

EAST BAY COMMUNITY FOUNDATION

JUNE 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

East Bay Community Foundation

Independent Auditors' Report and Consolidated Financial Statements

Independent Auditors' Report	1 - 2
-------------------------------------	--------------

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, 2019 and 2018, 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 consolidated 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 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, 2019 and 2018, 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.

Effect of Adopting New Accounting Standard

As described in Note 2o, the Foundation adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

Hood & Strong LLP

San Francisco, California
December 19, 2019

East Bay Community Foundation

Consolidated Statement of Financial Position

<i>June 30,</i>	2019	2018
Assets		
Cash and cash equivalents	\$ 2,070,790	\$ 1,845,547
Investments	386,910,754	412,478,112
Pledges, grants, and other receivables	6,724,648	11,661,163
Notes receivable	20,458	29,733
Charitable trust assets	3,350,975	3,265,681
Property and equipment, net	3,477,551	3,337,254
Other assets	284,648	403,322
Total assets	\$ 402,839,824	\$ 433,020,812
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 642,842	\$ 535,726
Grants payable	10,657,259	8,424,103
Agency funds	145,697,045	149,771,865
Total liabilities	156,997,146	158,731,694
Net Assets:		
Without donor restrictions	167,428,065	196,490,850
With donor restrictions	78,414,613	77,798,268
Total net assets	245,842,678	274,289,118
Total liabilities and net assets	\$ 402,839,824	\$ 433,020,812

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 26,124,402	\$ 3,310,439	\$ 29,434,841	\$ 109,462,784	\$ 10,139,974	\$ 119,602,758
Investment income, net	6,743,835	1,723,900	8,467,735	6,827,628	3,789,552	10,617,180
Other income	1,127,321		1,127,321	1,051,728		1,051,728
Net assets released from restrictions	6,379,125	(6,379,125)	-	6,224,372	(6,224,372)	-
Total support and revenue	40,374,683	(1,344,786)	39,029,897	123,566,512	7,705,154	131,271,666
Expenses:						
Program services:						
Grant expense	72,568,678		72,568,678	57,697,737		57,697,737
Other program services	3,970,874		3,970,874	3,099,763		3,099,763
Fundraising	1,209,833		1,209,833	1,073,432		1,073,432
Management and general	2,066,322		2,066,322	1,956,365		1,956,365
Total expenses	79,815,707	-	79,815,707	63,827,297	-	63,827,297
Change in Net Assets Before Other Changes:	(39,441,024)	(1,344,786)	(40,785,810)	59,739,215	7,705,154	67,444,369
Net transfer of supporting organization (Note 1)	10,378,239	1,961,131	12,339,370			-
Change in Net Assets	(29,062,785)	616,345	(28,446,440)	59,739,215	7,705,154	67,444,369
Net Assets, beginning of year (Note 2o)	196,490,850	77,798,268	274,289,118	136,751,635	70,093,114	206,844,749
Net Assets, end of year	\$ 167,428,065	\$ 78,414,613	\$ 245,842,678	\$ 196,490,850	\$ 77,798,268	\$ 274,289,118

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Schedule of Functional Expenses

Years Ended June 30,

	2019				2018			
	Program Services	Fundraising	Management and General	Total	Program Services	Fundraising	Management and General	Total
Salaries	\$ 1,576,506	\$ 563,662	\$ 959,724	\$ 3,099,892	\$ 1,521,184	\$ 573,124	986,662	\$ 3,080,970
Employee benefits and payroll taxes	402,192	143,799	244,841	790,832	381,992	143,920	247,765	773,677
	1,978,698	707,461	1,204,565	3,890,724	1,903,176	717,044	1,234,427	3,854,647
Grants awarded	72,568,678			72,568,678	57,697,737			57,697,737
Professional and consulting fees	979,882	152,365	384,694	1,516,941	403,510	73,709	300,614	777,833
Occupancy	225,701	75,375	137,905	438,981	198,917	66,430	121,540	386,887
Information technology	179,179	55,652	99,597	334,428	127,462	41,780	78,602	247,844
Depreciation	93,718	31,298	57,262	182,278	82,892	27,683	50,648	161,223
Sponsorship and marketing	139,592	96,712	71,363	307,667	135,851	97,306	72,096	305,253
Conventions and conferences	119,248	43,731	41,952	204,931	58,009	15,091	19,653	92,753
Dues and memberships	122,511	1,057	5,306	128,874	108,512	120	2,928	111,560
Travel	44,497	12,289	24,292	81,078	27,570	8,393	20,734	56,697
Office expense	38,652	16,257	19,520	74,429	24,681	13,553	13,130	51,364
Other expenses	49,196	17,636	19,866	86,698	29,183	12,323	41,993	83,499
Total	\$ 76,539,552	\$ 1,209,833	\$ 2,066,322	\$ 79,815,707	\$ 60,797,500	\$ 1,073,432	\$ 1,956,365	\$ 63,827,297

See accompanying notes to consolidated financial statements.

East Bay Community Foundation

Consolidated Statement of Cash Flows

<i>Years Ended June 30,</i>	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ (28,446,440)	\$ 67,444,369
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	182,278	161,223
Donation of private equity stock		(5,526,638)
Donation of real estate	(500,000)	
Net realized and unrealized gains on investments	(3,218,630)	(6,400,331)
(Increase) decrease in operating assets:		
Pledges, grants, and other receivables	4,936,515	(10,882,326)
Charitable trust assets	(85,294)	84,325
Other assets	118,674	(19,008)
Increase (decrease) in operating liabilities:		
Accounts payable and other liabilities	107,115	43,521
Grants payable	2,233,156	(5,324,153)
Agency funds	(4,074,820)	42,249,335
Net cash (used) provided by operating activities	(28,747,446)	81,830,317
Cash Flows from Investing Activities:		
Purchase of equipment	(322,575)	(157,211)
Purchase of investments	(97,000,017)	(302,151,051)
Sale of investments	126,286,006	223,441,482
Net cash provided (used) by investing activities	28,963,414	(78,866,780)
Cash Flows from Financing Activities:		
Proceeds from notes payable		1,386,215
Payments of notes payable		(3,386,215)
Payments of notes receivable	9,275	8,694
Net cash provided (used) by financing activities	9,275	(1,991,306)
Change in Cash and Cash Equivalents	225,243	972,231
Cash and Cash Equivalents, beginning of year	1,845,547	873,316
Cash and Cash Equivalents, end of year	\$ 2,070,790	\$ 1,845,547
Supplemental Cash Flow Information:		
Cash paid for interest during the year	\$ -	\$ 23,936

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. The Board of Directors has designated net assets for certain endowments (see Note 11).

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 basis.

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 (2.9% for 2019 and 3.4% for 2018).

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 (pledges), 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 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.

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 change 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 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 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 net assets with donor perpetual restrictions. At June 30, 2019, the Foundation had nine (9) funds with deficiencies with a fair market value of \$3,952,932 and an original endowment gift amount of \$4,169,767. At June 30, 2018, the Foundation had five (5) funds with deficiencies with a fair market value of \$3,105,865 and an original endowment gift amount of \$3,212,701. 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, 2019 and 2018, 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:

The Foundation adopted Financial Accounting Standard Board (FASB) Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures related to liquidity, functional expense, changes to the classification of net assets, underwater donor-restricted endowments and related disclosures. Additionally, the ASU no longer requires investment management and advisory fees to be presented separately from net investment income. The standard was implemented and applied retrospectively to all periods presented with the exception of the omission of the liquidity and availability of resource information as permitted by the ASU.

Net assets have been reclassified for June 30, 2018 and 2017 due to the adoption of ASU 2016-14 as of July 1, 2018 as follows:

ASU 2016-14 Classifications			
Net Asset Classification 6/30/2017	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Unrestricted	\$ 136,628,358		\$ 136,628,358
Temporarily Restricted		\$ 20,834,198	20,834,198
Permanently Restricted		49,382,193	49,382,193
Net assets as previously presented	136,628,358	70,216,391	206,844,749
Reclassification			
Underwater endowments	123,277	(123,277)	
Net assets as of 6/30/2017 as reported after adoption of ASU 2016 -14	\$ 136,751,635	\$ 70,093,114	\$ 206,844,749

East Bay Community Foundation

Notes to Consolidated Financial Statements

Net Asset Classification 6/30/2018	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Unrestricted	\$ 196,384,014		\$ 196,384,014
Temporarily Restricted		\$ 21,772,818	21,772,818
Permanently Restricted		56,132,286	56,132,286
Net assets as previously presented	196,384,014	77,905,104	274,289,118
Reclassification			
Underwater endowments	106,836	(106,836)	-
Net assets as of 6/30/2018 as reported after adoption of ASU 2016-14	\$ 196,490,850	\$ 77,798,268	\$ 274,289,118

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, 2019. The Foundation is currently evaluating the impact the new standard will have on its 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 amendments in the update related to contributions received are effective for the fiscal year ending June 30, 2020, while the amendments related to contributions made are effective one year later. The Foundation is currently evaluating the impact of this pronouncement 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, 2019 through December 19, 2019, the date these financial statements were available to be issued. There were no material subsequent events that required recognition.

Note 3 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available within one year of June 30, 2019 for general expenditures are as follows:

Financial assets at year-end:	
Cash and cash equivalents	\$ 2,070,790
Investments	386,910,754
Pledges, grants, and other receivables	6,724,648
Notes receivable	20,458
Charitable trust assets	3,350,975
<u>Total financial assets</u>	<u>399,077,625</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(78,414,613)
Long-term notes receivable	(20,458)
Investments not convertible to cash within 12 months	(4,329,349)
Beneficial interest in charitable remainder trusts	(3,350,975)
Cash and cash equivalents held as collateral	(4,913,641)
Agency funds	(145,697,045)
Donor advised funds	(111,956,048)
Board designated endowment funds	(32,634,895)
Add net assets with donor restrictions expected to be used within one year – including endowment spending	10,573,076
<u>Total amounts not available to be used within one year</u>	<u>(370,743,948)</u>
Financial assets available to meet general expenditures over the next twelve months	\$ 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 at June 30, 2019. 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 11) could be undesignated by the Board of Directors and made available for general operations as needed. The Foundation also maintains a \$5 million line of credit (See Note 9) which may be drawn upon for operational liquidity needs.

Note 4 - Investments:

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

	2019	2018
Investments at fair value:		
Money market, cash and cash equivalents	\$ 91,634,968	\$ 133,488,583
Certificates of deposit	16,995,841	12,574,691
Fixed income:		
Government securities	12,351,701	9,953,649
Corporate bonds	13,491,063	12,834,689
Equities:		
Domestic	68,969,013	56,964,848
International	31,026,115	49,920,613
Mutual funds:		
Equities	7,358,323	
Domestic fixed income	77,546,060	77,981,259
International fixed income	5,388,286	8,363,977
Multi-strategy	35,574,897	19,349,355
Real estate securities	4,510,573	5,448,776
Commodities and natural resource	341,663	702,410
Alternative investments	21,221,751	19,368,124
 Subtotal	 386,410,254	 406,950,974
Private equity stock (held at cost)	500	5,527,138
Real estate held for sale (held at cost)	500,000	
 Total	 \$ 386,910,754	 \$ 412,478,112

East Bay Community Foundation

Notes to Consolidated Financial Statements

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

	2019	2018
Realized and unrealized gain	\$ 3,218,630	\$ 6,400,331
Dividends and interest	5,866,250	4,682,867
Investment management fees	(617,145)	(466,018)
Investment income, net	\$ 8,467,735	\$ 10,617,180

Note 5 - Fair Value Measurements:

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

	Level 1	Level 2	NAV (a)	Total
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

East Bay Community Foundation

Notes to Consolidated Financial Statements

The table below presents 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 securities:				
Government securities		9,953,649		9,953,649
Corporate bonds		12,834,689		12,834,689
Equities:				
Domestic	56,964,848			56,964,848
International	49,920,613			49,920,613
Mutual funds:				
Domestic fixed income	77,981,259			77,981,259
International fixed income	8,363,977			8,363,977
Multi-strategy	19,349,355			19,349,355
Real estate	5,448,776			5,448,776
Commodities and natural resource	702,410			702,410
NAV funds (a)			\$ 19,368,124	19,368,124
Subtotal	352,219,821	35,363,029	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
Total	\$ 352,219,821	\$ 38,827,627	\$ 19,368,124	\$ 410,415,572

(a) In accordance with FASB ASC 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 readily determinable fair value. The following table lists investments by major category as of June 30:

Strategies	2019		2018		Redemption	
	# of Funds	Valuation	# of Funds	Valuation	Frequency	Notice Periods (days)
Multi-strategy fund (a)	1	\$ 8,754,186	1	\$ 8,071,314	Daily	1
Long/short/event driven hedge funds (b)	2	5,356,450	2	4,781,691	(b)	(b)
Partnership interests - real estate (c)	4	1,749,375	4	1,599,465	(c)	(c)
Partnership interests - other (d)	5	5,361,740	5	4,915,654	(d)	(d)
Total	12	\$ 21,221,751	12	\$ 19,368,124		

(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 (40-50%), 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. 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 30 days' notice. For the other fund, the redemption is greater than one year.

One of the funds with a balance of \$3,603 at June 30, 2019, is in liquidation, and is no longer accepting redemption, including redemptions 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, 2019 total approximately \$946,000.
- (d) These partnerships include a partnership operated on behalf of a supporting organization and another party. 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. 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 of \$734,102 was received as of June 30, 2019.

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 52% and 60% of the total value of the strategy at June 30, 2019 and 2018, 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, 2019 total approximately \$980,000.

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, 2019 total approximately \$200,000.

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, 2019 total approximately \$1,535,000.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Another partnership invests in private equity, infrastructure and real estate secondary 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. Capital commitments held by the partnership, at June 30, 2019 total approximately \$995,000.

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 2.9% per annum in 2019 and 3.4% in 2018 and taking account of the current age of the remaining life beneficiary. The present value of these interests was \$2,493,095 and \$2,421,854 as of June 30, 2019 and 2018, 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 \$857,880 and \$843,828 as of June 30, 2019 and 2018, respectively.

Note 7 - Property and Equipment:

Property and equipment consist of the following at June 30:

	2019	2018
Land and buildings	\$ 5,529,140	\$ 5,497,065
Furniture, equipment and leasehold improvements	1,017,500	727,000
	6,546,640	6,224,065
Less: accumulated depreciation	(3,069,089)	(2,886,811)
Property and equipment, net	\$ 3,477,551	\$ 3,337,254

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 8 - Grants Payable:

Grants payable at June 30, 2019 are scheduled to be disbursed as follows:

Less than one year	\$ 8,950,519
One to five years	1,706,740
Total	<u>\$ 10,657,259</u>

The Foundation had no conditional grants as of June 30, 2019 and \$18,578,048 as of June 30, 2018, which is not included in grants payable.

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

	2019	2018
Arts and culture	\$ 2,049,656	\$ 1,581,266
Education and youth development	19,091,757	15,501,870
Livable communities	23,395,626	10,638,937
Strengthening families	28,031,639	29,975,664
Total	<u>\$ 72,568,678</u>	<u>\$ 57,697,737</u>

Note 9 - Note Payable:

The Foundation maintains a revolving line of credit with Northern Trust in the amount of \$5,000,000, which matured on June 20, 2019, and was renewed under similar terms with an expiration date of June 9, 2020. The interest rate on the note is equal to the greater of 2% or the prime rate (5.5% as of June 30, 2019 and 5.0% as of June 30, 2018) minus 1.5%. 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, 2019 and 2018, the investment account value exceeded the necessary minimum amount.

There was no balance outstanding on the line of credit at June 30, 2018 and 2019. There was no interest expense on the notes for the year ended June 30, 2019. Interest expense on the note for the year end June 30, 2018 was \$23,936.

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 10 - Net Assets with Donor Restrictions:

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

	2019	2018
Restricted by donor for program purpose:		
Arts and culture	\$ 210,630	\$ 357,135
Community improvement and capacity building	2,279,277	1,738,200
Education	223,470	299,799
Human services	104,524	119,129
Philanthropy, volunteer and grant making	553,171	266,983
Other		75,137
Accumulated donor endowed income (Note 11)	14,006,034	15,310,895
Restricted by donor as to time	3,612,018	3,498,704
Donor endowed funds - perpetual restrictions (Note 11)	57,425,489	56,132,286
Total	\$ 78,414,613	\$ 77,798,268

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

	2019	2018
Restricted by donor for program purpose	\$ 2,724,479	\$ 2,838,745
Restricted by donor as to time	60,336	70,467
Endowed funds (Note 11)	3,610,977	3,315,160
Total	\$ 6,395,792	\$ 6,224,372

East Bay Community Foundation

Notes to Consolidated Financial Statements

Note 11 - Endowment Funds:

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

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

	<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	\$ 24,194,225	\$ 14,912,907	\$ 49,382,193	\$ 88,489,325
Reclassification Underwater endowments	123,277	(123,277)		
Endowments net assets – as reported after adoption of ASU 2016-14	24,317,502	14,789,630	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
Contributions		40,827	6,750,093	6,790,920
Appropriated for expenditure	(2,300,325)	(3,315,160)		(5,615,485)
Change in endowment net assets	(234,030)	521,265	6,750,093	7,037,328
Endowment net assets, end of year	\$ 24,083,472	\$ 15,310,895	\$ 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, 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
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)
Total restricted endowment funds		14,006,034	57,425,489	71,431,523
Total funds	\$ 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, 2018 is:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> <u>Time or Purpose</u>	<u>Perpetuity</u>	Total
Board designated endowment funds	\$ 24,083,472			\$ 24,083,472
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	3,803,623	12,239,158		16,042,781
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)			(106,835)
Total restricted endowment funds	15,310,895	56,132,286		71,443,181
Total funds	\$ 24,083,472	\$ 15,310,895	\$ 56,132,286	\$ 95,526,653

Note 12 - Retirement Plans:

The Foundation has a 401(k) retirement plan (TriNet 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 \$90,364 and \$77,192 for the years ended June 30, 2019 and 2018, respectively.

East Bay Community Foundation

Notes to Consolidated Financial Statements

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 \$134,655 and \$150,912 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$ 116,000
2021	106,000
2022	108,000
2023	109,000
2024	58,000
Thereafter	1,711,000
<hr/>	
Total	\$ 2,208,000

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 2019, the Foundation received 51.1% of its contributions from five donors representing \$15,055,066. The Foundation received approximately 82.8% of its contributions from five donors in fiscal year ending in 2018 representing \$98,856,240.

Note 15 - Related Party Transactions:

For the year ended June 30, 2019 and 2018, the Foundation received approximately \$523,000 and \$1,011,000, respectively in contributions from Board of Directors and Committee members.