

# EAST BAY COMMUNITY FOUNDATION

JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

# East Bay Community Foundation

## Independent Auditors' Report and Consolidated Financial Statements

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## **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, 2016 and 2015, 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2016 and 2015, 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.

### **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 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 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  
December 15, 2016

# East Bay Community Foundation

## Consolidated Statement of Financial Position

| <i>June 30,</i>                         | 2016                  | 2015                  |
|---|-----------------------|-----------------------|
| <b>Assets</b>                           |                       |                       |
| Cash and cash equivalents               | \$ 1,734,623          | \$ 2,110,583          |
| Investments, at fair value              | 325,599,953           | 382,929,773           |
| Investments in transit                  | 2,663,718             | -                     |
| Other receivables, net                  | 360,780               | 1,260,533             |
| Notes receivable                        | 45,355                | 51,913                |
| Charitable trust assets                 | 3,374,672             | 5,489,667             |
| Property and equipment, net             | 5,864,697             | 3,658,694             |
| Other assets                            | 332,266               | 335,046               |
| <b>Total assets</b>                     | <b>\$ 339,976,064</b> | <b>\$ 395,836,209</b> |
| <b>Liabilities and Net Assets</b>       |                       |                       |
| <b>Liabilities:</b>                     |                       |                       |
| Accounts payable and other liabilities  | \$ 416,796            | \$ 336,152            |
| Grants payable                          | 23,611,852            | 16,315,952            |
| Notes payable                           | 3,250,000             | 3,250,000             |
| Agency funds                            | 110,112,244           | 124,477,693           |
| <b>Total liabilities</b>                | <b>137,390,892</b>    | <b>144,379,797</b>    |
| <b>Net Assets:</b>                      |                       |                       |
| Unrestricted                            | 139,247,646           | 186,473,314           |
| Temporarily restricted                  | 16,505,496            | 22,218,727            |
| Permanently restricted                  | 46,832,031            | 42,764,371            |
| <b>Total net assets</b>                 | <b>202,585,173</b>    | <b>251,456,412</b>    |
| <b>Total liabilities and net assets</b> | <b>\$ 339,976,065</b> | <b>\$ 395,836,209</b> |

See accompanying notes to financial statements.

# East Bay Community Foundation

## Consolidated Statement of Activities and Changes in Net Assets

For the Years Ended June 30,

|  | 2016                  |                        |                        |                       | 2015                  |                        |                        |                       |
|--|-----------------------|------------------------|------------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|
|  | Unrestricted          | Temporarily Restricted | Permanently Restricted | Total                 | Unrestricted          | Temporarily Restricted | Permanently Restricted | Total                 |
| <b>Revenue and Other Support</b>   |                       |                        |                        |                       |                       |                        |                        |                       |
| Contributions  | \$ 19,456,245         | \$ 963,290             | \$ 4,450,771           | \$ 24,870,306         | \$ 66,791,830         | \$ 735,248             | \$ 553,757             | \$ 68,080,835         |
| Less: amounts received for agency funds  | (227,019)             | (4,190)                | (48,572)               | (279,781)             | (55,836,688)          | (2,000)                | (113,675)              | (55,952,363)          |
|  | 19,229,226            | 959,100                | 4,402,199              | 24,590,525            | 10,955,142            | 733,248                | 440,082                | 12,128,472            |
| Investment income  | 2,348,804             | 1,089,190              |                        | 3,437,994             | 1,869,452             | 1,179,043              |                        | 3,048,495             |
| Less: investment income for agency funds   | (715,116)             | (70,271)               |                        | (785,387)             | (191,588)             | (100,234)              |                        | (291,822)             |
|  | 1,633,688             | 1,018,919              | -                      | 2,652,607             | 1,677,864             | 1,078,809              | -                      | 2,756,673             |
| Net realized and unrealized (losses) gains on investments                        | 592,188               | (3,406,403)            |                        | (2,814,215)           | (607,538)             | (1,717,253)            |                        | (2,324,791)           |
| Less: net realized and unrealized gains (losses) on investments for agency funds | (351,846)             | 234,410                |                        | (117,436)             | 200,930               | 136,545                |                        | 337,475               |
|  | 240,342               | (3,171,993)            | -                      | (2,931,651)           | (406,608)             | (1,580,708)            | -                      | (1,987,316)           |
| Other income   | 776,352               |                        |                        | 776,352               | 1,149,899             |                        |                        | 1,149,899             |
| Net assets released from restrictions  | 6,498,696             | (6,164,157)            | (334,539)              | -                     | 3,779,832             | (3,779,832)            |                        | -                     |
| <b>Total revenue and other support</b>   | <b>28,378,304</b>     | <b>(7,358,131)</b>     | <b>4,067,660</b>       | <b>25,087,833</b>     | <b>17,156,129</b>     | <b>(3,548,483)</b>     | <b>440,082</b>         | <b>14,047,728</b>     |
| <b>Expenses</b>  |                       |                        |                        |                       |                       |                        |                        |                       |
| Grant programs:  |                       |                        |                        |                       |                       |                        |                        |                       |
| Arts and culture   | 1,533,963             |                        |                        | 1,533,963             | 1,963,057             |                        |                        | 1,963,057             |
| Education and youth development  | 35,639,211            |                        |                        | 35,639,211            | 14,115,877            |                        |                        | 14,115,877            |
| Economic development   | 13,895,849            |                        |                        | 13,895,849            | 26,846,013            |                        |                        | 26,846,013            |
| Strengthening families   | 33,197,556            |                        |                        | 33,197,556            | 21,063,077            |                        |                        | 21,063,077            |
| Less: grants made from agency funds  | (15,444,414)          |                        |                        | (15,444,414)          | (10,012,569)          |                        |                        | (10,012,569)          |
|  | 68,822,165            | -                      | -                      | 68,822,165            | 53,975,455            | -                      | -                      | 53,975,455            |
| Program services   | 1,098,890             |                        |                        | 1,098,890             | 1,172,121             |                        |                        | 1,172,121             |
| Development and fundraising  | 712,582               |                        |                        | 712,582               | 704,764               |                        |                        | 704,764               |
| General and administrative   | 3,032,279             |                        |                        | 3,032,279             | 2,594,519             |                        |                        | 2,594,519             |
| Investment advisory fees   | 293,156               |                        |                        | 293,156               | 406,622               |                        |                        | 406,622               |
| <b>Total expenses</b>  | <b>73,959,072</b>     | <b>-</b>               | <b>-</b>               | <b>73,959,072</b>     | <b>58,853,481</b>     | <b>-</b>               | <b>-</b>               | <b>58,853,481</b>     |
| <b>Change in Net Assets Before Reclassification of Net Assets</b>                | <b>(45,580,768)</b>   | <b>(7,358,131)</b>     | <b>4,067,660</b>       | <b>(48,871,239)</b>   | <b>(41,697,352)</b>   | <b>(3,548,484)</b>     | <b>440,082</b>         | <b>(44,805,754)</b>   |
| Donor reclassifications  |                       |                        |                        | -                     | (593,138)             | (144,610)              | 737,748                | -                     |
| Underwater endowment funds adjustment  | (1,644,900)           | 1,644,900              |                        | -                     | (82,500)              | 82,500                 |                        | -                     |
| Net transfer of supporting organization (Note 16)                                |                       |                        |                        | -                     | (70,000)              |                        |                        | (70,000)              |
| <b>Change in Net Assets</b>  | <b>(47,225,668)</b>   | <b>(5,713,231)</b>     | <b>4,067,660</b>       | <b>(48,871,239)</b>   | <b>(42,442,990)</b>   | <b>(3,610,594)</b>     | <b>1,177,830</b>       | <b>(44,875,754)</b>   |
| <b>Net Assets, beginning of year</b>   | <b>186,473,314</b>    | <b>22,218,727</b>      | <b>42,764,371</b>      | <b>251,456,412</b>    | <b>228,916,304</b>    | <b>25,829,321</b>      | <b>41,586,541</b>      | <b>296,332,166</b>    |
| <b>Net Assets, end of year</b>   | <b>\$ 139,247,646</b> | <b>\$ 16,505,496</b>   | <b>\$ 46,832,031</b>   | <b>\$ 202,585,173</b> | <b>\$ 186,473,314</b> | <b>\$ 22,218,727</b>   | <b>\$ 42,764,371</b>   | <b>\$ 251,456,412</b> |

See accompanying notes to financial statements.

## East Bay Community Foundation

### Supplementary Information - Consolidated Schedule of Functional Expenses

*For the Years Ended June 30,*

|                                 | 2016                |                                   |                                  |                     | 2015                |                                   |                                  |                     |
|---------------------------------|---------------------|-----------------------------------|----------------------------------|---------------------|---------------------|-----------------------------------|----------------------------------|---------------------|
|                                 | Program<br>Services | Development<br>and<br>Fundraising | General<br>and<br>Administrative | Total               | Program<br>Services | Development<br>and<br>Fundraising | General<br>and<br>Administrative | Total               |
| Salaries                        | \$ 531,730          | \$ 498,779                        | \$ 1,235,019                     | \$ 2,265,528        | \$ 672,883          | \$ 488,110                        | \$ 1,024,167                     | \$ 2,185,160        |
| Payroll taxes                   | 39,618              | 37,163                            | 92,019                           | 168,800             | 51,637              | 37,458                            | 78,595                           | 167,690             |
| Employee benefits               | 87,657              | 82,225                            | 203,596                          | 373,478             | 108,499             | 78,705                            | 165,141                          | 352,345             |
|                                 | 659,005             | 618,167                           | 1,530,634                        | 2,807,806           | 833,019             | 604,273                           | 1,267,903                        | 2,705,195           |
| Consultants                     | 167,034             | -                                 | 276,306                          | 443,340             | 196,434             | -                                 | 88,121                           | 284,555             |
| Accounting and legal            | 42,622              | 21,632                            | 106,248                          | 170,502             | 41,210              | 17,587                            | 108,164                          | 166,961             |
| Temporary services hiring costs | 6,692               | 4,100                             | 56,085                           | 66,877              | 4,915               | 6,347                             | 110,083                          | 121,345             |
| Printing, postage and supplies  | 9,013               | 651                               | 23,838                           | 33,502              | 5,703               | 807                               | 52,251                           | 58,761              |
| Telephone and technology        | 3,273               | 1,495                             | 193,179                          | 197,947             | 1,474               | 2,459                             | 180,502                          | 184,435             |
| Insurance                       | 10,471              | -                                 | 54,534                           | 65,005              | 1,610               | -                                 | 48,718                           | 50,328              |
| Repairs and maintenance         | 17,432              | -                                 | 150,618                          | 168,050             | -                   | -                                 | 95,430                           | 95,430              |
| Dues and subscriptions          | 8,000               | 595                               | 68,304                           | 76,899              | 61                  | -                                 | 70,794                           | 70,855              |
| Depreciation                    | 35,259              | -                                 | 145,461                          | 180,720             | -                   | -                                 | 155,189                          | 155,189             |
| Rent and property expenses      | 32,497              | -                                 | 215,321                          | 247,818             | -                   | -                                 | 201,430                          | 201,430             |
| Conferences and meetings        | 12,223              | 6,820                             | 46,818                           | 65,861              | 11,600              | 45,367                            | 38,290                           | 95,257              |
| Travel                          | 4,302               | 6,321                             | 24,726                           | 35,349              | 5,004               | 7,230                             | 11,195                           | 23,429              |
| Office expense                  | -                   | -                                 | 5,336                            | 5,336               | (351)               | 351                               | 10,189                           | 10,189              |
| Sponsorships and marketing      | 44,023              | 52,350                            | 25,859                           | 122,232             | 28,076              | 19,793                            | 49,777                           | 97,646              |
| Interest expense                | -                   | -                                 | 66,853                           | 66,853              | -                   | -                                 | 66,633                           | 66,633              |
| Other                           | 47,044              | 451                               | 42,159                           | 89,654              | 43,366              | 550                               | 39,850                           | 83,766              |
| <b>Total</b>                    | <b>\$ 1,098,890</b> | <b>\$ 712,582</b>                 | <b>\$ 3,032,279</b>              | <b>\$ 4,843,751</b> | <b>\$ 1,172,121</b> | <b>\$ 704,764</b>                 | <b>\$ 2,594,519</b>              | <b>\$ 4,471,404</b> |

# East Bay Community Foundation

## Consolidated Statement of Cash Flows

| <i>For the Years Ended June 30,</i>   | 2016                | 2015                |
|---|---------------------|---------------------|
| <b>Cash Flows from Operating Activities:</b>  |                     |                     |
| Change in net assets  | \$ (48,871,239)     | \$ (44,875,754)     |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                     |                     |
| Depreciation  | 180,720             | 155,189             |
| Net realized and unrealized losses on investments   | 4,275,153           | 1,998,954           |
| Donation of real estate   | (2,325,000)         |                     |
| Transfer of donor advised fund investments  |                     | 12,405,708          |
| (Increase) decrease in operating assets:  |                     |                     |
| Other receivables, net  | 899,753             | 1,050,039           |
| Charitable trust assets   | 2,114,995           | (57,952)            |
| Other assets  | 2,780               | (16,198)            |
| Increase (decrease) in operating liabilities:   |                     |                     |
| Accounts payable and other liabilities  | 80,643              | 38,255              |
| Grants payable  | 7,295,900           | (3,131,904)         |
| Agency funds  | (14,365,449)        | 45,616,867          |
| <b>Net cash (used) provided by operating activities</b>   | <b>(50,711,744)</b> | <b>13,183,204</b>   |
| <b>Cash Flows from Investing Activities:</b>  |                     |                     |
| Purchase of equipment   | (61,723)            | (22,702)            |
| Purchase of investments   | (119,541,545)       | (119,392,428)       |
| Sale of investments   | 169,932,494         | 106,861,880         |
| <b>Net cash provided (used) by investing activities</b>   | <b>50,329,226</b>   | <b>(12,553,250)</b> |
| <b>Cash Flows from Financing Activities:</b>  |                     |                     |
| Payments of notes receivable  | 6,558               | 7,819               |
| <b>Net cash provided by financing activities</b>  | <b>6,558</b>        | <b>7,819</b>        |
| <b>Change in Cash and Cash Equivalents</b>  | <b>(375,960)</b>    | <b>637,773</b>      |
| <b>Cash and Cash Equivalents, beginning of year</b>   | <b>2,110,583</b>    | <b>1,472,810</b>    |
| <b>Cash and Cash Equivalents, end of year</b>   | <b>\$ 1,734,623</b> | <b>\$ 2,110,583</b> |
| <b>Supplemental Cash Flow Information:</b>  |                     |                     |
| Cash paid for interest during the year  | \$ 66,853           | \$ 66,633           |

See accompanying notes to financial statements.



# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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### 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, Edward and May Yee Chan Memorial Foundation, Model Transitions Foundation, Helzel Family Foundation, Open Circle 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).

Certain supporting organizations made changes to their exempt purpose or operation in 2015 and 2016 as described in Note 16.

### 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.

*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.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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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 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

Investments received through gifts are recorded at estimated fair value at the date of donation. All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. The fair value of partnership interests and hedge funds are valued at net asset value (NAV) per unit or percentage of ownership as determined by the individual fund managers.

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.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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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.

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. In addition, the Foundation reports certain investments using the NAV per share 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.

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 or in accordance with NAV practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds. 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. Fair Value of Financial Instruments

Some of the Foundation’s financial instruments are not measured at fair value on a recurring basis but, nevertheless, are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such assets and liabilities include cash and cash equivalents, other receivables, notes receivable, and payables.

h. 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 (1.8% for 2016 and 2.0% 2015).

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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i. Property and Equipment

Purchased property and equipment are recorded at cost or fair value at 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.

j. 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.

k. 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.

l. 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

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### m. 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.

### n. 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, 2016, the Foundation had twenty funds with deficiencies totaling \$1,822,182. At June 30, 2015, there were seven funds with deficiencies of this nature totaling \$177,282 that are reported in unrestricted net assets.

#### *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

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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 that includes U.S. Government and agency paper investments 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.

o. 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, 2016 and 2015, 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. As discussed in Note 15, a tax matter related to supporting organizations was resolved in 2015.

p. 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.

q. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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r. Recent Accounting Pronouncements

*Pronouncements effective in the future:*

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this Update apply to reporting entities that elect to-measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. Under Topic 820, a reporting entity is permitted, as a practical expedient, to estimate the fair value of certain investments using those investments' NAV per share. Prior to ASU 2015-07, these investments were categorized in the fair value hierarchy based on whether the investment was redeemable with the investee at net asset value on measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. These criteria were different from the criteria used for all other investments. All other investments are categorized based on inputs to fair value.

To alleviate inconsistencies in the categorization of investments within the hierarchy, ASU 2015-07 removes the requirement to categorize all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also clarify that certain disclosure requirements are limited to investments for which the entity has elected to measure fair value using that practical expedient, and not all investments eligible to be measured at fair value using the practical expedient. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2016, for non - public entities, however early application is permitted. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

In February 2016, the Financial Accounting Standards Board (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 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 and early adoption is permitted. The Foundation is currently evaluating the impact the new standard will have on its financial statements.

s. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2016 through December 15, 2016, the date these financial statements were available to be issued. With the exception of those matters discussed in Note 9, there were no other material subsequent events that required recognition.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

### Note 3 - Investments and Fair Value Measurements:

The table below presents the assets and liabilities measured at fair value at June 30, 2016 on a recurring basis:

|  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>   |
|--|----------------|----------------|----------------|----------------|
| <b>Investments:</b>                            |                |                |                |                |
| Money market, cash and cash equivalents        | \$ 97,182,151  |                |                | \$ 97,182,151  |
| Certificates of deposit                        |                | \$ 500,000     |                | 500,000        |
| Fixed income:                                  |                |                |                |                |
| Fixed income securities                        | 781,157        |                |                | 781,157        |
| Government securities                          | 2,614,971      |                |                | 2,614,971      |
| Corporate bonds                                |                | 1,227,199      |                | 1,227,199      |
| Mortgage-backed securities                     |                | 539,446        |                | 539,446        |
| Equities:                                      |                |                |                |                |
| Domestic                                       | 6,385,329      |                |                | 6,385,329      |
| International                                  | 92,231         |                |                | 92,231         |
| Mutual funds:                                  |                |                |                |                |
| Domestic equity                                | 37,720,244     |                |                | 37,720,244     |
| International equity                           | 28,426,170     |                |                | 28,426,170     |
| Domestic fixed income                          | 87,438,488     |                |                | 87,438,488     |
| International fixed income                     | 5,345,503      |                |                | 5,345,503      |
| Multi-strategy                                 | 21,279,231     |                |                | 21,279,231     |
| Real estate securities                         | 6,485,794      |                |                | 6,485,794      |
| Commodities and natural resource               | 2,087,593      |                |                | 2,087,593      |
| Alternative investments:                       |                |                |                |                |
| Multi-strategy fund                            |                | 6,295,607      |                | 6,295,607      |
| Hedge funds                                    |                | 4,134,049      | 1,062,494      | 5,196,543      |
| Private equity fund                            |                |                | \$ 500         | 500            |
| Partnership interests                          |                | 2,745,974      | 13,255,822     | 16,001,796     |
| <hr/>  |                |                |                |                |
| Subtotal                                       | 295,838,862    | 15,442,275     | 14,318,816     | 325,599,953    |
| <br>   |                |                |                |                |
| Charitable trust assets                        |                | 3,374,672      |                | 3,374,672      |
| Beneficial interest in life insurance policies |                | 213,395        |                | 213,395        |
| <hr/>  |                |                |                |                |
| Total  | \$ 295,838,862 | \$ 19,030,342  | \$ 14,318,816  | \$ 329,188,020 |



# East Bay Community Foundation

## Notes to Consolidated Financial Statements

The table below presents the assets and liabilities measured at fair value at June 30, 2015 on a recurring basis:

|  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>   |
|--|----------------|----------------|----------------|----------------|
| <b>Investments:</b>                            |                |                |                |                |
| Money market, cash and cash equivalents        | \$ 228,409,634 |                |                | \$ 228,409,634 |
| Certificates of deposit                        |                | \$ 500,000     |                | 500,000        |
| Fixed income:                                  |                |                |                |                |
| Government securities                          | 465,879        |                |                | 465,879        |
| Corporate bonds                                |                | 855,602        |                | 855,602        |
| Mortgage-backed securities                     |                |                |                |                |
| Equities:                                      |                |                |                |                |
| Domestic                                       | 6,109,007      |                |                | 6,019,007      |
| International                                  | 209,010        |                |                | 209,010        |
| Mutual funds:                                  |                |                |                |                |
| Domestic equity                                | 33,228,285     |                |                | 33,228,285     |
| International equity                           | 22,103,219     |                |                | 22,103,219     |
| Domestic fixed income                          | 22,551,868     |                |                | 22,551,868     |
| International fixed income                     | 3,447,875      |                |                | 3,447,875      |
| Multi-strategy                                 | 21,702,934     |                |                | 21,702,934     |
| Real estate securities                         | 4,672,111      |                |                | 4,672,111      |
| Commodities and natural resource               | 2,046,715      |                |                | 2,046,715      |
| Alternative investments:                       |                |                |                |                |
| Multi-strategy fund                            |                | 6,280,857      |                | 6,280,857      |
| Hedge funds                                    |                | 9,017,591      |                | 9,017,591      |
| Private equity fund                            |                |                | \$ 500         | 500            |
| Partnership interests                          |                | 2,454,352      | 18,874,334     | 21,328,686     |
| Subtotal                                       | 344,946,537    | 19,108,402     | 18,874,834     | 382,929,773    |
| Charitable trust assets                        |                | 5,489,667      |                | 5,489,667      |
| Beneficial interest in life insurance policies |                | 220,551        |                | 220,551        |
| Total  | \$ 344,946,537 | \$ 24,818,620  | \$ 18,874,834  | \$ 388,639,991 |

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

The following table is a roll forward of the statement of financial position amounts for financial instruments classified in level 3 of the valuation hierarchy defined above:

|                                      | 2016           |                   |                          |               |
|--------------------------------------|----------------|-------------------|--------------------------|---------------|
|                                      | Hedge<br>Funds | Private<br>Equity | Partnership<br>Interests | Total         |
| Beginning balance                    |                | \$ 500            | \$ 18,874,334            | \$ 18,874,834 |
| Transfer from Level 2                | \$ 4,218,657   |                   |                          | 4,218,657     |
| Purchases                            |                |                   | 310,000                  | 310,000       |
| Sales                                |                |                   | (43,850)                 | (43,850)      |
| Net realized and<br>unrealized gains | (242,445)      |                   | 1,387,411                | 1,144,966     |
| Capital withdrawals                  | (2,913,718)    |                   | (7,275,000)              | (10,188,718)  |
| Investment income                    |                |                   | 14,581                   | 14,851        |
| Investment/ program fees             |                |                   | (11,654)                 | (11,654)      |
| Ending balance                       | \$ 1,062,494   | \$ 500            | \$ 13,255,822            | \$ 14,318,816 |

|                                   | 2015              |                          |               |
|-----------------------------------|-------------------|--------------------------|---------------|
|                                   | Private<br>Equity | Partnership<br>Interests | Total         |
| Beginning balance                 | \$ 500            | \$ 23,679,963            | \$ 23,680,463 |
| Purchases                         |                   | 95,000                   | 95,000        |
| Net realized and unrealized gains |                   | 402,321                  | 402,321       |
| Capital withdrawals               |                   | (5,300,000)              | (5,300,000)   |
| Investment/ program fees          |                   | (2,950)                  | (2,950)       |
| Ending balance                    | \$ 500            | \$ 18,874,334            | \$ 18,874,834 |

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

The following table lists the fair value of investments using the NAV by major category as of June 30, 2016 and 2015:

| Strategies                              | 2016       |                      | 2015       |                      | Redemption |                       |
|---|------------|----------------------|------------|----------------------|------------|-----------------------|
|   | # of Funds | Valuation            | # of Funds | Valuation            | Frequency  | Notice Periods (days) |
| Multi-strategy fund (a)                 | 1          | \$ 6,295,607         | 1          | \$ 6,280,857         | Daily      | 1                     |
| Long/short/event driven hedge funds (b) | 2          | 5,196,543            | 2          | 9,017,591            | (b)        | (b)                   |
| Private equity (c)                      | 1          | 500                  | 1          | 500                  | (c)        | (c)                   |
| Partnership interests (d)               | 3          | 16,001,796           | 3          | 21,328,686           | (d)        | (d)                   |
| <b>Total</b>                            | <b>7</b>   | <b>\$ 27,494,446</b> | <b>7</b>   | <b>\$ 36,627,634</b> |            |                       |

(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.

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.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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One of the funds with a balance of \$1,062,494 at June 30, 2016, is in liquidation, and is no longer accepting redemption, including redemption that were requested for future redemption dates. The fund will make periodic distributions of capital, through December 31, 2017, as investments are liquidated by way of a compulsory redemption of shares. There is a 6% of NAV of the underlying investment funds that will be available after December 31, 2017 which consists primarily of designated investments and Special Opportunities that have an uncertain liquidity.

- (c) Private equity strategies invest in various companies and some debt securities, both domestic and international. The partnerships have a legal life span of up to 10 years with no redemption rights for the Limited Partners. Liquidity is expected in the form of distributions from the funds when the underlying assets are sold. It is estimated that the underlying assets will be redeemed over this time period and that the Foundation will make new investments in other private equity strategies. One partnership permits redemptions up to 5% for the first three years, 100% of capital account thereafter subject to a 20% gate.
- (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. The partnership's investments at June 30, 2016 and 2015 include hedge funds (25% and 25%), private equity funds (47% and 46%), equities (22% and 23%) and fixed income (6% and 6%), respectively. These include investments made directly and through fund of funds. Certain of these investments held by the partnership have liquidity restrictions, restriction on sales up to three years and commitments for additional capital contributions. Capital commitments of the investments held by the partnership, based on the supporting organization's ownership share of the partnership, at June 30, 2016 total approximately \$1.62 million.

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. Capital commitments of the investments held by the partnership, at June 30, 2016 total approximately \$241,000.

Another partnership invests 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 the partnership, at June 30, 2016 total approximately \$800,000.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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### **Note 4 - Other Receivables:**

Other receivables at June 30, 2015 include an amount for a settlement agreement (the Agreement) with a director of the Gonzales Family Foundation, formerly a supporting organization of the Foundation. In August 2011, at the closing of the Agreement, the name of the Gonzales Family Foundation was changed to Model Transitions Foundation (MTF). As of June 30, 2016 all payments of the settlement have been received.

### **Note 5 - Notes Receivable:**

The Foundation holds the following receivables in program related loans at June 30, 2016 and 2015.

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, 2016 and 2015, the outstanding balance was \$45,355 and \$51,913, 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 1.8% per annum in 2016 and 2.0% in 2015, and taking account of the current age of the remaining life beneficiary. The present value of these interests was \$2,313,589 and \$4,413,415 as of June 30, 2016 and 2015, 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 \$1,061,083 and \$1,076,252 as of June 30, 2016 and 2015, respectively.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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### Note 7 - Property and Equipment:

Property and equipment consists of the following at June 30:

|                                | 2016         | 2015         |
|--------------------------------|--------------|--------------|
| Land and buildings             | \$ 7,933,858 | \$ 5,576,397 |
| Furniture and equipment        | 573,287      | 544,024      |
|                                | <hr/>        | <hr/>        |
|                                | 8,507,145    | 6,120,421    |
| Less: accumulated depreciation | (2,642,448)  | (2,461,727)  |
|                                | <hr/>        | <hr/>        |
| Property and equipment, net    | \$ 5,864,697 | \$ 3,658,694 |

### Note 8 - Grants Payable:

Grants payable at June 30, 2016 are scheduled to be disbursed as follows:

|                    |               |
|--------------------|---------------|
| Less than one year | \$ 13,362,268 |
| One to five years  | 10,249,584    |
|                    | <hr/>         |
| Total              | \$ 23,611,852 |

### 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 25, 2017. The interest rate on the note is equal to the greater of 2% or the prime rate (3.50% as of June 30, 2016 and 3.25% as of June 30, 2015) minus 1.5%. The note requires monthly payments of interest only with the entire principal due at maturity. The revolving line of credit has been drawn to a balance of \$2,750,000 and was the ending balance at June 30, 2016 and 2015. 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, 2016 and 2015, the investment account value exceeded the necessary minimum amount.

The Foundation's revolving line of credit with Beneficial State Bank, formerly called One PacificCoast Bank, in the amount of \$500,000. The interest rate on the note is 2.15%. The note requires monthly payments of interest only, with the entire principal due at maturity. The note is collateralized by a bank deposit maintained with Beneficial State Bank in the amount of \$500,000. On September 29, 2016, the line of credit was renewed with similar terms and an expiration date of September 28, 2017. The balance outstanding on the line of credit at June 30, 2016 and 2015 was \$500,000.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

Under the above notes, the Foundation has covenants to provide independently audited financial statements to its two lending banks at dates subsequent to its fiscal year end. As of June 30, 2016, the Foundation was in compliance with the required covenants.

Interest expense on the notes for the years ended June 30, 2016 and 2015 was \$66,853 and \$66,633 respectively.

### Note 10 - Temporarily Restricted Net Assets:

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

|  | 2016                 | 2015                 |
|--|----------------------|----------------------|
| Restricted by donor for program purpose:   |                      |                      |
| Arts and culture                           | \$ 131,691           | \$ 107,572           |
| Community improvement and capital building | 190,151              | 57,275               |
| Education                                  | 293,304              | 264,248              |
| Employment                                 | 206,889              | 73,976               |
| Housing and shelter                        | 19,116               | 3,213                |
| Human services                             | 5,845                | 6,223                |
| Philanthropy, volunteer and grant making   | 166,901              | 300,000              |
| Youth development                          | 4,163                | 4,227                |
| Restricted by donor as to time             | 3,196,651            | 5,710,719            |
| Endowed funds (Note 11)                    | 12,290,783           | 15,691,274           |
| <b>Total</b>                               | <b>\$ 16,505,494</b> | <b>\$ 22,218,727</b> |

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:

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| Restricted by donor for program purpose | \$ 694,502          | \$ 560,976          |
| Restricted by donor as to time          | 2,278,734           | 63,157              |
| Endowed funds (Note 11)                 | 3,525,460           | 3,155,699           |
| <b>Total</b>                            | <b>\$ 6,498,696</b> | <b>\$ 3,779,832</b> |

Releases from restrictions for the year ended June 30, 2016 includes an endowment fund of \$334,539 granted to a public charity to be maintained by that charity.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

**Note 11 - Endowment Funds:**

Endowment net asset composition by type of fund at June 30, 2016 is:

|   | Unrestricted  | Temporarily Restricted | Permanently Restricted | Total         |
|---|---------------|------------------------|------------------------|---------------|
| Board designated endowment funds                          | \$ 23,179,652 |                        |                        | \$ 23,179,652 |
| <hr/>   |               |                        |                        |               |
| Donor restricted endowment funds - income restricted for: |               |                        |                        |               |
| Animal related  |               | \$ 542,985             | \$ 740,292             | 1,283,277     |
| Arts and culture  |               | 642,475                | 7,319,571              | 7,962,046     |
| Civil rights, social, activities & advocacy               |               |                        | 458,885                | 458,885       |
| Community improvement & capital building                  |               | 344,380                | 417,240                | 761,620       |
| Economic aid  |               | 1,019,869              | 3,277,071              | 4,296,940     |
| Education   |               | 1,234,022              | 4,153,736              | 5,387,758     |
| Environment   |               | 3,143,287              | 5,344,471              | 8,487,758     |
| Food, agriculture & nutrition                             |               | 128,743                | 2,026,843              | 2,155,586     |
| Healthcare  |               | 2,580,748              | 11,024,888             | 13,605,636    |
| Human services  |               | 716,278                | 5,231,599              | 5,947,876     |
| International foreign affairs & national security         |               |                        | 709,308                | 709,308       |
| Philanthropy, volunteer & grant making foundations        |               | 45,852                 | 1,011,814              | 1,057,667     |
| Recreation & sports                                       |               | 518,881                | 523,653                | 1,042,534     |
| Religion-related  |               | 96,946                 | 324,430                | 421,376       |
| Youth development   |               | 1,276,317              | 4,268,230              | 5,544,547     |
| Underwater endowment funds                                | (1,822,182)   |                        |                        | (1,822,182)   |
| <hr/>   |               |                        |                        |               |
| Total restricted endowment funds                          | (1,822,182)   | 12,290,783             | 46,832,031             | 57,300,632    |
| <hr/>   |               |                        |                        |               |
| Total funds   | \$ 21,357,470 | \$ 12,290,783          | \$ 46,832,031          | \$ 80,480,284 |



# East Bay Community Foundation

## Notes to Consolidated Financial Statements

Endowment net asset composition by type of fund at June 30, 2015 is:

|   | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|---|---------------|---------------------------|---------------------------|---------------|
| Board designated<br>endowment funds                             | \$ 23,851,735 |                           |                           | \$ 23,851,735 |
| <hr/>   |               |                           |                           |               |
| Donor restricted endowment<br>funds - income restricted<br>for: |               |                           |                           |               |
| Animal related  |               | \$ 590,473                | \$ 693,792                | 1,284,265     |
| Arts and culture  |               | 960,154                   | 7,232,671                 | 8,192,825     |
| Civil rights, social,<br>activities & advocacy                  |               | 7,011                     | 232,485                   | 239,496       |
| Community improvement<br>& capital building                     |               | 423,024                   | 134,239                   | 557,263       |
| Economic aid  |               | 1,343,276                 | 2,145,068                 | 3,488,344     |
| Education   |               | 1,656,262                 | 4,296,549                 | 5,952,811     |
| Environment   |               | 3,708,318                 | 5,284,603                 | 8,992,921     |
| Food, agriculture & nutrition                                   |               | 216,475                   | 1,772,142                 | 1,988,617     |
| Healthcare  |               | 3,387,488                 | 10,832,969                | 14,220,457    |
| Human services  |               | 1,000,515                 | 4,884,200                 | 5,884,715     |
| International foreign<br>affairs & national<br>security         |               | 14,898                    | 228,206                   | 243,104       |
| Philanthropy, volunteer &<br>grant making foundations           |               | 81,979                    | 469,836                   | 551,815       |
| Recreation & sports   |               | 614,728                   | 523,653                   | 1,138,381     |
| Religion-related  |               | 138,630                   | 324,430                   | 463,060       |
| Youth development   |               | 1,548,043                 | 3,709,527                 | 5,257,570     |
| Underwater endowment<br>funds                                   | (177,282)     |                           |                           | (177,282)     |
| <hr/>   |               |                           |                           |               |
| Total restricted endowment<br>funds                             | (177,282)     | 15,691,274                | 42,764,370                | 58,278,362    |
| <hr/>   |               |                           |                           |               |
| Total funds   | \$ 23,674,453 | \$ 15,691,274             | \$ 42,764,370             | \$ 82,130,097 |

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2016:

|  | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|--|---------------|---------------------------|---------------------------|---------------|
| Endowment net assets,<br>beginning of year     | \$ 23,674,453 | \$ 15,691,274             | \$ 42,764,371             | \$ 82,130,098 |
| Fund transfer                                  |               | 334,539                   | (334,539)                 |               |
| <hr/>  |               |                           |                           |               |
| Endowment net assets after<br>reclassification | 23,674,453    | 16,025,813                | 42,429,832                | 82,130,098    |
| <hr/>  |               |                           |                           |               |
| Interest and dividends                         | 414,303       | 943,760                   |                           | 1,358,063     |
| Net gain (realized and<br>unrealized)          | (687,380)     | (3,065,980)               |                           | (3,753,360)   |
| <hr/>  |               |                           |                           |               |
| Total investment return                        | (272,817)     | (2,122,220)               |                           | (2,395,817)   |
| <hr/>  |               |                           |                           |               |
| Contributions                                  | 1,253,933     | 267,750                   | 4,402,199                 | 5,923,882     |
| Appropriated for expenditure                   | (1,652,939)   | (3,525,460)               |                           | (5,178,399)   |
| Underwater endowment funds<br>adjustment       | (1,644,900)   | 1,644,900                 |                           |               |
| <hr/>  |               |                           |                           |               |
| Change in endowment net<br>assets              | (2,316,983)   | (3,735,030)               | 4,402,199                 | (1,649,814)   |
| <hr/>  |               |                           |                           |               |
| Endowment net assets, end of<br>year           | \$ 21,357,470 | \$ 12,290,783             | \$ 46,832,031             | \$ 80,480,284 |

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2015:

|  | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|--|---------------|---------------------------|---------------------------|---------------|
| Endowment net assets,<br>beginning of year                               | \$ 23,093,967 | \$ 19,356,382             | \$ 41,586,541             | \$ 84,036,890 |
| Donor reclassification of<br>funds                                       |               | (6,708)                   | 737,748                   | 731,040       |
| <hr/>  |               |                           |                           |               |
| Endowment net assets after<br>reclassification                           | 23,093,967    | 19,349,674                | 42,324,289                | 84,767,930    |
| <hr/>  |               |                           |                           |               |
| Interest and dividends   | 439,226       | 1,009,650                 |                           | 1,448,876     |
| Net gain (realized and<br>unrealized)                                    | (99,490)      | (1,594,850)               |                           | (1,694,340)   |
| <hr/>  |               |                           |                           |               |
| Total investment return  | 339,736       | (585,200)                 |                           | (245,464)     |
| <hr/>  |               |                           |                           |               |
| Contributions  | 1,909,283     |                           | 440,082                   | 2,349,365     |
| Appropriated for expenditure<br>Underwater endowment funds<br>adjustment | (1,586,033)   | (3,155,700)               |                           | (4,741,733)   |
| <hr/>  |               |                           |                           |               |
| Change in endowment net<br>assets  | 580,486       | (3,658,400)               | 440,082                   | (2,637,832)   |
| <hr/>  |               |                           |                           |               |
| Endowment net assets, end of<br>year                                     | \$ 23,674,453 | \$ 15,691,274             | \$ 42,764,371             | \$ 82,130,098 |

**Note 12 - Retirement Plans:**

The Foundation has a 401(k) retirement plan (TriNet Plan) that matched 100% of employee's contributions up to 4% of their salaries. The Foundation's contributions were \$76,856 and \$68,134 for the years ended June 30, 2016 and 2015, respectively.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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### 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 \$118,200 and \$84,600 for the years ended June 30, 2016 and 2015, respectively.

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

|            |              |
|------------|--------------|
| 2017       | \$ 115,022   |
| 2018       | 101,045      |
| 2019       | 84,681       |
| 2020       | 51,905       |
| 2021       | 51,905       |
| Thereafter | 1,868,580    |
| <hr/>      |              |
| Total      | \$ 2,273,138 |

### 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 2016, the Foundation received approximately 52.2% of its contributions from five donors representing \$12,838,288. The Foundation received approximately 35.1% of its contributions from five donors in fiscal year ending in 2015 representing \$4,249,371.

# East Bay Community Foundation

## Notes to Consolidated Financial Statements

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### **Note 15 - Contingency:**

A supporting organization was notified in the 2009 fiscal year that the Franchise Tax Board (FTB) was revoking the California tax exemption of the supporting organization as of fiscal year 2004 as a result of an investigation by the FTB. Since 2009 the Foundation, the supporting organization and their counsel have contested the FTB claim and, on July 27, 2015, the FTB withdrew its proposed assessment, eliminating the potential liability and requiring no further action by the supporting organization or the Foundation.

### **Note 16 - Transfer or dissolution of Supporting Organization(s):**

The assets of the Open Circle Foundation, a supporting organization of the Foundation, were fully expended prior to June 30, 2015. As a result, the Open Circle Foundation was dissolved as a corporation as of June 30, 2015.

As of June 30, 2015 the assets of The Chan Foundation were transferred to a donor advised fund with the Foundation. As a result The Chan Foundation was dissolved as a corporation in the year ended June 30, 2016.