



PASADENA COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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

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	7-18



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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California

June 29, 2021

PASADENA COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2020

With comparative totals at December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020</u>	<u>2019</u>
ASSETS				
Cash	\$ 1,953,306	\$ 68,343	\$ 2,021,649	\$ 1,235,976
Prepaid expenses and other assets	172,852		172,852	126,455
Investments (Note 4)	62,694,553	64,839,957	127,534,510	106,233,938
TOTAL ASSETS	<u>\$ 64,820,711</u>	<u>\$ 64,908,300</u>	<u>\$ 129,729,011</u>	<u>\$ 107,596,369</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 106,180	\$ -	\$ 106,180	\$ 357,815
Accrued liabilities	213,096		213,096	147,954
Agency funds (Note 6)	4,804,086		4,804,086	4,245,655
TOTAL LIABILITIES	<u>5,123,362</u>	<u>-</u>	<u>5,123,362</u>	<u>4,751,424</u>
NET ASSETS				
Without donor restrictions:				
Undesignated	2,844,549		2,844,549	2,673,685
Donor-advised funds	26,126,303		26,126,303	20,972,105
Board designated/quasi endowment (Note 10)	30,726,497		30,726,497	25,964,965
With donor restrictions:				
Purpose restrictions (Note 9)		14,085,805	14,085,805	13,198,099
Perpetual in nature (Notes 9 and 10)		50,822,495	50,822,495	40,036,091
TOTAL NET ASSETS	<u>59,697,349</u>	<u>64,908,300</u>	<u>124,605,649</u>	<u>102,844,945</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 64,820,711</u>	<u>\$ 64,908,300</u>	<u>\$ 129,729,011</u>	<u>\$ 107,596,369</u>

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2020

With comparative totals for the year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2020	2019
REVENUE AND SUPPORT				
SUPPORT				
Contributions and bequests	\$ 10,446,292	\$ 4,855,897	\$ 15,302,189	\$ 20,149,291
Less: amounts received for agency funds	(98,968)		(98,968)	(131,610)
Total support	10,347,324	4,855,897	15,203,221	20,017,681
REVENUE				
Other income	15,000		15,000	14,464
Investment gain, net (Note 4)	7,097,845	9,347,500	16,445,345	15,962,960
Total revenue	7,112,845	9,347,500	16,460,345	15,977,424
Net assets released from restrictions (Note 9)	2,529,287	(2,529,287)	-	-
TOTAL REVENUE AND SUPPORT	19,989,456	11,674,110	31,663,566	35,995,105
EXPENSES				
Program	9,318,417		9,318,417	6,819,247
Administrative and general	299,420		299,420	260,749
Development	285,025		285,025	281,500
TOTAL EXPENSES	9,902,862	-	9,902,862	7,361,496
CHANGE IN NET ASSETS	10,086,594	11,674,110	21,760,704	28,633,609
NET ASSETS, BEGINNING OF YEAR	49,610,755	53,234,190	102,844,945	74,211,336
NET ASSETS, END OF YEAR	\$ 59,697,349	\$ 64,908,300	\$ 124,605,649	\$ 102,844,945

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2020

With comparative totals for the year ended December 31, 2019

	Program	Administrative and General	Development	Total Expenses	
				2020	2019
GRANTS					
Donor advised grants	\$ 5,386,994	\$ -	\$ -	\$ 5,386,994	\$ 4,402,297
COVID response/discretionary grants	2,856,914			2,856,914	823,289
Field of interest grants and programs expenses	308,281			308,281	185,400
Charitable gift annuity expenses	75,609			75,609	912,793
Total grants	8,627,798	-	-	8,627,798	6,323,779
OPERATING EXPENSES					
Salaries	391,157	173,042	168,931	733,130	581,998
Employee benefits	54,784	24,236	23,660	102,680	55,727
Technology	38,973	17,241	16,831	73,045	53,324
Professional fees	60,025			60,025	59,727
Payroll taxes	31,752	14,047	13,713	59,512	38,099
Conference and meetings	29,127	29,127		58,254	37,856
Rent	30,835	13,641	13,317	57,793	61,784
Office expenses	26,901	9,998	5,456	42,355	33,796
Marketing/development expenses			30,070	30,070	46,548
Printing	15,774	6,978	6,812	29,564	24,580
Insurance	6,948	3,074	3,001	13,023	19,487
Membership dues	2,391	7,172	2,391	11,954	16,551
Postage	1,952	864	843	3,659	2,658
Telephone				-	5,582
Total operating expenses	690,619	299,420	285,025	1,275,064	1,037,717
TOTAL 2020 FUNCTIONAL EXPENSES	\$ 9,318,417	\$ 299,420	\$ 285,025	\$ 9,902,862	
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 6,819,247	\$ 260,749	\$ 281,500		\$ 7,361,496

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

With comparative totals for the year ended December 31, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 21,760,704	\$ 28,633,609
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Contributions of donated securities	(7,762,553)	(10,073,456)
Contributions of real estate	-	(1,063,521)
Reinvested interest and dividends	(4,182,883)	(3,652,887)
Realized and unrealized (gain) on investments, net	(12,960,818)	(13,074,591)
Contributions received that are perpetual in nature	(4,499,604)	(2,656,173)
(Increase) decrease in operating assets:		
Accounts receivable	-	5,850
Prepaid expenses	(46,397)	(9,910)
Increase (decrease) in operating liabilities:		
Accounts payable	(251,635)	225,292
Accrued expenses	65,142	44,883
Agency funds	558,431	804,044
NET CASH (USED) BY OPERATING ACTIVITIES	(7,319,613)	(816,860)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of investments	19,363,998	2,128,771
Purchase of investments	(15,758,316)	(4,617,480)
Proceeds from sale of contributed real estate	-	1,063,521
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	3,605,682	(1,425,188)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received that are perpetual in nature	4,499,604	2,656,173
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,499,604	2,656,173
NET INCREASE IN CASH	785,673	414,125
CASH, BEGINNING OF YEAR	1,235,976	821,851
CASH, END OF YEAR	\$ 2,021,649	\$ 1,235,976

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, 2020.

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, 2020.

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

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 are 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

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, 2020, 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.

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2019, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through June 29, 2021, 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 in the 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 statement of financial position date, comprise the following:

Cash and cash equivalents for operations	\$1,406,500
Endowment spending-rate distributions and appropriations	<u>2,461,938</u>
	<u>\$3,868,438</u>

Net Assets Without Donor Restrictions - Donor Advised Funds total \$26,126,303. 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 \$30,726,097 is subject to an annual spending rate of 4 percent as described in Note 2. 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 \$1,468,724 as of December 31, 2020.

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

4. Investments

Investments at December 31, 2020 consist of the following:

Equities	\$ 92,721,476
Fixed income	27,391,615
Closed end and exchange traded funds	3,104,585
Certificate of deposit	100,150
Other assets	354,913
Real estate investment trust (“REIT”)	436,639
Cash and cash equivalents	<u>3,425,132</u>
	<u>\$127,534,510</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, 2020, there was approximately \$26.1 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	\$1,747,673	\$2,259,251	\$ 4,006,924
Realized and unrealized loss on investments	5,384,601	7,150,176	12,534,777
Investment management fees	<u>(34,429)</u>	<u>(61,927)</u>	<u>(96,356)</u>
Investment loss, net	<u>\$7,097,845</u>	<u>\$9,347,500</u>	<u>\$16,445,345</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, 2020, the Foundation had a combined value of approximately \$38,841,935 million of donor-advised funds, of which \$26,126,303 are included in the “without donor restrictions” and \$12,715,632 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, 2020, the Foundation was the owner of twenty-one agency funds with a combined value of \$4,804,086. 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>	
2021	\$ 53,123
2022	53,602
2023	<u>27,002</u>
	<u>\$133,727</u>

Rent expense under the operating lease for the year ended December 31, 2020 was \$57,793.

Contingencies

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 continues to conduct business as usual, as an essential business, observing isolation protocols and offering remote work opportunities. The Foundation’s attorneys deemed that the Foundation is an essential business as it generates grants to nonprofits in the San Gabriel Valley.

Any overall long-term, financial impact of the COVID-19 virus on the Foundation cannot be foreseen at this time and is therefore not reflected in these financial statements.

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, 2020 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities and equity funds	\$ 92,721,476	\$ -	\$ -	\$ 92,721,476
Fixed income funds	27,391,615			27,391,615
Other assets:				
Exchange-traded funds	3,104,585			3,104,585
REIT			276,584	276,584
Alternative investments	50,833			50,833
Other	464,135			464,135
Certificate of deposit	100,150			100,150
	<u>\$123,832,794</u>	<u>\$ -</u>	<u>\$276,584</u>	<u>\$124,109,378</u>

The fair value of equities and equity funds, fixed income funds, exchange-traded funds, mutual funds, alternative investments, and certificate of deposit 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, 2020.

Beginning balance, January 1, 2020	\$265,957
Purchases	-
Sales	(3,377)
Change in value	14,064
Fees	<u>(60)</u>
Ending balance, December 31, 2020	<u>\$276,584</u>

The table below present transactions measured at fair value on a non-recurring basis during the year ended December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed securities	<u>\$7,762,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$7,762,553</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).

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2020 are restricted for the following:

Purpose restrictions:

Housing/services for the elderly/disabled	\$ 4,489,378
Oncology fellowship	3,321,099
Library	2,045,566
Scholarship	1,834,410
Fiscal sponsor	493,068
Seniors	717,536
Yes, Virginia	593,236
Education	239,488
Enduring Heroes	154,642
Human services	102,133
Westminster Housing	31,615
Palmer fund	56,488
Arts	5,888
Youth	1,061
Environment	197
	<u>\$14,085,805</u>

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

Field of interest endowments	\$21,839,155
Designated endowments	11,272,417
Donor-advised endowments	8,226,254
Undesignated endowments	6,909,432
Scholarship endowments	<u>2,575,237</u>
	<u>\$50,822,495</u>

For the year ended December 31, 2020, net assets released from purpose restrictions were \$2,529,287, 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

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.

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.

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

10. Endowments, continued

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:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Endowment composition:</u>			
Board designated/quasi endowment	\$30,726,497	\$ -	\$30,726,497
Donor restricted endowment – original donor gift to be maintained in perpetuity		35,778,396	35,778,396
Donor restricted endowment – accumulated earnings		<u>15,044,099</u>	<u>15,044,099</u>
	<u>\$30,726,497</u>	<u>\$50,822,495</u>	<u>\$81,548,992</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Change in endowment assets:</u>			
Beginning balance January 1, 2020	\$25,964,965	\$40,036,091	\$66,001,056
Additions	1,088,924	4,499,604	5,588,528
Dividends, interest, and gains, net of fees	4,488,547	7,775,752	12,264,299
Appropriation of endowment assets for expenditure	<u>(815,939)</u>	<u>(1,488,952)</u>	<u>(2,304,891)</u>
Ending balance December 31, 2020	<u>\$30,726,497</u>	<u>\$50,822,495</u>	<u>\$81,548,992</u>

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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, 2020, the Foundation gave \$275,000 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 \$74,224 to the plan for the year ended December 31, 2020.

The Foundation also has a deferred compensation plan under Section 457 of the Internal Revenue Code for the officers. The Foundation's contributions under this plan were \$39,000 for the year ended December 31, 2020.