

EAST BAY COMMUNITY FOUNDATION

JUNE 30, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

East Bay Community Foundation

Independent Auditors' Report and Consolidated Financial Statements

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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, 2018 and 2017, the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the East Bay Community Foundation as of June 30, 2018 and 2017, 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.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Schedule of Functional Expenses on page 5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hood & Strong LLP

San Francisco, California
March 8, 2019

East Bay Community Foundation

Consolidated Statement of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 1,845,547	\$ 873,316
Investments	412,478,112	321,841,574
Pledges, grants, and other receivables	11,661,163	778,837
Notes receivable	29,733	38,427
Charitable trust assets	3,265,681	3,350,007
Property and equipment, net	3,337,254	3,341,266
Other assets	403,322	379,713
Total assets	\$ 433,020,812	\$ 330,603,140
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 535,726	\$ 487,605
Grants payable	8,424,103	13,748,256
Notes payable		2,000,000
Agency funds	149,771,865	107,522,530
Total liabilities	158,731,694	123,758,391
Net Assets:		
Unrestricted	196,384,014	136,628,358
Temporarily restricted	21,772,818	20,834,198
Permanently restricted	56,132,286	49,382,193
Total net assets	274,289,118	206,844,749
Total liabilities and net assets	\$ 433,020,812	\$ 330,603,140

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Statement of Activities and Changes in Net Assets

For the Years Ended June 30,

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support								
Contributions	\$ 161,145,439	\$ 3,390,381	\$ 13,567,105	\$ 178,102,925	\$ 24,928,665	\$ 2,590,949	\$ 2,590,612	\$ 30,110,226
Less: amounts received for agency funds	(51,682,655)	(500)	(6,817,012)	(58,500,167)	(10,328,807)	(50)	(38,307)	(10,367,164)
	109,462,784	3,389,881	6,750,093	119,602,758	14,599,858	2,590,899	2,552,305	19,743,062
Investment income	5,907,888	1,501,309		7,409,197	3,586,232	1,016,879		4,603,111
Less: investment income for agency funds	(2,634,009)	(92,321)		(2,726,330)	(1,518,624)	(78,565)		(1,597,189)
	3,273,879	1,408,988	-	4,682,867	2,067,608	938,314	-	3,005,922
Net realized and unrealized gains (losses) on investments	5,042,577	2,557,490		7,600,067	12,143,639	6,736,442		18,880,081
Less: net realized and unrealized gains on investments for agency funds	(1,022,810)	(176,926)		(1,199,736)	(3,646,201)	(500,799)		(4,147,000)
	4,019,767	2,380,564	-	6,400,331	8,497,438	6,235,643	-	14,733,081
Other income	1,051,728			1,051,728	462,401	397,779		860,180
Net assets released from restrictions	6,224,372	(6,224,372)		-	4,137,171	(4,135,028)	(2,143)	-
Total revenue and other support	124,032,530	955,061	6,750,093	131,737,684	29,764,476	6,027,607	2,550,162	38,342,245
Expenses								
Grant programs:								
Arts and culture	1,589,298			1,589,298	1,849,146			1,849,146
Education and youth development	15,654,271			15,654,271	12,375,971			12,375,971
Economic development	11,301,284			11,301,284	6,966,210			6,966,210
Strengthening families	48,685,664			48,685,664	25,361,161			25,361,161
Less: grants made from agency funds	(19,532,780)			(19,532,780)	(18,205,625)			(18,205,625)
	57,697,737	-	-	57,697,737	28,346,863	-	-	28,346,863
Program services	1,707,485			1,707,485	1,677,531			1,677,531
Development and fundraising	956,981			956,981	723,889			723,889
General and administrative	3,465,094			3,465,094	2,907,298			2,907,298
Investment advisory fees	466,018			466,018	427,088			427,088
Total expenses	64,293,315	-	-	64,293,315	34,082,669	-	-	34,082,669
Change in Net Assets Before Reclassification of Net Assets	59,739,215	955,061	6,750,093	67,444,369	(4,318,193)	6,027,607	2,550,162	4,259,576
Underwater endowment funds adjustment (Note 11)	16,441	(16,441)		-	1,698,905	(1,698,905)		-
Change in Net Assets	59,755,656	938,620	6,750,093	67,444,369	(2,619,288)	4,328,702	2,550,162	4,259,576
Net Assets, beginning of year	136,628,358	20,834,198	49,382,193	206,844,749	139,247,646	16,505,496	46,832,031	202,585,173
Net Assets, end of year	\$ 196,384,014	\$ 21,772,818	\$ 56,132,286	\$ 274,289,118	\$ 136,628,358	\$ 20,834,198	\$ 49,382,193	\$ 206,844,749

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Supplementary Information - Consolidated Schedule of Functional Expenses (See Independent Auditors' Report)

For the Years Ended June 30,

	2018				2017			
	Program Services	Development and Fundraising	General and Administrative	Total	Program Services	Development and Fundraising	General and Administrative	Total
Salaries	\$ 1,071,181	\$ 598,953	\$ 1,410,837	\$ 3,080,971	\$ 913,709	\$ 432,940	\$ 1,199,057	\$ 2,545,706
Payroll taxes	82,961	46,388	109,266	238,615	70,155	33,241	92,065	195,461
Employee benefits	186,029	104,018	245,016	535,063	151,428	71,751	198,719	421,898
	1,340,171	749,359	1,765,119	3,854,649	1,135,292	537,932	1,489,841	3,163,065
Consultants	237,100	80,618	200,042	517,760	288,745	62,838	173,678	525,261
Accounting and legal	42,670	30,532	122,687	195,889	29,084	25,008	105,371	159,463
Payroll processing fees and hiring costs	11,067	7,492	45,626	64,185	9,422	7,975	34,166	51,563
Printing, postage and supplies	1,347	3,176	24,576	29,099	1,305	119	27,773	29,197
Communication and technology	2,897	1,987	242,961	247,845	31,700	20,214	201,696	253,610
Insurance			53,730	53,730			51,901	51,901
Repairs and maintenance			114,671	114,671	21,972		72,654	94,626
Dues and subscriptions	1,666		109,894	111,560	13,479	7,170	72,382	93,031
Depreciation			161,222	161,222	20,148		153,708	173,856
Rent and property expenses			218,487	218,487	30,233		215,347	245,580
Conferences and meetings	34,320	15,281	43,151	92,752	13,146	9,277	47,997	70,420
Travel	15,826	5,421	35,450	56,697	4,876	3,615	30,058	38,549
Office expense	977	5,828	15,460	22,265			11,059	11,059
Sponsorships and marketing	14,000	50,195	241,059	305,254	51,020	49,018	107,278	207,316
Interest expense			23,936	23,936			70,783	70,783
Other	5,444	7,092	47,023	59,559	27,109	723	41,606	69,438
Total	\$ 1,707,485	\$ 956,981	\$ 3,465,094	\$ 6,129,560	\$ 1,677,531	\$ 723,889	\$ 2,907,298	\$ 5,308,718

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Statement of Cash Flows

<i>For the Years Ended June 30,</i>	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 67,444,369	\$ 4,259,576
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	161,222	173,856
Donation of private equity stock	(5,526,638)	
Net realized and unrealized gains on investments	(6,400,331)	(14,733,081)
Loss on sale of real estate		159,074
(Increase) decrease in operating assets:		
Pledges, grants, and other receivables	(10,882,326)	(418,057)
Charitable trust assets	84,325	24,665
Other assets	(19,008)	(47,447)
Increase (decrease) in operating liabilities:		
Accounts payable and other liabilities	43,521	70,808
Grants payable	(5,324,153)	(9,863,596)
Agency funds	42,249,335	(2,589,713)
Net cash provided (used) by operating activities	81,830,316	(22,963,915)
Cash Flows from Investing Activities:		
Purchase of equipment	(157,210)	(14,079)
Proceeds from sale of real estate		2,204,580
Purchase of investments	(302,151,051)	(58,965,433)
Sale of investments	223,441,482	80,120,612
Net cash (used) provided by investing activities	(78,866,779)	23,345,680
Cash Flows from Financing Activities:		
Proceeds from notes payable	1,386,215	
Payments of notes payable	(3,386,215)	(1,250,000)
Payments of notes receivable	8,694	6,928
Net cash used by financing activities	(1,991,306)	(1,243,072)
Change in Cash and Cash Equivalents	972,231	(861,307)
Cash and Cash Equivalents, beginning of year	873,316	1,734,623
Cash and Cash Equivalents, end of year	\$ 1,845,547	\$ 873,316
Supplemental Cash Flow Information:		
Cash paid for interest during the year	\$ 23,936	\$ 70,783

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.

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, and T. Gary and Kathleen Rogers Family Foundation. 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 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.

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 received will be reflected in the consolidated statement of activities and recorded as an increase in net assets for the fiscal year ending June 30, 2019.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

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.

Unrestricted Net Assets - The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Temporarily Restricted Net Assets - The portion of net assets consisting of irrevocable remainder charitable trusts, contributions unconditionally promised which are scheduled to be received in the future, purpose-restricted grants which are not subject to the variance provision of the Board, and the portion of donor-restricted endowment funds that are not classified as permanently restricted net assets.

When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets - The portion of net assets consisting of the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds where the donor indicated that a portion of the fund be retained permanently.

b. Basis of Accounting

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.

c. 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.

d. 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.

e. 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 basis.

East Bay Community Foundation

Notes to Consolidated Financial Statements

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 under the so-called “practical expedient.” The practical expedient allows NAV per share to represent 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.

f. 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.

g. 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 Internal Revenue Service (IRS) Section 7520 rate in effect as of the end of the fiscal year (3.4% for 2018 and 2.4% for 2017).

East Bay Community Foundation

Notes to Consolidated Financial Statements

h. 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 five to thirty-nine years, on a straight-line basis.

i. Agency Funds

Agency funds represent funds transferred to the Foundation by other not-for-profit organizations that have specified themselves as the beneficiary. These funds are accounted for as assets and liabilities on the consolidated financial statements. However, in most cases, the Foundation maintains legal ownership of the agency assets and has variance power.

j. Contributions

Contributions, which may include unconditional promises to give (pledges), are recognized as public support and revenue 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 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 at their estimated fair value. Contributed services are accounted for as contribution revenue if the services meet certain criteria.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions of assets other than cash are recorded at their estimated fair value.

k. 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.

East Bay Community Foundation

Notes to Consolidated Financial Statements

1. Functional Expense Allocation

Certain expenses are allocated to programs and supporting services based on headcount. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. For most departments, expenses are allocated based upon the primary purpose of the department. Functional expenses related to Foundation staff compensation are allocated among program, development and general administration by management, based on staff member estimates of their annual time usage. With the exception of general overhead, other functional expenses are charged according to the Foundations expense classifications as they are incurred. Overhead expenses, such as rent, and supporting departments, such as management information services, are allocated based on headcount percentages of the Foundation.

m. Endowments

Interpretation of Relevant Law

The Foundation classifies as permanently restricted net assets both the original value of the gifts donated plus all subsequent gifts to the donor restricted endowment funds. The remaining value of the donor restricted endowed funds is classified as temporarily restricted net assets 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 State Prudent Management Investment Funds Act (SPMIFA), 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 permanently restricted net assets. At June 30, 2018, the Foundation had four funds with deficiencies totaling \$106,835. At June 30, 2017, the Foundation had four funds with deficiencies totaling \$123,277.

Investment and Spending Policies

The Foundation has adopted investment and spending polices 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.

East Bay Community Foundation

Notes to Consolidated Financial Statements

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.

n. 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, 2018 and 2017, management evaluated the Foundation and its consolidated supporting organization's tax positions and concluded that they had maintained their tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

o. 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.

p. Recent Accounting Pronouncements

Pronouncements effective in the future:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2019. The Foundation is currently evaluating the impact the new standard will have on its financial consolidated statements.

East Bay Community Foundation

Notes to Consolidated Financial Statements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources, and the changes in those resources, to the users of the financial statements. The standard is effective for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating the impact the new standard will have on its consolidated financial statements.

In June 2018, the FASB issued 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. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU does not apply to transfers of assets from governments to businesses. The amendments in the update are effective for the Foundation for its fiscal year ending June 30, 2020. The Foundation is currently evaluating the impact of this pronouncement on its 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 consolidated financial statements.

q. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2018 through March 8, 2019, the date these financial statements were available to be issued. With the exception of those matters discussed in Note 1 and Note 8, there were no other material subsequent events that required recognition.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 3 - Investments

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

	2018	2017
Investments at fair value:		
Money market, cash and cash equivalents	\$ 133,488,583	\$ 72,691,978
Certificates of deposit	12,574,691	500,000
Fixed income:		
Fixed income securities	36,276,597	34,266,535
Government securities	19,110,053	145,316
Corporate bonds	444,038	513,559
Equities:		
Domestic	56,964,848	49,843,340
International	49,920,613	37,873,079
Mutual funds:		
Domestic fixed income	130,193	52,309,610
International fixed income	8,363,977	7,701,671
Multi-strategy	64,158,071	31,379,254
Real estate securities	5,448,776	8,276,424
Commodities and natural resource	702,410	2,531,767
Alternative Investments	19,368,124	23,808,541
Subtotal	406,950,974	321,841,074
Private equity stock (held at cost)	5,527,138	500
Total	\$ 412,478,112	\$ 321,841,574

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 4 - Fair Value Measurements

The table below represents the assets and liabilities measured at fair value at June 30, 2018 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	\$ 133,488,583			\$ 133,488,583
Certificates of deposit		\$ 12,574,691		12,574,691
Fixed income:				
Fixed income securities	36,276,597			36,276,597
Government securities	19,110,053			19,110,053
Corporate bonds		444,038		444,038
Equities:				
Domestic	56,964,848			56,964,848
International	49,920,613			49,920,613
Mutual funds:				
Domestic fixed income	130,193			130,193
International fixed income	8,363,977			8,363,977
Multi-strategy	64,158,071			64,158,071
Real estate securities	5,448,776			5,448,776
Commodities and natural resource	702,410			702,410
Net Asset Value Funds (a)			\$ 19,368,124	19,368,124
<hr/>				
Subtotal	374,564,121	13,018,729	19,368,124	406,950,974
Charitable trust assets		3,265,681		3,265,681
Beneficial interest in life insurance policies		198,917		198,917
<hr/>				
Total	\$ 374,564,121	\$ 16,483,327	\$ 19,368,124	\$ 410,415,572

East Bay Community Foundation

Notes to Consolidated Financial Statements

The table below presents the assets and liabilities measured at fair value at June 30, 2017 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	\$ 72,691,978			\$ 72,691,978
Certificates of deposit		\$ 500,000		500,000
Fixed income:				
Fixed income securities	34,266,535			34,266,535
Government securities	145,316			145,316
Corporate bonds		513,559		513,559
Equities:				
Domestic	49,843,340			49,843,340
International	37,873,079			37,873,079
Mutual funds:				
Domestic fixed income	52,309,610			52,309,610
International fixed income	7,701,671			7,701,671
Multi-strategy	31,379,254			31,379,254
Real estate securities	8,276,424			8,276,424
Commodities and natural resource	2,531,767			2,531,767
Net Asset Value Funds (a)			\$ 23,808,541	23,808,541
Subtotal	297,018,974	1,013,559	23,808,541	321,841,074
Charitable trust assets		3,350,007		3,350,007
Beneficial interest in life insurance policies		207,778		207,778
Total	\$ 297,018,974	\$ 4,571,344	\$ 23,808,541	\$ 325,398,859

(a) In accordance with FASB ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient 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 the Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following table lists investments by major category as of June 30:

Strategies	2018		2017		Redemption	
	# of Funds	Valuation	# of Funds	Valuation	Frequency	Notice Periods (days)
Multi-strategy fund (a)	1	\$ 8,071,314	1	\$ 7,310,890	Daily	1
Long/short/event driven hedge funds (b)	2	4,781,691	2	3,459,225	(b)	(b)
Partnership interests – real estate (c)	4	1,599,465	2	945,296	(c)	(c)
Partnership interests – other (d)	5	4,915,654	3	12,093,130	(d)	(d)
Total	12	\$ 19,368,124	8	\$ 23,808,541		

(a) One affiliated organization at the Foundation invests in a 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 investments in global stocks (51%), cash equivalents (13%), inflation linked bonds (10%), TIPS (10%), high yield bonds (6%), commodities (5%), and REITS (5%). The fund may also hold derivatives and sell some securities short. 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 SEC 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 30 days' notice.

One of the funds with a balance of \$25,845 at June 30, 2018, is in liquidation, and is no longer accepting redemption, including redemption that were requested for future redemption dates.

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, 2018 total approximately \$881,000.
- (d) These partnerships include a partnership operated on behalf of a supporting organization and another party. The balance of this partnership was \$8,771,117 at June 30, 2017. It has alternative investments in multiple asset classes among multi industry sectors including: hedge funds, private equity funds, venture capital, real estate, natural resource and energy partnerships and direct investments. The partnership's investments at June 30, 2017 include hedge funds (25%), private equity funds (48%), equities (23%) and fixed income (4%), respectively. These include investments made directly and through fund of funds. As of December 31, 2017, the supporting organization's share was liquidated and the balance held in cash by the partnership and the total remaining to be distributed to the Foundation, was \$734,102 as of June 30, 2018.

Another partnership 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 60% and 27% of the total value of the strategy at June 30, 2018 and 2017, 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. Capital commitments of the investments held by the partnership, at June 30, 2018 total approximately \$1,172,000.

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. Capital commitments of the investments held by the partnership, at June 30, 2018 total approximately \$250,000.

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. Capital commitments of the investments held by the partnership, at June 30, 2018 total approximately \$1,857,000.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 5 - Notes Receivable:

The Foundation holds the following program related loan at June 30, 2018 and 2017.

One note for Carquinez Model Railroad Society bears 6.0% interest, monthly payments of interest and principal, 10 year term, maturing August 1, 2021. At June 30, 2018 and 2017, the outstanding balance was \$29,733 and \$38,427, respectively.

Note 6 - 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 approximately 3.4% per annum in 2018 and 2.4% in 2017 and taking account of the current age of the remaining life beneficiary. The present value of these interests was \$2,421,854 and \$2,388,313 as of June 30, 2018 and 2017, 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 \$843,828 and \$961,694 as of June 30, 2018 and 2017, respectively.

Note 7 - Property and Equipment:

Property and equipment consists of the following at June 30:

	2018	2017
Land and buildings	\$ 5,497,065	\$ 5,497,065
Furniture and equipment	727,000	569,790
	<hr/>	<hr/>
	6,224,065	6,066,855
Less: accumulated depreciation	(2,886,811)	(2,725,589)
	<hr/>	<hr/>
Property and equipment, net	\$ 3,337,254	\$ 3,341,266

Depreciation expense was \$161,222 for the year ended June 30, 2018.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 8 - Grants Payable:

Grants payable at June 30, 2018 are scheduled to be disbursed as follows:

Less than one year	\$ 6,398,043
One to five years	2,026,060
<hr/>	
Total	\$ 8,424,103

The Foundation has approved \$18,578,048 of conditional grants at June 30, 2018, which is not included in grants payable. Of this balance, \$12,200,000 has been paid subsequent to June 30, 2018.

Note 9 - Notes Payable:

The Foundation maintains a revolving line of credit with Northern Trust in the amount of \$3,750,000, which matures June 30, 2018. The interest rate on the note is equal to the greater of 2% or the prime rate (5.0% as of June 30, 2018 and 4.25% as of June 30, 2017) minus 1.5%. The note requires monthly payments of interest only with the entire principal due at maturity. The revolving line of credit's ending balance was reduced to \$0 as of June 30, 2018 from \$1,500,000 on June 30, 2017. 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, 2018 and 2017, the investment account value exceeded the necessary minimum amount. On June 20, 2018, the line of credit was renewed with the line increased to \$5,000,000 and an expiration date of June 20, 2019.

On June 15, 2018 The Foundation's repaid and closed its revolving line of credit with Beneficial State Bank, formerly called One PacificCoast Bank. The line of credit had a balance of \$500,000, prior to being terminated and the interest rate on the note was 2.15%. The note required monthly payments of interest only, with the entire principal due at maturity. The note was collateralized by a bank deposit maintained with Beneficial State Bank in the amount of \$500,000. The balance outstanding on the line of credit at June 30, 2018 and 2017 was \$0 and \$500,000.

Interest expense on the notes for the years ended June 30, 2018 and 2017 was \$23,936 and \$70,783 respectively.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 10 - Temporarily Restricted Net Assets:

The Foundation's temporarily restricted net assets at June 30 are composed of:

	2018	2017
Restricted by donor for program purpose:		
Arts and culture	\$ 357,135	\$ 430,454
Community improvement and capital building	1,738,200	1,056,081
Education	299,799	242,919
Employment	73,698	151,084
Housing and shelter	1,439	1,419
Human services	119,129	80,585
Philanthropy, volunteer and grant making	266,983	382,728
Restricted by donor as to time	3,498,704	3,576,021
Endowed funds (Note 11)	15,417,731	14,912,907
Total	\$ 21,772,818	\$ 20,834,198

Net assets were released from donor restriction for the year ended June 30 by expiration of time restriction or by the occurrence of other events specified by donors:

	2018	2017
Restricted by donor for program purpose	\$ 2,838,745	\$ 1,266,752
Restricted by donor as to time	70,467	59,577
Endowed funds (Note 11)	3,315,160	2,808,699
Total	\$ 6,224,372	\$ 4,135,028

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 11 - Endowment Funds:

Endowment net asset composition by type of fund at June 30, 2018 is:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 24,083,471			\$ 24,083,471
<hr/>				
Donor restricted endowment funds - income restricted for:				
Animal related		\$ 584,269	\$ 770,448	1,354,717
Arts and culture		936,527	7,319,971	8,256,498
Civil rights, social, activities & advocacy		35,274	458,885	494,159
Community improvement & capital building		337,905	417,240	755,145
Economic aid		1,197,549	3,277,071	4,474,620
Education		1,636,219	6,498,431	8,134,650
Environment		3,803,624	12,239,158	16,042,782
Food, agriculture & nutrition		250,546	2,026,843	2,277,389
Healthcare		3,190,157	11,039,963	14,230,120
Human services		866,390	5,236,719	6,103,109
International foreign affairs & national security		74,958	709,308	784,266
Philanthropy, volunteer & grant making foundations		157,750	1,021,934	1,179,684
Recreation & sports		596,613	523,653	1,120,266
Religion-related		129,991	324,433	454,424
Youth development		1,619,959	4,268,229	5,888,188
Underwater endowment funds	(106,835)			(106,635)
<hr/>				
Total restricted endowment funds	(106,835)	15,417,731	56,132,286	71,443,182
<hr/>				
Total funds	\$ 23,976,636	\$ 15,417,731	\$ 56,132,286	\$ 95,526,653

East Bay Community Foundation

Notes to Consolidated Financial Statements

Endowment net asset composition by type of fund at June 30, 2017 is:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 24,317,502			\$ 24,317,502
<hr/>				
Donor restricted endowment funds - income restricted for:				
Animal related		\$ 581,792	\$ 770,448	1,352,240
Arts and culture		867,067	7,319,971	8,187,038
Civil rights, social, activities & advocacy		26,371	458,885	485,256
Community improvement & capital building		354,382	417,240	771,622
Economic aid		1,192,645	3,277,071	4,469,716
Education		1,558,221	5,431,573	6,989,794
Environment		3,659,767	6,561,031	10,220,798
Food, agriculture & nutrition		220,861	2,026,843	2,247,704
Healthcare		3,119,435	11,039,966	14,159,401
Human services		883,624	5,236,671	6,120,295
International foreign affairs & national security		56,038	709,308	765,346
Philanthropy, volunteer & grant making foundations		129,629	1,016,874	1,146,503
Recreation & sports		583,549	523,653	1,107,202
Religion-related		125,268	324,430	449,699
Youth development		1,554,258	4,268,229	5,822,488
Underwater endowment funds	(123,277)			(123,277)
<hr/>				
Total restricted endowment funds	(123,277)	14,912,907	49,382,193	64,171,823
<hr/>				
Total funds	\$ 24,194,225	\$ 14,912,907	\$ 49,382,193	\$ 88,489,325

East Bay Community Foundation

Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 24,194,225	\$ 14,912,907	\$ 49,382,193	\$ 88,489,325
Interest and dividends	495,348	1,383,354		1,878,702
Net gain (realized and unrealized)	1,570,947	2,412,244		3,983,191
Total investment return	2,066,295	3,795,598		5,861,893
Contributions		40,827	6,750,093	6,790,920
Appropriated for expenditure	(2,300,325)	(3,315,160)		(5,615,485)
Underwater endowment funds adjustment	16,441	(16,441)		
Change in endowment net assets	(217,589)	504,824	6,750,093	7,037,328
Endowment net assets, end of year	\$ 23,976,636	\$ 15,417,731	\$ 56,132,286	\$ 95,526,653

East Bay Community Foundation

Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 21,357,470	\$ 12,290,783	\$ 46,832,031	\$ 80,480,284
Fund transfer		2,143	(2,143)	
<hr/>				
Endowment net assets after reclassification	21,357,470	12,292,926	46,829,888	80,480,284
<hr/>				
Interest and dividends	419,360	925,646		1,345,007
Net gain (realized and unrealized)	2,469,110	6,201,939		8,671,049
<hr/>				
Total investment return	2,888,470	7,127,585		10,016,056
Contributions			2,552,305	2,552,305
Appropriated for expenditure Underwater endowment funds adjustment	(1,750,620)	(2,808,699)		(4,559,319)
<hr/>				
Change in endowment net assets	2,836,755	2,619,981	2,552,305	8,009,041
<hr/>				
Endowment net assets, end of year	\$ 24,194,225	\$ 14,912,907	\$ 49,382,193	\$ 88,489,325

Note 12 - Retirement Plans:

The Foundation has a 401(k) retirement plan (TriNet Plan) available to all eligible participants. The Foundation matched 100% of employee's contributions up to 4% of their salaries. The Foundation's contributions were \$77,192 and \$67,744 for the years ended June 30, 2018 and 2017, respectively.

Note 13 - 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 \$150,912 and \$134,988 for the years ended June 30, 2018 and 2017, respectively.

East Bay Community Foundation

Notes to Consolidated Financial Statements

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

2019	\$ 203,000
2020	196,000
2021	123,000
2022	113,000
2023	104,000
Thereafter	1,765,000
<hr/>	
Total	\$ 2,504,000

Note 14 - 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 an Investment Committee of the Board of Directors.

Other

In the fiscal year ending in 2018, the Foundation received approximately 82.8% of its contributions from five donors representing \$98,856,240. The Foundation received approximately 34.2% of its contributions from five donors in fiscal year ending in 2017 representing \$19,688,062.

Note 15 - Related Party Transactions

For the year ended June 30, 2018, the Foundation received approximately \$1,011,000 in contributions from Board of Directors and Committee members.