

COMMUNITY FOUNDATION SONOMA
COUNTY

DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Community Foundation Sonoma County

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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, 2016, 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.

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, 2016, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Foundation's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 26 and 27) 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, 2017

Community Foundation Sonoma County

Consolidated Statement of Financial Position

<i>December 31, 2016 (with comparative totals for 2015)</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 7,852,738	\$ 3,848,469
Contributions receivable, net	11,738,361	11,225,268
Program related investment - notes receivable	159,619	1,982,886
Notes receivable - other	1,003,414	30,975
Investments	118,331,770	114,983,698
Charitable trust assets	5,880,168	7,018,767
Property and equipment, net	8,690,633	8,799,298
Other assets	92,718	91,368
Total assets	\$ 153,749,421	\$ 147,980,729
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expense	\$ 112,505	\$ 103,522
Grants payable	126,500	144,000
Agency funds	14,821,157	13,147,934
Liabilities to beneficiaries	112,582	137,951
Total liabilities	15,172,744	13,533,407
Net Assets:		
Unrestricted:		
Designated for donor advised funds	25,118,600	19,838,748
Designated for specific fields of interest	5,080,234	7,534,924
Board designated reserves - endowment	1,088,104	1,029,659
Undesignated	5,006,109	4,491,233
Total unrestricted	36,293,047	32,894,564
Temporarily restricted	17,033,480	17,562,869
Permanently restricted	85,250,150	83,989,889
Total net assets	138,576,677	134,447,322
Total liabilities and net assets	\$ 153,749,421	\$ 147,980,729

See accompanying notes to financial statements.

Community Foundation Sonoma County

Consolidated Statement of Activities

Year Ended December 31, 2016 (with comparative totals for 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Contributions and grants	\$ 13,392,028	\$ 466,948	\$ 1,367,953	\$ 15,226,929	\$ 14,796,941
Change in value of split-interest agreements		90,338		90,338	151,989
Realized and unrealized gain (loss) on investments	781,281	3,522,174		4,303,455	(3,662,282)
Interest and dividends	416,829	1,485,026		1,901,855	2,433,707
Management fees earned, net	152,195			152,195	137,361
Other income	164,878			164,878	145,836
Net assets released from restrictions	5,796,233	(5,688,541)	(107,692)	-	-
Total support and revenue	20,703,444	(124,055)	1,260,261	21,839,650	14,003,552
Expenses:					
Program services	16,225,470			16,225,470	13,062,737
Supporting services	1,484,825			1,484,825	1,526,376
Total expenses	17,710,295			17,710,295	17,710,295
Change in Net Assets Before Reclassifications					
	2,993,149	(124,055)	1,260,261	4,129,355	(585,561)
Reclassification of net assets (Note 15)				-	(1,070,116)
Recovery of underwater funds	405,334	(405,334)		-	-
Change in Net Assets	3,398,483	(529,389)	1,260,261	4,129,355	(1,655,677)
Net Assets, beginning of year	32,894,564	17,562,869	83,989,889	134,447,322	136,102,999
Net Assets, end of year	\$ 36,293,047	\$ 17,033,480	\$ 85,250,150	\$ 138,576,677	\$ 134,447,322

See accompanying notes to financial statements.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2016 (with comparative totals for 2015)

	Program Services	Supporting Services			2016 Total	2015 Total
		Fundraising	Management and General	Total		
Grants and awards	\$ 14,118,048				\$ 14,118,048	\$ 10,884,463
Other program expenses	130,549				130,549	334,472
Salaries and wages	928,305	\$ 221,110	\$ 520,027	\$ 741,137	1,669,442	1,585,151
Employee benefits	146,876	31,091	77,421	108,512	255,388	253,252
Payroll taxes	77,112	17,485	40,644	58,129	135,241	126,742
Management and investment fees		39	163,167	163,206	163,206	180,848
Professional and consulting fees	79,273	10,494	68,175	78,669	157,942	61,066
Legal and accounting	35,605	6,332	31,776	38,108	73,713	90,955
Advertising, marketing, and outreach	42,907	18,321	26,205	44,526	87,433	69,772
Office expense	143,971	9,260	36,192	45,452	189,423	206,715
Computer network	54,641	11,939	46,027	57,966	112,607	107,355
Occupancy	108,305	12,283	51,118	63,401	171,706	169,640
Local travel	12,096	2,151	9,558	11,709	23,805	12,681
Staff development and meetings	29,080	4,875	22,436	27,311	56,391	32,045
Depreciation	142,529	7,638	25,169	32,807	175,336	162,291
Insurance	153,284	2,319	11,573	13,892	167,176	160,380
Bad debt expense				-	-	108,509
Other expenses	22,889			-	22,889	42,776
	\$ 16,225,470	\$ 355,337	\$ 1,129,488	\$ 1,484,825	\$ 17,710,295	\$ 14,589,113

See accompanying notes to financial statements.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2016 (with comparative totals for 2015)</i>	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,129,355	\$ (1,655,677)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized (gain) loss on investments	(4,306,200)	3,639,606
Depreciation	175,336	162,291
Contributions received for long-term purposes	(1,367,953)	(5,437,987)
Receipt of donated property		(1,633,250)
Note receivable - other	(975,000)	
Changes in assets and liabilities		
Contributions receivable	(513,093)	2,337,326
Program related investment - notes receivable	1,823,267	(1,891,823)
Charitable trust assets	1,138,599	429,341
Assets held in trust		8,188,705
Other assets and notes receivable	1,211	4,600
Agency funds	1,673,223	(1,003,969)
Grants payable	(17,500)	(349,939)
Accounts payable and accrued expense	8,983	(47,573)
Liabilities associated with assets held in trust		(4,094,352)
Liabilities to beneficiaries	(25,369)	(3,251,662)
Net cash provided (used) by operating activities	1,744,859	(4,604,363)
Cash Flow from Investing Activities:		
Proceeds from sale of investments	33,661,840	94,945,679
Purchase of investments	(32,703,711)	(92,607,075)
Purchase of property and equipment	(66,672)	(127,852)
Net cash provided by investing activities	891,457	2,210,752
Cash Flows from Financing Activities:		
Contributions received for long-term purposes	1,367,953	4,426,328
Net Increase in Cash and Cash Equivalents	4,004,269	2,032,717
Cash and Cash Equivalents, beginning of year	3,848,469	1,815,752
Cash and Cash Equivalents, end of year	\$ 7,852,738	\$ 3,848,469

Noncash Investing Activities:

Collection of property interest held for endowment	\$ -	\$ 1,633,250
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See accompanying notes to financial statements.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 Teen Club), and Sonoma Paradiso. 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.

During 2015, Pepperwood Foundation a non-consolidated supporting organization of Community Foundation Sonoma County restructured to obtain independent charitable status. During 2016, Pepperwood received approval to become a public charity and ended its supporting organization agreement with Community Foundation Sonoma County as of March 23, 2016. Pepperwood has not been consolidated within these consolidated financial statements and the restructure did not have a financial impact to the Foundation.

The Foundation receives funds primarily 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

As of December 31, 2016, the Foundation has three 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. Supporting organizations for which the Foundation has a controlling interest are consolidated herein.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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 \$7 million in grants to children in need.

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. Unrestricted client net assets represent total donor advised and other client funds held by the Foundation with variance power. The Board of Directors has designated unrestricted net assets for an endowment (see Note 10).

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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. Principles of Consolidation

The accompanying consolidated financial statements include all amounts and operations of Community Foundation Sonoma County and its supporting organizations (collectively, the Foundation). Intercompany transactions and accounts have been eliminated in consolidation.

c. Cash and Cash Equivalents

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

d. Investments

All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. 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

e. Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

f. 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.

g. Notes Receivable

Program Related Investments - Notes Receivable

Program related investments are investments that would not be made were it not for the relationship of the investment to the Foundation's programmatic mission. Although the underlying investments may or may not have a profit motive, that is not the primary focus of the investment by the Foundation. Program related investments must be consistent with the Foundation's mission. These investments usually are recommended by donor advisors or fund managers from the funds with which they are associated. Sometimes they may also be a result of a gift by a donor.

Program related notes receivable consist of loans to organizations which support the Foundation's mission. The organizations may be commercial companies or non-profit organizations. The Foundation records notes receivable at cost and are evaluated for impairment annually and written down when appropriate.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Notes Receivable - Other

The Foundation records the Note Receivable at cost. The receivable is evaluated for impairment annually and written down if appropriate. The Foundation's note receivable is recorded at the time the note is received and accepted by the Foundation.

h. Charitable Trust Assets and Other Split-Interest Agreements

The Foundation's charitable trust assets and other split-interest agreements consist primarily of marketable securities.

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.

Charitable Remainder Trusts

The Foundation is an irrevocable remainder beneficiary of a charitable remainder annuity trust. The Foundation is the trustee for the trust, 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 the preceding arrangement, 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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).

i. 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.

j. 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.

k. 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.

l. 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").

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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, 2016, the Foundation had 67 funds with deficiencies of this nature totaling approximately \$1,908,000. The current year change in these deficiencies reflected in current year unrestricted net assets is a recovery of \$405,334.

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 3.75% 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

m. 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.

n. 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. The majority of grants payable are expected to be paid in the following year.

o. 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.

p. 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

q. Comparative Information and Reclassifications

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, 2015, from which the summarized information is derived.

Certain reclassifications have been made to the 2015 consolidated financial statements in order to conform to the 2016 presentation. These reclassifications had no impact on net assets or changes in net assets.

r. 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, 2016, 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.

s. Recently Adopted Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-15 – Presentation of Financial Statements Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The Update provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Foundation's adoption of the guidance did not have an impact on the consolidated financial statements and disclosures.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

In February 2016, FASB issued amendments to ASU 2016-02. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with exception of short-term leases) at the commencement date: 1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020 for a calendar year entity) and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Foundation is currently evaluating the impact of this guidance.

In August 2016, FASB issued ASU 2016-04 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. The Foundation is currently evaluating the impact of this pronouncement on its consolidated financial statements.

t. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2016 through May 30, 2017, the date the consolidated financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as disclosed in Note 4.

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at December 31, 2016:

Land and art receivable	\$ 6,185,811
Contributions receivable (net of discount of \$2,840,856)	5,167,215
Other receivables	385,335
	<hr/>
	\$ 11,738,361

The land and art receivable relates to a 70% 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 7).

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 \$5,167,215 net of a discount of \$2,840,856 at December 31, 2016.

The remaining balance of receivable of \$385,335 is expected to be collected in year 2017.

Note 4 - Notes Receivable:

Program Related Investments

Program related investment is comprised of two notes receivable of \$159,619 that were issued with interest rates of .25% and 1.0% percent. After year end, one loan of \$150,000 was transferred to an unrelated organization. The remaining balances are expected to be collected in 2017.

Other Receivables

Other receivables consisted of the following at December 31, 2016:

During 2016, the Foundation accepted an unsecured loan of \$975,000 bearing annual interest at 2.55% payable quarterly for a term expiring December 31, 2032. The loan shall be due and payable in full in a balloon payment, including all principal and unpaid interest, on or before December 31, 2032. The loan is subject to a subordination agreement. Principal pre-payments may be made at any time, but requires approval of the borrower's bank.

A loan secured by Security agreement / Personal Property on a property located at 3110 Loretta Way in Santa Rosa, California. The Foundation holds the Certificate of Title to the manufactured home through the State of California of Housing and Community Development. Interest is charted at the annual rate of 7.5% and payments of \$400 for principal and interest are due monthly.

Note 5 - Investments:

Investments consist of the following at December 31, 2016:

Cash and cash equivalents	\$ 6,338,889
Fixed income	38,122,545
Domestic and international equities	70,937,446
	<hr/>
	115,398,880
Certificates of deposit	2,564,390
Privately held stock (at cost)	368,500
	<hr/>
	\$ 118,331,770

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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:

During 2015, the Foundation's Board of Directors elected to change its investment strategy; the target allocation below reflects the adopted investment policy. 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 is 85% in a core portfolio which includes five categories of stocks (55%) and three categories of bonds (30%), and 15% in satellite portfolio. The core of the portfolio consists of investments that track major market indices with minimal tracking error (defined as the deviation of excess return). Additional positions, known as satellites, are added to the portfolio and allow for greater flexibility regarding tracking error. Overall, the pool is allocated 65% to stocks and 35% to bonds. The pool had a fair market value of approximately \$82.0 million at December 31, 2016.

The Socially Responsible Long-Term Investment Pool is for endowment and other long-term funds whose donors prefer socially responsible investments. This pool was revised in 2016 to mirror the strategies employed by the revision to the Long-Term Pool in 2015. It is now comprised of two separately managed accounts, one for equities and one for bonds, that meet a variety of social screens, both positive and exclusionary. Unlike the Long-Term Pool, there is no international bond component and no satellites are employed in the current implementation. This pool employs a strategic asset allocation of 65% stocks and 35% fixed income and cash. The pool had a fair market value of approximately \$19.6 million at December 31, 2016.

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 is 85% in a core portfolio which includes stocks (21.25%), bonds (63.75%), and 15% in satellite portfolio. Overall, the pool was allocated 25% to stocks and 75% to bonds and cash. The pool had a fair market value of approximately \$7.6 million at December 31, 2016.

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 \$4.5 million at December 31, 2016.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 6 - Fair Value Measurement:

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 6,338,889	\$ 6,338,889	
Fixed income:			
US government agency	2,266,301	2,266,301	
US corporate notes and bonds	3,269,008		\$ 3,269,008
International notes and bonds	668,481		668,481
Mutual funds:			
Core fixed income	19,988,839	19,988,839	
Multi-sector fixed income	11,792,294	11,792,294	
Opportunistic fixed income	137,622	137,622	
Domestic and international equities:			
Equities:			
Consumer	2,355,600	2,355,600	
Energy & utilities	677,038	677,038	
Financials	2,706,369	2,706,369	
Health care	1,194,636	1,194,636	
Industrials	1,280,785	1,280,785	
Information technology	2,071,120	2,071,120	
Materials	330,660	330,660	
Real Estate	372,439	372,439	
Services	722,256	722,256	
Mutual Funds:			
Domestic funds	30,741,315	30,741,315	
International and global funds	28,485,228	28,485,228	
Subtotal	115,398,880	111,461,391	3,937,489
Charitable trust assets:			
Charitable lead trusts	4,251,928		4,251,928
Charitable remainder trusts	107,704		107,704
Beneficial interest in trusts	1,281,661		1,281,661
Pooled income investments	238,875		238,875
Subtotal	5,880,168		5,880,168
Total	\$121,279,048	\$111,461,391	\$ 9,817,657

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, various mutual funds, and exchange traded funds.

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

The investment previously classified as Level 3 as of December 31, 2015 for \$4,239,256 consisted of restricted stock contributed to the Foundation in 2015. The fair value of the stock was determined at the time of a merger and the price per share offered to shareholders was outlined in the merger agreement. A third party performed an analysis and provided an opinion on the fairness of that offer by means of selective company's analysis, illustrative discounted cash flow analysis and selective transaction analysis. Liquidation of the shares was completed on January 4, 2016 for \$4,239,256 without a change in valuation. The Foundation has no additional Level 3 investments at December 31, 2016.

Note 7 - Property and Equipment:

Property and equipment consist of the following at December 31, 2016:

Buildings	\$	5,166,645
Land		5,260,578
Furniture and equipment		510,688
Computers and software		243,526
Leasehold improvements		26,489
		<hr/>
		11,207,926
Less: accumulated depreciation		(2,517,293)
		<hr/>
Total property and equipment, net	\$	8,690,633

Depreciation expense was \$175,336 for the year ended December 31, 2016.

The Oliver Ranch Foundation acquired an undivided 30% interest in real estate located in Geyserville, California which includes art installations substantially affixed to the land. The value of the interest is \$4,657,250 according to an appraisal completed at the gift date. The remaining 70% interest is owned by the Oliver Family Living Trust and will be gifted to the Foundation over time (see Note 3).

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets at December 31, 2016 consist of the following:

Endowment - unappropriated earnings	\$ 6,226,989
Charitable lead trusts	4,251,928
Charitable remainder trusts and irrevocable planned gifts	6,209,990
Present value of pooled income funds	224,018
Other	120,555
	<hr/>
	\$ 17,033,480

Net assets were released from donor restriction for the year ended December 31, 2016 by expiration of time restriction or by the occurrence of other events specified by donors:

Endowment - appropriated earnings	\$ 4,262,783
Charitable remainder trusts	66,572
Charitable lead trusts	1,202,729
Other	156,457
	<hr/>
	\$ 5,688,541

Note 9 - Permanently Restricted Net Assets:

Permanently restricted net assets consist of the following at December 31, 2016:

Endowment investments	\$ 69,220,374
Endowment contributions receivable	5,167,215
Land receivable	6,185,811
Land required to be held in perpetuity	4,676,750
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	\$ 85,250,150

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 10 - Endowments:

Endowments include contributions which are permanently restricted by donors (permanently restricted net assets) and endowments which have been board designated. The changes in invested endowment net assets for the year ended December 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	\$ (1,283,282)	\$ 6,114,174	\$ 68,255,153	\$ 73,086,044
Investment return:				
Net realized and unrealized gains	33,191	3,375,330		3,408,520
Interest and dividends	24,444	1,384,455		1,408,899
Investment and support fees	(8,281)	(1,153,688)		(1,161,968)
<hr/>				
Total investment return	49,354	3,606,097		3,655,451
Contributions	90,531	96,895	1,072,913	1,260,339
Retired and transferred funds			(107,692)	(107,692)
Appropriated and expended	(81,439)	(3,184,843)		(3,266,282)
Recovery of underwater funds	405,334	(405,334)		
<hr/>				
Change in endowment net assets	463,779	112,816	965,221	1,541,816
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Endowment net assets, December 31, 2016	\$ (819,503)	\$ 6,226,989	\$ 69,220,374	\$ 74,627,859

Not included in the roll-forward above are non-investment endowment net assets of \$5,167,215, which increased by \$295,040 from \$4,872,175. (See Note 9).

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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ (1,907,607)	\$ 6,226,989	\$ 69,220,374	\$ 73,539,756
Board-designated endowments	1,088,104			1,088,107
Endowment net assets, December 31, 2016	\$ (819,503)	\$ 6,226,989	\$ 69,220,374	\$ 74,627,860

Donor restricted endowments are comprised of over 160 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 11 - 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, 2016, employer contributions to the plan were \$69,394.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 12 - Commitments:

The Foundation entered into a lease agreement for its administrative office; in addition, the Foundation also maintains a lease agreement for its copier. Future aggregate lease payments are as follows:

Minimum future rental payments on this lease subsequent to December 31, 2016 are as follows:

Year Ending December 31	
2017	\$ 122,300
2018	125,800
2019	129,400
2020	120,100
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	\$ 497,600

Total rent expense was \$113,943 for the year ended December 31, 2016.

Note 13 - 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 one contributor that approximated 34% of the Foundation's total contributions for 2016.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 14 - Related Party Transaction:

The Foundation granted approximately \$2,136,000 to the Pepperwood Foundation in 2016. Pepperwood was a non-consolidating supporting organization to the Foundation until 2015 (see Note 1).

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.

Note 15 - Reclassification of Net Assets:

In 2015, the Foundation had reclassifications of net assets to correct the balance of an endowment fund and to account for endowment underwater funds. In addition, the Foundation relinquished assets of three funds to be managed by other institutions. Two of the funds were permanently restricted funds.

Disaggregated reclassification of net assets at December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Reclassification of net assets	\$ 1,136,685	\$ (1,136,685)		
Relinquished endowment funds	(633,194)		\$ (436,922)	\$ (1,070,116)
Transfer for underwater funds	(1,257,618)	1,257,618		
Net reclassification of net assets	\$ (754,127)	\$ 120,933	\$ (436,922)	\$ (1,070,116)

Community Foundation Sonoma County

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

December 31, 2016

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
Assets						
Cash and cash equivalents	\$ 7,581,778	\$ 1,148	\$ 269,812			\$ 7,852,738
Contributions receivable, net	5,549,165	6,185,811	498,385		\$ (495,000)	11,738,361
Program related investment - notes receivable	159,619					159,619
Note receivable - other	1,003,414					1,003,414
Investments	118,331,770					118,331,770
Charitable trust assets	5,880,168					5,880,168
Property and equipment, net	125,017	4,676,750	3,888,866			8,690,633
Other assets	73,719		18,999			92,718
Total assets	\$ 138,704,650	\$ 10,863,709	\$ 4,676,062	\$ -	\$ (495,000)	\$ 153,749,421
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expense	\$ 66,006	\$ 4,335	\$ 42,164			\$ 112,505
Grants payable	621,500				\$ (495,000)	126,500
Agency funds	14,821,157					14,821,157
Liabilities to beneficiaries	112,582					112,582
Total liabilities	15,621,245	4,335	42,164	-	(495,000)	15,172,744
Net Assets:						
Unrestricted:						
Designated for donor advised funds	25,118,600					25,118,600
Designated for specific fields of interest	5,080,234					5,080,234
Board designated reserves - endowment	1,088,104					1,088,104
Undesignated	410,115	(3,187)	4,599,181			5,006,109
Total unrestricted	31,697,053	(3,187)	4,599,181	-	-	36,293,047
Temporarily restricted	16,998,763		34,717			17,033,480
Permanently restricted	74,387,589	10,862,561				85,250,150
Total net assets	123,083,405	10,859,374	4,633,898	-	-	138,576,677
Total liabilities and net assets	\$ 138,704,650	\$ 10,863,709	\$ 4,676,062	\$ -	\$ (495,000)	\$ 153,749,421

Community Foundation Sonoma County

Consolidating Statement of Activities (See Independent Auditors' Report)

December 31, 2016

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
Change in Unrestricted Net Assets:						
Support and revenue:						
Contributions and grants	\$ 12,930,881	\$ 100,000	\$ 285,548	\$ 122,263	\$ (46,664)	\$ 13,392,028
Realized and unrealized losses on investments	781,281					781,281
Interest and dividends	416,725		104			416,829
Management fees earned, net	187,195				(35,000)	152,195
Other income	98,305	3,335	63,238			164,878
Net assets released from restrictions	5,676,717		119,516			5,796,233
Total unrestricted support and revenue	20,091,104	103,335	468,406	122,263	(81,664)	20,703,444
Expenses:						
Program services	15,195,162	89,919	883,727	103,326	(46,664)	16,225,470
Supporting services	1,194,761	17,872	286,426	20,766	(35,000)	1,484,825
Total expenses	16,389,923	107,791	1,170,153	124,092	(81,664)	17,710,295
Change in unrestricted net assets before reclassification	3,701,181	(4,456)	(701,747)	(1,829)	-	2,993,149
Recovery of underwater funds	405,334					405,334
Change in unrestricted net assets	4,106,515	(4,456)	(701,747)	(1,829)	-	3,398,483
Change in Temporarily Restricted Net Assets:						
Contributions and grants	346,895		120,053			466,948
Change in value of split-interest agreements	90,338					90,338
Realized and unrealized loss on investments	3,522,174					3,522,174
Interest and dividends	1,485,026					1,485,026
Total temporarily restricted support and revenue	5,444,433		120,053			5,564,486
Net assets released from restrictions	(5,569,025)		(119,516)			(5,688,541)
Change in temporarily restricted net assets before reclassification	(124,592)		537			(124,055)
Recovery of underwater funds	(405,334)					(405,334)
Change in temporarily restricted net assets	(529,926)	-	537	-	-	(529,389)
Change in Permanently Restricted Net Assets:						
Contributions and grants	1,367,953					1,367,953
Net assets released from restrictions	(107,692)					(107,692)
Change in permanently restricted net assets before reclassification	1,260,261	-	-	-	-	1,260,261
Change in Net Assets	4,836,850	(4,456)	(701,210)	(1,829)	-	4,129,355
Net Assets, beginning of year	118,246,555	10,863,830	5,335,108	1,829	-	134,447,322
Net Assets, end of year	\$ 123,083,405	\$ 10,859,374	\$ 4,633,898	\$ -	\$ -	\$ 138,576,677