundation under Section 509(a)(1) of the Internal Revenue Code. The Foundation strives to improve and enrich lives of people in the greater Pasadena area. The Foundation accomplishes this through the establishment and management of charitable funds with an emphasis on permanently endowed funds that benefit the local community, providing grants and services to non-profits, working with donors and engaging in community partnerships.

The Foundation was established in 1953 by Louis and Marion Webb primarily for the benefit of the community of Pasadena. Contributions from hundreds of donors through the years have added to the assets of the corporation, ensuring support for the community in perpetuity. The Foundation administers more than 350 funds, each established with an instrument of gift describing either the general or specific purposes for which grants are to be made. The Foundation’s Board members, consisting of local community members, provide oversight of the general affairs, property, and assets of the Foundation.

2. **Summary of Significant Accounting Policies**

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

Basis of Presentation

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

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted - Undesignated. Consist of donations and bequests that are available for the operations and future reserves of the Foundation.

Unrestricted - Donor-Advised Funds. Unrestricted net assets designated as donor-advised funds are owned and controlled by the Foundation for which the donor has or reasonably expects to have advisory privileges over the distribution and/or investment of the assets. In general, the money is not authorized for operation use. For purposes of complying with net asset accounting, this fund is included in unrestricted net assets at December 31, 2017.

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Unrestricted - Quasi Endowment. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as quasi endowment fund for granting purposes. Generally accepted accounting principles provide that when the governing body of an organization, such as a community foundation, has the unilateral power to redirect the use of donors' contributions to another beneficiary, such contributions must be classified as unrestricted net assets. The Board of Directors of the Foundation has such power (variance power). However, the Board of Directors would exercise this authority if the stated purpose of a contribution is no longer applicable and incapable of fulfillment. It is the expressed intention of the Foundation to honor the designations of the donors. For purposes of complying with net asset accounting, this fund is included in unrestricted net assets at December 31, 2017.

Temporarily Restricted. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets for a specific purpose or are not available for use until a specific time. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets consist of contributions that are limited by donor-imposed stipulations to invest the principal in perpetuity and to expend the income by making distributions from permanently endowed funds as grants for charitable purposes.

During the fiscal year ended December 31, 2017, there was a change in donor intent which reclassified \$276,834 from unrestricted net assets to \$139,306 of temporarily restricted net assets and \$137,528 of permanently restricted net assets. This change in intent had no effect on total net assets at December 31, 2017.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Concentration of Credit Risks

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

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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

Investments

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

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Interest and dividend income is recorded when earned. Gains or losses, and interest and dividend income, are reflected in the Statement of Activities as investment income, net (see Note 3).

Fair Value Measurements

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

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

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

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

The Foundation is required to measure certain investments and donated securities at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Property and Equipment

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

Donated equipment and furniture, the value of which does not meet its criteria for capitalization, are expensed when donated.

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended December 31, 2017, the Foundation did not receive any donated materials or services that met the criteria for recognition.

Income Taxes

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

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

Functional Allocation of Expenses

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

Use of Estimates

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

Comparative Totals

These financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events through August 1, 2018, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure on the financial statements.

3. Investments

Investments at December 31, 2017 consist of the following:

Equities	\$56,233,220
Fixed income	21,871,428
Other assets	523,617
Cash and cash equivalents	487,640
Real estate investment trust ("REIT")	<u>480,656</u>
	<u>\$79,596,561</u>

In accordance with the Foundation's policy to honor the expressed designations of the donors, expendable donor funds are invested in short-term accounts to meet the donor advised granting needs. As of December 31, 2017, there was approximately \$12.8 million in the expendable donor-advised funds in accounts at investment institutions.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Investment income, net:</u>			
Dividends and interest income	\$1,050,182	\$ 999,412	\$ 2,049,594
Realized and unrealized gain on investments	4,907,508	5,211,388	10,118,896
Investment management fees	<u>(25,987)</u>	<u>(28,575)</u>	<u>(54,562)</u>
Investment income, net	<u>\$5,931,703</u>	<u>\$6,182,225</u>	<u>\$12,113,928</u>

Included in the investment income, net above is agency funds activity. Below is a reconciliation of the Foundation investment income, net that is reported on the Statement of Activities:

Investment income, net	\$12,113,928
Less: agency dividends and interest income	(84,805)
Less: agency realized and unrealized gain on investments	(413,424)
Add: agency investment management fees	<u>2,248</u>
	<u>\$11,617,947</u>

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Property and Equipment

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

Computer software	\$ 50,510
Less: accumulated depreciation	<u>(50,510)</u>
	<u>\$ _____</u>

No depreciation expense was recorded for the year ended December 31, 2017.

5. Donor-Advised Funds

The Foundation administers various “Donor-Advised Funds”. A Donor-Advised (“DA”) Fund: (1) is a separately identified fund established by a donor, or group of donors, with an instrument of gift describing the general or specific purposes of the funds; (2) is owned and controlled by a sponsoring organization (the Foundation); and, (3) allows a donor, or person designated by the donor, advisory privileges with respect to the distribution of the charitable funds.

At December 31, 2017, the Foundation had a combined value of approximately \$19.6 million of donor-advised funds that are included with the unrestricted and restricted assets of the Foundation.

6. Agency Funds

Generally accepted accounting principles specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency funds.

The Foundation maintains variance power and legal ownership of agency funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with generally accepted accounting principles, a liability has been established for the fair market value of the funds.

At December 31, 2017, the Foundation was the owner of seventeen agency funds with a combined value of \$3,478,791. All financial activity for the year related to these funds is segregated on the Statement of Activities and has been included in the agency funds liability. Investment income earned on these funds, net of fees, is disclosed at Note 3.

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

7. Commitments and Contingencies

Obligation Under an Operating Lease

The Foundation leases a facility under an operating lease. Future minimum payments, by year and in the aggregate, under this lease with initial or remaining term of one year or more, consist of the following:

<u>Year ended December 31,</u>	
2018	\$ 61,737
2019	<u>43,670</u>
	<u>\$105,407</u>

Rent expense under the operating lease for the year ended December 31, 2017 was \$49,314.

8. Fair Value Measurements

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities:				
Domestic stocks	\$33,534,486	\$ -	\$ -	\$33,534,486
International equity	22,232,628			22,232,628
Large cap growth	178,973			178,973
Large cap value	133,038			133,038
Small/mid cap growth	69,996			69,996
Small/mid cap value	68,477			68,477
Equities blend	15,622			15,622
Fixed income:				
Investment grade fixed	15,586,573			15,586,573
Ultra-short bond fund	5,922,904			5,922,904
Long term bonds		123,190		123,190
Int. term bonds		111,928		111,928
Short term bonds		103,362		103,362
Fixed income blend	23,471			23,471
Other assets:				
REIT			480,656	480,656
Other mutual funds	348,492			348,492
Exchange-traded fund	137,787			137,787
Other	37,338			37,338
Cash and cash equivalent:	<u>487,640</u>			<u>487,640</u>
	<u>\$78,777,425</u>	<u>\$338,480</u>	<u>\$480,656</u>	<u>\$79,596,561</u>

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

8. Fair Value Measurements, continued

The fair value of equities, investment grade fixed income funds, ultra-short bond funds, and the fixed income blend funds, mutual funds, exchange-traded fund, other funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

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

The fair value of the REIT is measured on a recurring basis based on information provided by the dealer of record, which was the best available information (Level 3 inputs). The information below presents the activity of the REIT (Level 3 inputs) for the year ended December 31, 2017.

Beginning balance, January 1, 2017	\$ 3,436
Donated securities - REIT	500,000
Change in value	<u>(22,780)</u>
Ending balance, December 31, 2017	<u>\$480,656</u>

The table below present transactions measured at fair value on a non-recurring basis during the year ended December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed securities	<u>\$3,265,686</u>	<u>\$ -</u>	<u>\$500,000</u>	<u>\$3,765,686</u>

The fair value of contributed securities has been measured on a non-recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of the contributed securities (REIT) is measured on a non-recurring basis based on information provided by the dealer of record at the date of donation, which was the best available information (Level 3 inputs).

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 consist of the following:

Unspent endowment earnings	\$ 7,765,777
Library fund	1,654,770
Senior fund	609,988
Education fund	380,336
Designated fund	345,607
Fiscal sponsor	283,817
Scholarship fund	279,970
Human services fund	179,802
Environment fund	93,521
Youth fund	37,501
Arts fund	<u>4,221</u>
	<u>\$11,635,310</u>

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Temporarily Restricted Net Assets, continued

For the year ended December 31, 2017, net assets released from purpose restrictions were \$1,636,058, which related to grants given and grant administration fees.

10. Permanently Restricted Net Assets and Endowment Fund

Permanently restricted net assets at December 31, 2017 consist of the following:

Field of interest endowments	\$10,830,770
Designated endowments	6,178,480
Donor advised endowments	4,690,781
Undesignated endowments	3,443,788
Scholarship endowments	<u>1,617,106</u>
	<u>\$26,760,925</u>

Permanently restricted net assets represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends from there may be expended for unrestricted purposes.

Generally accepted accounting principles provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). It also requires additional disclosures about an organization's endowment funds (both Donor-restricted endowment funds and Board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Foundation classifies as permanently restricted net assets, (a) the original value of the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument as the time the accumulation is added to the fund. Accumulated earnings as well as gains and losses related to endowment assets have been classified as temporarily restricted until they are appropriated by the Board for use in current operations. The Foundation considers that appropriation occurs as part of its annual budget approval process when its decision is made to spend some or all of the accumulated earnings.

From time to time, the fair values of endowment assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, declines of this nature are reported as losses first in temporarily restricted net assets, if any are available, then in unrestricted net assets. As values recover, the increases are reported first as unrestricted gains, then as temporarily restricted gains, until the previous declines have been recovered.

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

10. Permanently Restricted Net Assets and Endowment Fund, continued

Investment Policy

According to the Foundation's investment guidelines, the Foundation's permanently endowed assets are currently invested in the Foundation's investment portfolio managed by the Foundation's professional money managers. The Foundation makes distributions from investment income earned on permanently endowed funds as grants for charitable purposes. The amount distributed for grants each year is determined by the current spending rate, which is set by the Foundation's Board of Directors.

The primary long-term financial objective is to preserve and enhance the real (inflation adjusted) purchasing power of the portfolio, net of annual distributions for grants and expenses. This objective should be achieved over rolling five-year periods on total return basis.

The portfolio should earn an average annual return sufficient to meet the Foundation's annual payout, net of investment management fees for grants and expenses that at least keep pace with inflation over time. The Foundation's spending rate is 3.4% (grants and administrative fees) and is reviewed annually.

Over the long-term, investment returns coupled with the spending rate are designed to maintain or increase a fund's payout over time in real dollars. Because of the short-term volatility in rates of return for those investments, the total return could be negative at times. At such a time, especially for new funds, the balance of a fund could drop below the historic gift value. Historic gift value is defined as the total dollars of the original gift at the date the gift is contributed for endowment. The Foundation may continue to calculate and pay out a grant amount even if such a payout would expend historic gift amounts. Over the long-term, investment returns will recover short-term losses and, meanwhile, grants will still flow to the community. However, no grant payout will be scheduled if that payout would reduce the endowment fund balance to less than 80% of the historic gift value.

By limiting fluctuations in distributions, this method of determining the amount available for distribution helps to accomplish three goals: (a) to protect the principal of each fund so that it will last in perpetuity; (b) to help the principal grow over time; and (c) to give the Foundation's grantees the benefit of a reasonably stable, consistent, and predictable flow of funds.

The Foundation employs a total return investment policy with the objective of preserving the endowment's capital, protecting the purchasing power of the funds, and providing cash flows to assist in the funding of the Foundation's grants and expenses.

With this long-term objective in mind, the portfolio shall be invested in a diversified portfolio of common stocks, bonds, cash equivalents, exchange traded funds, and mutual funds. The investments shall be diversified within asset classes (for example, equities shall be diversified by economic sector, industry, quality and capitalization). Portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance.

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

10. Permanently Restricted Net Assets and Endowment Fund, continued

Significant information about endowed assets is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted (Endowment)</u>	<u>Total</u>
<u>Change in endowment assets:</u>				
Beginning balance January 1, 2017	\$20,156,104	\$2,882,770	\$23,279,171	\$46,318,045
Additions	9,648		3,344,226	3,353,874
Change in donor intent	(276,834)	139,306	137,528	-
Appropriation of endowment assets for expenditure	(681,031)	(980,445)		(1,661,476)
Dividends and interest income	647,749	925,564		1,573,313
Realized and unrealized gain on investments	3,449,351	4,825,053		8,274,404
Investment management fees	(18,787)	(26,471)		(45,258)
Ending balance December 31, 2017	<u>\$23,286,200</u>	<u>\$7,765,777</u>	<u>\$26,760,925</u>	<u>\$57,812,902</u>
<u>Endowment composition:</u>				
Board designated/quasi endowment	\$23,286,200	\$ -	\$ -	\$23,286,200
Donor restricted endowment		<u>7,765,777</u>	<u>26,760,925</u>	<u>34,526,702</u>
	<u>\$23,286,200</u>	<u>\$7,765,777</u>	<u>\$26,760,925</u>	<u>\$57,812,902</u>

11. Related Party Transactions

The Foundation's Board has adopted a conflict of interest policy and reaffirms its belief that its mission is fostered by having on the Board persons active in the community, including those who serve on the boards of organizations who are or may become grant recipients. The conflict of interest policy is intended to assure grantees and donors to the Foundation that decisions of the Foundation are made objectively with full knowledge of the involvement, if any, of the Board and staff and their immediate family members with grant-seeking agencies. During the year ended December 31, 2017, the Foundation gave \$102,387 to seven such philanthropic organizations. Board members with an affiliation with the grantees do not vote on those grants.

12. Pension Plan

The Foundation's Board has established a 403(b) custodial plan for eligible full-time employees. Under the plan, employees may defer a percentage of their income up to the maximum allowed by the Internal Revenue Service. The Foundation's Board approved a discretionary contribution of \$57,153 to the plan for the year ended December 31, 2017.

The Foundation also has a deferred compensation plan under Section 457 of the Internal Revenue Code for the Chief Executive Officer. The Foundation's contributions under this plan were \$18,000 for the year ended December 31, 2017.