

PASADENA COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pasadena Community Foundation

Opinion

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, 2021, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pasadena Community Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pasadena Community Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITORS' REPORT

continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pasadena Community Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pasadena Community Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

We have previously audited Pasadena Community Foundation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 29, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California
June 15, 2022

PASADENA COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2021

With comparative totals at December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	2021	2020
ASSETS				
Cash	\$ 1,648,674	\$ 33,982	\$ 1,682,656	\$ 2,021,649
Prepaid expense	16,484		16,484	172,852
Investments (Note 4)	71,681,725	87,491,251	159,172,976	127,534,510
TOTAL ASSETS	<u>\$ 73,346,883</u>	<u>\$ 87,525,233</u>	<u>\$ 160,872,116</u>	<u>\$ 129,729,011</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 608,088	\$ -	\$ 608,088	\$ 106,180
Accrued liabilities	281,427		281,427	213,096
Agency funds (Note 6)	6,417,550		6,417,550	4,804,086
TOTAL LIABILITIES	<u>7,307,065</u>	<u>-</u>	<u>7,307,065</u>	<u>5,123,362</u>
NET ASSETS				
Without donor restrictions:				
Undesignated	3,136,037		3,136,037	2,844,549
Donor-advised funds	29,267,708		29,267,708	26,126,303
Board designated/quasi endowment	33,636,073		33,636,073	30,726,497
With donor restrictions:				
Purpose restrictions (Note 9)		15,416,707	15,416,707	14,085,805
Perpetual in nature (Notes 9 and 10)		72,108,526	72,108,526	50,822,495
TOTAL NET ASSETS	<u>66,039,818</u>	<u>87,525,233</u>	<u>153,565,051</u>	<u>124,605,649</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 73,346,883</u>	<u>\$ 87,525,233</u>	<u>\$ 160,872,116</u>	<u>\$ 129,729,011</u>

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2021

With comparative totals for the year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021</u>	<u>2020</u>
REVENUE AND SUPPORT				
SUPPORT				
Contributions and bequests	\$ 7,287,982	\$ 17,197,430	\$ 24,485,412	\$ 15,302,189
Less: amounts received for agency funds	(1,063,641)		(1,063,641)	(98,968)
Total support	<u>6,224,341</u>	<u>17,197,430</u>	<u>23,421,771</u>	<u>15,203,221</u>
REVENUE				
Other income	12,157		12,157	15,000
Investment gain, net (Note 4)	6,676,919	8,431,058	15,107,977	16,445,345
Total revenue	<u>6,689,076</u>	<u>8,431,058</u>	<u>15,120,134</u>	<u>16,460,345</u>
Net assets released from restrictions (Note 9)	<u>3,339,644</u>	<u>(3,339,644)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>16,253,061</u>	<u>22,288,844</u>	<u>38,541,905</u>	<u>31,663,566</u>
EXPENSES				
Grantmaking and related services	8,693,699		8,693,699	9,318,417
Administrative and general	531,855		531,855	299,420
Development	<u>356,949</u>		<u>356,949</u>	<u>285,025</u>
TOTAL EXPENSES	<u>9,582,503</u>	<u>-</u>	<u>9,582,503</u>	<u>9,902,862</u>
CHANGE IN NET ASSETS	6,670,558	22,288,844	28,959,402	21,760,704
CHANGE IN DONOR RESTRICTIONS	(328,089)	328,089	-	-
NET ASSETS, BEGINNING OF YEAR	<u>59,697,349</u>	<u>64,908,300</u>	<u>124,605,649</u>	<u>102,844,945</u>
NET ASSETS, END OF YEAR	<u><u>\$ 66,039,818</u></u>	<u><u>\$ 87,525,233</u></u>	<u><u>\$ 153,565,051</u></u>	<u><u>\$ 124,605,649</u></u>

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2021

With comparative totals for the year ended December 31, 2020

	Grantmaking and Related Services	Administrative and General	Development	Total Expenses 2021	2020
GRANTS					
Donor advised grants	\$ 6,109,479	\$ -	\$ -	\$ 6,109,479	\$ 5,386,994
COVID-19 response/discretionary grants	1,477,000			1,477,000	2,856,914
Field of interest grants	453,356			453,356	308,281
Charitable gift annuity expenses	75,436			75,436	75,609
Total grants	8,115,271	-	-	8,115,271	8,627,798
OPERATING EXPENSES					
Salaries	367,814	270,200	187,840	825,854	733,130
Employee benefits	53,594	39,370	27,370	120,334	102,680
Professional fees		100,891		100,891	60,025
Technology	38,182	28,049	19,499	85,730	73,045
Office expenses	32,917	23,232	16,152	72,301	42,355
Payroll taxes	29,501	21,672	15,066	66,239	59,512
Marketing/development expenses			64,156	64,156	30,070
Rent	27,808	20,428	14,202	62,438	57,793
Printing	12,076	8,871	6,167	27,114	29,564
Insurance	6,292	4,622	3,213	14,127	13,023
Conference and meetings	6,088	6,088		12,176	58,254
Membership dues	2,375	7,124	2,375	11,874	11,954
Postage	1,781	1,308	909	3,998	3,659
Total operating expenses	578,428	531,855	356,949	1,467,232	1,275,064
TOTAL 2021 FUNCTIONAL EXPENSES	\$ 8,693,699	\$ 531,855	\$ 356,949	\$ 9,582,503	
TOTAL 2020 FUNCTIONAL EXPENSES	\$ 9,318,417	\$ 299,420	\$ 285,025		\$ 9,902,862

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

PASADENA COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

With comparative totals for the year ended December 31, 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS (TO) OPERATING ACTIVITIES:		
Change in net assets	\$ 28,959,402	\$ 21,760,704
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Contributions of donated securities	(4,622,743)	(7,762,553)
Reinvested interest and dividends	(6,328,256)	(4,182,883)
Realized and unrealized (gain) on investments, net	(8,779,721)	(12,960,818)
Contributions received that are perpetual in nature	(16,304,578)	(4,499,604)
(Increase) decrease in operating assets:		
Prepaid expenses	156,368	(46,397)
Increase (decrease) in operating liabilities:		
Accounts payable	501,908	(251,635)
Accrued expenses	68,331	65,142
Agency funds	<u>1,613,464</u>	<u>558,431</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>(4,735,825)</u>	<u>(7,319,613)</u>
CASH FLOWS (TO) FROM INVESTING ACTIVITIES:		
Sales of investments	2,769,713	19,363,998
Purchase of investments	<u>(14,677,459)</u>	<u>(15,758,316)</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(11,907,746)</u>	<u>3,605,682</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received that are perpetual in nature	<u>16,304,578</u>	<u>4,499,604</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>16,304,578</u>	<u>4,499,604</u>
NET (DECREASE) INCREASE IN CASH	(338,993)	785,673
CASH, BEGINNING OF YEAR	<u>2,021,649</u>	<u>1,235,976</u>
CASH, END OF YEAR	<u><u>\$ 1,682,656</u></u>	<u><u>\$ 2,021,649</u></u>

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, 2021.

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, 2021.

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 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.

continued

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, 2021, 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

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, 2020, from which the summarized information was derived.

3. Liquidity and Availability of Resources

Of the \$73 million of assets without donor restriction at December 31, 2021, available for general expenditure, within one year of the statement of financial position date, is the following:

Donor Advised Funds without restriction*	\$29,267,708
Budgeted endowment spending-rate distributions and appropriations**	2,953,946
Cash and cash equivalents earmarked for operations	<u>2,016,505</u>
	<u>\$34,238,159</u>

*Although donors do not usually spend out their cash accounts in one year, these amounts are available if necessary.

**The board-designated endowment of \$33,636,073 is subject to an annual spending rate of 4 percent as described in Note 2. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation shown above), 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 \$1,593,724 as of December 31, 2021.

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 expenditures.

continued

PASADENA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments at December 31, 2021 consist of the following:

Equities	\$122,928,674
Fixed income	30,347,633
Exchange traded funds	3,420,919
Bonds	1,253,496
Mutual funds	467,481
Other assets	296,745
Real estate investment trust ("REIT")	272,735
Cash and cash equivalents	<u>185,293</u>
	<u>\$159,172,976</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, 2021, there was approximately \$19.9 million in the expendable donor-advised funds in accounts at investment institutions.

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Investment income, net:</u>			
Dividends and interest income	\$2,476,228	\$3,852,028	\$ 6,328,256
Realized and unrealized loss on investments	4,244,418	4,648,384	8,892,802
Investment management fees	<u>(43,727)</u>	<u>(69,354)</u>	<u>(113,081)</u>
Investment loss, net	<u>\$6,676,919</u>	<u>\$8,431,058</u>	<u>\$15,107,977</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, 2021, the Foundation had a combined value of approximately \$44 million of donor-advised funds, of which \$29,267,708 are included in the "without donor restrictions" and \$14,800,528 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, 2021, the Foundation was the owner of twenty-one agency funds with a combined value of \$6,417,550. 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>	
2022	\$52,602
2023	<u>27,002</u>
	<u>\$79,604</u>

Rent expense under the operating lease for the year ended December 31, 2021 was \$52,938.

Impact of COVID -19 Virus

Following the State of California and local orders and protocols, the Foundation has continued to conduct business as usual with remote work opportunities. The long-term, financial impact of the COVID-19 virus on the Foundation cannot be foreseen at this time and is 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, 2021 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities and equity funds	\$122,928,674	\$ -	\$ -	\$122,928,674
Fixed income funds	30,347,633			30,347,633
Bonds		1,253,496		1,253,496
Other assets:				
Exchange-traded funds	3,420,919			3,420,919
Mutual funds	467,481			467,481
REIT			272,735	272,735
Non-traditional	171,523			171,523
Other	71,370			71,370
Alternative investments	53,852			53,852
Cash and cash equivalents	<u>185,293</u>			<u>185,293</u>
	<u>\$157,646,745</u>	<u>\$1,253,496</u>	<u>\$272,735</u>	<u>\$159,172,976</u>

The fair value of equities, fixed income funds, exchange-traded funds, mutual funds, alternative investments, non-traditional, other 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 bonds have been measured on a recurring basis using quoted prices for similar assets in inactive market (Level 2 inputs).

The fair value of the REIT has been 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, 2021.

Beginning balance, January 1, 2021	\$ 436,639
Donated securities - REIT	-
Change in value	<u>(163,904)</u>
Ending balance, December 31, 2021	<u>\$ 272,735</u>

The table below present transactions measured at fair value on a non-recurring basis during the year ended December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed securities	<u>\$4,622,743</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,622,743</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, 2021 are restricted for the following:

Purpose restrictions:

Housing/services for the elderly/disabled	\$ 4,991,592
Oncology fellowship	3,518,255
Library	2,352,882
Scholarship	1,909,931
Seniors	783,484
Yes, Virginia	647,976
Fiscal sponsor	501,604
Education	216,795
Enduring Heroes	176,423
Human services	119,539
Palmer fund	111,019
Palmer fund	36,477
Westminster Housing	31,615
Arts	15,888
Other	1,970
Youth	1,060
Environment	197
	<u>\$15,416,707</u>

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

Field of interest endowments	\$25,066,862
Designated endowments	15,382,128
Scholarship endowments	13,053,944
Donor-advised endowments	9,772,458
Undesignated endowments	<u>8,833,134</u>
	<u>\$72,108,526</u>

For the year ended December 31, 2021, net assets released from purpose restrictions were \$3,339,644, 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.

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	\$33,636,073	\$ -	\$ 33,636,073
Donor restricted endowment – original donor gift to be maintained in perpetuity		52,080,474	52,080,474
Donor restricted endowment – accumulated earnings		<u>20,028,052</u>	<u>20,028,052</u>
	<u>\$33,636,073</u>	<u>\$72,108,526</u>	<u>\$105,744,599</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Change in endowment assets:</u>			
Beginning balance January 1, 2021	\$30,726,497	\$50,822,495	\$ 81,548,992
Additions	165,222	16,304,578	16,469,800
Dividends, interest, and gains, net of fees	4,004,534	6,837,468	10,842,002
Appropriation of endowment assets for expenditure	<u>(1,260,180)</u>	<u>(1,856,015)</u>	<u>(3,116,195)</u>
Ending balance December 31, 2021	<u>\$33,636,073</u>	<u>\$72,108,526</u>	<u>\$105,744,599</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, 2021, the Foundation gave \$275,500 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 \$88,387 to the plan for the year ended December 31, 2021.

The Foundation also has a deferred compensation plan under Section 457 of the Internal Revenue Code for the executive team. The Foundation's contributions under this plan were \$39,000 for the year ended December 31, 2021.

13. Subsequent Events

During the first half of the 2022 calendar year, market volatility affected the Foundation's long-term portfolio with a -10.98% return against the composite benchmark's return of -11.96%, the ESG portfolio at -14.69% against -12.03% benchmark, and the moderate portfolio at -10.40% against an -11.27% benchmark. Due to the nature of endowments and the long-term investments, the Finance Committee continues to follow the investment policy in place and continues to meet with advisors quarterly and requests special meetings when needed.

Management has evaluated subsequent events through June 15, 2022, the date which the financial statements were available for issue. Except for the note above, no other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.