

COMMUNITY FOUNDATION SONOMA
COUNTY

DECEMBER 31, 2017

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Community Foundation Sonoma County

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

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A Century Strong

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, 2017, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 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

June 12, 2018

Community Foundation Sonoma County

Consolidated Statement of Financial Position

<i>December 31, 2017 (with comparative totals for 2016)</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 6,811,934	\$ 7,852,738
Contributions receivable, net	12,218,212	11,738,361
Notes receivable	1,031,289	1,163,033
Investments	149,148,764	118,331,770
Charitable trust assets	5,913,381	5,880,168
Property and equipment, net	8,555,414	8,690,633
Other assets	94,361	92,718
Total assets	\$ 183,773,355	\$ 153,749,421
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expense	\$ 153,794	\$ 112,505
Grants payable	4,707,141	126,500
Agency funds	17,903,064	14,821,157
Liabilities to beneficiaries	77,378	112,582
Total liabilities	22,841,377	15,172,744
Net Assets:		
Unrestricted:		
Designated for donor advised funds	25,968,471	25,118,600
Designated for specific fields of interest	7,230,470	5,080,234
Board designated reserves - endowment	1,381,167	1,088,104
Undesignated	5,217,220	5,006,109
Total unrestricted	39,797,328	36,293,047
Temporarily restricted	35,414,893	17,033,480
Permanently restricted	85,719,757	85,250,150
Total net assets	160,931,978	138,576,677
Total liabilities and net assets	\$ 183,773,355	\$ 153,749,421

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Activities

Year Ended December 31, 2017 (with comparative totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Contributions and grants	\$ 11,978,365	\$ 12,031,622	\$ 523,902	\$ 24,533,889	\$ 15,226,929
Change in value of split-interest agreements		106,427		106,427	90,338
Realized and unrealized gain on investments	2,938,413	10,274,259		13,212,672	4,303,455
Interest and dividends	701,455	1,932,810		2,634,265	1,901,855
Management fees earned, net	182,710			182,710	152,195
Other income	212,832			212,832	164,878
Net assets released from restrictions	4,450,518	(4,396,223)	(54,295)	-	-
Total support and revenue	20,464,293	19,948,895	469,607	40,882,795	21,839,650
Expenses:					
Program services	16,766,050			16,766,050	16,225,470
Supporting services	1,761,444			1,761,444	1,484,825
Total expenses	18,527,494			18,527,494	17,710,295
Change in Net Assets Before Reclassification	1,936,799	19,948,895	469,607	22,355,301	4,129,355
Recovery of underwater funds	1,567,482	(1,567,482)		-	-
Change in Net Assets	3,504,281	18,381,413	469,607	22,355,301	4,129,355
Net Assets, beginning of year	36,293,047	17,033,480	85,250,150	138,576,677	134,447,322
Net Assets, end of year	\$ 39,797,328	\$ 35,414,893	\$ 85,719,757	\$ 160,931,978	\$ 138,576,677

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017 (with comparative totals for 2016)

	Supporting Services				2017 Total	2016 Total
	Program Services	Fundraising	Management and General	Total		
Grants and awards	\$ 14,670,309				\$ 14,670,309	\$ 14,118,048
Other program expenses	106,027				106,027	130,727
Salaries and wages	890,493	\$ 206,739	\$ 615,381	\$ 822,120	1,712,613	1,669,442
Employee benefits	132,319	21,610	83,813	105,423	237,742	255,388
Payroll taxes	74,470	16,643	47,946	64,589	139,059	135,241
Management and investment fees		2	219,130	219,132	219,132	163,206
Professional and consulting fees	139,362	25,464	104,389	129,853	269,215	157,942
Legal and accounting	49,583	12,059	92,369	104,428	154,011	73,713
Advertising, marketing, and outreach	39,310	6,509	49,894	56,403	95,713	87,660
Office expense	103,187	8,779	38,248	47,027	150,214	166,792
Computer network	74,668	11,524	40,522	52,046	126,714	112,607
Occupancy	136,992	19,266	51,346	70,612	207,604	193,932
Local travel	3,847	684	3,040	3,724	7,571	23,805
Staff development and meetings	29,328	6,725	21,782	28,507	57,835	56,391
Depreciation	147,916	16,991	18,835	35,826	183,742	175,336
Insurance	161,770	4,841	16,913	21,754	183,524	167,176
Other expenses	6,469			-	6,469	22,889
	\$ 16,766,050	\$ 357,836	\$ 1,403,608	\$ 1,761,444	\$ 18,527,494	\$ 17,710,295

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2017 (with comparative totals for 2016)</i>	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 22,355,301	\$ 4,129,355
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized gain on investments	(13,212,272)	(4,306,200)
Depreciation	183,743	175,336
Contributions received for long-term purposes	(523,902)	(1,367,953)
Program related investment note receivable transfer	150,000	
Note receivable- other		(975,000)
Changes in assets and liabilities		
Contributions receivable	(479,851)	(513,093)
Program related investment - notes receivable	(18,256)	1,823,267
Charitable trust assets	(33,213)	1,138,599
Assets held in trust		
Other assets and notes receivable	(1,643)	1,211
Agency funds	3,081,907	1,673,223
Grants payable	4,580,641	(17,500)
Accounts payable and accrued expense	41,289	8,983
Liabilities to beneficiaries	(35,204)	(25,369)
Net cash provided by operating activities	16,088,540	1,744,859
Cash Flow from Investing Activities:		
Proceeds from sale of investments	20,064,224	33,661,840
Purchase of investments	(37,668,946)	(32,703,711)
Purchase of property and equipment	(48,524)	(66,672)
Net cash (used) provided by investing activities	(17,653,246)	891,457
Cash Flows from Financing Activities:		
Contributions received for long-term purposes	523,902	1,367,953
Net (Decrease) Increase in Cash and Cash Equivalents	(1,040,804)	4,004,269
Cash and Cash Equivalents, beginning of year	7,852,738	3,848,469
Cash and Cash Equivalents, end of year	\$ 6,811,934	\$ 7,852,738
Noncash Activities:		
Transfer of notes receivable	\$ 150,000	\$ -
Contributions received for long-term purposes	\$ 523,902	\$ 1,367,953

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, 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.

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. In 2017, the Foundation reached the \$200 million milestone of grants awarded since inception 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, 2017, 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.

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.

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 certain endowments (see Note 10) and a reserve for operations.

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. Included in permanently restricted net assets is the Foundation's interest in land required to be permanently held.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

Other Notes Receivable

The Foundation records other 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.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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”).

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, 2017, the Foundation had 17 funds with deficiencies of this nature totaling approximately \$340,000. The current year change in these deficiencies reflected in current year unrestricted net assets is a recovery of \$1,567,482.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 value of grants to be paid in the future.

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.

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, 2016, from which the summarized information is derived.

Certain reclassifications have been made to the 2016 consolidated financial statements in order to conform to the 2017 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

The Foundation follows the guidance of FASB ASC Topic 740 - Accounting for Uncertainty in Income Taxes. As of December 31, 2017, 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. Recent Accounting Pronouncements

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, 2017 through June 12, 2018, 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at December 31, 2017:

Land and art receivable	\$ 6,185,811
Contributions receivable (net of discount of \$2,817,838)	5,443,577
Other receivables	588,824
	<hr/>
	\$ 12,218,212

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).

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 \$5,443,577 net of a discount of \$2,817,838 at December 31, 2017.

The remaining balance of receivable of \$588,824 is expected to be collected in year 2018.

Note 4 - Notes Receivable:

Notes receivable consist of the following at December 31, 2017:

Program Related Investment

Program related investment is comprised of two notes receivable with a combined total of \$30,141 that were issued with interest rates of 0.25% and 1.00% percent. During 2017, the Foundation transferred ownership of a note receivable of \$150,000 to an unrelated non-profit. The remaining balances are expected to be collected in 2018.

Other Receivables

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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. Payment of \$26,149 is expected to be received from insurance proceeds during 2018.

Note 5 - Investments:

Investments consist of the following at December 31, 2017:

Cash and cash equivalents	\$ 7,780,925
Fixed income	50,671,453
Domestic and international equities	87,768,013
	<hr/>
	146,220,391
Certificates of deposit	2,259,873
Privately held stock (at cost)	368,500
	<hr/>
	\$ 149,148,764

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 65% to stocks and 35% to bonds. The pool had a fair market value of approximately \$97.7 million at December 31, 2017.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 63% stocks and 38% fixed income and cash. The pool had a fair market value of approximately \$22.9 million at December 31, 2017.

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 \$17.5 million at December 31, 2017.

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 \$6.1 million at December 31, 2017.

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, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 7,780,925	\$ 7,780,925	
Fixed income:			
US government agency	2,710,128	2,710,128	
US corporate notes and bonds	3,490,498		\$ 3,490,498
International notes and bonds	833,327		833,327
Mutual funds:			
Core fixed income	27,366,204	27,366,204	
Multi-sector fixed income	16,233,331	16,233,331	
Opportunistic fixed income	37,965	37,965	
Domestic and international equities:			
Equities:			
Consumer	2,969,182	2,969,182	
Energy and utilities	847,429	847,429	
Financials	2,878,566	2,878,566	
Health care	1,354,195	1,354,195	
Industrials	1,754,956	1,754,956	
Information technology	2,903,609	2,903,609	
Materials	372,871	372,871	
Real estate	394,449	394,449	
Services	712,258	712,258	
Mutual Funds:			
Domestic funds	36,575,702	36,575,702	
International and global funds	37,004,796	37,004,796	
Subtotal	146,220,391	141,896,566	4,323,825
Charitable trust assets:			
Charitable lead trusts	3,083,895		3,083,895
Charitable remainder trusts	70,256		70,256
Beneficial interest in trusts	2,510,883		2,510,883
Pooled income investments	248,346		248,346
Subtotal	5,913,380		5,913,380
Total	\$152,133,771	\$141,896,566	\$ 10,237,205

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.

Note 7 - Property and Equipment:

Property and equipment consist of the following at December 31, 2017:

Buildings	\$	5,170,840
Land		5,260,578
Furniture and equipment		542,417
Computers and software		255,422
Leasehold improvements		27,192
		<hr/>
		11,256,449
Less: accumulated depreciation		(2,701,035)
		<hr/>
Total property and equipment, net	\$	8,555,414

Depreciation expense was \$183,743 for the year ended December 31, 2017.

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).

Note 8 - Grants Payable:

Grants payable at December 31, 2017 are scheduled to be disbursed as follows:

Year Ending December 31,

2018	\$	816,750
2019		535,000
2020		750,000
2021		525,000
2022		525,000
Thereafter		1,555,391
		<hr/>
	\$	4,707,141

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets at December 31, 2017 consist of the following:

Purpose-restricted funds	\$ 10,461,753
Endowment - unappropriated earnings	14,143,437
Charitable remainder trusts and irrevocable planned gifts	7,409,404
Charitable lead trusts	3,080,011
Present value of pooled income funds	234,049
Other	86,239
	<hr/>
	\$ 35,414,893

Net assets were released from donor restriction for the year ended December 31, 2017 by expiration of time restriction or by the occurrence of other events specified by donors:

Endowment - appropriated earnings	\$ 2,228,280
Purpose-restricted funds	594,478
Charitable remainder trusts	370,736
Charitable lead trusts	1,202,729
	<hr/>
	\$ 4,396,223

Note 10 - Permanently Restricted Net Assets:

Permanently restricted net assets consist of the following at December 31, 2017:

Endowment investments	\$ 69,413,619
Endowment contributions receivable	5,443,577
Land receivable	6,185,811
Land required to be held in perpetuity	4,676,750
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	\$ 85,719,757

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 11 - 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, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2016	\$ (819,503)	\$ 6,226,989	\$ 69,220,374	\$ 74,627,860
Investment return:				
Net realized and unrealized gains	98,343	9,914,529		10,012,872
Interest and dividends	35,156	1,764,079		1,799,235
Investment and support fees	(9,486)	(168,707)		(178,193)
Total investment return	124,013	11,509,901		11,633,914
Contributions	211,700	33,602	247,540	492,842
Retired and transferred funds				
Appropriated and expended	(42,650)	(2,059,573)	(54,295)	(2,156,518)
Recovery of underwater funds	1,567,482	(1,567,482)		
Change in endowment net assets	1,860,545	7,916,448	193,245	9,970,238
Endowment net assets, December 31, 2017	\$ 1,041,042	\$ 14,143,437	\$ 69,413,619	\$ 84,598,098

Not included in the roll-forward above are non-investment endowment net assets of \$5,443,577, which increased by \$276,362 from \$5,167,215. (See Note 10).

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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ (340,125)	\$ 14,143,437	\$ 69,413,619	\$ 83,216,930
Board-designated endowments	1,381,167			1,381,167
Endowment net assets, December 31, 2017	\$ 1,041,042	\$ 14,143,437	\$ 69,413,619	\$ 84,598,098

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, 2017, employer contributions to the plan were \$62,460.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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:

Minimum future rental payments on this lease subsequent to December 31, 2017 are as follows:

Year Ending December 31	
2018	\$ 125,800
2019	129,400
2020	120,100
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	\$ 375,300

Total rent expense was \$122,386 for the year ended December 31, 2017.

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 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 14% of the Foundation's total contributions for 2017.

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)

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
<i>December 31, 2017</i>						
Assets						
Cash and cash equivalents	\$ 6,551,477	\$ 4,547	\$ 255,910			\$ 6,811,934
Contributions receivable, net	6,029,930	6,185,811	497,471		(495,000)	12,218,212
Note receivable - other	1,031,289					1,031,289
Investments	149,148,764					149,148,764
Charitable trust assets	5,913,381					5,913,381
Property and equipment, net	106,794	4,676,750	3,771,870			8,555,414
Other assets	78,022		16,339			94,361
Total assets	\$ 168,859,657	\$ 10,867,108	\$ 4,541,590	\$ -	\$ (495,000)	\$ 183,773,355
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expense	\$ 88,836	\$ 249	\$ 64,709			\$ 153,794
Grants payable	5,202,141				\$ (495,000)	4,707,141
Agency funds	17,903,064					17,903,064
Liabilities to beneficiaries	77,378					77,378
Total liabilities	23,271,419	249	64,709	-	(495,000)	22,841,377
Net Assets:						
Unrestricted:						
Designated for donor advised funds	25,968,471					25,968,471
Designated for specific fields of interest	7,230,470					7,230,470
Board designated reserves - endowment	1,381,167					1,381,167
Undesignated	750,894	(3,187)	4,469,513			5,217,220
Total unrestricted	35,331,002	(3,187)	4,469,513	-	-	39,797,328
Temporarily restricted	35,407,525		7,368			35,414,893
Permanently restricted	74,849,711	10,870,046				85,719,757
Total net assets	145,588,238	10,866,859	4,476,881	-	-	160,931,978
Total liabilities and net assets	\$ 168,859,657	\$ 10,867,108	\$ 4,541,590	\$ -	\$ (495,000)	\$ 183,773,355

Community Foundation Sonoma County

Consolidating Statement of Activities (See Independent Auditors' Report)

December 31, 2017

	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	\$ 11,518,029	\$ 150,867	\$ 825,341	\$ 2,729	\$ (518,601)	\$ 11,978,365
Realized and unrealized gain on investments	2,938,413					2,938,413
Interest and dividends	701,305		150			701,455
Management fees earned, net	197,710				(15,000)	182,710
Other income	152,326	2,680	57,826			212,832
Net assets released from restrictions	4,356,133		94,385			4,450,518
Total unrestricted support and revenue	19,863,916	153,547	977,702	2,729	(533,601)	20,464,293
Expenses:						
Program services	16,425,433	71,789	786,652	777	(518,601)	16,766,050
Supporting services	1,379,501	74,273	320,718	1,952	(15,000)	1,761,444
Total expenses	17,804,934	146,062	1,107,370	2,729	(533,601)	18,527,494
Change in unrestricted net assets before reclassification	2,058,982	7,485	(129,668)	-	-	1,936,799
Recovery of underwater funds	1,567,482					1,567,482
Change in unrestricted net assets	3,626,464	7,485	(129,668)	-	-	3,504,281
Change in Temporarily Restricted Net Assets:						
Contributions and grants	11,964,586		67,036			12,031,622
Change in value of split-interest agreements	106,427					106,427
Realized and unrealized gain on investments	10,274,259					10,274,259
Interest and dividends	1,932,810					1,932,810
Total temporarily restricted support and revenue	24,278,082		67,036			24,345,118
Net assets released from restrictions	(4,301,838)		(94,385)			(4,396,223)
Change in temporarily restricted net assets before reclassification	19,976,244		(27,349)			19,948,895
Recovery of underwater funds	(1,567,482)					(1,567,482)
Change in temporarily restricted net assets	18,408,762	-	(27,349)	-	-	18,381,413
Change in Permanently Restricted Net Assets:						
Contributions and grants	523,902					523,902
Net assets released from restrictions	(54,295)					(54,295)
Change in permanently restricted net assets before reclassification	469,607	-	-	-	-	469,607
Change in Net Assets	22,504,833	7,485	(157,017)	-	-	22,355,301
Net Assets, beginning of year	123,083,405	10,859,374	4,633,898	-	-	138,576,677
Net Assets, end of year	145,588,238	\$ 10,866,859	\$ 4,476,881	\$ -	\$ -	\$ 160,931,978