

COMMUNITY FOUNDATION SONOMA
COUNTY

DECEMBER 31, 2019

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Community Foundation Sonoma County

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A Century Strong

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, 2019, the related consolidated statements of activities and changes in net assets, 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, 2019, 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 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information (pages 26 and 27) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.

Hood & Strong LLP

San Francisco, California
July 23, 2020

Community Foundation Sonoma County

Consolidated Statement of Financial Position

<i>December 31, 2019 (with comparative totals for 2018)</i>	2019	2018
Assets		
Cash and cash equivalents	\$ 3,782,747	\$ 1,725,823
Contributions receivable, net	12,308,339	12,481,639
Notes receivable	975,141	1,001,289
Investments	170,045,586	150,924,716
Charitable trust assets	3,686,587	3,982,294
Property and equipment, net	8,320,409	8,406,508
Other assets	104,656	112,175
Total assets	\$ 199,223,465	\$ 178,634,444
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expense	\$ 136,129	\$ 166,232
Grants payable	4,736,891	6,025,454
Agency funds	18,833,439	16,632,936
Total liabilities	23,706,459	22,824,622
Net Assets:		
Without donor restrictions:		
Designated for donor advised funds	32,856,976	27,864,018
Designated for specific fields of interest	4,908,894	4,619,208
Board designated reserves	2,103,208	1,700,620
Undesignated	5,972,548	5,764,281
Total without donor restrictions	45,841,626	39,948,127
With donor restrictions:		
Time and purpose	38,986,852	28,360,488
Perpetual restrictions	90,688,528	87,501,207
Total with donor restrictions	129,675,380	115,861,695
Total net assets	175,517,006	155,809,822
Total liabilities and net assets	\$ 199,223,465	\$ 178,634,444

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2019 (with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue:				
Contributions and grants	\$ 7,322,306	\$ 4,475,917	\$ 11,798,223	\$ 17,194,278
Bequests and trusts	698,905	2,263,700	2,962,605	1,201,925
Change in value of split-interest agreements		904,506	904,506	(400,667)
Investment income, net	5,556,996	17,243,821	22,800,817	(5,940,801)
Management fees earned, net	216,210		216,210	216,525
Other income	242,903		242,903	233,030
Net assets released from restrictions	11,074,259	(11,074,259)	-	-
Total support and revenue	25,111,579	13,813,685	38,925,264	12,504,290
Expenses:				
Program services	16,941,398		16,941,398	15,559,790
Supporting services	2,276,682		2,276,682	2,066,656
Total expenses	19,218,080	-	19,218,080	17,626,446
Change in Net Assets	5,893,499	13,813,685	19,707,184	(5,122,156)
Net Assets, beginning of year	39,948,127	115,861,695	155,809,822	160,931,978
Net Assets, end of year	\$ 45,841,626	\$ 129,675,380	\$ 175,517,006	\$ 155,809,822

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2019 (with comparative totals for 2018)

	Program Services	Supporting Services			2019 Total	2018 Total
		Fundraising	Management and General	Total		
Grants and awards	\$ 15,027,971				\$ 15,027,971	\$ 13,338,203
Salaries and wages	819,832	\$ 216,671	\$ 923,932	\$ 1,140,603	1,960,435	1,909,104
Employee benefits	110,268	28,216	127,482	155,698	265,966	260,011
Payroll taxes	65,894	17,021	71,573	88,594	154,488	153,008
Professional and consulting fees	227,425	66,629	294,845	361,474	588,899	870,334
Advertising, marketing, and outreach	29,043	38,857	35,566	74,423	103,466	93,525
Office expense	126,068	12,529	65,860	78,389	204,457	224,880
Computer network	67,998	22,520	72,905	95,425	163,423	133,727
Occupancy	110,648	17,420	80,664	98,084	208,732	177,967
Local travel	1,385	409	1,715	2,124	3,509	10,067
Staff development and meetings	32,048	8,717	51,694	60,411	92,459	66,584
Depreciation	149,164	5,931	43,732	49,663	198,827	189,496
Insurance	165,784	1,803	11,325	13,128	178,912	183,601
Other expenses	7,870	1,483	57,183	58,666	66,536	15,939
	\$ 16,941,398	\$ 438,206	\$ 1,838,476	\$ 2,276,682	\$ 19,218,080	\$ 17,626,446

See accompanying notes to consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2019 (with comparative totals for 2018)</i>	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ 19,707,184	\$ (5,122,156)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Realized and unrealized (gain) loss on investments	(19,471,137)	9,274,705
Depreciation	198,827	189,496
Contributions received for long-term purposes	(3,187,321)	(1,843,475)
Discount on long-term receivables	(265,292)	(271,973)
Changes in assets and liabilities:		
Contributions receivable	438,592	8,546
Notes receivable	26,148	30,000
Charitable trust assets	295,707	1,931,087
Other assets	7,519	(17,814)
Accounts payable and accrued expense	(30,103)	(64,940)
Grants payable	(1,288,563)	1,318,313
Agency funds	2,200,503	(1,270,128)
Net cash (used) provided by operating activities	(1,367,936)	4,161,661
Cash Flow from Investing Activities:		
Proceeds from sale of investments	73,942,873	57,949,360
Purchase of investments	(73,592,606)	(69,000,017)
Purchase of property and equipment	(112,728)	(40,590)
Net cash provided (used) by investing activities	237,539	(11,091,247)
Cash Flows from Financing Activities:		
Contributions received for long-term purposes	3,187,321	1,843,475
Net Change in Cash and Cash Equivalents	2,056,924	(5,086,111)
Cash and Cash Equivalents, beginning of year	1,725,823	6,811,934
Cash and Cash Equivalents, end of year	\$ 3,782,747	\$ 1,725,823

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 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 \$225 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, 2019, 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.

Effective January 23, 2020, the Foundation and Chop's executed an agreement for Chop's to become an independent nonprofit organization and shall cease being a supporting organization of the Foundation. Continued financial support from the Foundation to Chop's is subject to Chop's performing tasks to become its own entity including the Internal Revenue Service (IRS) recognizing Chop's as a public charity; the future conditional grants are described in Note 8.

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 10) 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 the 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 and Changes in Net Assets as net assets released from restrictions.

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, checking and money market accounts 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 and Changes in Net Assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

For purposes of reporting cash flows, 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. Notes receivable are recorded at the time the note is approved by the Foundation.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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).

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 3 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 IRS actuarial tables and is included as a component of accounts payable and accrued expenses in the Consolidated Statement of Financial Position.

j. Endowment Funds

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

Interpretation of relevant law

The Board of Directors of the Foundation, with the advice of legal counsel, has determined it holds net assets that meet the definition of endowment funds under SPMIFA. 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, 2019, the Foundation had 15 funds with deficiencies totaling \$140,317. These deficiencies are reflected in net assets with donor restrictions.

Fair value of underwater endowments	\$ 4,307,491
Less: Original endowment gift amount	(4,447,808)
	<hr/>
	\$ (140,317)

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, through June 30, 2020, 32 funds for a total of \$1,156,127 are underwater due to unfavorable 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.

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Notes to Consolidated Financial Statements

k. 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.

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts are recognized in the Foundation's financial statements as bequests receivable when clear title is established and the proceeds are measurable.

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.

l. Grant Expenses

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

m. Functional Allocation of Expenses

Expenses which apply to more than one functional category have been allocated between program, management and general, and fundraising based on the time that each employee spends on these functions. Indirect expenses, such as, 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.

n. 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

o. 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, 2018, from which the summarized information is derived.

Certain reclassifications have been made to the 2018 consolidated financial statements in order to conform to the 2019 presentation. These reclassifications had no impact on net assets or changes in net assets.

p. Income Taxes

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

The Foundation follows the guidance of FASB ASC Topic 740 - Accounting for Uncertainty in Income Taxes. As of December 31, 2019, 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.

q. Recent Accounting Pronouncements

Pronouncements Adopted

In June 2018, the FASB issued Accounting Standards Update (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 was adopted as of January 1, 2019. The impact of adopting this guidance is reflected in the consolidated financial statements and did not have a significant impact on the consolidated financial statement.

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Notes to Consolidated Financial Statements

The FASB issued authoritative guidance, Revenue from Contracts with Customers (Topic 606). These amendments provide that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance was adopted as of January 1, 2019. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statements or disclosure. Furthermore, analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Pronouncements Effective in the Future

In February 2016 the FASB issued amendments to ASU 2016-02, Leases. 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, 2021. Early adoption is permitted. The Foundation is currently evaluating the impact on this pronouncement on its consolidated financial statements.

r. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2019 through July 23, 2020, 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 Notes 1, 2j, 8, and 18.

Note 3 - Contributions Receivable:

Contributions receivable consists of the following at December 31, 2019:

Land and art receivable	\$ 6,185,811
Contributions receivable (net of discount of \$2,730,863)	5,980,842
Other receivables	141,686
	<hr/>
	\$ 12,308,339

The land and art receivable relates to a 70% interest in land and art installations, which will be given to the Oliver Ranch Foundation at a date no later than that of the death of the last trustee of the Oliver Family Living Trust (see Note 7).

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

In addition, the trustees of the Oliver Family Living Trust established an endowment at the Foundation to support the operations of Oliver Ranch Foundation. The amount of the endowment will vary over time with changes in the Consumer Price Index. The present value of the endowment pledge is \$5,980,842 net of a discount of \$2,730,863 at December 31, 2019.

The remaining balance of receivable of \$141,686 is expected to be collected as follows:

Receivable in less than one year	\$	121,686
Receivable in one to two years		20,000
		<hr/>
	\$	141,686

Note 4 - Notes Receivable:

Notes receivable consist of the following at December 31, 2019:

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. On May 22, 2019, the Board of Directors, resolved to forgive the loan of \$26,148 and write-off the note receivable.

Note 5 - Investments:

Investments consist of the following at December 31, 2019:

Cash and cash equivalents	\$	10,819,543
Fixed income		62,041,394
Domestic and international equities		95,455,330
		<hr/>
		168,316,267
Certificates of deposit		1,360,819
Privately held stock (at cost)		368,500
		<hr/>
	\$	170,045,586

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

The Foundation's investment income consists of the following for the year ended December 31, 2019:

Realized and unrealized gain	\$ 19,471,137
Investment management fees	(240,004)
Dividends and interest	3,569,684
<hr/>	
Investment income, net	\$ 22,800,817

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 (56%) and three categories of bonds (29%), 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 67% to stocks and 33% to bonds. The pool had a fair market value of approximately \$108 million at December 31, 2019.

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 65% in stocks and 35% in fixed income and cash. The pool had a fair market value of approximately \$25 million at December 31, 2019.

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 and cash (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 \$24 million at December 31, 2019.

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, 2019.

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, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 10,819,543	\$ 10,819,543	
Fixed income:			
US government agency	3,656,130	3,656,130	
US corporate notes and bonds	2,875,144		\$ 2,875,144
Mutual funds:			
Core fixed income	39,716,153	39,716,153	
Global & International Fixed Income	15,793,968	15,793,968	
Domestic and international equities:			
Equities:			
Consumer	2,928,976	2,928,976	
Energy and utilities	913,996	913,996	
Financials	3,179,521	3,179,521	
Health care	1,069,774	1,069,774	
Industrials	2,145,115	2,145,115	
Information technology	3,097,339	3,097,339	
Materials	424,038	424,038	
Real estate	720,325	720,325	
Services/Telecom	1,628,044	1,628,044	
Other	16,315	16,315	
Mutual Funds:			
Domestic funds	43,298,576	43,298,576	
International and global funds	30,727,506	30,727,506	
Emerging Markets	5,305,804	5,305,804	
Subtotal	168,316,267	165,441,123	2,875,144
Charitable trust assets:			
Charitable lead trusts	816,885		816,885
Beneficial interest in trusts	2,820,067		2,820,067
Pooled income investments	49,635		49,635
Subtotal	3,686,587		3,686,587
Total	\$ 172,002,854	\$ 165,441,123	\$ 6,561,731

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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, 2019:

Buildings	\$	5,170,840
Land		5,260,578
Furniture and equipment		583,796
Computers and software		340,298
Leasehold improvements		54,255
		<hr/>
		11,409,767
Less: accumulated depreciation		3,089,358
		<hr/>
Total property and equipment, net	\$	8,320,409

Depreciation expense was \$198,827 for the year ended December 31, 2019.

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).

Note 8 - Grants Payable:

Grants payable at December 31, 2019 are scheduled to be disbursed as follows:

Year Ending December 31,

2020	\$	1,456,501
2021		1,000,000
2022		725,000
2023		525,000
2024		530,390
Thereafter		500,000
		<hr/>
Grants Payable	\$	4,736,891

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Subsequent to year end, the Foundation approved a conditional grant to Chop's Teen Club. The Foundation would continue granting financial support for 10 years on the following schedule: Years 1 and 2: \$495,000, year 3: \$475,000, year 4: \$450,000, year 5: \$425,000, years 6-10: \$375,000; for a maximum of \$4,215,000. Payments are subject to measurable performance, other barriers and right of return. Consequently, at December 31, 2019, future grant payments have not been recognized in the accompanying Consolidated Statement of Activities and Changes in Net Assets because the condition(s) on which they depend have not yet been met.

Note 9 - Agency Grants:

Agency funds represent funds transferred to the Foundation by other not-for-profit organizations that have specified themselves as the beneficiary. These funds are accounted for as assets and liabilities in the Consolidated Statement of Financial Position and their activities are excluded from the Consolidated Statement of Activities and Changes in Net Assets. However, the Foundation maintains legal ownership of the assets and has variance power.

The following is a roll-forward of the agency funds:

Balance at December 31, 2018	\$ 16,632,936
Contributions	1,234,097
Interest and dividends	439,906
Net gain (realized and unrealized)	2,504,495
Grants	(1,760,560)
Other expenses	(217,435)
<hr/>	
Balance at December 31, 2019	\$ 18,833,439

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 10 - Endowments:

Endowments include contributions which are restricted in perpetuity by donors (with donor restricted net assets) and endowments which have been board designated (without donor restrictions). The changes in invested endowment net assets for the year ended December 31, 2019 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, 2018	\$ 761,281	\$ 6,526,494	\$ 70,923,096	\$ 78,210,871
Investment return:				
Net realized and unrealized gains	125,232	13,069,940		13,195,172
Interest and dividends	20,908	2,183,038		2,203,945
Investment and support fees	(10,415)	(1,248,586)		(1,259,001)
<hr/>				
Total investment return	135,725	14,004,392		13,979,562
Contributions			2,922,029	2,922,029
Appropriated and expended	(19,098)	(2,313,426)		(2,332,524)
<hr/>				
Change in endowment net assets	116,627	11,690,966	2,922,029	14,569,067
<hr/>				
Endowment net assets, December 31, 2019	\$ 877,908	\$ 18,217,460	\$ 73,845,125	\$ 92,940,493

Not included in the roll-forward above are non-investment endowment net assets of \$5,980,842, which increased by \$265,292 from \$5,715,550. (See Note 11).

In a prior year, 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.

Endowment net assets composition by type as of December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions Time or Purpose</u>	<u>Perpetuity</u>	Total
Donor restricted endowments		\$ 18,217,460	\$ 73,845,125	\$ 92,062,585
Board-designated endowments	\$ 877,908			877,908
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Endowment net assets, December 31, 2019	\$ 877,908	\$ 18,217,460	\$ 73,845,125	\$ 92,940,493

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Donor restricted endowments are comprised of over 160 individual funds. The Foundation honors the intent expressed by the donor at the time of the gift. Approximately half of the net assets are from donors who entrusted the Foundation to determine the best use of endowment income to benefit the community, typically in broad areas of interest such as health and human services, education, environment, arts, and scholarships. Most of the balance is from donors who named specific nonprofit organizations as beneficiaries. Board-designated endowments are comprised primarily of an operating reserve fund.

Note 11 - Net Assets with Donor Restriction:

Net assets with donor restrictions at December 31, 2019 consist of the following:

Time and purpose:	
Purpose-restricted funds	\$ 12,544,984
Endowment - unappropriated earnings	18,217,460
Charitable remainder trusts and irrevocable planned gifts	7,260,522
Charitable lead trusts	816,885
Other	147,001
<hr/>	
Subtotal	38,986,852
<hr/>	
Perpetual restrictions:	
Endowment investments (corpus)	73,845,125
Endowment contributions receivable	5,980,842
Land receivable	6,185,811
Land required to be held in perpetuity	4,676,750
<hr/>	
Subtotal	90,688,528
<hr/>	
Total	\$ 129,675,380

Net assets released from donor restriction for the year ended December 31, 2019 as follow:

Endowment - appropriated earnings	\$ 3,562,012
Purpose-restricted funds	5,107,134
Charitable remainder trusts	806,410
Charitable lead trusts	1,195,125
Other	403,578
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	\$ 11,074,259

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 12 - 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 December 31, 2019:

Cash and cash equivalents	\$ 3,782,747
Notes receivable	975,141
Contributions receivable	12,308,339
Investments	170,045,586
Charitable trust assets	3,686,587

Total financial assets	190,798,400
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Less amounts not available to be used within one year:

Investments not convertible to cash within 12 months	(631,974)
Beneficial interest in charitable remainder trusts	(3,686,587)
Agency funds	(18,833,439)
Perpetual endowments - corpus	(73,845,125)
Net assets restricted by time or purpose, including long-term receivables	(48,206,716)
Designated net assets:	
Donor advised funds	(32,856,976)
Special fields of interest	(4,908,894)
Board designated operating reserve fund	(1,225,302)
Board designated reserves- endowment	(877,908)
Add:	
Appropriated endowment fees	1,334,932
Agency fund fees	282,502

(183,455,487)

Financial assets available to meet general expenditures over the next twelve months	\$ 7,342,913
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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 13 - 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, 2019, employer contributions to the plan were \$ 78,864.

Note 14 - 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 minimum lease payments are as follows:

Year Ending December 31	
2020	\$ 177,200
2021	186,800
2022	168,300
2023	173,300
2024	178,500
Thereafter	168,400
	<hr/>
	\$ 1,052,500

Total rent expense was \$149,629 for the year ended December 31, 2019.

Note 15 - 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 the Foundation 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Contributions are received primarily from organizations and major individual contributors. The Foundation received contributions from two contributors that approximated 20% of the Foundation's total contributions for 2019.

Note 16 - 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.

Note 17 - Subsequent Events:

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates.

In April 2020, the Foundation was approved for a \$314,154 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan was funded on April 24, 2020. The Foundation is eligible for loan forgiveness for costs incurred during the eight or twenty four weeks following loan funding, upon meeting certain requirements including at least 60% of the requested forgiveness amount must have been used to fund payroll cost.

In addition, financial markets volatility has significantly increased with general decrease in the value of major market equity indices through late March 2020 and general decrease in value from late March 2020 into late June 2020. Since December 31, 2019, the volatility in market valuations is not expected to materially impact the Foundation’s consolidated financial investments considering the Foundation’s investment policy and allocation.

Community Foundation Sonoma County

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

December 31, 2019

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Eliminating Entries	Consolidated Balance
Assets					
Cash and cash equivalents	\$ 3,434,083	\$ 13,154	\$ 335,510		\$ 3,782,747
Contributions receivable, net	6,121,768	6,185,811	760		12,308,339
Note receivable	975,141				975,141
Investments	170,045,586				170,045,586
Charitable trust assets	3,686,587				3,686,587
Property and equipment, net	164,748	4,676,750	3,478,911		8,320,409
Other assets	93,996		10,660		104,656
Total assets	\$ 184,521,909	\$ 10,875,715	\$ 3,825,841	\$ -	\$ 199,223,465
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expense	\$ 80,772		\$ 55,357		\$ 136,129
Grants payable	4,736,891				4,736,891
Agency funds	18,833,439				18,833,439
Total liabilities	23,651,102	\$ -	55,357	\$ -	23,706,459
Net Assets:					
Without donor restrictions:					
Designated for donor advised funds	32,856,976				32,856,976
Designated for specific fields of interest	4,908,894				4,908,894
Board designated reserves	2,103,208				2,103,208
Undesignated	2,315,731	13,154	3,643,663		5,972,548
Total without donor restrictions	42,184,809	13,154	3,643,663	-	45,841,626
With donor restriction:					
Time and purpose	38,860,031		126,821		38,986,852
Perpetual restrictions	79,825,967	10,862,561			90,688,528
Total with donor restrictions	118,685,998	10,862,561	126,821	-	129,675,380
Total net assets	160,870,807	10,875,715	3,770,484	-	175,517,006
Total liabilities and net assets	\$ 184,521,909	\$ 10,875,715	\$ 3,825,841	\$ -	\$ 199,223,465

Community Foundation Sonoma County
Consolidating Statement of Activities and Changes in Net Assets
(See Independent Auditors' Report)

Year ended December 31, 2019

	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	\$ 7,005,155	\$ 75,053	\$ 772,798	\$ (530,700)	\$ 7,322,306
Bequests and trusts	698,905				698,905
Investment income, net	5,556,996				5,556,996
Management fees earned, net	236,210			(20,000)	216,210
Other income	160,411		82,492		242,903
Net assets released from restrictions	11,035,682		38,577		11,074,259
Total support and revenue	24,693,359	75,053	893,867	(550,700)	25,111,579
Expenses:					
Program services	16,821,191	9,024	641,883	(530,700)	16,941,398
Supporting services	1,829,567	40,646	426,469	(20,000)	2,276,682
Total expenses	18,650,758	49,670	1,068,352	(550,700)	19,218,080
Change in net assets without donor restrictions	6,042,601	25,383	(174,485)	-	5,893,499
Change in Net Assets With Donor Restrictions:					
Support and revenue:					
Contributions and grants	4,343,332		132,585		4,475,917
Bequests and trusts	2,263,700				2,263,700
Change in value of split-interest agreements	904,506				904,506
Investment income, net	17,243,821				17,243,821
Net assets released from restrictions	(11,035,682)		(38,577)		(11,074,259)
Total restricted support and revenue	13,719,677		94,008	-	13,813,685
Change in Net Assets	19,762,278	25,383	(80,477)	-	19,707,184
Net Assets, beginning of year	141,108,529	10,850,332	3,850,961	-	155,809,822
Net Assets, end of year	\$ 160,870,807	\$ 10,875,715	\$ 3,770,484	\$ -	\$ 175,517,006