

COMMUNITY FOUNDATION SONOMA  
COUNTY

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

# Community Foundation Sonoma County

## Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

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## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
COMMUNITY FOUNDATION SONOMA COUNTY  
Santa Rosa, California

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of **COMMUNITY FOUNDATION SONOMA COUNTY (the Foundation)** which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Foundation Sonoma County as of December 31, 2013, and the changes in its consolidated net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information (pages 23-24) 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Hood & Strong LLP*

San Francisco, California  
May 30, 2014

# Community Foundation Sonoma County

## Consolidated Statement of Financial Position

<i>December 31, 2013 (with comparative totals for 2012)</i>	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 2,995,634	\$ 1,425,384
Contributions receivable, net	11,621,589	12,067,763
Investments	112,627,476	107,791,101
Charitable trust assets	17,713,804	19,638,288
Assets held in trust	9,000,006	4,976,178
Property and equipment, net	7,278,164	7,423,121
Other assets	183,737	194,697
<b>Total assets</b>	<b>\$ 161,420,410</b>	<b>\$ 153,516,532</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expense	\$ 109,277	\$ 164,838
Grants payable	570,700	969,213
Liabilities associated with assets held in trust	4,500,003	4,976,178
Agency funds	14,933,042	16,335,703
Liabilities to beneficiaries	3,798,483	596,939
<b>Total liabilities</b>	<b>23,911,505</b>	<b>23,042,871</b>
<b>Net Assets:</b>		
Unrestricted	33,192,041	32,099,119
Temporarily restricted	26,910,807	22,547,232
Permanently restricted	77,406,057	75,827,310
<b>Total net assets</b>	<b>137,508,905</b>	<b>130,473,661</b>
<b>Total liabilities and net assets</b>	<b>\$ 161,420,410</b>	<b>\$ 153,516,532</b>

The accompanying notes are an integral part of this statement.

# Community Foundation Sonoma County

## Consolidated Statement of Activities

*Year Ended December 31, 2013 (with comparative totals for 2012)*

	2013				2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>Support and Revenue:</b>					
Contributions and grants	\$ 6,509,246	\$ 1,232,217	\$ 1,578,747	\$ 9,320,210	\$ 10,392,041
Change in value of split-interest agreements		960,735		960,735	891,214
Realized and unrealized gains on investments	2,567,808	4,782,870		7,350,678	5,970,084
Interest and dividends, net of fees	651,383	2,219,053		2,870,436	2,287,168
Management fees earned, net	231,192			231,192	287,050
Other income	76,222			76,222	102,609
Net assets released from restrictions	4,555,920	(4,555,920)		-	-
<b>Total support and revenue</b>	<b>14,591,771</b>	<b>4,638,955</b>	<b>1,578,747</b>	<b>20,809,473</b>	<b>19,930,166</b>
<b>Expenses:</b>					
Program services	12,182,303			12,182,303	11,660,497
Supporting services	1,591,926			1,591,926	1,615,318
<b>Total expenses</b>	<b>13,774,229</b>			<b>13,774,229</b>	<b>13,275,815</b>
<b>Change in Net Assets Before Reclassification</b>					
Recovery of underwater funds	275,380	(275,380)		-	
Reclassification of net assets					(1,948,785)
<b>Change in Net Assets</b>	<b>1,092,922</b>	<b>4,363,575</b>	<b>1,578,747</b>	<b>7,035,244</b>	<b>4,705,566</b>
<b>Net Assets, beginning of year</b>	<b>32,099,119</b>	<b>22,547,232</b>	<b>75,827,310</b>	<b>130,473,661</b>	<b>125,768,095</b>
<b>Net Assets, end of year</b>	<b>\$ 33,192,041</b>	<b>\$ 26,910,807</b>	<b>\$ 77,406,057</b>	<b>\$ 137,508,905</b>	<b>\$ 130,473,661</b>

The accompanying notes are an integral part of this statement.

# Community Foundation Sonoma County

## Consolidated Statement of Functional Expenses

*Year Ended December 31, 2013 (with comparative totals for 2012)*

	Program Services	Supporting Services			2013 Total	2012 Total
		Fundraising	Management and General	Total		
Grants and awards	\$ 10,423,990				\$ 10,423,990	\$ 9,973,500
Salaries & wages	793,856	\$ 347,086	\$ 373,653	\$ 720,739	1,514,595	1,461,206
Employee benefits	96,764	45,558	50,951	96,509	193,273	195,534
Payroll taxes	69,491	27,365	30,211	57,576	127,067	121,968
Management and investment fees			212,060	212,060	212,060	223,498
Professional and consulting fees	112,357	60,512	65,578	126,090	238,447	167,800
Legal and accounting	34,938	22,180	30,446	52,626	87,564	75,897
Advertising, marketing, and outreach	37,759	12,375	12,838	25,213	62,972	85,521
Office expense	76,739	32,722	41,665	74,387	151,126	205,031
Computer network	31,123	24,962	33,109	58,071	89,194	97,503
Occupancy	101,088	39,417	42,839	82,256	183,344	178,007
Travel	6,456	4,099	4,242	8,341	14,797	15,454
Conference expenses	122,071	9,138	11,177	20,315	142,386	157,478
Depreciation	145,140	10,718	17,745	28,463	173,603	161,034
Insurance	127,715	9,114	16,982	26,096	153,811	147,575
Miscellaneous	2,816	343	2,841	3,184	6,000	8,809
	\$ 12,182,303	\$ 645,589	\$ 946,337	\$ 1,591,926	\$ 13,774,229	\$ 13,275,815

The accompanying notes are an integral part of this statement.

# Community Foundation Sonoma County

## Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2013 (with comparative totals for 2012)</i>	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 7,035,244	\$ 4,705,566
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized (gains)		
on investments	(7,350,678)	(5,970,084)
Depreciation	173,603	161,034
Contributions received for long-term purposes	(1,578,747)	(3,723,671)
Changes in assets and liabilities		
Contributions receivable	326,004	416,182
Charitable trust assets	1,924,484	2,021,277
Assets held in trust	(4,023,828)	(276,149)
Other assets	10,960	(17,506)
Agency funds	(1,402,661)	2,085,891
Grants payable	(398,513)	(199,999)
Accounts payable and accrued expense	(55,561)	25,934
Liabilities associated with assets held in trust	(476,175)	276,149
Liabilities to beneficiaries	3,201,544	90,917
<b>Net cash used by operating activities</b>	<b>(2,614,324)</b>	<b>(404,459)</b>
<b>Cash Flow from Investing Activities:</b>		
Proceeds from sale of investments	32,317,099	29,872,569
Purchase of investments	(29,802,796)	(32,947,347)
Proceeds from sale of property and equipment		187,278
Purchase of property and equipment	(28,646)	(74,618)
<b>Net cash provided (used) by investing activities</b>	<b>2,485,657</b>	<b>(2,962,118)</b>
<b>Cash Flows from Financing Activities:</b>		
Contributions received for long-term purposes	1,698,917	3,099,390
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,570,250</b>	<b>(267,187)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>1,425,384</b>	<b>1,692,571</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 2,995,634</b>	<b>\$ 1,425,384</b>
<b>Supplemental Data for Noncash Investing Activities:</b>		
Donated securities	\$ 2,257,397	\$ 991,405

The accompanying notes are an integral part of this statement.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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### Note 1 - Description of the Organization:

Community Foundation Sonoma County (the “Foundation”) was incorporated in California in 1983 as a nonprofit public benefit corporation to provide a means for the long-term preservation and enhancement of the quality of life in Sonoma County. The consolidated financial statements include all accounts and results of activities of the Foundation, as well as certain supporting organizations: the Oliver Ranch Foundation, DeMeo Teen Club, Inc. (d.b.a. Chop’s), and Sonoma Paradiso. An additional supporting organization, Pepperwood Foundation, is not consolidated in these financial statements. The Foundation also maintains two geographic affiliates in Healdsburg and Sonoma Valley. The two affiliates each have their own volunteer boards of directors which help the Foundation raise and distribute funds in their local communities. All significant inter-organizational accounts and transactions have been eliminated.

The Foundation receives funds through donations from individuals and foundations. Distribution of funds for philanthropic purposes is made primarily through the direct operation of a grantmaking program. Grants are made in the areas of health and human services, education, the environment, the arts, scholarships and other areas. Over the last three decades, the Foundation has become one of Sonoma County’s largest sources of funding for nonprofit agencies; with over 90% of grants being distributed to Sonoma County nonprofit organizations. The remainder is distributed outside of Sonoma County.

The Foundation’s bylaws include a variance provision giving the Board the power to modify any restriction or condition on the distribution of funds if, in the sole judgment of the Board, the restriction becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served.

#### *Supporting Organizations*

The Foundation has four supporting organizations. Supporting organizations are Section 501(c)(3) organizations that are classified as public charities (rather than private foundations) because they support a publicly supported charity, such as the Foundation. The Foundation appoints the majority of the boards of these organizations, with the exception of Pepperwood Foundation. Supporting organizations for which the Foundation has a controlling interest are consolidated herein.

#### *The Oliver Ranch Foundation*

The Oliver Ranch Foundation was formed in 2009 to promote the arts by providing creative inspiration, growth and development of artists; serving as a venue for exhibiting extraordinary site-specific sculptures; preserving and maintaining the art installations; organizing docent tours; forming educational partnerships; and commissioning site-specific performances. Oliver Ranch houses one of the country’s premiere private reserves for site-specific art installations which celebrate the ingenuity and imagination of great artists of the time.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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### *DeMeo Teen Club, Inc. (Chop's)*

Chop's was incorporated in 1997 to operate a teen club in Santa Rosa, California, in fulfillment of a bequest to the Foundation from Charles M. DeMeo. The 21,000-square foot teen center is home to a recording studio, gym, café, night club, tech lounge and art studio, and supports a variety of activities and programs designed to attract and engage youth.

### *Sonoma Paradiso Foundation*

Sonoma Paradiso Foundation, whose primary purpose is to raise money for the benefit of children's organizations in Sonoma County and the Bay Area, became a supporting organization to the Foundation in 2008. Since 2004, the organization has provided more than \$6 million in grants to children in need.

### *Pepperwood Foundation*

Pepperwood Foundation is a leader in conservation dedicated to inspiring kids of all ages to satisfy their natural curiosity and become stewards of the environment. The Foundation includes a 3,120 acre preserve that is rich in biodiversity and serves as a refuge for hundreds of plant and animal species. The Community Foundation appoints three of the seven Board members of the Pepperwood Foundation. Because the Community Foundation does not have a controlling interest in Pepperwood Foundation, accounts of the Pepperwood Foundation are not included in the consolidated financial statements.

Pepperwood Foundation had assets of approximately \$22 million at June 30, 2013, the date of the latest audited financial statements. The assets were principally comprised of property and equipment (\$21.1 million), pledges receivable (\$0.5 million) and cash and equivalents (\$0.4 million). It had no significant liabilities. The property and equipment is comprised principally of preserve (land) and buildings and improvements, primarily the Dwight Center for Conservation Science. As of December 31, 2013, Pepperwood Foundation had assets of approximately \$22 million (unaudited), including property and equipment (\$20.9 million), cash and equivalents (\$1.0 million), and pledges receivable (\$0.1 million); it had no significant liabilities.

## **Note 2 - Summary of Significant Accounting Policies:**

### a. Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Accordingly, the Foundation presents information regarding its net assets and activities according to three classes of net assets

Unrestricted Net Assets – The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The Board of Directors has designated unrestricted net assets for an endowment (see Note 9).

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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Temporarily Restricted Net Assets – The portion of net assets consisting of irrevocable remainder charitable trusts, contributions which are scheduled to be received in the future, purpose-restricted grants for which variance power was not given to the Foundation, and the portion of donor-restricted endowment funds that are not permanently restricted. 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 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. Also included in permanently restricted net assets is the Foundation's beneficial interest in trusts whose remainder is restricted for endowment funds and its interest in land required to be permanently held.

b. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include the Foundation's operating and checking accounts.

c. Investments

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 alternative investments is more fully described below. Investments received through gifts are recorded at estimated fair value at the date of donation. Certain other investments are recorded at cost.

Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur. Dividend and interest income are accrued when earned.

For purposes of reporting cash flow, purchases of investments represent the total additions to the portfolio from revenues received during the year.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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### d. 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 alternative investments using the net asset value per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value 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 net asset value 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 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.

### e. 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, contribution receivables, and payables.

### f. Charitable Trust Assets and Assets Held in Trust

#### *Charitable Lead Trusts*

The Foundation is the recipient of distributions from several charitable lead trusts and is not the trustee of these trusts. Charitable lead trusts are established by donors who specify that distributions from the trusts be made to designated nonprofit organizations over a specified period of time. Upon termination, the remainder of the trust’s assets is paid to beneficiaries designated by the donor. When the Foundation is notified that it is the irrevocable recipient of distributions from a lead trust, a receivable for the present value of the expected future cash inflows is reported in the financial statements. The discount rate used to calculate the present value of the future cash inflows is re-evaluated each year based on current market conditions.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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### *Charitable Remainder Trusts*

The Foundation is an irrevocable remainder beneficiary of a charitable remainder unitrust and a charitable remainder annuity trust established by two separate donors. The Foundation is the trustee for both trusts, and trust assets are measured and recognized on the statement of financial position at fair value based on quoted market prices. The net present value of estimated future payments to the donors are recognized as a liability (see “Liabilities to Beneficiaries,” below). The Foundation is also the beneficiary of certain trusts that are held by other trustees. For those trusts, the net present value of the Foundation’s estimated irrevocable remainder interest is recorded as a beneficial interest in trusts.

Under both of the preceding arrangements, contribution revenue is recognized at the creation of the trust in amounts equal to the net present value of the estimated remainder trust, based on various factors, including fair value of the trust assets, life expectancy of the donors, payment terms to donors, and discount rates. Subsequent changes in the measurement of trust-related assets and liabilities are recorded as changes in value of split interest agreements.

### *Assets Held in Trusts*

The Foundation serves as the trustee for a charitable trust of which the Foundation is the 50% irrevocable remainder beneficiary as described above. The Foundation recorded a liability for the remaining 50% of the trust for which they are not a beneficiary.

### *Pooled Income Fund*

The Foundation recognizes its remainder interest in its pooled income fund as temporarily restricted contribution revenue in the period in which the assets are received from the donor. Donor contributions to the pooled income fund are irrevocable. A donor is assigned a specific number of units based on the proportion of their contribution’s fair market value to the total fair market value of the fund. The donor receives the dividends and interest earned on those units. The contributed assets are invested in the fund until the donor’s death, at which time the assets revert to the Foundation.

Contributions are measured at the fair value of the assets received and discounted for the estimated life expectancy of the donor (see “Liabilities to Beneficiaries,” below).

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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g. Property and Equipment

Property, plant and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from three to 40 years. Amortization of leasehold improvements is computed over the life of the related lease. The Foundation capitalizes property and equipment with cost or donated fair value over \$2,000.

h. Liabilities to Beneficiaries

Liabilities to beneficiaries represents the present value of estimated amounts due to donors of the charitable remainder trusts for which the Foundation is both trustee and irrevocable remainder beneficiary, as well the present value of estimated amounts due to participants in the pooled income fund. Liabilities are calculated using IRS actuarial tables.

i. Agency Funds

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

j. Endowment Funds

The Foundation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205 “Endowments of Not-for-Profit Organizations – Net Assets Classification of Funds Subject to Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.” The State of California adopted a version of the Uniform Prudent Management of Institutional Funds Act as its State Prudent Management of Institutional Funds Act (“SPMIFA”).

*Interpretation of relevant law*

The Board of Directors of the Foundation, with the advice of legal counsel, has determined it holds net assets that meet the definition of endowment funds under SPMIFA. As a result of this interpretation, 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 SPMIFA, which include: (1) The duration and preservation of the fund, (2) The purposes of the organization 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 the appreciation of investments, (6) Other resources of the organization, (7) The investment policies of the Foundation.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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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 December 31, 2013, the Foundation had 23 funds with deficiencies of this nature totaling approximately \$375,000. These deficiencies are reflected in unrestricted net assets.

### *Investment and spending policies*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported 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 objective is to achieve a rate of return in excess of the annual rate of inflation, net of investment fees. Actual returns in any given year may vary from this amount.

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

The spending policy calculates the amount of money annually distributed from the Foundation's endowed funds for grantmaking and administration. The current grantmaking spending policy is to distribute an amount equal to 4% of a trailing 12 quarter rolling average for funds with balances of at least 80% of the historic gift value. The administrative expense policy is 2% of the fund balance for endowed scholarship funds and no greater than 1.5% of the endowed fund balance for other funds. This is consistent with the Foundation's objective of maintaining the purchasing power of endowed assets as well as to provide additional real growth through new gifts and investment return.

### k. Revenue Recognition

Contributions are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions expected to be collected in future years, including future interests in charitable lead trusts, are recorded at the present value of estimated future cash flows. Discounts on the future interests are calculated using a rate equal to the approximate investment return applicable to the year in which the unconditional promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation has determined that all receivables are fully collectable, and no allowance for uncollectable accounts has been recorded.

As discussed above, the Foundation receives contributions subject to time or purpose restrictions. When the restriction is met in the same period as the contribution is received, temporarily restricted contributions are reported as temporarily restricted support and net assets released from restrictions.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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l. Grant Expenses

Grant expenses are recognized upon approval of an unconditional promise to various nonprofit organizations. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation. Grants payable represent the present value of grants to be paid in the future. Grants payable are expected to be paid in the following year.

m. Functional Allocation of Expenses

Expenses which apply to more than one functional category have been allocated between program, management and general, and fundraising based on the time that each employee spends on these functions. Indirect expenses, such as general office supplies are allocated based on the overall number of staff in the various functional categories. All other costs are charged directly to the appropriate functional category.

n. Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The amounts estimated could differ from actual results.

o. Comparative Information

The consolidated financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended December 31, 2012, from which the summarized information is derived.

p. Income Taxes

The Foundation is exempt from federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code (the "Code") and has been classified as an organization which is not a private foundation as defined in Sections 509(a)(1) and 170(b)(i)(A)(vi) of the Code. In addition, the Foundation could be subject to tax on unrelated business income, if any, generated by its investments.

The Foundation follows the guidance of FASB ASC Topic 740 - Accounting for Uncertainty in Income Taxes. As of December 31, 2013, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by federal or state authorities for years before December 31, 2010 and 2009, respectively.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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q. Recent Accounting Pronouncements

In October 2012, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update No. 2012-05 – Statement of Cash Flows (Topic 230) *Not-for-Profit Entities – Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The update requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in which case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, the proceeds upon sale should be classified as an investing activity. This guidance is effective prospectively for annual periods, beginning after June 15, 2013. The adoption of this guidance is not expected to have a material effect on the Foundation’s financial statements.

r. Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended December 31, 2013 through May 30, 2014 the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

**Note 3 - Contributions Receivable:**

Contributions receivable consisted of the following at December 31, 2013:

Land and art receivable	\$7,069,498
Contributions receivable (net of discount of \$2,874,779)	4,431,632
Bequests receivable	108,509
Other receivables	11,950
	<hr/>
	\$ 11,621,589

The land and art receivable relates to an 80% interest in land and art installations, which will be given to the Oliver Ranch Foundation at a date no later than that of the death of the last trustee of the Oliver Family Living Trust (see Note 6).

In addition, the trustees of the Oliver Family Living Trust established an endowment at the Foundation to support the operations of Oliver Ranch Foundation. The amount of the endowment will vary over time with changes in the Consumer Price Index. The present value of the endowment pledge is \$4,373,948 net of a discount of \$2,874,779 at December 31, 2013. The remaining balance of contributions receivable of \$57,684 is expected to be collected in 2014.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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### Note 4 - Investments:

Investments consist of the following at December 31, 2013:

Cash and cash equivalents	\$ 4,968,678
Fixed income	19,406,801
Domestic and international equities	53,930,457
Diversified strategies mutual funds	23,842,745
Alternative investments	6,974,011
	<hr/>
	109,122,692
Certificates of deposit	3,035,242
Privately held stock (at cost)	469,542
	<hr/>
	\$ 112,627,476

The Foundation has four investment pools made available to donors for investment of gifted assets. Separate asset allocations are maintained for each investment pool as follows:

The Long-Term Pool is the largest investment pool and is for endowment and other long-term funds. The pool focuses on a long-term strategy designed to protect assets against inflation over time, while providing for a steady stream of grants. The target asset allocation, which is designed to provide diversification and reduce volatility, includes five categories of stocks (40%), three categories of bonds (25%), diversified strategies (25%), and alternative investments (10%). The pool had a fair market value of approximately \$82.0 million at December 31, 2013.

The Socially Responsible Long-Term Investment Pool is for endowment and other long-term funds whose donors prefer socially responsible investments. It is comprised of mutual funds that meet a variety of social screens, both positive and exclusionary. This pool employs a strategic asset allocation of 70% stocks and 30% fixed income and cash. The pool had a fair market value of approximately \$20.0 million at December 31, 2013.

The Intermediate Term Investment Pool is intended for funds with an expected duration of 2 to 5 years and is available only for expendable (non-endowment) funds. The pool is constructed to have less volatility than the long-term pool, but with higher returns than the short-term pool. The target asset allocation includes stocks (20%), bonds (50%), diversified strategies and alternative investments (20%), and cash and short-term bonds (10%). The pool had a fair market value of approximately \$5.2 million at December 31, 2013.

The Short-Term Investment Pool is best suited for an expendable fund that will be granting out a significant portion of its money in the short term. This pool invests in money market funds and certificates of deposit. The pool had a fair market value of approximately \$4.9 million at December 31, 2013.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

### Note 5 - Fair Value Measurement and Net Asset Value Disclosure:

*Fair Value Disclosures:*

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2013:

	Total	Level 1	Level 2
<b>Cash and cash equivalents</b>	\$ 4,968,678	\$ 4,968,678	
<b>Fixed income:</b>			
US government agency	882,153	882,153	
US corporate notes and bonds	1,642,311		\$ 1,642,311
Mutual funds:			
Core fixed income	8,697,532	8,697,532	
Multi-sector fixed income	4,950,463	4,950,463	
Opportunistic fixed income	3,234,342	3,234,342	
<b>Domestic and international equities:</b>			
Equities:			
Consumer	4,182,486	4,182,486	
Energy & utilities	2,110,439	2,110,439	
Financials	3,159,025	3,159,025	
Health care	1,887,699	1,887,699	
Industrials	2,604,502	2,604,502	
Information technology	2,791,493	2,791,493	
Materials	1,075,627	1,075,627	
Mutual funds:			
Domestic funds	12,688,212	12,688,212	
International and global funds	23,430,974	23,430,974	
<b>Diversified strategies mutual funds:</b>			
Global asset allocation	13,104,689	13,104,689	
Real return fund	7,699,606	7,699,606	
Natural resource/commodity funds	3,038,450	3,038,450	
<b>Alternative investments:</b>			
Global opportunistic fixed income <sup>(1)</sup>	3,827,601		3,827,601
Managed futures <sup>(2)</sup>	3,146,410		3,146,410
<b>Subtotal</b>	<b>109,122,692</b>	<b>100,506,370</b>	<b>8,616,322</b>
<b>Charitable trust assets:</b>			
Charitable lead trusts	7,457,460		7,457,460
Charitable remainder trusts	226,798		226,798
Beneficial interest in trusts	9,777,851		9,777,851
Pooled income investments	251,695		251,695
<b>Subtotal</b>	<b>17,713,804</b>		<b>17,713,804</b>
<b>Assets held in trust</b>	<b>9,000,006</b>		<b>9,000,006</b>
<b>Total</b>	<b>\$ 135,836,503</b>	<b>\$ 100,506,370</b>	<b>\$ 35,330,133</b>

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

Assets associated with charitable trust assets and assets held in trust consist primarily of cash equivalents, equities, fixed income and various mutual funds.

Certificates of deposit are not subject to fair value measurements as they do not meet the definition of an equity security.

The Foundation values privately held stock at the lower of cost or market.

### *Net Asset Value Disclosure:*

The Foundation uses Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following is a description of investments using NAV as of December 31, 2013.

- (1) Global opportunistic fixed income, which has the objective of achieving interest income and long-term capital appreciation by investing in US fixed income instruments and non-US developed and emerging markets sovereign debt securities. The fund concentrates its investments in bonds of countries having the best value in the form of high real interest rates.
- (2) Managed futures, which seeks long-term growth by investing in commodities and futures managers that are not correlated to stock and bond markets. The fund invests in approximately 25 underlying managers in the commodities and futures markets in metals, agriculture, energy, currencies, interest rate futures, and global stocks and bonds.

The alternative investments above do not have lockup periods, outstanding commitments, and are redeemable within 30 days or less.

### **Note 6 - Property and Equipment:**

Property and equipment consist of the following at December 31, 2013:

Buildings	\$ 5,089,393
Land	3,627,328
Furniture and equipment	483,362
Computers and software	174,074
Leasehold improvements	38,166
Construction in progress	27,587
	<hr/> 9,439,910
Less: accumulated depreciation	(2,161,746)
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Total property and equipment, net	\$ 7,278,164

Depreciation expense was \$173,603 for the year ended December 31, 2013.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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The Oliver Ranch Foundation acquired an undivided 20% interest in real estate located in Geyserville, California which includes art installations substantially affixed to the land. The value of the interest is \$3,024,000 according to an appraisal completed at the gift date. The remaining 80% interest is owned by the Oliver Family Living Trust and will be gifted to the Foundation over time (see Note 3).

### Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets at December 31, 2013 consist of the following:

Endowment - unappropriated earnings	\$ 12,562,012
Charitable lead trusts	7,457,459
Charitable remainder trusts and irrevocable planned gifts	6,663,695
Present value of pooled income funds	183,055
Other	44,586
	<hr/>
	\$ 26,910,807

Net assets were released from donor restriction for the year ended December 31, 2013 by expiration of time restriction or by the occurrence of other events specified by donors:

Endowment - appropriated earnings	\$ 1,972,866
Charitable remainder trusts	1,292,030
Charitable lead trusts	1,207,729
Present value of pooled income funds	45,449
Other	42,846
	<hr/>
	\$ 4,555,920

### Note 8 - Permanently Restricted Net Assets:

Permanently restricted net assets consist of the following at December 31, 2013:

Endowment investments	\$ 58,715,067
Endowment contributions receivable	4,471,606
Endowment beneficial interest in trusts	4,106,386
	<hr/>
	67,293,059
Land receivable	7,069,498
Land required to be held in perpetuity	3,043,500
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	\$ 77,406,057

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

**Note 9 - Endowments:**

Endowments include contributions which are permanently restricted by donors (permanently restricted net assets) and endowments which have been board designated. The changes in endowment net assets for the year ended December 31, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2012	\$ (294,545)	\$ 7,563,702	\$ 57,016,151	\$ 64,285,308
Investment return:				
Realized and unrealized gains	9,627	5,759,730		5,769,356
Interest and dividends	8,265	2,219,053		2,227,319
Investment and support fees	(1,304)	(976,860)		(978,164)
Total investment return	16,589	7,001,923		7,018,512
Contributions	393,337	244,633	1,698,916	2,336,886
Appropriated and expended	17,358	(1,972,866)		(1,955,508)
Recovery of certain underwater funds	275,380	(275,380)		
Change in endowment net assets	702,664	4,998,310	1,698,916	7,399,890
Endowment net assets, December 31, 2013	\$ 408,119	\$ 12,562,012	\$ 58,715,067	\$ 71,685,198

Not included in the roll-forward above are non-investment endowment net assets, which decreased by \$120,169 (see Note 8).

In 2013, the Foundation's board of directors adopted a policy for unrestricted gifts. The policy designates a portion for current operations and the remainder to certain designated endowments whose income will be used for community grants and Foundation operations.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

Endowment net assets composition by type as of December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ (374,730)	\$ 12,562,012	\$ 58,715,067	\$ 70,902,349
Board-designated endowments	782,849			782,849
Endowment net assets, December 31, 2013	\$ 408,109	\$ 12,562,012	\$ 58,715,067	\$ 71,685,198

Donor restricted endowments are comprised of over 150 individual funds. The Foundation honors the intent expressed by the donor at the time of the gift. Approximately half of the net assets are from donors who entrusted the Foundation to determine the best use of endowment income to benefit the community, typically in broad areas of interest such as health and human services, education, environment, arts, and scholarships. Most of the balance is from donors who named specific nonprofit organizations as beneficiaries. Board-designated endowments are comprised primarily of an operating reserve fund.

### Note 10 - Employee Benefit Plan:

The Foundation maintains a 403(b) retirement plan covering all employees working 24 hours or more per week who have completed at least one year of service. The Foundation funds the plan at a flat, discretionary percentage determined each year, and employees can provide additional contributions to the plan. Plan benefits are provided through annuity contracts and/or custodial accounts. For the year ended December 31, 2013, employer contributions to the plan were \$49,763.

### Note 11 - Commitments:

The Foundation rents office space under a lease agreement expiring in July 2015. Approximate amounts due under this agreement at December 31, 2013 are as follows:

Year Ending December 31,		
2014	\$	130,000
2015		77,000
Total minimum lease payments	\$	207,000

Total rent expense was \$134,917 for the year ended December 31, 2013.

# Community Foundation Sonoma County

## Notes to Consolidated Financial Statements

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### **Note 12 - Concentrations of Credit Risk:**

Financial instruments potentially subjecting the Foundation to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation insurance thresholds, cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds, and various debt and equity investments in excess of Securities Investor Protection Corporation insurance. Demand deposits are placed with a local financial institution, and Management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market and credit risk. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the statements. The risk associated with the investments is reduced through diversification.

Contributions are received primarily from organizations and major individual contributors. The Foundation received contributions from six contributors that approximated 44% of the Foundation's total contributions for 2013.

### **Note 13 - Related Party Transaction:**

The Foundation granted approximately \$623,300 to the Pepperwood Foundation, a non-consolidating supporting organization to the Foundation (see Note 1), in 2013.

The Foundation has and may continue to have Board of Directors and Committee members who are employed by corporations that provide services to the Foundation. The Foundation has a conflict of interest policy which covers relationships with Directors, Committee members and staff.

# Community Foundation Sonoma County

## Consolidating Statement of Financial Position (See Independent Auditors' Report)

December 31, 2013

		Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
<b>Assets</b>							
Cash and cash equivalents	\$	2,418,588	\$ 2,895	\$ 541,580	\$ 32,571		\$ 2,995,634
Contributions receivable, net		4,548,993	7,069,498	477,472		\$ (474,374)	11,621,589
Investments		112,627,476					112,627,476
Charitable trust assets		17,713,804					17,713,804
Assets held in trust		9,000,006					9,000,006
Property and equipment, net		27,187	3,043,500	4,207,477			7,278,164
Other assets		162,489		21,248			183,737
<b>Total assets</b>	<b>\$</b>	<b>146,498,543</b>	<b>\$ 10,115,893</b>	<b>\$ 5,247,777</b>	<b>\$ 32,571</b>	<b>\$ (474,374)</b>	<b>\$ 161,420,410</b>
<b>Liabilities and Net Assets</b>							
<b>Liabilities:</b>							
Accounts payable and accrued expense	\$	76,936		\$ 35,015	\$ 1,700	\$ (4,374)	\$ 109,277
Grants payable		1,040,700				(470,000)	570,700
Liabilities associated with assets held in trust		4,500,003					4,500,003
Agency funds		14,933,042					14,933,042
Liabilities to beneficiaries		3,798,483					3,798,483
<b>Total liabilities</b>		<b>24,349,164</b>	<b>-</b>	<b>35,015</b>	<b>1,700</b>	<b>(474,374)</b>	<b>23,911,505</b>
<b>Net Assets:</b>							
Unrestricted		28,456,317	\$ (2,266)	4,707,119	30,871		33,192,041
Temporarily restricted		26,405,164		505,643			26,910,807
Permanently restricted		67,287,898	10,118,159				77,406,057
<b>Total net assets</b>		<b>122,149,379</b>	<b>10,115,893</b>	<b>5,212,762</b>	<b>30,871</b>		<b>137,508,905</b>
<b>Total liabilities and net assets</b>	<b>\$</b>	<b>146,498,543</b>	<b>\$ 10,115,893</b>	<b>\$ 5,247,777</b>	<b>\$ 32,571</b>	<b>\$ (474,374)</b>	<b>\$ 161,420,410</b>

# Community Foundation Sonoma County

## Consolidating Statement of Activities (See Independent Auditors' Report)

December 31, 2013

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
<b>Change in Unrestricted Net Assets:</b>						
Support and revenue:						
Contributions and grants	\$ 6,111,289	\$ 47,500	\$ 143,557	\$ 212,000	\$ (5,100)	\$ 6,509,246
Realized and unrealized gains on investments	2,578,749		(10,941)			2,567,808
Interest and dividends	650,885		498			651,383
Management fees earned, net	257,000		-		(25,808)	231,192
Other income			76,222			76,222
Net assets released from restrictions	4,515,702		40,218			4,555,920
<b>Total unrestricted support and revenue</b>	<b>14,113,625</b>	<b>47,500</b>	<b>249,554</b>	<b>212,000</b>	<b>(30,908)</b>	<b>14,591,771</b>
Expenses:						
Program services	11,329,733	32,405	661,994	163,271	(5,100)	12,182,303
Supporting services	1,326,235	9,934	257,828	23,737	(25,808)	1,591,926
<b>Total expenses</b>	<b>12,655,968</b>	<b>42,339</b>	<b>919,822</b>	<b>187,008</b>	<b>(30,908)</b>	<b>13,774,229</b>
Change in unrestricted net assets before reclassification	1,457,657	5,161	(670,268)	24,992	-	817,542
Recovery of underwater funds	275,380					275,380
<b>Change in unrestricted net assets</b>	<b>1,733,037</b>	<b>5,161</b>	<b>(670,268)</b>	<b>24,992</b>	<b>-</b>	<b>1,092,922</b>
<b>Change in Temporarily Restricted Net Assets:</b>						
Contributions and grants	1,196,417		35,800			1,232,217
Change in value of split-interest agreements	960,735					960,735
Realized and unrealized loss on investments	4,782,870					4,782,870
Interest and dividends	2,219,053					2,219,053
<b>Total temporarily restricted support and revenue</b>	<b>9,159,075</b>		<b>35,800</b>		<b>-</b>	<b>9,194,875</b>
Net assets released from restrictions	(4,515,702)		(40,218)			(4,555,920)
Change in temporarily restricted net assets before reclassification	4,643,373	-	(4,418)	-	-	4,638,955
Recovery of underwater funds	(275,380)					(275,380)
<b>Change in temporarily restricted net assets</b>	<b>4,367,993</b>	<b>-</b>	<b>(4,418)</b>	<b>-</b>	<b>-</b>	<b>4,363,575</b>
<b>Change in Permanently Restricted Net Assets:</b>						
Contributions and grants	1,578,747					1,578,747
Change in permanently restricted net assets	1,578,747					1,578,747
<b>Change in Net Assets</b>	<b>7,679,777</b>	<b>5,161</b>	<b>(674,686)</b>	<b>24,992</b>	<b>-</b>	<b>7,035,244</b>
<b>Net Assets, beginning of year</b>	<b>114,469,602</b>	<b>10,110,732</b>	<b>5,887,448</b>	<b>5,879</b>		<b>130,473,661</b>
<b>Net Assets, end of year</b>	<b>\$ 122,149,379</b>	<b>\$ 10,115,893</b>	<b>\$ 5,212,762</b>	<b>\$ 30,871</b>	<b>\$ -</b>	<b>\$ 137,508,905</b>