



Report of Independent Auditors and
Consolidated Financial Statements for

**Orange County
Community Foundation**

June 30, 2015

(with summarized financial information for June 30, 2014)

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Governors
Orange County Community Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Orange County Community Foundation and its supporting organizations, which comprise the consolidated statements of financial position as of June 30, 2015 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditors' 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 organization'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 organization'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.

MOSS ADAMS LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Community Foundation and its supporting organizations as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Orange County Community Foundation and its supporting organization's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Moss Adams LLP

San Diego, California

October 16, 2015

ORANGE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)

	June 30, 2015				June 30, 2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
ASSETS					
Cash and cash equivalents	\$ 42,506,000	\$ -	\$ -	\$ 42,506,000	\$ 36,991,000
Investments	97,327,000	7,804,000	88,736,000	193,867,000	176,466,000
Contributions receivable, net	769,000	352,000	322,000	1,443,000	6,048,000
Land, building, and equipment, net	3,267,000	-	-	3,267,000	3,418,000
Other assets	2,003,000	-	3,505,000	5,508,000	5,796,000
Total assets	<u>\$ 145,872,000</u>	<u>\$ 8,156,000</u>	<u>\$ 92,563,000</u>	<u>\$ 246,591,000</u>	<u>\$ 228,719,000</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Grants payable	\$ 13,207,000	\$ -	\$ -	\$ 13,207,000	\$ 11,122,000
Accounts payable and accrued liabilities	1,104,000	-	-	1,104,000	1,111,000
Pledges payable, net	3,031,000	-	-	3,031,000	3,355,000
Notes payable	2,839,000	-	-	2,839,000	2,813,000
Due to other agencies	3,537,000	-	-	3,537,000	2,869,000
Total liabilities	<u>23,718,000</u>	<u>-</u>	<u>-</u>	<u>23,718,000</u>	<u>21,270,000</u>
Commitments (Note 12)					
Net Assets					
Unrestricted	122,154,000	-	-	122,154,000	108,391,000
Temporarily restricted	-	8,156,000	-	8,156,000	12,105,000
Permanently restricted	-	-	92,563,000	92,563,000	86,953,000
Total net assets	<u>122,154,000</u>	<u>8,156,000</u>	<u>92,563,000</u>	<u>222,873,000</u>	<u>207,449,000</u>
Total liabilities and net assets	<u>\$ 145,872,000</u>	<u>\$ 8,156,000</u>	<u>\$ 92,563,000</u>	<u>\$ 246,591,000</u>	<u>\$ 228,719,000</u>

ORANGE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	Year Ended June 30, 2015			Total	Year Ended June 30, 2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT					
Contributions	\$ 73,077,000	\$ 62,000	\$ 5,416,000	\$ 78,555,000	\$ 55,834,000
Investment income (loss)	1,426,000	(481,000)	-	945,000	19,532,000
Other income	558,000	-	-	558,000	542,000
Net assets released from restrictions	3,530,000	(3,530,000)	-	-	-
Total revenue and support	<u>78,591,000</u>	<u>(3,949,000)</u>	<u>5,416,000</u>	<u>80,058,000</u>	<u>75,908,000</u>
EXPENSES					
Program Services					
Grants and scholarships	59,095,000	-	-	59,095,000	46,816,000
Special projects	1,299,000	-	-	1,299,000	964,000
Other program expenses	2,208,000	-	-	2,208,000	1,689,000
Total program services expenses	<u>62,602,000</u>	<u>-</u>	<u>-</u>	<u>62,602,000</u>	<u>49,469,000</u>
Supporting Services					
General and administrative	1,052,000	-	-	1,052,000	994,000
Development	980,000	-	-	980,000	852,000
Total supporting services	<u>2,032,000</u>	<u>-</u>	<u>-</u>	<u>2,032,000</u>	<u>1,846,000</u>
Total expenses	<u>64,634,000</u>	<u>-</u>	<u>-</u>	<u>64,634,000</u>	<u>51,315,000</u>
CHANGE IN NET ASSETS BEFORE RECLASSIFICATIONS	13,957,000	(3,949,000)	5,416,000	15,424,000	24,593,000
Donor reclassifications	<u>(194,000)</u>	<u>-</u>	<u>194,000</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	13,763,000	(3,949,000)	5,610,000	15,424,000	24,593,000
NET ASSETS					
Beginning of year	<u>108,391,000</u>	<u>12,105,000</u>	<u>86,953,000</u>	<u>207,449,000</u>	<u>182,856,000</u>
End of year	<u>\$ 122,154,000</u>	<u>\$ 8,156,000</u>	<u>\$ 92,563,000</u>	<u>\$ 222,873,000</u>	<u>\$ 207,449,000</u>

ORANGE COUNTY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	Years Ended June 30,	
	2015	2014
OPERATING ACTIVITIES		
Changes in net assets	\$ 15,424,000	\$ 24,593,000
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	222,000	197,000
Net realized and unrealized losses (gains) on investments	3,184,000	(16,294,000)
Non-cash contributions of stock and property	(1,923,000)	(593,000)
Contributions restricted for endowments	(5,416,000)	(3,901,000)
Changes in operating assets and liabilities:		
Contributions receivable	(111,000)	(205,000)
Other assets	329,000	188,000
Grants payable	2,085,000	3,261,000
Accounts payable and accrued liabilities	(324,000)	58,000
Pledges payable	(7,000)	1,647,000
Due to other agencies	668,000	974,000
Net cash provided by operating activities	<u>14,131,000</u>	<u>9,925,000</u>
INVESTING ACTIVITIES		
Purchases of investments	(86,974,000)	(63,146,000)
Proceeds from sales of investments	68,312,000	37,179,000
Purchases of land, building, and equipment	(71,000)	(209,000)
Net cash used in investing activities	<u>(18,733,000)</u>	<u>(26,176,000)</u>
FINANCING ACTIVITIES		
Contributions restricted for endowments	5,416,000	3,901,000
Decrease in contributions receivable restricted to endowment	4,675,000	18,314,000
Proceeds from note payable	122,000	-
Payments on notes payable	(96,000)	(87,000)
Net cash provided by financing activities	<u>10,117,000</u>	<u>22,128,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,515,000	5,877,000
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>36,991,000</u>	<u>31,114,000</u>
End of year	<u>\$ 42,506,000</u>	<u>\$ 36,991,000</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes, including interest and penalties	<u>\$ 245,000</u>	<u>\$ -</u>
Interest	<u>\$ 112,000</u>	<u>\$ 107,000</u>

ORANGE COUNTY COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Description of the Community Foundation

Orange County Community Foundation (the “Community Foundation”) is a publicly supported, not-for-profit organization incorporated in the state of California in September 1989. The Community Foundation serves as a partner and resource to nonprofits and donors improving the quality of life in Orange County and those who want to give back locally, nationally and internationally.

The Community Foundation established OCCF Supporting Organization and Orange County Shared Spaces Foundation, which are under the Community Foundation’s effective control and are consolidated for financial statement purposes.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The accompanying consolidated financial statements have been prepared using the accrual basis of accounting.

The accompanying consolidated financial statements include the financial statements of the Community Foundation and the supporting organizations listed in Note 1 above. Inter-organizational transactions and balances have been eliminated in consolidation.

Prior-year information – The consolidated financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Community Foundation’s consolidated financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Cash and cash equivalents – The Community Foundation considers all highly-liquid instruments purchased with an original maturity of 90 days or less to be cash equivalents.

Description of net assets – Contributions of cash and other assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted – Net assets not subject to donor-imposed time restrictions or restrictions as to use. The bylaws of the Community Foundation include a variance provision giving the Board of Governors the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board of Governors (without the necessity of approval of the donor), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served. Based on the provision, the Community Foundation classifies contributions, except as noted below, as unrestricted for financial statement purposes.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Temporarily restricted – Net assets subject to donor-imposed time restrictions or restrictions as to use. The accumulation of assets above historic gift value in endowment funds is classified as temporarily restricted until appropriated for use based on the Community Foundation’s spending policy. Expirations of temporary restrictions on net assets (i.e., the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Temporarily restricted contributions with donor restrictions which are met in the same year have been recorded as unrestricted revenue on the accompanying consolidated statements of activities.

Permanently restricted – Net assets subject to donor-imposed restrictions that the corpus be maintained as a permanent endowment.

Income taxes – The Community Foundation and its supporting organizations, OCCF Supporting Organization and Orange County Shared Spaces Foundation, are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and Section 23701d of the California Code. The Community Foundation and its supporting organizations are required to report unrelated business income as defined under IRC sections 511 through 515. Unrelated business income tax expense, including interest and penalties, for the fiscal year ended June 30, 2015 was \$245,000. There was no unrelated business income tax expense for the fiscal year ended June 30, 2014.

The Community Foundation and its supporting organizations do not have any material uncertain tax positions. The Community Foundation and its supporting organizations file informational organization returns and applicable unrelated business income tax returns in the United States federal jurisdiction and with the Franchise Tax Board in the State of California. The Community Foundation is no longer subject to income tax examinations by taxing authorities for years before 2012 for its federal filings and for years before 2011 for its state filings.

Investments – Investments are reported at fair value.

Realized and unrealized gains and losses are reflected in the accompanying consolidated statements of activities as investment income (loss).

The fair value of fixed income investments is based on quoted prices in active markets for identical assets or if there are no such active markets the fixed income investments are valued using quoted prices for similar assets or quoted prices in markets that are not active. Fixed income mutual funds, domestic equity securities and mutual funds that hold equity securities are based on quoted prices in active markets for identical assets.

Alternative investments include hedge funds, private equity, interests in closely-held entities and real estate funds. The fair value of the hedge funds, private equity and real estate funds is based on the net asset value of the fund and the Community Foundation’s shares/ownership interest in the respective fund. The fair value of interests in closely-held entities is based on appraisals and management’s review and assessment of current financial statements.

ORANGE COUNTY COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Net asset values are evaluated by the Community Foundation to determine if the values of these investments should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment and changes in market outlook and the financing environment.

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. A framework for measuring fair value prioritizes the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. An investment's categorization is based upon the lowest level of input that is significant to the fair value measurement. The estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

Three levels of inputs are used to measure fair value of financial instruments:

- Level 1:** Quoted market prices (observable inputs) in active markets for identical assets or liabilities that the entity had the ability to access at the measurement date.
- Level 2:** Quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3:** Quoted prices are not available. Fair value is determined using pricing models, discounted cash flows methodologies or similar techniques.

The Vice President of Finance and Administration under the supervision of the Community Foundation's Investment Committee, determines the fair value based on the Community Foundation's approved policies and procedures in consultation with the Community Foundation's outside investment consultant. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on a quarterly or annual basis, or as necessary based on current market conditions and other third party information. In determining the reasonableness of the methodology the Community Foundation evaluates a variety of factors including a review of existing agreements, economic conditions, and industry and market developments. Certain unobservable inputs are assessed through review of contract terms, while others are substantiated utilizing available market data, including but not limited to market comparables, qualified opinions and discount rates.

Land, building and equipment – Land, building and equipment are stated at cost. Land, building and equipment purchased at a cost of \$1,000 or more is capitalized. Depreciation has been provided using the straight-line method over the estimated useful life of 5 to 39 years.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Impairment of long-lived assets – The Community Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Other assets – Other assets include three promissory notes secured by real estate. The notes were received in connection with a permanently-restricted estate gift, with terms of up to 30 years, bearing interest at 2.00 to 3.49 percent with payments receivable monthly.

Due to other agencies – “Due To Other Agencies” represents monies received from unrelated not-for-profit organizations that desire to have the Community Foundation serve as the charitable steward for their endowment fund and provide technical assistance. A liability is recorded at the estimated fair value of assets deposited with the Community Foundation by not-for-profit organizations.

Revenue recognition – Contributions are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years are recognized as contributions receivable when the promise is made at fair value based on discounted cash flows. Amortization of the discounts is included in contributions. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at fair value using a current appraisal on the date of the gift and is generally made available for sale as soon as practicable. Contributions of public stock are recorded at the mean of the quoted market price on the date of receipt of donation. Conditional promises to give are not recorded until the conditions are substantially met. An allowance for estimated uncollectible contributions receivable will be recorded based on management’s judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Accounts are written off against the allowance when deemed uncollectible. Management has determined that no allowance for uncollectible contributions receivable is necessary as of June 30, 2015 and 2014.

Donor advised funds – The Community Foundation permits donor advisors to recommend allocation of their fund between a money market pool and approved investments. The asset allocation of any individual fund is dependent on the donor’s recommendation between these approved options.

Special projects – Special projects expense represents charitable activities managed by the Community Foundation often on behalf of donors who request that the Community Foundation exercise a heightened level of oversight regarding expenditures.

Functional allocation of expenses – Expenses which apply to more than one functional category have been allocated between program and supporting services based on the activity. The remaining costs are charged directly to the appropriate functional category.

ORANGE COUNTY COMMUNITY FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before consolidated financial statements are issued. The Community Foundation and its supporting organizations recognize in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued. The Community Foundation and its supporting organizations have evaluated subsequent events through October 16, 2015, which is the date the consolidated financial statements are available for issuance.

Note 3 – Concentrations of Risk

Cash and cash equivalents – In the regular course of business, the Community Foundation may maintain balances in bank accounts in excess of the federally insured limits. The Community Foundation has not experienced any losses in such accounts.

Contributions receivable – As of June 30, 2015, there are no significant individual contributions receivable. As of June 30, 2014, 75 percent of the Community Foundation's contributions receivable represented an estate gift from one donor that was received during December 2014.

Major contributions – For the fiscal years ended June 30, 2015 and 2014, 42 and 36 percent, respectively, of contributions were received from three donors.

Investments – Investments are exposed to various risks such as interest rates, market, and credit risk. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations and regular communication with investment managers. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the consolidated financial statements.

To address market risk of investments, the Community Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers' performance. Investments are managed by multiple investment managers who have responsibility for investing funds in various types of investments. An investment consultant is also utilized.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Investments and Fair Value Disclosures

Investments at fair value consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fixed income investments	\$ 62,384,000	\$ 61,188,000
Domestic equity securities	45,314,000	24,181,000
Mutual funds - equity securities	65,518,000	72,015,000
Alternative investments	<u>20,651,000</u>	<u>19,082,000</u>
 Total investments	 <u>\$ 193,867,000</u>	 <u>\$ 176,466,000</u>

Investment income consists of the following for the years ended June 30, 2015 and 2014:

Net realized and unrealized (losses) gains	\$ (3,184,000)	\$ 16,294,000
Interest and dividends	<u>4,129,000</u>	<u>3,238,000</u>
 Total investment income	 <u>\$ 945,000</u>	 <u>\$ 19,532,000</u>

See Note 2 for the valuation methodologies used for assets measured at fair value on a recurring basis and reflected in the accompanying consolidated statements of financial position.

The following table presents the investments carried at fair value on the consolidated statements of financial position as of June 30, 2015:

	<u>2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income:				
Government bonds	\$ -	\$ 1,400,000	\$ -	\$ 1,400,000
Corporate bonds	-	12,730,000	-	12,730,000
Mutual funds - fixed income	48,254,000	-	-	48,254,000
Domestic equity securities	45,314,000	-	-	45,314,000
Mutual funds - equity securities:				
Domestic	17,327,000	-	-	17,327,000
International	48,191,000	-	-	48,191,000
Alternative investments:				
Hedge funds	-	9,635,000	5,514,000	15,149,000
Closely-held entities	-	-	2,702,000	2,702,000
Private equity	-	-	2,519,000	2,519,000
Real estate funds	-	-	281,000	281,000
 Total	 <u>\$ 159,086,000</u>	 <u>\$ 23,765,000</u>	 <u>\$ 11,016,000</u>	 <u>\$ 193,867,000</u>

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Investments and Fair Value Disclosures (continued)

The following table presents the investments carried at fair value on the consolidated statements of financial position as of June 30, 2014:

	2014			
	Level 1	Level 2	Level 3	Total
Fixed income:				
Government bonds	\$ -	\$ 1,275,000	\$ -	\$ 1,275,000
Corporate bonds	-	12,974,000	-	12,974,000
Mutual funds - fixed income	46,939,000	-	-	46,939,000
Domestic equity securities	24,181,000	-	-	24,181,000
Mutual funds - equity securities:				
Domestic	31,494,000	-	-	31,494,000
International	40,521,000	-	-	40,521,000
Alternative investments:				
Hedge funds	-	8,007,000	5,432,000	13,439,000
Closely-held entities	-	-	2,269,000	2,269,000
Private equity	-	-	3,071,000	3,071,000
Real estate funds	-	-	303,000	303,000
Total	<u>\$ 143,135,000</u>	<u>\$ 22,256,000</u>	<u>\$ 11,075,000</u>	<u>\$ 176,466,000</u>

The following table presents the summary of changes in the fair value of the Community Foundation's Level 3 classified assets for the years ended June 30, 2015 and 2014:

	Hedge Funds	Private Equity	Closely-Held Entities	Real Estate Funds	Total
Balance, July 1, 2013	\$ 5,325,000	\$ 2,997,000	\$ 2,386,000	\$ 321,000	\$ 11,029,000
Purchases	466,000	168,000	-	-	634,000
Net realized and unrealized gains	276,000	455,000	722,000	2,000	1,455,000
Distributions	<u>(635,000)</u>	<u>(549,000)</u>	<u>(839,000)</u>	<u>(20,000)</u>	<u>(2,043,000)</u>
Balance, June 30, 2014	5,432,000	3,071,000	2,269,000	303,000	11,075,000
Purchases	-	84,000	450,000	-	534,000
Net realized and unrealized gains	231,000	90,000	64,000	13,000	398,000
Distributions	<u>(149,000)</u>	<u>(726,000)</u>	<u>(81,000)</u>	<u>(35,000)</u>	<u>(991,000)</u>
Balance, June 30, 2015	<u>\$ 5,514,000</u>	<u>\$ 2,519,000</u>	<u>\$ 2,702,000</u>	<u>\$ 281,000</u>	<u>\$ 11,016,000</u>

Transfers between Levels are made as of the beginning of the Community Foundation's fiscal year. There were no transfers during the years June 30, 2015 and 2014.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Investments and Fair Value Disclosures (continued)

Total net realized and unrealized gains are included in investment income in the consolidated statements of activities. Net unrealized gains of \$297,000 on Level 3 assets held at June 30, 2015 are included in total net realized and unrealized gains for the year ended June 30, 2015. Net unrealized gains of \$417,000 on Level 3 assets held at June 30, 2014 are included in total net realized and unrealized gains for the year ended June 30, 2014.

The nature and risk of investments as of June 30, 2015 for which fair value is based on net asset value are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Hedge funds (a)	\$ 15,149,000	\$ -	Quarterly	65-95 Days
Private equity (b)	<u>2,519,000</u>	<u>1,338,000</u>	N/A	N/A
	<u>\$ 17,668,000</u>	<u>\$ 1,338,000</u>		

- (a) This class represents investments in hedge funds. Approximately 95 percent of the class is invested in two funds that can invest in U.S. and non U.S. equities, fixed income securities, currencies, commodities, or other investment strategies the manager deems appropriate under prevailing economic and market conditions. The majority of the assets are allocated to private investment funds or pooled investment vehicles. The balance of the class includes direct investments or investments in funds comprised primarily of U.S. equities. Management of the funds in this class is able to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position as deemed appropriate. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Sixty-four percent of the class is redeemable on the last business day of each calendar quarter with 65 days notice at the current net asset value. Thirty-one percent of the class is redeemable on the last business day of each calendar quarter with 95 days notice at the current net asset value. Four percent of the value of this class is not redeemable but from time to time the fund may offer to repurchase the investment. Three percent of the value of this class is redeemable at the general partner’s discretion. The Community Foundation receives regular distributions on the portion of the investment that is redeemable at the general partner’s discretion.
- (b) This class includes investments in private equity funds that invest primarily in the following industry sectors: Leverage, Buyout, Venture Capital, Special Situation, Real Estate and Secondary Private Equity. Investments are made through private equity limited partnerships. The fair values of the investments in this class have been estimated using the net asset value of the Community Foundation’s ownership interest in partners’ capital. Assets are purchased and sold within the limited partnership as deemed beneficial to the partnership. Current distributions are utilized to offset capital calls, if any, and the balance is distributed to the limited partners. There are no early withdrawals. It is estimated that the underlying assets of eighty-nine percent of the funds will be liquidated over the next 3 to 7 years and the balance within the next 10 years.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Investments and Fair Value Disclosures (continued)

The significant unobservable inputs related to material categories of Level 3 assets as of June 30, 2015 are as follows:

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range</u>
Closely-held entities (a)	\$ 2,702,000	Company Valuation or Market Comparables	Company Financials or General Partners' Estimates	N/A*
Real estate funds (b)	\$ 281,000	Company Valuation	Company Financials	N/A*

*Not included due to the wide range of possible values given the diverse nature of the underlying investments.

(a) This class includes minority interests in closely-held entities in the real estate segment and interest in real property. Approximately 68 percent of this class represents an investment in Section 8 Property (low cost housing). This investment will be liquidated upon refinance or sale of the property. The estimated timeframe for liquidation of the asset is 2 to 5 years. Approximately 20 percent of this class is invested in two pieces of real property, one in California and the other in Kentucky. The balance of this class, approximately 12 percent represents stock in a company invested in real estate, which is illiquid and will be liquidated as deemed appropriate based on market conditions.

(b) This class includes investments in four real estate funds that invest primarily in U.S. real estate. The fair values of the investments in this class have been estimated by management of the real estate funds based on cash flow analysis using appropriate risk-adjusted capitalization rates or appraisals subject to management's discretion. These investments receive regular distributions from earnings on the investments and will be liquidated upon the sale or refinance of the properties. The investment managers will liquidate the properties as deemed appropriate based on market conditions. Thirty-nine percent of the investments may be redeemed at the full purchase price to the extent the fund has cash available for redemption. Sixty-one percent of the investments are illiquid.

While the Community Foundation and its supporting organizations believe their valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the consolidated financial statements.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Contributions Receivable

Contributions receivable, net of discount, at June 30, 2015, represent unconditional promises to give to the Community Foundation that remain uncollected at year-end and are expected to be collected as follows:

Less than one year	\$	155,000
Two to five years		250,000
More than five years		1,406,000
Total		1,811,000
Less discount on long-term contributions receivable		(368,000)
Contributions receivable, net	\$	1,443,000

Contributions receivable have been discounted to net present value using risk-free rates of return ranging from 3 to 6 percent determined at the year of origination of the gifts.

Note 6 – Land, Building and Equipment

Land, building and equipment consists of the following at June 30, 2015 and 2014:

	2015	2014
Land and improvements	\$ 560,000	\$ 560,000
Buildings and improvements	3,500,000	3,432,000
Furniture and equipment	267,000	264,000
	4,327,000	4,256,000
Less accumulated depreciation	(1,060,000)	(838,000)
Land, building, and equipment, net	\$ 3,267,000	\$ 3,418,000

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Pledges Payable

Pledges payable, net of discount, at June 30, 2015, consist of approved grant commitments that are expected to be paid during the following years:

Years ending June 30,	
2016	\$ 1,264,000
2017	965,000
2018	647,000
2019	162,000
2020	60,000
	<hr/>
	3,098,000
Less discount	<hr/>
	(67,000)
	<hr/>
Pledges payable, net	<u>\$ 3,031,000</u>

The pledges have been discounted to net present value using risk-free rates of return ranging from 0.2 to 1.4 percent determined at year of origination of the pledges.

Note 8 – Notes Payable

Notes payable include a \$2.5 million note with a bank which is due July 1, 2023, bears interest at the rate of 4 percent per annum, is amortized over 30 years and is payable in monthly installments of principal and interest of \$13,000. The note is secured by a deed of trust and assignment of rents on a building in Santa Ana, California that is being utilized as a multi-tenant non-profit center and is guaranteed by a member of Orange County Shared Spaces Foundation’s board of directors.

A second note consists of \$400,000 which is split equally between two members of Orange County Shared Spaces Foundation’s board of directors and \$100,000 payable to the Community Foundation. The note is due June 30, 2023, bears interest at the rate of 4 percent per annum, is amortized over 10 years and is payable in quarterly installments of principal and interest of \$15,000. The note is secured by a deed of trust and assignment of rents on the Santa Ana building. The liability is limited to the assets of Orange County Shared Spaces Foundation.

In June 2015, the Community Foundation entered into a \$122,000 non-interest bearing note payable, due upon the earlier of receipt of a specific grant or November 30, 2015. The proceeds were used to fund an initiative of the Community Foundation.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Notes Payable (continued)

At June 30, 2015, future annual principal payments under the notes payable are as follows:

Years ending June 30,		
2016	\$	221,000
2017		104,000
2018		108,000
2019		113,000
2020		117,000
Thereafter		<u>2,176,000</u>
Total notes payable	\$	<u><u>2,839,000</u></u>

Interest expense for the fiscal years ended June 30, 2015 and 2014 was \$112,000 and \$107,000, respectively.

Note 9 – Endowments

The Community Foundation’s endowment policy requires the preservation of the fair value of original gifts as of the gift date and all subsequent gifts where the donor has indicated the gift be retained permanently. The value of assets in excess of original gifts in donor-restricted endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the Community 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, 2015, the Community Foundation had two endowment funds with deficiencies of this nature totaling \$47,000. At June 30, 2014, the Community Foundation had one endowment fund with a deficiency of this nature totaling \$29,000. These deficiencies are reflected in unrestricted net assets on the accompanying consolidated statements of financial position.

The Community Foundation considers the following factors in making a determination as to the appropriation of assets for expenditure: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Community Foundation, and (7) the investment policies of the Community Foundation.

Investment and spending policies – The Community Foundation has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for operations and granting while seeking to maintain the purchasing power of the endowed assets. These investment and spending policies work together to achieve this objective.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Endowments (continued)

The investment policy establishes a reasonable return objective through diversification of asset classes. Under the investment policy, as approved by the Board of Governors, the endowed assets are invested in a manner which attempts to achieve, after fees and expenses, a reasonable rate of return consistent with the risk levels established by the Investment Committee for all permanently restricted endowed assets. To accomplish the long-term rate-of-return objectives, the Community 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 Community Foundation targets a diversified asset allocation primarily focused on equity and fixed income based investments to achieve its long-term return objectives within prudent risk constraints.

The spending policy determines the amount of money to be distributed annually from the Community Foundation’s various endowed funds for grantmaking and operational support. The Community Foundation has a policy of appropriating for distribution as of January 1 of each year, 5 percent of its endowment fund’s average fair value over the prior 16 quarters. In establishing this policy, the Community Foundation considered the long-term expected return on its endowment. The Community Foundation expects the current spending policy to allow its endowment to maintain the purchasing power of the endowed assets as well as to provide stable support to the community.

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 6,241,000	\$ 5,547,000	\$ 82,999,000	\$ 94,787,000
Contributions	-	-	3,901,000	3,901,000
Investment income, net of fees	1,375,000	-	-	1,375,000
Realized and unrealized (loss) gains	(50,000)	9,040,000	-	8,990,000
Appropriations	2,866,000	(2,866,000)	-	-
Grants paid	(3,193,000)	-	-	(3,193,000)
Other changes/transfers	1,133,000	-	53,000	1,186,000
Endowment net assets, June 30, 2014	<u>8,372,000</u>	<u>11,721,000</u>	<u>86,953,000</u>	<u>107,046,000</u>
Contributions	-	-	5,416,000	5,416,000
Investment income, net of fees	1,845,000	-	-	1,845,000
Realized and unrealized losses	(1,162,000)	(519,000)	-	(1,681,000)
Appropriations	3,530,000	(3,530,000)	-	-
Grants paid	(4,466,000)	-	(5,000)	(4,471,000)
Other changes/transfers	777,000	-	199,000	976,000
Endowment net assets, June 30, 2015	<u>\$ 8,896,000</u>	<u>\$ 7,672,000</u>	<u>\$ 92,563,000</u>	<u>\$ 109,131,000</u>

Included in unrestricted endowment net assets at June 30, 2015 and 2014 is \$2,239,000 and \$2,380,000, respectively, of board-designated endowment.

ORANGE COUNTY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Endowments (continued)

Distributions from the grantable amount of endowment funds are identified toward a specific purpose based on instructions from donors when the contributions were received. The specific purposes of the permanent endowment are as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Field of interest	\$ 48,373,000	\$ 43,775,000
Board discretionary	13,920,000	13,812,000
Donor advised	11,876,000	11,237,000
Scholarships	7,734,000	7,505,000
Agency	6,014,000	5,989,000
Operating	<u>4,646,000</u>	<u>4,635,000</u>
Total permanently restricted net assets	<u>\$ 92,563,000</u>	<u>\$ 86,953,000</u>

Note 10 – Retirement Plan

Effective January 1, 2014, the Community Foundation has a defined-contribution plan covering substantially all employees. Employees are eligible beginning on their first day of employment. The Community Foundation matches up to 1 percent of the annual compensation of the participants. In addition, an annual contribution is calculated at a specified percentage of salary for all employees, up to statutory limits. The Community Foundation had a Simple IRA retirement plan through December 31, 2013 covering all employees who met the eligibility requirements. The Community Foundation matched up to 3 percent of the annual compensation of participants. Retirement plan expense for the fiscal years ending June 30, 2015 and 2014 was \$95,000 and \$70,000, respectively.

Note 11 – Guarantee

In January 2015, the Community Foundation provided a \$1 million guarantee plus interest to a bank on behalf of an unrelated not-for-profit organization. The not-for-profit organization entered into a \$6.6 million installment note with a bank that is secured by a Deed of Trust. The payment performance of the not-for-profit organization is per the terms of the agreement. The Community Foundation is released from its obligation under the guarantee after December 19, 2016 provided the borrower is in compliance with its debt covenants.

Note 12 – Commitments

Aggregate future minimum rent payments required under operating leases for office space that have a non-cancelable lease term, in excess of one year at June 30, 2015 are as follows:

Years ending June 30,	
2016	\$ 196,000
2017	200,000
2018	<u>34,000</u>
Total commitments	<u>\$ 430,000</u>

Rent expense for the fiscal years ending June 30, 2015 and 2014 was \$190,000 and \$178,000, respectively.