

COMMUNITY FOUNDATION SONOMA
COUNTY

DECEMBER 31, 2018

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Community Foundation Sonoma County

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

Independent Auditors' Report	1 - 2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 24
Supplementary Information	
Consolidating Statement of Financial Position	25
Consolidating Statement of Activities	26



Independent Auditors' Report

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

Report on the 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, 2018, 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 financial position of Community Foundation Sonoma County as of December 31, 2018, 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

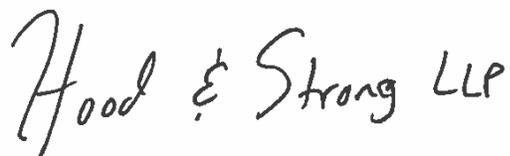
We have previously audited the Foundation's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 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 25 and 26) 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 consolidated 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.

Effect of Adopting New Accounting Standard

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

Handwritten signature in cursive script that reads "Hood & Strong LLP".

San Francisco, California
June 4, 2019

Community Foundation Sonoma County

Consolidated Statement of Financial Position

<i>December 31, 2018 (with comparative totals for 2017)</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 1,725,823	\$ 6,811,934
Contributions receivable, net	12,481,639	12,218,212
Notes receivable	1,001,289	1,031,289
Investments	150,924,716	149,148,764
Charitable trust assets	3,982,294	5,913,381
Property and equipment, net	8,406,508	8,555,414
Other assets	112,175	94,361
Total assets	\$ 178,634,444	\$ 183,773,355
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expense	\$ 166,232	\$ 231,172
Grants payable	6,025,454	4,707,141
Agency funds	16,632,936	17,903,064
Total liabilities	22,824,622	22,841,377
Net Assets:		
Without donor restrictions		
Designated for donor advised funds	27,864,018	25,968,471
Designated for specific fields of interest	4,619,208	7,230,470
Board designated reserves	1,700,620	1,381,167
Undesignated	5,764,281	5,557,346
Total without donor restrictions	39,948,127	40,137,454
With donor restrictions		
Time and purpose	28,360,488	35,074,767
Perpetual restrictions	87,501,207	85,719,757
Total net assets	155,809,822	160,931,978
Total liabilities and net assets	\$ 178,634,444	\$ 183,773,355

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Activities

Year Ended December 31, 2018 (with comparative totals for 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue:				
Contributions and grants	\$ 10,644,995	\$ 7,751,208	\$ 18,396,203	\$ 24,533,889
Change in value of split-interest agreements		(400,667)	(400,667)	106,427
Investment income, net	(1,522,172)	(4,418,629)	(5,940,801)	15,615,954
Management fees earned, net	216,525		216,525	182,710
Other income	233,030		233,030	212,832
Net assets released from restrictions	7,864,741	(7,864,741)	-	-
Total support and revenue	17,437,119	(4,932,829)	12,504,290	40,651,812
Expenses:				
Program services	15,559,790		15,559,790	16,766,050
Supporting services	2,066,656		2,066,656	1,530,461
Total expenses	17,626,446	-	17,626,446	18,296,511
Change in Net Assets	(189,327)	(4,932,829)	(5,122,156)	22,355,301
Net Assets, beginning of year (Note 2r)	40,137,454	120,794,524	160,931,978	138,576,677
Net Assets, end of year	\$ 39,948,127	\$ 115,861,695	\$ 155,809,822	\$ 160,931,978

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018 (with comparative totals for 2017)

	Program Services	Supporting Services			2018 Total	2017 Total
		Fundraising	Management and General	Total		
Grants and awards	\$ 13,338,203				\$ 13,338,203	\$ 14,670,309
Salaries and wages	841,899	\$ 281,701	\$ 785,504	\$ 1,067,205	1,909,104	1,712,613
Employee benefits	134,674	27,259	98,078	125,337	260,011	237,742
Payroll taxes	69,512	22,225	61,271	83,496	153,008	139,059
Professional and consulting fees	427,132	60,647	382,555	443,202	870,334	517,401
Advertising, marketing, and outreach	41,247	25,542	26,736	52,278	93,525	95,713
Office expense	161,119	10,466	53,295	63,761	224,880	172,446
Computer network	70,464	15,386	47,877	63,263	133,727	126,714
Occupancy	112,814	10,534	54,619	65,153	177,967	186,576
Local travel	5,115	910	4,042	4,952	10,067	7,571
Staff development and meetings	33,857	5,821	26,906	32,727	66,584	56,632
Depreciation	150,961	3,571	34,964	38,535	189,496	183,742
Insurance	162,087	2,918	18,596	21,514	183,601	183,524
Other expenses	10,706	938	4,295	5,233	15,939	6,469
	\$ 15,559,790	\$ 467,918	\$ 1,598,738	\$ 2,066,656	\$ 17,626,446	\$ 18,296,511

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2018 (with comparative totals for 2017)</i>	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ (5,122,156)	\$ 22,355,301
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized loss (gain) on investments	9,274,705	(13,212,272)
Depreciation	189,496	183,743
Contributions received for long-term purposes	(1,843,475)	(523,902)
Program related investment note receivable transfer		150,000
Discount on long-term receivables	(271,973)	(276,362)
Changes in assets and liabilities		
Contributions receivable	8,546	(203,489)
Notes receivable	30,000	(18,256)
Charitable trust assets	1,931,087	(33,213)
Other assets	(17,814)	(1,643)
Accounts payable and accrued expense	(64,940)	6,085
Agency funds	(1,270,128)	3,081,907
Grants payable	1,318,313	4,580,641
Net cash provided by operating activities	4,161,661	16,088,540
Cash Flow from Investing Activities:		
Proceeds from sale of investments	57,949,360	20,064,224
Purchase of investments	(69,000,017)	(37,668,946)
Purchase of property and equipment	(40,590)	(48,524)
Net cash used by investing activities	(11,091,247)	(17,653,246)
Cash Flows from Financing Activities:		
Contributions received for long-term purposes	1,843,475	523,902
Net Decrease in Cash and Cash Equivalents	(5,086,111)	(1,040,804)
Cash and Cash Equivalents, beginning of year	6,811,934	7,852,738
Cash and Cash Equivalents, end of year	\$ 1,725,823	\$ 6,811,934
Noncash Activities:		
Transfer of notes receivable		\$ 150,000

See accompanying notes to consolidated 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 and DeMeo Teen Club, Inc. (d.b.a. Chop’s Teen Club). Sonoma Paradiso Foundation was a third Supporting Organization, which is no longer active and was dissolved in 2018. 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.

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, animal welfare and other areas. Over the past 35 years, the Foundation has granted over \$211 million 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, 2018, the Foundation has two 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 most of the boards of these organizations. 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

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 club is home to a recording studio, gym, café, night club, tech lounge and art studio. These facilities support a variety of activities and programs designed to provide a safe, fun and productive place where teens engage, connect and discover their true potential.

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 (U.S. GAAP) applicable to not-for-profit organizations. Accordingly, the Foundation presents information regarding its net assets and activities according to two classes of net assets:

Net Assets without donor restriction – The portion of net assets are not subject to time or donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Foundation. Net assets without donor restrictions include donor advised and other client funds held by the Foundation with variance power. The Board of Directors has designated net assets for certain endowments (see Note 3) and a reserve for operations.

Net Assets with donor restrictions – 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 restricted in perpetuity. Net assets with donor restrictions also include portion of net assets consisting of contributions to endowment funds where the donor indicated that a portion of the fund be retained in perpetuity and the Foundation's interest in land required to be permanently held.

When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities as net assets released from restrictions.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

c. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include the Foundation's operating, checking and money market accounts and not held for investment purposes.

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 Consolidated 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 purchases of securities during the year.

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. Notes Receivable

The Foundation records certain notes receivable at cost. The receivables are 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.

g. Charitable Trust Assets and Other Split-Interest Agreements

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

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 consolidated 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 Consolidated 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 2i). 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.

Pooled Income Fund

The Foundation recognizes its remainder interest in its pooled income fund as 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

h. Property and Equipment

Property 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 asset or the related lease. The Foundation capitalizes property and equipment with cost or donated fair value over \$2,000.

i. 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 Internal Revenue Service actuarial tables and is included as a component of accounts payable and accrued expenses in the Consolidated Statement of Financial Position.

j. 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.

k. 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. The corpus represents the fair value of the original gifts as of the gift date, and all subsequent gifts to the donor restricted endowment funds. The value of assets in excess of original gifts in donor restricted endowed funds is classified as net assets with donor restrictions until appropriated for expenditure by the Foundation. Appropriation for expenditure for endowed funds is made in a manner consistent with the standards of prudence prescribed by 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

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the historical gift value “corpus”. At December 31, 2018, the Foundation had 68 funds with deficiencies totaling \$2,161,676. These deficiencies are reflected in net assets with donor restrictions.

Fair value of underwater endowments	\$ 23,059,667
Less: Original endowment gift amount	(25,221,343)
	<hr/>
	\$ (2,161,676)

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Subsequent to year-end, 20 of the 68 funds are no longer underwater due to favorable market returns.

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

l. Revenue Recognition

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

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, contributions are reported as increases in net assets without donor restrictions.

m. 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 value of grants to be paid in the future.

n. 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, occupancy, office expenses and computer network are allocated based on the overall number of staff in the various functional categories. Direct program expenses are charged to program. All other costs are charged directly to the appropriate functional category.

o. Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

p. 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, 2017, from which the summarized information is derived.

Certain reclassifications have been made to the 2017 consolidated financial statements in order to conform to the 2018 presentation. These reclassifications had no impact on net assets or changes in net assets.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

q. 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, 2018, 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 consolidated financial statements.

r. Accounting Pronouncements Adopted

During 2018, the Foundation adopted FASB Accounting Standards Update (ASU) 2016-14 Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities* (the Update). The amendments in this Update are designed to improve the current net asset classification requirements and the information presented in consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The adoption of this standard resulted in additional footnote disclosures related to liquidity, functional expense, and significant changes to the classification of net assets, underwater donor-restricted endowments and related disclosures. Additionally, the Update no longer requires investment management and advisory fees to be presented separately from net investment income.

Net assets have been reclassified for December 31, 2017 due to the adoption of ASU 2016-14 as of December 31, 2018 as follows:

Net Asset Classification 12/31/2017	ASU 2016-14 Classifications		Total Net Assets
	With Donor Restriction Undesignated/ Board Designated	With Donor Restriction CRT/ Special Projects/ Endowment	
Unrestricted	\$ 39,797,328		\$ 39,797,328
Temporarily Restricted		\$ 35,414,893	35,414,893
Permanently Restricted		85,719,757	85,719,757
Net assets as previously presented	39,797,328	121,134,650	160,931,978
Reclassification			
Underwater endowments	340,126	(340,126)	-
Net assets as reported after adoption of ASU 2016 -14	\$ 40,137,454	\$ 120,794,524	\$ 160,931,978

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

In January 2016, the FASB issued ASU 2016-01 *Financial Instruments (Topic 825)*. The amendments update certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Foundation elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included in the consolidated financial statements.

s. Pronouncements Effective in the Future

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU does not apply to transfers of assets from governments to businesses. The amendments in the update are effective for the Foundation for its fiscal year ending December 31, 2020. The Foundation is currently evaluating the impact of this pronouncement on its 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.

t. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2018 through June 4, 2019, 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 discussed in Note 2k.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 3 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available within one year of the Consolidated Statement of Financial Position date for general expenditures are as follows:

Financial assets at year-end:	
Cash and cash equivalents	\$ 1,725,823
Notes receivable	1,001,289
Contributions receivable	12,481,639
Investments	150,924,716
Charitable trust assets	3,982,294
<hr/>	
Total financial assets	170,115,761
Less amounts not available to be used within one year:	
Long-term contributions and notes receivable	(12,942,510)
Investments not convertible to cash within 12 months	(1,144,449)
Beneficial interest in charitable remainder trusts	(3,982,294)
Agency funds	(16,632,936)
Perpetual endowments - corpus	(70,923,096)
Net assets restricted by time or purpose	(24,394,606)
Designated net assets:	
Donor advised funds	(27,864,018)
Special fields of interest	(4,619,208)
Board designated operating reserve fund	(939,339)
Board designated reserves- endowment	(761,281)
Add:	
Appropriated endowment fees	1,134,000
Agency fund fees	249,494
<hr/>	
	(162,820,243)
Financial assets available to meet general expenditures over the next twelve months	\$ 7,295,518

The Foundation has certain board-designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve. However, the board-designated amounts could be made available, if necessary. As part of the Foundation's liquidity management plan, cash in excess of daily requirements are invested in short term investments and money market funds.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 4 - Contributions Receivable:

Contributions receivable consisted of the following at December 31, 2018:

Land and art receivable	\$	6,185,811
Contributions receivable (net of discount of \$2,781,269)		5,715,550
Other receivables		580,278
		<hr/>
	\$	12,481,639

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 8).

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 \$5,715,550 net of a discount of \$2,781,269 at December 31, 2018.

The remaining balance of receivable of \$580,278 is expected to be collected as follows:

Receivable in less than one year	\$	540,278
Receivable in one to two years		40,000
		<hr/>
	\$	580,278

Note 5 - Notes Receivable:

Notes receivable consist of the following at December 31, 2018:

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 is 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. This home was destroyed during the October 2017 fires. Loan payments were deferred during 2018.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 6 - Investments:

Investments consist of the following at December 31, 2018:

Cash and cash equivalents	\$ 7,835,718
Fixed income	59,109,547
Domestic and international equities	81,529,406
	<hr/>
	148,474,671
Certificates of deposit	2,081,545
Privately held stock (at cost)	368,500
	<hr/>
	\$ 150,924,716

The Foundation's investment income consists of the following for the year ended December 31, 2018:

Realized and unrealized gain	\$ (9,274,705)
Investment management fees	(252,050)
Dividends and interest	3,585,954
	<hr/>
Investment income, net	\$ (5,940,801)

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 investment 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 64% to stocks and 36% to bonds. The pool had a fair market value of approximately \$95 million at December 31, 2018.

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 Long-Term Pool. 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 61% in stocks and 39% in fixed income and cash. The pool had a fair market value of approximately \$21 million at December 31, 2018.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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%), bonds (64%), 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 \$23 million at December 31, 2018.

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 \$7 million at December 31, 2018.

Note 7 - Fair Value Measurement:

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 7,835,718	\$ 7,835,718	
Fixed income:			
US government agency	3,843,928	3,843,928	
US corporate notes and bonds	3,185,657		\$ 3,185,657
International notes and bonds	306,057		306,057
Mutual funds:			
Core fixed income	36,457,221	36,457,221	
Multi-sector fixed income	14,663,233	14,663,233	
Opportunistic fixed income	653,452	653,452	
Domestic and international equities:			
Equities:			
Consumer	2,403,265	2,403,265	
Energy and utilities	838,633	838,633	
Financials	2,570,379	2,570,379	
Health care	1,077,753	1,077,753	
Industrials	1,734,315	1,734,315	
Information technology	2,136,800	2,136,800	
Materials	334,475	334,475	
Real estate	540,056	540,056	
Services/Telecom	1,239,044	1,239,044	
Preferreds	16,315	16,315	
Mutual Funds:			
Domestic funds	34,590,472	34,590,472	
International and global funds	34,047,898	34,047,898	
Subtotal	148,474,671	144,982,957	3,491,714

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Charitable trust assets:			
Charitable lead trusts	1,932,162		1,932,162
Beneficial interest in trusts	2,001,393		2,001,393
Pooled income investments	48,738		48,738
<hr/>			
Subtotal	3,982,293		3,982,293
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Total	\$ 152,456,964	\$ 144,982,957	\$ 7,474,007

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.

Note 8 - Property and Equipment:

Property and equipment consist of the following at December 31, 2018:

Buildings		\$ 5,170,840
Land		5,260,578
Furniture and equipment		547,319
Computers and software		270,171
Leasehold improvements		48,132
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		11,297,040
Less: accumulated depreciation		(2,890,532)
<hr/>		
Total property and equipment, net		\$ 8,406,508

Depreciation expense was \$189,496 for the year ended December 31, 2018.

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 \$4,676,750 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 9 - Grants Payable:

Grants payable at December 31, 2018 are scheduled to be disbursed as follows:

Year Ending December 31,

2019	\$ 1,992,063
2020	1,206,000
2021	726,000
2022	726,000
2023	525,000
Thereafter	1,030,391
<hr/>	
Grants Payable	\$ 6,025,454

Note 10 - Net assets with donor restriction:

Net assets with donor restrictions at December 31, 2018 consist of the following:

Time and purpose:

Purpose-restricted funds	\$ 12,912,393
Endowment - unappropriated earnings	6,526,494
Charitable remainder trusts and irrevocable planned gifts	6,570,290
Charitable lead trusts	1,928,279
Other	423,032

Perpetual restrictions:

Endowment investments (corpus)	70,923,096
Endowment contributions receivable	5,715,550
Land receivable	6,185,811
Land required to be held in perpetuity	4,676,750

\$ 115,861,695

Net assets released from donor restriction for the year ended December 31, 2018 as follow:

Endowment - appropriated earnings	\$ 3,337,321
Purpose-restricted funds	2,771,855
Charitable remainder trusts	194,501
Charitable lead trusts	1,202,729
Pooled income funds	194,930
Other	163,405
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	\$ 7,864,741

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 11 - Endowments:

Endowments include contributions which is restricted in perpetuity by donors (with donor restricted net assets) and endowments which have been board designated. The changes in invested endowment net assets for the year ended December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions Time or Purpose</u>	<u>Perpetuity</u>	Total
Endowment net assets, December 31, 2017	\$ 1,041,042	\$ 14,143,437	\$ 69,413,619	\$ 84,598,098
Investment return:				
Net realized and unrealized gains	(66,241)	(6,358,135)		(6,424,375)
Interest and dividends	20,333	2,191,666		2,211,999
Investment and support fees	(8,572)	(1,169,765)		(1,178,337)
Total investment return	(54,481)	(5,336,234)		(5,390,715)
Contributions	198,509	226,973	1,571,502	1,996,984
Retired and transferred funds				
Appropriated and expended		(2,167,556)	(62,025)	(2,229,581)
Reclassification underwater	340,126	(340,126)		-
Reclassification of reserve	(763,916)			(763,916)
Change in endowment net assets	(279,762)	(7,617,443)	1,509,477	(6,387,227)
Endowment net assets, December 31, 2018	\$ 761,281	\$ 6,526,494	\$ 70,923,096	\$ 78,210,871

Not included in the roll-forward above are non-investment endowment net assets of \$5,715,550, which increased by \$271,973 from \$5,443,577. (See Note 10).

In 2013, the Foundation's board of directors adopted a policy for gifts without donor restrictions. 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, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		Total
		<u>Time or Purpose</u>	<u>Perpetuity</u>	
Donor restricted endowments		\$ 6,526,494	\$ 70,923,096	\$ 77,449,590
Board-designated endowments	\$ 761,281			761,281
Endowment net assets, December 31, 2018	\$ 761,281	\$ 6,526,494	\$ 70,923,096	\$ 78,210,871

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 12 - 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, 2018, employer contributions to the plan were \$ 64,370.

Note 13 - 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:

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Minimum future rental payments on this lease subsequent to December 31, 2018 are as follows:

Year Ending December 31	
2019	\$ 144,700
2020	154,200
2021	163,400
2022	168,300
2023	173,300
Thereafter	346,800
	<hr/>
	\$ 1,150,700

Total rent expense was \$116,560 for the year ended December 31, 2018.

Note 14 - 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 consolidated financial 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 two contributors that approximated 18% of the Foundation's total contributions for 2018.

Note 15 - Related Party Transaction:

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, 2018

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Eliminating Entries	Consolidated Balance
Assets					
Cash and cash equivalents	\$ 1,446,768	\$ 18,296	\$ 260,759		\$ 1,725,823
Contributions receivable, net	6,290,364	6,185,811	5,464		12,481,639
Note receivable - other	1,001,289				1,001,289
Investments	150,924,716				150,924,716
Charitable trust assets	3,982,294				3,982,294
Property and equipment, net	102,964	4,676,750	3,626,794		8,406,508
Other assets	94,631		17,544		112,175
Total assets	\$ 163,843,026	\$ 10,880,857	\$ 3,910,561	\$ -	\$ 178,634,444
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expense	\$ 76,105	\$ 30,527	\$ 59,600		\$ 166,232
Grants payable	6,025,454				6,025,454
Agency funds	16,632,936				16,632,936
Total liabilities	22,734,495	30,527	59,600	-	22,824,622
Net Assets:					
Without donor restriction					
Designated for donor advised funds	27,864,018				27,864,018
Designated for specific fields of interest	4,619,208				4,619,208
Board designated reserves	1,700,620				1,700,620
Undesignated	1,941,836	4,297	3,818,148		5,764,281
Total unrestricted	36,125,682	4,297	3,818,148	-	39,948,127
With donor restriction					
Time and purpose	28,327,675		32,813		28,360,488
Perpetual restrictions	76,655,174	10,846,033			87,501,207
Total net assets	141,108,531	10,850,330	3,850,961	-	155,809,822
Total liabilities and net assets	\$ 163,843,026	\$ 10,880,857	\$ 3,910,561	\$ -	\$ 178,634,444

Community Foundation Sonoma County

Consolidating Statement of Activities (See Independent Auditors' Report)

Year ended December 31, 2018

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Eliminating Entries	Consolidated Balance
Change in Net Assets Without Donor Restrictions:					
Support and revenue:					
Contributions and grants	\$ 10,261,574	\$ 59,691	\$ 354,230	\$ (30,500)	\$ 10,644,995
Investment income, net	(1,522,806)		634		(1,522,172)
Management fees earned, net	231,525			(15,000)	216,525
Other income	153,872	240	78,918		233,030
Net assets released from restrictions	7,823,347		41,394		7,864,741
Total support and revenue	16,947,512	59,931	475,176	(45,500)	17,437,119
Expenses:					
Program services	14,790,130	48,766	751,394	(30,500)	15,559,790
Supporting services	1,694,583	27,692	359,381	(15,000)	2,066,656
Total expenses	16,484,713	76,458	1,110,775	(45,500)	17,626,446
Change in net assets without donor restrictions	462,799	(16,527)	(635,599)	-	(189,327)
Change in Net Assets with Donor Restrictions:					
Contributions and grants	7,700,135		51,073		7,751,208
Change in value of split-interest agreements	(400,667)				(400,667)
Investment income, net	(4,418,629)				(4,418,629)
Total restricted support and revenue	2,880,839		51,073		2,931,912
Net assets released from restrictions	(7,823,347)		(41,394)		(7,864,741)
Change in net assets with donor restrictions	(4,942,508)		9,679		(4,932,829)
Change in Net Assets	(4,479,709)	(16,527)	(625,920)	-	(5,122,156)
Net Assets, beginning of year	145,588,238	10,866,859	4,476,881	-	160,931,978
Net Assets, end of year	\$ 141,108,529	\$ 10,850,332	\$ 3,850,961	\$ -	\$ 155,809,822