

EAST BAY COMMUNITY FOUNDATION

JUNE 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

East Bay Community Foundation

Independent Auditors' Report and Consolidated Financial Statements

Independent Auditors' Report	1 - 2
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Financial Statements:

Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Change in Net Assets	4
Consolidated Schedule of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 28



A Century Strong

Independent Auditors' Report

THE BOARD OF DIRECTORS
EAST BAY COMMUNITY FOUNDATION
Oakland, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the **EAST BAY COMMUNITY FOUNDATION (the Foundation)** which comprise the consolidated statement of financial position as of June 30, 2020 and 2019, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 Foundation'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 Foundation'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 the Foundation as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Francisco, California
January 4, 2021

East Bay Community Foundation

Consolidated Statement of Financial Position

<i>June 30,</i>	2020	2019
Assets		
Cash and cash equivalents	\$ 343,347	\$ 2,070,790
Investments	761,907,662	386,910,754
Pledges, grants, and other receivables	4,985,872	6,724,648
Notes receivable	11,966	20,458
Charitable trust assets	3,292,139	3,350,975
Property and equipment, net	3,360,391	3,477,551
Other assets	341,530	284,648
Total assets	\$ 774,242,907	\$ 402,839,824
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 1,020,857	\$ 642,842
Loans payable	678,096	
Grants payable	8,027,145	10,657,259
Agency funds	148,420,484	145,697,045
Total liabilities	158,146,582	156,997,146
Net Assets:		
Without donor restrictions	531,937,376	167,428,065
With donor restrictions	84,158,949	78,414,613
Total net assets	616,096,325	245,842,678
Total liabilities and net assets	\$ 774,242,907	\$ 402,839,824

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Statement of Activities and Changes in Net Assets

<i>Years Ended June 30,</i>						
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 438,107,969	\$ 13,457,515	\$ 451,565,484	\$ 26,124,402	\$ 3,310,439	\$ 29,434,841
Investment income, net	1,673,792	562,636	2,236,428	6,743,835	1,723,900	8,467,735
Other income	1,130,652		1,130,652	1,127,321		1,127,321
Net assets released from restrictions	12,708,693	(12,708,693)	-	6,379,125	(6,379,125)	-
Total support and revenue	453,621,106	1,311,458	454,932,564	40,374,683	(1,344,786)	39,029,897
Expenses:						
Program services:						
Grant expense	76,169,512		76,169,512	72,568,678		72,568,678
Other program services	4,230,561		4,230,561	3,970,874		3,970,874
Fundraising	1,587,148		1,587,148	1,209,833		1,209,833
Management and general	2,691,696		2,691,696	2,066,322		2,066,322
Total expenses	84,678,917	-	84,678,917	79,815,707	-	79,815,707
Change in Net Assets Before Other Changes:	368,942,189	1,311,458	370,253,647	(39,441,024)	(1,344,786)	(40,785,810)
Donor reclassification (Note 11)	(4,432,878)	4,432,878	-			
Net transfer of supporting organization (Note 1)			-	10,378,239	1,961,131	12,339,370
Change in Net Assets	364,509,311	5,744,336	370,253,647	(29,062,785)	616,345	(28,446,440)
Net Assets, beginning of year	167,428,065	78,414,613	245,842,678	196,490,850	77,798,268	274,289,118
Net Assets, end of year	\$ 531,937,376	\$ 84,158,949	\$ 616,096,325	\$ 167,428,065	\$ 78,414,613	\$ 245,842,678

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Schedule of Functional Expenses

Years Ended June 30,

	2020				2019			
	Program Services	Fundraising	Management and General	Total	Program Services	Fundraising	Management and General	Total
Salaries	\$ 1,889,567	\$ 779,600	\$ 1,224,037	\$ 3,893,204	\$ 1,576,506	\$ 563,662	959,724	\$ 3,099,892
Employee benefits and payroll taxes	511,218	176,166	253,193	940,577	402,192	143,799	244,841	790,832
	2,400,785	955,766	1,477,230	4,833,781	1,978,698	707,461	1,204,565	3,890,724
Grants awarded	76,169,512			76,169,512	72,568,678			72,568,678
Professional and consulting fees	748,174	233,255	782,727	1,764,156	979,882	152,365	384,694	1,516,941
Occupancy	237,962	79,469	145,396	462,827	225,701	75,375	137,905	438,981
Sponsorship and marketing	210,891	149,142	39,737	399,770	139,592	96,712	71,363	307,667
Information technology	161,627	63,468	92,215	317,310	179,179	55,652	99,597	334,428
Depreciation	123,606	43,382	62,439	229,427	93,718	31,298	57,262	182,278
Dues and memberships	131,521	5,000	6,422	142,943	122,511	1,057	5,306	128,874
Convenings and conferences	71,637	18,405	25,143	115,185	119,248	43,731	41,952	204,931
Other expenses	67,133	12,877	24,776	104,786	49,196	17,636	19,866	86,698
Office expense	47,348	18,478	24,578	90,404	38,652	16,257	19,520	74,429
Travel	29,877	7,906	11,033	48,816	44,497	12,289	24,292	81,078
Total	\$ 80,400,073	\$ 1,587,148	\$ 2,691,696	\$ 84,678,917	\$ 76,539,552	\$ 1,209,833	\$ 2,066,322	\$ 79,815,707

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Statement of Cash Flows

<i>Years Ended June 30,</i>	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	\$ 370,253,647	\$ (28,446,440)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	229,427	182,278
Donation of real estate		(500,000)
Net realized and unrealized losses (gains) on investments	4,139,829	(3,218,630)
Loss on disposal of property	41,287	
(Increase) decrease in operating assets:		
Pledges, grants, and other receivables	1,738,776	4,936,515
Charitable trust assets	58,836	(85,294)
Other assets	(56,882)	118,674
Increase (decrease) in operating liabilities:		
Accounts payable and other liabilities	378,015	107,115
Grants payable	(2,630,114)	2,233,156
Agency funds	2,723,439	(4,074,820)
Net cash provided (used) by operating activities	376,876,260	(28,747,446)
Cash Flows from Investing Activities:		
Purchase of equipment	(153,554)	(322,575)
Purchase of investments	(495,721,018)	(97,000,017)
Sale of investments	116,584,281	126,286,006
Net cash (used) provided by investing activities	(379,290,291)	28,963,414
Cash Flows from Financing Activities:		
Proceeds from loans payable	2,043,681	
Payments of loans payable	(1,365,585)	
Payments of notes receivable	8,492	9,275
Net cash provided by financing activities	686,588	9,275
Change in Cash and Cash Equivalents	(1,727,443)	225,243
Cash and Cash Equivalents, beginning of year	2,070,790	1,845,547
Cash and Cash Equivalents, end of year	\$ 343,347	\$ 2,070,790
Supplemental Cash Flow Information:		
Cash paid for interest during the year	\$ 467	\$ -

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 1 - General:

The East Bay Community Foundation (the Foundation) is a non-profit public benefit corporation organized in 1982 to incorporate the East Bay Community Foundation, an unincorporated association formed in 1928. It is a leading resource for mobilizing financial resources and community leadership to transform the lives of people in the East Bay of the San Francisco, California Bay Area with pressing needs. The Foundation does this through research on those needs and through joining its own financial and leadership resources with those of the private, public, and non-profit sectors.

The bylaws of the Foundation include a variance provision giving the Board of Directors the power to modify any restriction or condition placed on gifts to the Foundation if, in its sole judgment, the Board of Directors determine that the restriction becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served.

Supporting Organizations

A supporting organization is a Section 501(c)(3) charity that is classified as a public charity rather than a private foundation because it supports a publicly supported charity, such as a community foundation. Supporting organizations of the Foundation are consolidated herein and include, EBCF Properties, Model Transitions Foundation, Helzel Family Foundation, T. Gary and Kathleen Rogers Family Foundation and The East Bay Foundation on Aging. All of the supporting organizations are Type 1 supporting organization as defined by the Internal Revenue Service (IRS).

The T. Gary and Kathleen Rogers Family Foundation

The T. Gary and Kathleen Rogers Family Foundation board of directors voted to dissolve the corporation and transfer its assets to a donor advised fund with the Foundation in the fiscal year ending June 30, 2019.

The East Bay Foundation on Aging

On July 1, 2018, The East Bay Foundation on Aging (EBFA), became a supporting organization of the East Bay Community Foundation. Previously the EBFA supported another community foundation. On July 2, 2018, the Foundation received \$12,339,370 for the benefit of EBFA. The assets are reflected in the consolidated statement of activities and changes in net assets and recorded as an increase in net assets with and without donor restrictions for the fiscal year ending June 30, 2019.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which recognizes revenue and support when earned and expenses when incurred and accordingly, reflect all significant receivables, payables, and other liabilities. The Foundation presents information regarding its net assets and activities according to two classes of net assets.

Net assets without donor restriction - The portion of net assets that are not subject to time or donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Foundation. Net assets without donor restrictions include donor advised and other funds held by the Foundation with variance power and net assets the Board of Directors has designated for certain endowments (see Note 12).

Net assets with donor restriction - The portion of net assets that are subject to time or donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions consist of irrevocable charitable remainder trusts, contributions unconditionally promised which are scheduled to be received in the future, purpose-restricted grants for which variance power was explicitly not given to the Foundation, and donor-restricted endowment funds.

b. Principles of Consolidation

The accompanying consolidated financial statements include all amounts and operations of the East Bay Community Foundation and its supporting organizations (collectively, the Foundation). Intercompany transactions and accounts have been eliminated in consolidation.

c. Cash and Cash Equivalents

For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include the Foundation's operating and checking accounts, but exclude investment account money funds.

East Bay Community Foundation

Notes to Consolidated Financial Statements

d. Investments

The Foundation reports certain investments at fair value. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the statement of activities and changes in net assets in the period such fluctuations occur. Dividend and interest income are accrued when earned. Investments in closely held companies are reported at cost.

Due to the inherent uncertainty of valuation of non-marketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

In addition, the Foundation reports certain investments using the Net Asset Value (NAV) per share as determined by investment managers. NAV represents fair value for reporting purposes when the criteria for using this method are met. On an annual basis, management reviews the audited financial statements for each investment and compares the value reported by the fund manager to the value contained in the audited financial statements to assess the reasonableness of the valuation.

e. Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted market prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

The valuation levels are not necessarily an indication of the risk or liquidity associated with the investments.

East Bay Community Foundation

Notes to Consolidated Financial Statements

f. Charitable Trust Assets

Trusts for which the Foundation is not the trustee are recorded as contributions receivable from charitable trusts and are recorded at the fair value of the assets in the trusts, less the present value of the expected payments to beneficiaries, using life expectancies of income beneficiaries and the IRS Section 7520 rate in effect as of the end of the fiscal year (0.6% for 2020 and 2.9% for 2019).

g. Property and Equipment

Purchased property and equipment are recorded at cost or, if donated, at fair value on the date of donation. Acquisitions or donations in excess of \$5,000 are capitalized. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation on property and equipment is provided over the estimated useful lives of the respective assets, ranging from three to thirty-nine years, on a straight-line basis.

h. Agency Funds

The Foundation records a liability that represents the readily determinable estimated fair values of assets that the Foundation has received from and invests on behalf of other nonprofit organizations. However, in most cases, the Foundation maintains legal ownership of the assets and has variance power.

i. Contributions

Contributions, which may include unconditional promises to give, are recognized in the period pledged or received. Interests in irrevocable charitable trusts are recorded as contributions receivable when notification of interest is received, and the fair value is determinable. Contributions and grants are derived primarily from donors in Northern California. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributed goods and services, if any, are recorded when received at their estimated fair value. Contributed services are accounted for as contribution revenue if the services meet certain criteria.

When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

East Bay Community Foundation

Notes to Consolidated Financial Statements

j. Grant Expenses

Grant expenses are recognized when an unconditional promise to give is approved by the Board of Directors. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation. Grants payable represents the present value of grants to be paid in the future discounted at the applicable rate at the time the grant is recorded.

k. Functional Expense Allocation

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets and consolidated statement of functional expenses. Certain expenses, such as occupancy and depreciation costs are allocated using the square footage directly occupied by each department. Salaries and benefits are allocated to programs and supporting services based on headcount and percentage of time spent in each functional category as estimated by management. Other functional expenses are charged according to the percentage of time spent in each functional category as estimated by management.

l. Endowments

Interpretation of Relevant Law

The Foundation classifies as net assets with donor restrictions in perpetuity both the original value of the gifts donated plus all subsequent gifts. The remaining value of the donor restricted endowed funds is classified as net assets with donor restrictions until appropriated for expenditure by the Foundation.

Appropriation for expenditure for endowed funds is made in a manner consistent with the standards of prudence prescribed by the California enacted version of the Uniform Prudent Management Investment Funds Act (UPMIFA), which include: (1) The duration and preservation of the fund consistent with donor intent; (2) the purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and appreciation of invested funds; (6) other resources of the Foundation; (7) the investment policies of the Foundation.

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as net assets with perpetual donor restrictions. At June 30, 2020, the Foundation had twenty-one (21) funds with deficiencies with a fair market value of \$26,104,259 and an original endowment gift amount of \$27,088,303. At June 30, 2019, the Foundation had nine (9) funds with deficiencies with a fair market value of \$3,933,692 and an original endowment gift amount of \$4,169,767. These deficiencies are reflected in net assets with donor restrictions.

East Bay Community Foundation

Notes to Consolidated Financial Statements

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return a percentage in excess of the annual rate of inflation, net of investment fees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundations' various endowed funds, for grant-making and administration. The current spending policy is to distribute an amount equal to 5% of a moving twelve quarter rolling average for funds with balances of at least 90% of the historic gift value. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

m. Tax Exempt Status

The Foundation and its consolidated supporting organizations are exempt from federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code, and California Revenue and Taxation Code Section 23701(d). In addition, they have each, received a determination from the IRS that they are not private foundations.

As of June 30, 2020 and 2019, management evaluated the Foundation's and its consolidated supporting organization's tax positions and concluded that they each had maintained their tax exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

East Bay Community Foundation

Notes to Consolidated Financial Statements

n. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

o. Recent Accounting Pronouncements

Adopted:

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. The ASU was adopted effective July 1, 2019 on a modified prospective basis. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statements.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)*. This guidance amends the existing accounting standards for revenue recognition and outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The Foundation has adopted the ASU effective July 1, 2019. Analysis of various provisions of ASU 2014-09 resulted in no significant changes in the way the Foundation recognizes revenue and, therefore, no changes to the previously issued audited financial statements were required on a modified retrospective basis.

Pronouncements effective in the future:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize, at commencement date, a lease liability representing the lessee's obligation to make payments arising from the lease and a right-of-use asset representing the lessee's right to use, or control the use of, a specified asset for the lease term. This guidance is effective for fiscal years beginning after December 15, 2021. The Foundation is currently evaluating the impact the new standard will have on its financial statements.

East Bay Community Foundation

Notes to Consolidated Financial Statements

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. The ASU removes the requirements for transfers between Levels 1 and 2 as well as the valuation processes for Level 3 fair value measurements. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 as well as purchases and issues of Level 3 assets and liabilities. It clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The amendments in the update are effective for the Foundation for its fiscal year ending June 30, 2021. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

p. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2020 through January 4, 2021, the date these financial statements were available to be issued. There were no material subsequent events that required recognition except as disclosed in Note 10 and Note 17.

Note 3 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available within one year of June 30 for general expenditures are as follows:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 343,347	\$ 2,070,790
Investments	761,907,662	386,910,754
Pledges, grants, and other receivables	4,985,872	6,724,648
Notes receivable	11,966	20,458
Charitable trust assets	3,292,139	3,350,975
<hr/>		
Total financial assets	770,540,986	399,077,625
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(84,158,949)	(78,414,613)
Long-term notes receivable	(11,966)	(20,458)
Investments not convertible to cash within 12 months	(5,840,320)	(4,329,349)
Beneficial interest in charitable remainder trusts	(3,292,139)	(3,350,975)
Cash and cash equivalents held as collateral	(5,241,115)	(4,913,641)
Agency funds	(148,420,484)	(145,697,045)
Donor advised funds	(474,090,596)	(111,956,048)
Board designated endowment funds	(29,007,998)	(32,634,895)
Add net assets with donor restrictions expected to be used within one year – including endowment spending	7,033,087	10,573,076
<hr/>		
Total amounts not available to be used within one year	(743,030,480)	(370,743,948)
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Financial assets available to meet general expenditures over the next twelve months	\$ 27,510,5506	\$ 28,333,677

East Bay Community Foundation

Notes to Consolidated Financial Statements

The Foundation considers only operating expenses and Foundation projects to be general expenditures in this context and therefore has reduced the amount available for donor advised funds. As part of the Foundation's liquidity management plan, cash in excess of daily requirements are invested in short term investments and money market funds. Additionally, board-designated endowment assets (See Note 12) could be undesignated by the Board of Directors and made available for general operations as needed. The Foundation also maintains a \$5,000,000 line of credit (See Note 10) which may be drawn upon for operational liquidity needs.

Note 4 - Investments:

The Foundation's investments consist of the following at June 30:

	2020	2019
Investments at fair value:		
Money market, cash and cash equivalents	\$ 464,659,190	\$ 91,634,968
Certificates of deposit	16,529,918	16,995,841
Fixed income:		
Government securities	27,138,877	12,351,701
Corporate bonds	17,936,109	13,491,063
Mortgage-backed securities	457,678	
Equities:		
Domestic	91,280,290	68,969,013
International	13,126,618	31,026,115
Mutual funds:		
Equities	2,867,430	7,358,323
Domestic fixed income	80,016,285	77,546,060
International fixed income	5,350,452	5,388,286
Multi-strategy	19,356,814	35,574,897
Real estate securities		4,510,573
Commodities and natural resource	9,373	341,663
Alternative investments	23,178,128	21,221,751
Subtotal	761,907,162	386,410,254
Private equity stock (held at cost)	500	500
Real estate held for sale (held at cost)		500,000
Total	\$ 761,907,662	\$ 386,910,754

East Bay Community Foundation

Notes to Consolidated Financial Statements

The Foundation's investment income consists of the following for the year ended June 30:

	2020	2019
Realized and unrealized (loss) gain	\$ (4,139,829)	\$ 3,218,630
Dividends and interest	7,008,072	5,866,250
Investment management fees	(631,815)	(617,145)
Investment income, net	\$ 2,236,428	\$ 8,467,735

Note 5 - Fair Value Measurements:

The table below represents the assets and liabilities measured at fair value at June 30, 2020 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV (a)</u>	<u>Total</u>
Money market, cash and cash equivalents	\$ 464,659,190			\$ 464,659,190
Certificates of deposit		\$ 16,529,918		16,529,918
Fixed income securities:				
Government securities		27,138,877		27,138,877
Corporate bonds		17,936,109		17,936,109
Mortgage-backed securities		457,678		457,678
Equities:				
Domestic	91,280,290			91,280,290
International	13,126,618			13,126,618
Mutual funds:				
Equities	2,867,430			2,867,430
Domestic fixed income	80,016,285			80,016,285
International fixed income	5,350,452			5,350,452
Multi-strategy	19,356,814			19,356,814
Commodities and natural resource	9,373			9,373
NAV funds (a)			\$ 23,178,128	23,178,128
Subtotal	676,666,452	62,062,582	23,178,128	761,907,162
Charitable trust assets		3,292,139		3,292,139
Beneficial interest in life insurance policies		120,875		120,875
Total	\$ 676,666,452	\$ 65,475,596	\$ 23,178,128	\$ 765,320,176

East Bay Community Foundation

Notes to Consolidated Financial Statements

The table below presents the assets and liabilities measured at fair value at June 30, 2019 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV (a)</u>	<u>Total</u>
Money market, cash and cash equivalents	\$ 91,634,968			\$ 91,634,968
Certificates of deposit		\$ 16,995,841		16,995,841
Fixed income securities:				
Government securities		12,351,701		12,351,701
Corporate bonds		13,491,063		13,491,063
Equities:				
Domestic	68,969,013			68,969,013
International	31,026,115			31,026,115
Mutual funds:				
Equities	7,358,323			7,358,323
Domestic fixed income	77,546,060			77,546,060
International fixed income	5,388,286			5,388,286
Multi-strategy	35,574,897			35,574,897
Real estate	4,510,573			4,510,573
Commodities and natural resource	341,663			341,663
NAV funds (a)			\$ 21,221,751	21,221,751
Subtotal	322,349,898	42,838,605	21,221,751	386,410,254
Charitable trust assets		3,350,975		3,350,975
Beneficial interest in life insurance policies		120,875		120,875
Total	\$ 322,349,898	\$ 46,310,455	\$ 21,221,751	\$ 389,882,104

(a) In accordance with FASB Accounting Standards Codification Subtopic 820-10, certain investments that are measured at fair value using NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

East Bay Community Foundation

Notes to Consolidated Financial Statements

The Foundation uses NAV to determine the fair value of all the underlying investments which do not have a readily determinable fair value. The following table lists investments by major category as of June 30:

Strategies	2020		2019		Redemption	
	# of Funds	Valuation	# of Funds	Valuation	Frequency	Notice Periods (days)
Multi-strategy fund (a)	1	\$ 9,546,351	1	\$ 8,754,186	Daily	1
Long/short/event driven hedge funds (b)	1	5,255,163	2	5,356,450	(b)	(b)
Partnership interests - real estate (c)	4	2,021,469	4	1,749,375	(c)	(c)
Partnership interests - other (d)	5	6,355,145	5	5,361,740	(d)	(d)
Total	11	\$ 23,178,128	12	\$ 21,221,751		

(a) One affiliated organization at the Foundation invests in The Investment Fund for Foundations' Multi-Asset Fund (TIFF) that is open primarily to foundations, endowments, 501(c)(3) corporations, and other non-profit organizations. Its objective is to return its members a 5% return after inflation, over multiple market cycles. The fund invests in stocks (45-65%), private investment funds (10-15%), repurchase agreements (10-15%), exchange-traded funds (5-10%), bonds (5-10%), treasury bills (5-10%), and other securities (0-5%). The fund may also hold derivatives and sell some securities short and some of the investments are considered illiquid. The fund offers daily redemptions with disbursements distributed one day after the trade date. The fund reserves the right at periods of high stress to delay or suspend redemptions in accordance with security regulations.

(b) These hedge funds are fund of funds and directly held funds which, in aggregate, represent a number of underlying funds with a wide range of investment strategies. These funds are primarily long public equity securities but also short public equity securities and hold small amounts of fixed income and derivative securities. For one of the funds, redemptions are permitted on a quarterly basis with 65 days' notice.

One of the funds with a balance of \$3,603 at June 30, 2019, is in liquidation. Redemptions were permitted on an annual basis but the fund is no longer accepting redemptions, including redemptions that were requested for future redemption dates. The fund is closed as of June 30, 2020.

East Bay Community Foundation

Notes to Consolidated Financial Statements

- (c) These partnerships invest in real estate for the purpose of achieving long-term capital appreciation. Redemptions are not permitted. Investments are held for the life of the fund (typically 7-10 years) with principal and capital gains distributions given periodically as assets are sold. Capital commitments of the investments held by these partnerships, at June 30, 2020 total approximately \$547,000.
- (d) These partnerships include a partnership that invests in and trades in securities for the purpose of achieving capital preservation and long-term appreciation. Redemptions are permitted on a quarterly basis with 30 days' notice. The partnership represents 40% and 52% of the total value of the strategy at June 30, 2020 and 2019, respectively.

Another partnership invests in private equity positions obtained on the secondary market for the purpose of achieving long-term capital appreciation. Redemptions are not permitted, and the partnership is expected to close on the tenth anniversary of its initial closing date. Limited Partners may sell their interests on the secondary market subject to the approval of the General Partners. The partnership represents 23% and 27% of the total value of the strategy at June 30, 2020 and 2019, respectively. Capital commitments of the investments held by the partnership, at June 30, 2020 total approximately \$908,000.

Another partnership makes co-investments and follow-on investments in venture capital equities obtained from six related senior venture capital funds for the purpose of achieving long-term appreciation. Redemptions are not permitted and the partnership is expected to close on the tenth anniversary of its initial closing date with up to three, one year optional extensions. Limited Partners may sell their interests on the secondary market subject to the approval of the General Partners. The partnership represents 7% of the total value of the strategy at June 30, 2020 and 2019. Capital commitments of the investments held by the partnership, at June 30, 2020 total approximately \$100,000.

Another partnership invests in private equity, hedge funds, strategic opportunities and real estate positions for the purpose of achieving capital preservation and long-term appreciation. Redemptions are not permitted, and the partnership is expected to close on the tenth anniversary of its initial closing date. Limited Partners may sell their interests on the secondary market subject to the approval of the General Partners. The partnership represents 20% and 11% of the total value of the strategy at June 30, 2020 and 2019, respectively. Capital commitments of the investments held by the partnership, at June 30, 2020 total approximately \$746,000.

Another partnership invests in private equity, infrastructure and real estate secondary markets and fund investing for the purpose of achieving capital preservation and long-term appreciation. Redemptions are not permitted, and the partnership is expected to close on the tenth anniversary of its initial closing date. Limited Partners may sell their interests on the secondary market subject to the approval of the General Partners. The partnership represents 10% and 3% of the total value of the strategy at June 30, 2020 and 2019, respectively. Capital commitments held by the partnership at June 30, 2020 total approximately \$1,290,000.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 6 - Pledges, Grants, and Other Receivables:

Pledges, grants, and other receivables are expected to be collected as follows at June 30:

	2020	2019
Within one year	\$ 3,015,872	\$ 6,724,648
One to five years	1,970,000	
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Pledges, grants, and other receivables	\$ 4,895,872	\$ 6,724,648

Note 7 - Charitable Trusts:

Future Interest in Charitable Remainder Trusts

The Foundation is named as the remainder beneficiary in charitable remainder trusts for which it is not the trustee. The present value of these interests was computed by discounting the current market value of the Foundation's interest at 0.6% per annum in 2020 and 2.9% in 2019 and taking into account the current age of the remaining life beneficiary. The present value of these interests was \$2,493,095 as of June 30, 2020 and 2019, respectively.

Interest in Charitable Lead Trust

The Foundation is named as the income beneficiary of a charitable lead trust. As income beneficiary, the Foundation is entitled to \$58,837 per year through 2038. The present value of the lead interest was \$799,044 and \$857,880 as of June 30, 2020 and 2019, respectively.

Note 8 - Property and Equipment:

Property and equipment consist of the following at June 30:

	2020	2019
Land and buildings	\$ 5,529,140	\$ 5,529,140
Furniture, equipment and leasehold improvements	1,129,766	1,017,500
<hr/>		
	6,658,906	6,546,640
Less: accumulated depreciation	(3,298,515)	(3,069,089)
<hr/>		
Property and equipment, net	\$ 3,360,391	\$ 3,477,551

Depreciation expense was approximately \$229,000 and \$182,000 for the years ended June 30, 2020 and 2019, respectively.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 9 - Grants Payable:

Grants payable at June 30, 2020 are scheduled to be disbursed as follows:

Less than one year	\$ 7,235,145
One to five years	792,000
<hr/>	
Total	\$ 8,027,145

The Foundation had no conditional grants as of June 30, 2020 and 2019.

Grants expense for the year ended June 30 consist of the following:

	2020	2019
Arts and culture	\$ 4,630,836	\$ 2,049,656
Education and youth development	18,551,076	19,091,757
Livable communities	28,021,840	23,395,626
Strengthening families	24,965,760	28,031,639
<hr/>		
Total	\$ 76,169,512	\$ 72,568,678

Note 10 - Loans Payable:

The Foundation maintains a revolving line of credit with Northern Trust in the amount of \$5,000,000, which matured on June 20, 2020, and subsequent to year end, was renewed under similar terms with an expiration date of June 4, 2021. The interest rate on the note is equal to the greater of 2% or the prime rate (3.25% as of June 30, 2020 and 5.5% as of June 30, 2019) minus 1%. The note requires monthly payments of interest only with the entire principal due at maturity. The note is collateralized by an investment account maintained with Northern Trust subject to a minimum balance based on certain percentages by asset class. At June 30, 2020 and 2019, the investment account value exceeded the necessary minimum amount.

There was no balance outstanding on the line of credit at June 30, 2020 and 2019. There was \$476 and \$0 interest expense on the notes for the year ended June 30, 2020 and 2019, respectively.

East Bay Community Foundation

Notes to Consolidated Financial Statements

In April 2020, the Foundation received a Paycheck Protection Program (PPP) loan through California Bank of Commerce in the amount of \$678,096. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest may be forgivable as long as the Foundation uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if certain requirements are not met. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Foundation intends to use the proceeds for purposes consistent with the PPP. While the Foundation currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the Foundation cannot assure that it will not take actions that could cause the Foundation to be ineligible for forgiveness of the loan, in whole or in part.

Note 11 - Net Assets with Donor Restrictions:

The Foundation's net assets with donor restrictions at June 30 are composed of:

	2020	2019
Restricted by donor for program purpose:		
Arts and culture	\$ 3,069,796	\$ 210,630
Community improvement and capacity building	2,423,905	2,279,277
Civil rights, social action & advocacy	401,784	
Education	710,295	223,470
Human services	2,086,090	104,524
Public safety, disaster preparedness & relief	2,419,355	
Philanthropy, volunteer and grant making	40,814	553,171
Youth & development	1,322,442	
Accumulated donor endowed income (Note 11)	10,650,638	14,006,034
Restricted by donor as to time	3,608,341	3,612,018
Donor endowed funds - perpetual restrictions (Note 11)	57,425,489	57,425,489
Total	\$ 84,158,949	\$ 78,414,613

During the year, there was a fund transfer of approximately \$4,400,000 from net assets with donor restrictions to net assets without donor restrictions based on the Foundation's further evaluation of a bequest received for the fund.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Net assets were released from donor restrictions for the year ended June 30 by expiration of time or purpose restrictions as specified by donors as follows:

	2020	2019
Restricted by donor for program purpose	\$ 8,918,404	\$ 2,724,479
Restricted by donor as to time	6,316	43,669
Endowed funds (Note 12)	3,783,973	3,610,977
Total	\$ 12,708,693	\$ 6,379,125

Note 12 - Endowment Funds:

Changes in endowment net assets for the year ended June 30, 2020:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor Restrictions</u> <u>Time or Purpose</u>	<u>Perpetuity</u>	Total
Endowment net assets, beginning of year	\$ 32,634,895	\$ 14,006,034	\$ 57,425,489	\$104,066,418
Interest and dividends	863,416	1,707,063		2,570,479
Net gain (realized and unrealized)	(957,869)	(1,283,986)		(2,241,855)
Contributions	74,129	5,500		79,629
Appropriated for expenditure	(3,606,573)	(3,783,973)		(7,390,546)
Change in endowment net assets	(3,626,897)	(3,355,396)		(6,982,293)
Endowment net assets, end of year	\$ 29,007,998	\$ 10,650,638	\$ 57,425,489	\$ 97,084,125

East Bay Community Foundation

Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions Time or Purpose</u>	<u>Perpetuity</u>	Total
Endowment net assets, beginning of year – as previously presented	\$ 23,976,636	\$ 15,417,731	\$ 56,132,286	\$ 95,526,653
Reclassification				
Underwater endowments	106,836	(106,836)		
Endowments net assets – as reported after adoption of ASU 2016-14	24,083,472	15,310,895	56,132,286	95,526,653
Net transfer of supporting organization (Note 1) to the Foundation	10,378,239	774,252	1,186,879	12,339,370
Interest and dividends	734,826	1,574,036		2,308,862
Net gain (realized and unrealized)	(187,404)	(42,172)		(229,576)
Contributions	72,844		106,324	179,168
Appropriated for expenditure	(2,447,082)	(3,610,977)		(6,058,059)
Change in endowment net assets	8,551,423	(1,304,861)	1,293,203	8,539,765
Endowment net assets, end of year	\$ 32,634,895	\$ 14,006,034	\$ 57,425,489	\$104,066,418

East Bay Community Foundation

Notes to Consolidated Financial Statements

Endowment net asset composition by type of fund at June 30, 2020 is:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor Restrictions</u> <u>Time or Purpose</u>	<u>Perpetuity</u>	Total
Board designated endowment funds	\$ 29,007,998			\$ 29,007,998
<hr/>				
Donor restricted endowment funds - income restricted for:				
Animal related	\$ 501,682	\$ 597,027		1,098,709
Arts and culture	938,522	7,898,196		8,836,718
Civil rights, social, activities & advocacy	14,173	458,885		473,058
Community improvement & capital building	205,922	417,240		623,162
Economic aid	716,857	3,276,957		3,993,814
Education	909,062	6,351,315		7,260,377
Environment	2,922,200	12,248,326		15,170,526
Food, agriculture & nutrition	47,709	1,949,992		1,997,701
Healthcare	2,122,207	10,565,725		12,687,932
Human services	1,211,376	7,208,010		8,419,386
International foreign affairs & national security	30,118	709,308		739,426
Philanthropy, volunteer & grant making foundations	87,737	937,479		1,025,216
Religion-related	94,485	324,430		418,915
Youth development	1,832,632	4,482,599		6,315,231
Underwater endowment funds	(984,044)			(984,044)
<hr/>				
Total restricted endowment funds		10,650,638	57,425,489	68,076,127
<hr/>				
Total funds	\$ 29,007,998	\$ 10,650,638	\$ 57,425,489	\$ 97,084,125

East Bay Community Foundation

Notes to Consolidated Financial Statements

Endowment net asset composition by type of fund at June 30, 2019 is:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
		<u>Time or Purpose</u>	<u>Perpetuity</u>
			Total
Board designated endowment funds	\$ 32,634,895		\$ 32,634,895
<hr/>			
Donor restricted endowment funds - income restricted for:			
Animal related	\$ 539,438	\$ 770,449	1,309,887
Arts and culture	793,615	7,319,971	8,113,586
Civil rights, social, activities & advocacy	25,120	458,885	484,005
Community improvement & capital building	278,562	417,240	695,802
Economic aid	998,322	3,277,071	4,275,393
Education	1,462,276	6,505,330	7,967,606
Environment	3,566,372	12,301,971	15,868,343
Food, agriculture & nutrition	183,957	2,026,843	2,210,800
Healthcare	3,411,463	11,039,963	14,451,426
Human services	672,805	6,460,149	7,132,954
International foreign affairs & national security	53,379	709,308	762,687
Philanthropy, volunteer & grant making foundations	131,603	1,021,994	1,153,597
Recreation & sports	567,709	523,653	1,091,362
Religion-related	116,316	324,433	440,749
Youth development	1,441,172	4,268,229	5,709,401
Underwater endowment funds		(236,075)	(236,075)
<hr/>			
Total restricted endowment funds		14,006,034	57,425,489
<hr/>			
Total funds	\$ 32,634,895	\$ 14,006,034	\$ 57,425,489
<hr/>			
		\$ 104,066,418	

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 13 - Retirement Plans:

The Foundation has a 401(k) retirement plan available to all eligible participants. The Foundation matches 100% of employee's contributions up to 4% of their salaries. The Foundation's contributions were \$94,754 and \$90,364 for the years ended June 30, 2020 and 2019, respectively.

Note 14 - Operating Lease Commitments:

The Foundation leases equipment and its conference center space adjacent to its offices in downtown Oakland, California, under various non-cancelable operating leases expiring through 2056. Rental expense, under these leases, totaled \$126,167 and \$134,655 for the years ended June 30, 2020 and 2019, respectively.

The following is a schedule of estimated future minimum lease payments for the fiscal years ending June 30:

2021	\$ 125,000
2022	127,000
2023	121,000
2024	59,000
2025	54,000
Thereafter	1,674,000
<hr/>	
Total	\$ 2,160,000

Note 15 - Concentrations:

Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation places its cash investments with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Foundation has not experienced any losses in such accounts. Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. To address the market risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment managers' performance. This entire process is actively overseen by the Chief Financial Officer and the Investment Committee of the Board of Directors.

Other

For the year ended June 30, 2020, the Foundation received 96% of its contributions from five donors representing \$432,386,470. The Foundation received approximately 51.1% of its contributions from five donors in the year ended June 30, 2019 representing \$15,055,066. There were no amounts receivable from these donors for the year ended June 30, 2020 and 2019.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 16 - Related Party Transactions:

For the year ended June 30, 2020 and 2019, the Foundation received approximately \$753,000 and \$523,000, respectively in contributions from Board of Directors and Committee members. There were no amounts receivable from or payable to related parties for the year ended June 30, 2020 and 2019.

Note 17 - Pandemic and Market Volatility:

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state and local jurisdictions and shelter in place orders have been instituted in many cities and states, including California, which impacts general business operations in most industries and sectors. In addition, financial market volatility has significantly increased, and the subsequent recovery from the March 2020 bear market in major equity indices may not be sustained. A decline in market valuations may negatively impact the value of investment portfolios held by the Foundation. Those declines could result in reduced future funding to organizations, though as of the date these financial statements were available to be issued, the Foundation does not project any material impacts to the Foundation's operations or ability to disburse grants.

The pandemic has had little impact on the Foundations operations and annual budget. Although revenue for the year ended June 30, 2020 shows a slight decrease in conference rental fees for obvious reasons, this is offset by the decrease in staff travel which has all but stopped until further notice. Currently, all staff are working remotely with a few employees going into the office on an as needed and extremely limited basis and the Foundation expects staff to continue working remotely through June 30, 2021 with a possible staggered staff return to work in the physical building as conditions and regulations permit. As a result, the Foundation will require upgrades to its IT infrastructure and IT assessments anticipated to occur during the June 30, 2021 and 2022 fiscal years.

With health, joblessness, and other ill effects from the pandemic, many residents in the East Bay were severely and negatively affected which prompted the Foundation to establish an emergency COVID19 Relief Fund. The Foundation was able to raise \$7,000,000 rapidly for this fund which launched in March 2020. The Foundation opted to not charge any fees for the management of this fund given the serious circumstances in the community. This fund will be wound down at the end of calendar year 2020 and the new grants strategy for the fiscal year ending June 30, 2021 and beyond is to encompass all of the programs for the community into "A Just East Bay" campaign whereby community support can continue but in a sustainable non-emergency mode – and industry standard administrative fees will be charged.

In an effort to allow more endowment grantmaking into the community for the fiscal year ending June 30, 2021 the board approved a temporary change to the endowment spending policy on November 16, 2020. This change allows endowment funds to distribute an amount equal to 5% of a moving twelve quarter average for funds with balances of at least 75% of the historic gift value.