

**PASADENA COMMUNITY FOUNDATION**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

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## INDEPENDENT AUDITORS' REPORT

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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, 2019, 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, 2019, 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

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### Other Matter

#### *Report on Summarized Comparative Information*

We have previously audited Pasadena Community Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Harrington Group*

Pasadena, California

June 9, 2020

**PASADENA COMMUNITY FOUNDATION**

STATEMENT OF FINANCIAL POSITION

December 31, 2019

With comparative totals at December 31, 2018

	2019	2018
<b>ASSETS</b>		
Cash	\$ 1,235,976	\$ 821,851
Accounts receivable	-	5,850
Prepaid expense	10,401	491
Investments (Note 4)	106,349,992	77,060,349
<b>TOTAL ASSETS</b>	<b>\$ 107,596,369</b>	<b>\$ 77,888,541</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 357,815	\$ 132,523
Accrued liabilities	147,954	103,071
Agency funds (Note 6)	4,245,655	3,441,611
<b>TOTAL LIABILITIES</b>	<b>4,751,424</b>	<b>3,677,205</b>
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	2,673,685	2,132,629
Donor-advised funds	20,972,105	11,725,017
Board designated/quasi endowment	25,964,965	21,723,699
With donor restrictions:		
Purpose restrictions (Note 9)	13,198,099	6,946,965
Perpetual in nature (Notes 9 and 10)	40,036,091	31,683,026
<b>TOTAL NET ASSETS</b>	<b>102,844,945</b>	<b>74,211,336</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 107,596,369</b>	<b>\$ 77,888,541</b>

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

**PASADENA COMMUNITY FOUNDATION**

STATEMENT OF ACTIVITIES  
For the year ended December 31, 2019  
With comparative totals for the year ended December 31, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2019</b>	2018
<b>REVENUE AND SUPPORT</b>				
<b>SUPPORT</b>				
Contributions and bequests	\$ 12,601,412	\$ 7,547,879	\$ 20,149,291	\$ 8,711,944
Less: amounts received for agency funds	(131,610)		(131,610)	(349,726)
Total support	12,469,802	7,547,879	20,017,681	8,362,218
 <b>REVENUE</b>				
Other income	14,464		14,464	24,470
Investment gain/(loss), net (Note 4)	7,181,910	8,781,050	15,962,960	(4,734,895)
Total revenue	7,196,374	8,781,050	15,977,424	(4,710,425)
 Net assets released from restrictions (Note 9)	1,724,730	(1,724,730)	-	-
 <b>TOTAL REVENUE AND SUPPORT</b>	21,390,906	14,604,199	35,995,105	3,651,793
 <b>EXPENSES</b>				
Program	6,819,247		6,819,247	5,757,022
Administrative and general	260,749		260,749	284,588
Development	281,500		281,500	333,857
 <b>TOTAL EXPENSES</b>	7,361,496	-	7,361,496	6,375,467
 <b>CHANGE IN NET ASSETS</b>	14,029,410	14,604,199	28,633,609	(2,723,674)
 <b>NET ASSETS, BEGINNING OF YEAR</b>	35,581,345	38,629,991	74,211,336	76,935,010
 <b>NET ASSETS, END OF YEAR</b>	\$ 49,610,755	\$ 53,234,190	\$ 102,844,945	\$ 74,211,336

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

**PASADENA COMMUNITY FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2019

With comparative totals for the year ended December 31, 2018

	Program	Administrative and General	Development	Total Expenses	
				2019	2018
<b>GRANTS</b>					
Donor advised grants	\$ 4,402,297	\$ -	\$ -	\$ 4,402,297	\$ 4,356,478
Charitable gift annuity expenses	912,793			912,793	93,208
Discretionary grants	823,289			823,289	584,911
Field of interest grants	185,400			185,400	172,486
Total grants	6,323,779	-	-	6,323,779	5,207,083
<b>OPERATING EXPENSES</b>					
Salaries	292,249	136,033	153,716	581,998	665,131
Rent	31,025	14,441	16,318	61,784	61,181
Professional fees	32,828	26,899		59,727	32,903
Employee benefits	27,983	13,025	14,719	55,727	105,999
Technology	26,776	12,464	14,084	53,324	56,695
Marketing expenses			46,548	46,548	69,275
Payroll taxes	19,131	8,905	10,063	38,099	45,412
Conference and meetings	18,928	18,928		37,856	30,622
Office expenses	16,972	7,897	8,927	33,796	31,623
Printing	12,343	5,745	6,492	24,580	27,442
Insurance	9,785	4,555	5,147	19,487	14,439
Membership dues	3,310	9,931	3,310	16,551	18,724
Telephone	2,803	1,305	1,474	5,582	5,502
Postage	1,335	621	702	2,658	3,436
Total operating expenses	495,468	260,749	281,500	1,037,717	1,168,384
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b>\$ 6,819,247</b>	<b>\$ 260,749</b>	<b>\$ 281,500</b>	<b>\$ 7,361,496</b>	
<b>TOTAL 2018 FUNCTIONAL EXPENSES</b>	<b>\$ 5,757,022</b>	<b>\$ 284,588</b>	<b>\$ 333,857</b>		<b>\$ 6,375,467</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, 2019

With comparative totals for the year ended December 31, 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 28,633,609	\$ (2,723,674)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Contributions of donated securities	(10,073,456)	(2,929,104)
Contributions of real estate	(1,063,521)	-
Reinvested interest and dividends	(3,652,887)	(3,399,380)
Realized and unrealized (gain) loss on investments, net	(13,074,591)	8,401,371
Contributions received that are perpetual in nature	(2,656,173)	(794,660)
(Increase) decrease in operating assets:		
Accounts receivable	5,850	(5,850)
Prepaid expenses	(9,910)	13,428
Increase (decrease) in operating liabilities:		
Accounts payable	225,292	62,089
Accrued expenses	44,883	(14,419)
Agency funds	804,044	(37,180)
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(816,860)</b>	<b>(1,427,379)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of investments	2,128,771	3,689,755
Purchase of investments	(4,617,480)	(3,226,430)
Proceeds from sale of contributed real estate	1,063,521	-
<b>NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(1,425,188)</b>	<b>463,325</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions received that are perpetual in nature	2,656,173	794,660
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,656,173</b>	<b>794,660</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>414,125</b>	<b>(169,394)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>821,851</b>	<b>991,245</b>
<b>CASH, END OF YEAR</b>	<b>\$ 1,235,976</b>	<b>\$ 821,851</b>

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

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 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, 2019.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 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, 2019.

**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.

#### Revenue and Revenue Recognition

The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

#### 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.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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

#### **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.

#### **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.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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

#### **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.

#### **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, 2019, 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.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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

#### Recently Adopted Accounting Pronouncement

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. This ASU is effective to annual periods beginning after December 15, 2018. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements. The ASU has been applied retrospectively to all periods presented, with no effect on net assets.

#### 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, 2018, from which the summarized information was derived.

### 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 statement of financial position date, comprise the following:

Cash and cash equivalents for operations	\$1,453,000
Endowment spending-rate distributions and appropriations	<u>1,982,263</u>
	<u>\$3,435,263</u>

Net Assets Without Donor Restrictions - Donor Advised Funds total \$20,972,105. 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 \$25,964,965 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 \$1,268,724 as of December 31, 2019.

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.

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 4. Investments

Investments at December 31, 2019 consist of the following:

Equities	\$ 81,605,358
Fixed income	20,931,833
Other assets	3,298,578
Real estate investment trust (“REIT”)	265,957
Cash and cash equivalents	<u>248,266</u>
	<u>\$106,349,992</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, 2019, there was approximately \$19.9 million in the expendable donor-advised funds in accounts at investment institutions.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Investment income, net:</u>			
Dividends and interest income	\$1,543,632	\$1,944,199	\$ 3,487,831
Realized and unrealized loss on investments	5,665,828	6,893,267	12,559,095
Investment management fees	<u>(27,550)</u>	<u>(56,416)</u>	<u>(83,966)</u>
Investment loss, net	<u>\$7,181,910</u>	<u>\$8,781,050</u>	<u>\$15,962,960</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, 2019, the Foundation had a combined value of approximately \$32,397,718 million of donor-advised funds, of which \$20,972,105 are included in the “without donor restrictions” and \$11,425,613 are included in the “with donor restrictions” assets of the Foundation.

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 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, 2019, the Foundation was the owner of twenty-one agency funds with a combined value of \$4,245,655. 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>	
2020	\$ 52,650
2021	53,123
2022	53,602
2023	<u>27,002</u>
	<u>\$186,377</u>

Rent expense under the operating lease for the year ended December 31, 2019 was \$52,184.

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 8. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2019 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities and equity funds	\$ 81,605,358	\$ -	\$ -	\$ 81,605,358
Fixed income funds	20,931,833			20,931,833
Other assets:				
Exchange-traded funds	2,911,065			2,911,065
Mutual funds	294,139			294,139
REIT			265,957	265,957
Alternative investments	37,297			37,297
Other	56,077			56,077
Cash and cash equivalents	<u>248,266</u>	<u>-</u>	<u>-</u>	<u>248,266</u>
	<u>\$106,084,035</u>	<u>\$ -</u>	<u>\$265,957</u>	<u>\$106,349,992</u>

The fair value of equities, investment grade fixed income funds, exchange-traded funds, mutual funds, alternative investments, and cash and cash equivalents 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, 2019.

Beginning balance, January 1, 2019	\$ 514,319
Donated securities - REIT	-
Change in value	<u>(248,362)</u>
Ending balance, December 31, 2019	<u>\$ 265,957</u>

The table below present transactions measured at fair value on a non-recurring basis during the year ended December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed securities	\$10,073,456	\$ -	\$ -	\$10,073,456
Contributed real estate	<u>-</u>	<u>1,063,521</u>	<u>-</u>	<u>1,063,521</u>
	<u>\$10,073,456</u>	<u>\$1,063,521</u>	<u>\$ -</u>	<u>\$11,136,977</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 contributed real estate has been measured on a non-recurring basis using quoted prices for similar assets in inactive market (Level 2 inputs).

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 9. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 are restricted for the following:

Purpose restrictions:

Housing/services for the elderly/disabled	\$ 4,269,346
Oncology fellowship	3,059,036
Library	1,792,650
Scholarship	1,709,463
Fiscal sponsor	641,978
Seniors	639,650
Yes, Virginia	516,407
Education	284,605
Enduring Heroes	134,648
Human services	83,435
Westminster Housing	34,773
Palmer fund	25,700
Arts	4,250
Other	998
Youth	963
Environment	197
	<u>\$13,198,099</u>

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

Field of interest endowments	\$15,239,182
Designated endowments	9,786,749
Donor-advised endowments	7,156,267
Undesignated endowments	5,582,875
Scholarship endowments	<u>2,271,018</u>
	<u>\$40,036,091</u>

For the year ended December 31, 2019, net assets released from purpose restrictions were \$1,724,730, 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.

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 10. Endowments, continued

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 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.

#### 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

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### 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	\$25,964,965	\$ -	<b>\$25,964,965</b>
Donor restricted endowment – original donor gift to be maintained in perpetuity		31,278,792	<b>31,278,792</b>
Donor restricted endowment – accumulated earnings		<u>8,757,299</u>	<b><u>8,757,299</u></b>
	<u>\$25,964,965</u>	<u>\$40,036,091</u>	<b><u>\$66,001,056</u></b>

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 10. Endowments, continued

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Change in endowment assets:</u>			
Beginning balance January 1, 2019	\$21,723,699	\$31,683,026	\$53,406,725
Additions	105,831	2,656,173	2,762,004
Change in donor intent		(398,759)	(398,759)
Appropriation of endowment assets for expenditure	(922,624)	(1,345,313)	(2,267,937)
Dividends, interest, and gains, net of fees	<u>5,058,059</u>	<u>7,440,964</u>	<u>12,499,023</u>
Ending balance December 31, 2019	<u>\$25,964,965</u>	<u>\$40,036,091</u>	<u>\$66,001,056</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, 2019, the Foundation gave \$233,640 to ten 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 \$49,489 to the plan for the year ended December 31, 2019.

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 \$19,500 for the year ended December 31, 2019.

continued

# PASADENA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 13. Subsequent Events

#### COVID-19

Following the City of Pasadena, County of Los Angeles, and State of California “Safer-at-Home” orders to close all non-essential business activities, the Foundation has been conducting business as usual under the isolation protocols. The Foundation’s attorneys deemed that the Foundation is an essential business as it generates grants to nonprofits in the San Gabriel Valley.

The Foundation has postponed and/or cancelled events that were scheduled in the 2020 calendar year. The overall impact of the COVID-19 virus on the Foundation is not reflected in these financial statements since the fiscal year ended on December 31, 2019. Since then, the Foundation has been in constant communication with its Board members and has prepared a number of analyses evaluating the cash flow needs for the upcoming year. The Foundation has ascertained that there is enough cash flow to cover 2020’s modified expenses and therefore did not apply for the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP).

Also, as a result of COVID-19, the stock market experienced a significant decline in value. At March 20, 2020, the S&P 500 index had declined -20%, the Nasdaq composite index had declined 14.2% and the Dow Jones industrial average had declined 23.1%, all since December 31, 2019. The Foundation’s investments declined an estimated 17.53% in its first quarter of 2020. The Foundation’s Finance Committee has and will continue to monitor its investments by meeting more frequently - and will continuously monitor the Foundation’s investment strategies.

Management has evaluated subsequent events through June 9, 2020, the date which the financial statements were available for issue. No events or transactions, other than those noted above, have occurred during this period that appear to require recognition or disclosure in the financial statements.