

**PASADENA COMMUNITY FOUNDATION**

---

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**PASADENA**  
234 E Colorado Blvd  
Suite M150  
Pasadena, CA 91101  
p: 626.403.6801

**A Trusted Nonprofit Partner**

Main Fax: 626.403.6866

[www.npocpas.com](http://www.npocpas.com)

**OAKLAND**  
1901 Harrison Street  
Suite 1150  
Oakland, CA 94612  
p: 510.379.1182

## CONTENTS

---

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-19

## 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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Harrington Group*

Pasadena, California

July 31, 2019

**PASADENA COMMUNITY FOUNDATION**

STATEMENT OF FINANCIAL POSITION

December 31, 2018

With comparative totals at December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018	2017
<b>ASSETS</b>				
Cash	\$ 742,189	\$ 79,662	\$ 821,851	\$ 991,245
Accounts receivable	5,850		5,850	-
Prepaid expense	491		491	13,919
Investments (Note 4)	38,510,020	38,550,329	77,060,349	79,596,561
<b>TOTAL ASSETS</b>	<b>\$ 39,258,550</b>	<b>\$ 38,629,991</b>	<b>\$ 77,888,541</b>	<b>\$ 80,601,725</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 132,523	\$ -	\$ 132,523	\$ 70,434
Accrued liabilities	103,071		103,071	117,490
Agency funds (Note 6)	3,441,611		3,441,611	3,478,791
<b>TOTAL LIABILITIES</b>	<b>3,677,205</b>	<b>-</b>	<b>3,677,205</b>	<b>3,666,715</b>
<b>NET ASSETS</b>				
Without Donor Restrictions:				
Undesignated	2,132,629		2,132,629	2,418,669
Donor-advised funds	11,725,017		11,725,017	12,833,906
Board designated/quasi endowment	21,723,699		21,723,699	23,286,200
With Donor Restrictions:				
Purpose restrictions (Note 9)		6,946,965	6,946,965	3,869,533
Perpetual in nature (Note 9 and 10)		31,683,026	31,683,026	34,526,702
<b>TOTAL NET ASSETS</b>	<b>35,581,345</b>	<b>38,629,991</b>	<b>74,211,336</b>	<b>76,935,010</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 39,258,550</b>	<b>\$ 38,629,991</b>	<b>\$ 77,888,541</b>	<b>\$ 80,601,725</b>

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

**PASADENA COMMUNITY FOUNDATION**

STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018	2017
<b>REVENUE AND SUPPORT</b>				
<b>SUPPORT</b>				
Contributions and bequests	\$ 3,539,210	\$ 5,172,734	\$ 8,711,944	\$ 10,649,743
Less: amounts received for agency funds	(349,726)		(349,726)	(894,816)
	3,189,484	5,172,734	8,362,218	9,754,927
Special events, net of expense of \$0			-	226,134
Total support	3,189,484	5,172,734	8,362,218	9,981,061
<b>REVENUE</b>				
Other income	13,024	11,446	24,470	46,004
Investment (loss)/gain, net (Note 4)	(2,082,958)	(2,651,937)	(4,734,895)	11,617,947
Total revenue	(2,069,934)	(2,640,491)	(4,710,425)	11,663,951
Net assets released from restrictions (Note 9)	1,937,726	(1,937,726)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	3,057,276	594,517	3,651,793	21,645,012
<b>EXPENSES</b>				
Program	5,757,022		5,757,022	6,344,702
Administrative and general	284,588		284,588	324,352
Development	333,857		333,857	249,701
<b>TOTAL EXPENSES</b>	6,375,467	-	6,375,467	6,918,755
<b>CHANGE IN NET ASSETS</b>	(3,318,191)	594,517	(2,723,674)	14,726,257
<b>NET ASSETS, BEGINNING OF YEAR</b>	38,538,775	38,396,235	76,935,010	62,208,753
<b>CHANGE IN DONOR INTENT (NOTE 2)</b>	360,761	(360,761)	-	-
<b>NET ASSETS, END OF YEAR</b>	\$ 35,581,345	\$ 38,629,991	\$ 74,211,336	\$ 76,935,010

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

**PASADENA COMMUNITY FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	Program	Administrative and General	Development	Total Expenses	
				2018	2017
<b>GRANTS</b>					
Donor advised grants	\$ 4,356,478	\$ -	\$ -	\$ 4,356,478	\$ 4,723,833
Discretionary grants	584,911			584,911	706,239
Field of interest grants	172,486			172,486	353,436
Charitable gift annuity expenses	93,208			93,208	125,102
Total grants	5,207,083	-	-	5,207,083	5,908,610
<b>OPERATING EXPENSES</b>					
Salaries	343,325	151,192	170,614	665,131	551,579
Employee benefits	54,714	24,095	27,190	105,999	102,367
Marketing expenses			69,275	69,275	23,274
Rent	31,580	13,907	15,694	61,181	58,414
Technology	29,265	12,887	14,543	56,695	61,251
Payroll taxes	23,440	10,323	11,649	45,412	43,399
Professional fees	6,004	26,899		32,903	28,182
Office expenses	16,323	7,188	8,112	31,623	37,587
Conference and meetings	15,311	15,311		30,622	16,554
Printing	14,165	6,238	7,039	27,442	34,824
Membership dues	3,745	11,234	3,745	18,724	18,254
Insurance	7,453	3,282	3,704	14,439	10,397
Telephone	2,840	1,251	1,411	5,502	3,920
Postage	1,774	781	881	3,436	2,778
Event expenses				-	17,365
Total operating expenses	549,939	284,588	333,857	1,168,384	1,010,145
<b>TOTAL 2018 FUNCTIONAL EXPENSES</b>	<b>\$ 5,757,022</b>	<b>\$ 284,588</b>	<b>\$ 333,857</b>	<b>\$ 6,375,467</b>	
<b>TOTAL 2017 FUNCTIONAL EXPENSES</b>	<b>\$ 6,344,702</b>	<b>\$ 324,352</b>	<b>\$ 249,701</b>		<b>\$ 6,918,755</b>

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

**PASADENA COMMUNITY FOUNDATION**

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

With comparative totals for the year ended December 31, 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (2,723,674)	\$ 14,726,257
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Contributions of donated securities	(2,929,104)	(3,765,686)
Reinvested interest and dividends	(3,399,380)	(2,049,594)
Realized and unrealized loss (gain) on investments, net	8,401,371	(10,064,334)
Permanently restricted contributions received	(794,660)	(3,344,226)
(Increase) decrease in operating assets:		
Accounts receivable	(5,850)	-
Prepaid expenses	13,428	(5,534)
Increase (decrease) in operating liabilities:		
Accounts payable	62,089	34
Accrued expenses	(14,419)	33,772
Agency funds	(37,180)	1,346,805
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(1,427,379)</b>	<b>(3,122,506)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of investments	3,689,755	3,798,538
Purchase of investments	(3,226,430)	(3,714,278)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>463,325</b>	<b>84,260</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Permanently restricted contributions received	794,660	3,344,226
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>794,660</b>	<b>3,344,226</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(169,394)</b>	<b>305,980</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>991,245</b>	<b>685,265</b>
<b>CASH, END OF YEAR</b>	<b>\$ 821,851</b>	<b>\$ 991,245</b>

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 379 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.

#### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Without Donor Restrictions - Undesignated.** Consist of donations and bequests that are available for the operations and future reserves of the Foundation.

**Without Donor Restrictions - Donor-Advised Funds.** 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, these assets are included in “without donor restrictions” at December 31, 2018.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 2. Summary of Significant Accounting Policies, continued

**Without Donor Restrictions – Quasi Endowment.** Certain net assets have been designated by the Board of Directors to be maintained as quasi endowment funds 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 should be classified as "without donor restrictions". The Board of Directors of the Foundation has such power (variance power) and would exercise this authority if the stated purpose of a contribution is no longer applicable and incapable of fulfillment. For purposes of complying with net asset accounting, these assets are included in "without donor restrictions" at December 31, 2018.

**With Donor Restrictions – Purpose Restrictions.** The Foundation reports gifts of cash and other assets as "with donor restrictions" if they are received with donor stipulations that limit the use of the donated assets for a specific purpose. When a donor restriction expires, that is, when the purpose of the restriction is accomplished, these net assets are reclassified to "without donor restrictions" and reported in the Statement of Activities as net assets released from restrictions.

**With Donor Restrictions – Perpetual in Nature.** 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, 2018, there was a change in donor intent which reclassified \$360,761 from "with donor restrictions" to "without donor restrictions". This change in intent had no effect on total net assets at December 31, 2018.

#### **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.

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.

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 2. Summary of Significant Accounting Policies, continued

#### **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 4).

#### **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.

continued

# 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, 2018, 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.

#### **Reclassifications**

Certain amounts have been reclassified for the year ended December 31, 2017 to conform to the presentation for the year ended December 31, 2018.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 2. Summary of Significant Accounting Policies, continued

#### Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. The Foundation's financial statements for year ended December 31, 2018 are presented in accordance with ASU 2016-14.

#### Comparative Totals

The 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, 2017, from which the summarized information was derived.

#### Subsequent Events

Management has evaluated subsequent events through July 31, 2019, 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.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 3. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

Cash and cash equivalents for operations	\$1,332,798
Accounts receivable	5,850
Endowment spending-rate distributions and appropriations	<u>1,486,965</u>
	<u>\$2,825,613</u>

Net Assets Without Donor Restrictions - Donor Advised Funds total \$15,370,193. Although donors do not usually spend out their cash accounts in one year, these amounts could be made available if necessary.

Net Assets Without Donor Restrictions - Board-designated/quasi endowment of \$21,723,699 is subject to an annual spending rate of 4 percent. Although we do not intend to spend from this Board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments with PIMCO. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$1,068,724 as of December 31, 2018.

Our endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 4. Investments

Investments at December 31, 2018 consist of the following:

Equities	\$58,097,116
Fixed income	15,324,044
Other assets	2,227,030
Cash and cash equivalents	897,840
Real estate investment trust ("REIT")	<u>514,319</u>
	<u>\$77,060,349</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, 2018, there was approximately \$15.3 million in the expendable donor-advised funds in accounts at investment institutions.

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
<b><u>Investment income, net:</u></b>			
Dividends and interest income	\$ 1,746,593	\$ 1,652,787	<b>\$ 3,399,380</b>
Realized and unrealized loss on investments	(4,110,748)	(4,231,938)	<b>(8,342,686)</b>
Investment management fees	<u>(28,761)</u>	<u>(29,924)</u>	<u><b>(58,685)</b></u>
Investment loss, net	<u><b>\$(2,392,916)</b></u>	<u><b>\$(2,609,075)</b></u>	<u><b>\$(5,001,991)</b></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	\$ (5,001,991)
Less: agency dividends and interest income	(165,474)
Add: agency realized and unrealized loss on investments	429,638
Add: agency investment management fees	<u>2,931</u>
	<u><b>\$(4,734,896)</b></u>

### 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, 2018, the Foundation had a combined value of approximately \$21.3 million of donor-advised funds, of which \$11,725,017 are included in the "without donor restrictions" and \$9,645,518 are included in the "with donor restrictions" assets of the Foundation.

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 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, 2018, the Foundation was the owner of seventeen agency funds with a combined value of \$3,444,611. 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.

### 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 ending December 31,</u>	
2019	\$ 52,535
2020	52,920
2021	55,370
2022	58,800
2023	<u>29,400</u>
	<u>\$249,025</u>

Rent expense under the operating lease for the year ended December 31, 2018 was \$51,752.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

### 8. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities and equity funds	\$58,097,116	\$ -	\$ -	\$58,097,116
Fixed income funds	15,324,044			15,324,044
Other assets:				
Exchange-traded fund	1,828,321			1,828,321
REIT			514,319	514,319
Mutual funds	320,329			320,329
Alternative investments	78,380			78,380
Cash and cash equivalents	<u>897,840</u>			<u>897,840</u>
	<u>\$76,546,030</u>	<u>\$ -</u>	<u>\$514,319</u>	<u>\$77,060,349</u>

The fair value of equities, investment grade fixed income funds, mutual funds, exchange-traded funds, and alternative investments have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 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, 2018.

Beginning balance, January 1, 2018	\$480,656
Donated securities - REIT	-
Change in value	<u>33,663</u>
Ending balance, December 31, 2018	<u>\$514,319</u>

The table below present transactions measured at fair value on a non-recurring basis during the year ended December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed securities	<u>\$2,929,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,929,104</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).

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 9. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2018 are restricted for the following:

Purpose restrictions:

Housing/services for the elderly and/or disabled	\$3,645,176
Library	1,470,277
Seniors	541,488
Fiscal sponsor	378,810
Scholarship	363,700
Education	328,501
Enduring Heroes	112,750
Human services	61,375
Westminster Housing	34,773
Yes, Virginia	4,704
Arts	4,250
Youth	963
Environment	198
	<u>\$6,946,965</u>

Endowments (perpetual in nature) and subject to the Foundation endowment spending and appropriation policies:

Field of interest endowments	\$12,911,667
Designated endowments	6,441,706
Donor-advised endowments	6,000,342
Undesignated endowments	4,479,970
Scholarship endowments	<u>1,849,341</u>
	<u>\$31,683,026</u>

For the year ended December 31, 2018, net assets released from purpose restrictions were \$1,937,726, which related to grants given and grant administration fees from both endowed and specific purpose driven funds.

### 10. Endowments

Our endowments 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. Our endowments also include certain assets without donor restrictions that have been designated for endowment by the Board of the Foundation.

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.

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 10. Endowments, continued

The Foundation classifies as endowments (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 with donor restrictions 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, certain donor-restricted endowment funds may have fair values less than the principal donation (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under the law. At December 31, 2018, funds with original gifts valued of \$3,563,850, fair values of \$3,487,872, and deficiencies of \$75,978 were included in the net assets with donor restrictions.

	<u>Principal</u>	<u>Accumulated Earnings</u>	<u>Total</u>
Endowed funds not underwater	\$23,873,455	\$4,321,698	<b>\$28,195,153</b>
Endowed funds underwater	<u>3,563,851</u>	<u>(75,978)</u>	<u><b>3,487,873</b></u>
Total endowed funds	<u>\$27,437,306</u>	<u>\$4,245,720</u>	<u><b>\$31,683,026</b></u>

Most of the deficiencies shown above were fully recovered by the date of these audited financial statements. The recovery in value was largely due to favorable market fluctuations since the year-end.

#### 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 4.0% (grants and administrative fees) and is reviewed annually.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 10. Endowments, continued

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.

Significant information about endowed assets is as follows:

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
<b><u>Endowment composition:</u></b>			
Board designated/quasi endowment	\$21,723,699	\$ -	\$21,723,699
Donor restricted endowment – original donor gift to be maintained in perpetuity		27,437,305	27,437,305
Donor restricted endowment – accumulated earnings		<u>4,245,721</u>	<u>4,245,721</u>
	<u>\$21,723,699</u>	<u>\$31,683,026</u>	<u>\$53,406,725</u>

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

---

### 10. Endowments, continued

	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
<u>Change in endowment assets:</u>			
Beginning balance January 1, 2018	\$23,286,200	\$34,526,702	<b>\$57,812,902</b>
Additions	629,941	794,660	<b>1,424,601</b>
Change in donor intent	310,833	122,956	<b>433,789</b>
Appropriation of endowment assets for expenditure	(858,121)	(1,358,380)	<b>(2,216,501)</b>
Dividends, interest, and gains, net of fees	<u>(1,645,154)</u>	<u>(2,402,912)</u>	<b><u>(4,048,066)</u></b>
Ending balance December 31, 2018	<b><u>\$21,723,699</u></b>	<b><u>\$31,683,026</u></b>	<b><u>\$53,406,725</u></b>

### 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, 2018, the Foundation gave \$204,905 to eleven 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 \$57,884 to the plan for the year ended December 31, 2018.

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, 2018.