

Hood & Strong

Advisory, Tax
and Assurance

Community Foundation Sonoma County

December 31, 2023

Independent Auditors' Report,
Consolidated Financial Statements and
Supplementary Information

Community Foundation Sonoma County

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of **COMMUNITY FOUNDATION SONOMA COUNTY (the Foundation)**, which comprise the consolidated statement of financial position as of December 31, 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year from the date of this report.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Foundation's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 2, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited 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
May 23, 2024

Community Foundation Sonoma County

Consolidated Statement of Financial Position

| <i>December 31, 2023 (with comparative totals for 2022)</i> | 2023 | 2022 |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 874,591 | \$ 3,663,960 |
| Contributions receivable, net | 14,210,814 | 12,791,983 |
| Note receivable | 975,141 | 975,141 |
| Investments | 205,751,257 | 187,421,620 |
| Charitable trust assets | 2,783,119 | 2,628,561 |
| Property and equipment, net | 6,336,322 | 6,354,089 |
| Operating right-of-use lease asset | 333,681 | 505,226 |
| Other assets | 109,356 | 94,645 |
| Total assets | \$ 231,374,281 | \$ 214,435,225 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expense | \$ 127,250 | \$ 144,976 |
| Grants payable | 1,842,891 | 1,940,391 |
| Operating lease liability | 343,651 | 512,686 |
| Agency funds | 24,425,913 | 21,461,691 |
| Total liabilities | 26,739,705 | 24,059,744 |
| Net Assets: | | |
| Without donor restrictions: | | |
| Designated for donor-advised funds | 43,584,969 | 43,473,543 |
| Designated for specific fields of interest | 12,534,017 | 10,857,023 |
| Board-designated funds | 3,587,231 | 3,187,145 |
| Undesignated | 2,904,481 | 2,424,284 |
| Total without donor restrictions | 62,610,698 | 59,941,995 |
| With donor restrictions: | | |
| Time and purpose | 42,777,528 | 32,403,785 |
| Perpetual restrictions | 99,246,350 | 98,029,701 |
| Total with donor restrictions | 142,023,878 | 130,433,486 |
| Total net assets | 204,634,576 | 190,375,481 |
| Total liabilities and net assets | \$ 231,374,281 | \$ 214,435,225 |

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2023 (with comparative totals for 2022)

| | 2023 | | | 2022 | |
|---|-------------------------------|----------------------------|-----------------------|-----------------------|-------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total | Total |
| Support and Revenue: | | | | | |
| Contributions and grants | \$ 7,697,508 | \$ 2,145,134 | \$ 9,842,642 | \$ 20,107,726 | |
| Bequests and trusts | 50,000 | 978,129 | 1,028,129 | 4,675,305 | |
| Change in value of split-interest agreements | | 166,270 | 166,270 | (443,089) | |
| Investment income (loss), net | 7,258,004 | 17,906,513 | 25,164,517 | (25,489,530) | |
| Management fees earned, net | 258,045 | | 258,045 | 248,648 | |
| Other income | 100,961 | | 100,961 | 102,077 | |
| Net assets released from restrictions | 9,605,654 | (9,605,654) | - | - | |
| Total support and revenue | 24,970,172 | 11,590,392 | 36,560,564 | (798,863) | |
| Expenses: | | | | | |
| Program services | 20,487,753 | | 20,487,753 | 18,630,983 | |
| Supporting services | 1,813,716 | | 1,813,716 | 2,397,875 | |
| Total expenses | 22,301,469 | - | 22,301,469 | 21,028,858 | |
| Change in Net Assets | 2,668,703 | 11,590,392 | 14,259,095 | (21,827,721) | |
| Net Assets, beginning of year | 59,941,995 | 130,433,486 | 190,375,481 | 212,203,202 | |
| Net Assets, end of year | \$ 62,610,698 | \$ 142,023,878 | \$ 204,634,576 | \$ 190,375,481 | |

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2023 (with comparative totals for 2022)

| | Program Services | Supporting Services | | | 2023 Total | 2022 Total |
|--------------------------------------|----------------------|---------------------|---------------------------|---------------------|----------------------|----------------------|
| | | Fundraising | Management and General | Total | | |
| Grants and awards | \$ 19,070,408 | | | | \$ 19,070,408 | \$ 17,172,830 |
| Salaries and wages | 612,834 | \$ 204,520 | \$ 675,096 | \$ 879,616 | 1,492,450 | 1,831,474 |
| Employee benefits | 82,354 | 28,042 | 86,664 | 114,706 | 197,060 | 291,501 |
| Payroll taxes | 49,512 | 16,523 | 54,542 | 71,065 | 120,577 | 143,919 |
| Professional and consulting fees | 245,394 | 78,555 | 278,595 | 357,150 | 602,544 | 628,951 |
| Advertising, marketing, and outreach | 31,012 | 10,560 | 32,634 | 43,194 | 74,206 | 160,499 |
| Office expense | 50,305 | 17,121 | 52,912 | 70,033 | 120,338 | 138,940 |
| Computer network | 65,123 | 22,175 | 68,531 | 90,706 | 155,829 | 150,117 |
| Occupancy | 99,439 | 29,374 | 90,779 | 120,153 | 219,592 | 235,994 |
| Staff development and meetings | 21,542 | 7,335 | 22,669 | 30,004 | 51,546 | 67,115 |
| Depreciation | 7,425 | 2,528 | 7,814 | 10,342 | 17,767 | 33,254 |
| Insurance | 152,405 | 3,774 | 22,973 | 26,747 | 179,152 | 174,264 |
| | \$ 20,487,753 | \$ 420,507 | \$ 1,393,209 | \$ 1,813,716 | \$ 22,301,469 | \$ 21,028,858 |

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

| <i>Year Ended December 31, 2023 (with comparative totals for 2022)</i> | 2023 | 2022 |
|---|--------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 14,259,095 | \$ (21,827,721) |
| Adjustments to reconcile change in net assets to net cash (used) provided by operating activities: | | |
| Realized and unrealized (gain) loss on investments, net | (21,144,149) | 28,309,344 |
| Depreciation | 17,767 | 33,254 |
| Right-of-use lease asset amortization | 171,545 | 169,887 |
| Contributions received for long-term purposes | (1,414,601) | (2,636,487) |
| Discount on long-term receivables | 197,953 | (214,822) |
| Changes in assets and liabilities: | | |
| Contributions receivable | (1,616,784) | 1,596,507 |
| Charitable trust assets | (154,558) | 468,088 |
| Other assets | (14,711) | 87,379 |
| Accounts payable and accrued expense | (17,726) | (38,500) |
| Grants payable | (97,500) | (587,500) |
| Operating lease liability | (169,035) | (162,427) |
| Agency funds | 2,964,222 | (2,797,936) |
| Net cash (used) provided by operating activities | (7,018,482) | 2,399,066 |
| Cash Flow from Investing Activities: | | |
| Proceeds from sale of investments | 101,651,967 | 74,617,045 |
| Purchase of investments | (98,837,455) | (76,868,673) |
| Purchase of property and equipment | | (3,077) |
| Net cash provided (used) by investing activities | 2,814,512 | (2,254,705) |
| Cash Flows from Financing Activities: | | |
| Contributions received for long-term purposes | 1,414,601 | 2,636,487 |
| Net cash provided by financing activities | 1,414,601 | 2,636,487 |
| Change in Cash and Cash Equivalents | (2,789,369) | 2,780,848 |
| Cash and Cash Equivalents, beginning of year | 3,663,960 | 883,112 |
| Cash and Cash Equivalents, end of year | \$ 874,591 | \$ 3,663,960 |
| Supplementary Cash Flow Disclosure: | | |
| Cash paid during the year for operating leases | \$ 173,250 | \$ 168,300 |
| Operating right-of-use asset obtained by lease liability | | \$ 675,113 |

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Notes to the 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 its supporting organization the Oliver Ranch Foundation. 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. In August 2022, the Foundation changed its legal name to Sonoma County Community Foundation, but continues to operate as Community Foundation Sonoma County under a fictitious business name.

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, arts and culture, education, animal welfare and the environment. Over the past 40 years, the Foundation has granted over \$300 million with over 90% of the grants distributed to Sonoma County nonprofit organizations. The remainder was 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 Organization

As of December 31, 2023, the Foundation has one supporting organization. The supporting organization is a Section 501(c)(3) organization that is classified as a public charity (rather than private foundations) because it supports a publicly-supported charity, such as the Foundation. The Foundation appoints most of the board of this organization. The supporting organization in which the Foundation has a controlling interest is consolidated herein.

The Oliver Ranch Foundation

The Oliver Ranch Foundation was formed in 2009 to promote the arts by providing creative inspiration, opportunities for the 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 the Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies:

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 that 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 when the donor indicated that a portion of the fund be retained in perpetuity and the Foundation's interest in land is 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.

Principles of Consolidation

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

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.

Investments

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

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

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.

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 - Unadjusted quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs such as quoted prices for similar securities and quoted prices in inactive markets.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

Note Receivable

The Foundation records notes receivable at cost. The receivable is evaluated annually for expected future losses. Notes receivable are recorded at the time the note is approved by the Foundation.

Charitable Trust Assets and Other Split-Interest Agreements

Charitable Lead Trusts

The Foundation is the recipient of distributions from one charitable lead trust and is not the trustee of this trust. 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.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Charitable Remainder Trusts

The Foundation is an irrevocable remainder beneficiary of a charitable remainder annuity trust. 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. Discount rates range from 1.6% to 5.8% due to various factors. Subsequent changes in the measurement of trust-related assets are recorded as changes in value of split-interest agreements.

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.

Leases

Operating lease assets represent the Foundation's right to use an underlying assets during the lease term and operating lease liabilities represent the Foundation's obligation to make payments arising from the lease. Operating lease assets and operating lease liabilities are included on the Consolidated Statement of Financial Position. The Foundation does not have any financing leases.

Operating lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The discount rate used to derive the present value is based on the rate implicit in the lease. The Foundation's lease does not provide an implicit rate, therefore the Foundation used a risk-free discount rate to determine the present value of future lease payment. Renewal periods are included in calculating the right-of-use assets and liabilities when they are reasonably certain of exercise. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Endowment Funds

The Foundation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205-45 *Reporting Endowment Funds* and the State of California version of the Uniform Prudent Management of Institutional Funds Act known as the State Prudent Management of Institutional Funds Act ("SPMIFA").

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Interpretation of relevant law

The Board of Directors of the Foundation, with the advice of legal counsel, has determined it holds net assets that meet the definition of endowment funds under SPMIFA. 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, and (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 historical gift value "corpus". At December 31, 2023, the Foundation did not have funds with material deficiencies.

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.

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.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

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 recorded 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 consolidated 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 released from donor restricted net assets and increases in net assets without donor restrictions.

For the year ended December 31, 2023 the Foundation has a conditional gift totaling \$7 million of which \$3 million is still outstanding. Future cash receipts are subject to milestones. Consequently, at December 31, 2023 contributions receivable have not been recognized in the accompanying Consolidated Statement of Activities and Changes in Net Assets.

Grant Expenses

Grant expenses are recognized upon approval of an unconditional promise to give 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 unconditional grants to be paid in the future.

Allocation of Functional Expenses

Salaries and related expenses have been allocated between program, management and general, and fundraising based on the time 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 operational categories. All other costs are charged directly to the appropriate functional category.

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 the Consolidated Financial Statements

Comparative Information

The consolidated financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended December 31, 2022, from which the summarized information is derived.

Income Taxes

The Foundation is a tax-exempt organization under the Internal Revenue Code (the Code) Section 501(c)(3) and related sections of the California Revenue and Taxation 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. However, the Foundation may be subject to tax on unrelated business income, if any, generated by its investments.

As of December 31, 2023, 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.

Recent Accounting Pronouncements

Pronouncements Adopted

In June of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU requires the use of the current expected credit loss (CECL) impairment model which is based on expected losses rather than incurred losses. Under the new guidance, when an organization acquires a financial instrument, including note receivables, it immediately recognizes an allowance equal to its estimate of expected credit losses over the life of the financial instrument. The likely result is that the organization will record an allowance for expected credit losses on notes receivable earlier under a CECL model than it would under the prior incurred loss model. CECL does not apply to contributions or pledges receivable. The Foundation applied Topic 326 to reporting periods beginning on January 1, 2023. Topic 326 did not have a material impact on the consolidated financial statements of the Foundation.

Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2023 through May 23, 2024, 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 in these consolidated financial statements.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at December 31, 2023:

| | |
|---|---------------|
| Land and art receivable | \$ 5,653,967 |
| Contributions receivable (net of discount of \$2,480,480) | 7,194,597 |
| Bequests receivable | 1,362,250 |
| | <hr/> |
| | \$ 14,210,814 |

The land and art receivable relates to a 60% 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 \$6,419,216 net of a discount of \$2,480,480 at December 31, 2023.

The remaining receivables balance of \$2,137,631 is expected to be collected in the year ending December 31, 2024.

Note 4 - Note Receivable:

During 2016, the Foundation accepted an unsecured loan of \$975,000 bearing annual interest at 2.55% payable quarterly. 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 prepayments may be made at any time but require approval of the borrower's bank. The balance of principal and accrued interest totaled \$975,141 at December 31, 2023.

Note 5 - Investments:

Investments consisted of the following at December 31, 2023:

| | |
|-------------------------------------|----------------|
| Money market funds | \$ 5,342,756 |
| Fixed income | 82,029,096 |
| Domestic and international equities | 118,379,405 |
| | <hr/> |
| | \$ 205,751,257 |

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

The Foundation's net investment income consisted of the following for the year ended December 31, 2023:

| | |
|----------------------------|---------------|
| Unrealized gain | \$ 21,526,325 |
| Realized loss | (382,176) |
| Investment management fees | (206,929) |
| Dividends and interest | 4,227,297 |
| <hr/> | |
| Investment income, net | \$ 25,164,517 |

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 two 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 67% to stocks and 33% to bonds. The pool had a fair market value of approximately \$131 million at December 31, 2023.

The Environmental, Social, Governance (ESG) (formerly titled Socially Responsible) Long-Term Investment Pool is for endowment and other long-term funds whose donors prefer socially responsible investments. Composed of funds that include environmental, social and governance ("ESG") factors in addition to conventional financial factors in the security analysis and investment allocation. This pool employs a strategic asset allocation very similar to our Long-Term Investment Pool, represented by mostly passive investments in equity (65%) and fixed income and cash (35%) assets. The pool had a fair market value of approximately \$33 million at December 31, 2023.

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 (22%), bonds and cash (63%), 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 \$20 million at December 31, 2023.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

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. The investment objectives of this pool is capital preservation and liquidity, with a secondary objective of income that approaches or exceeds the Foundation’s administrative expense rate. This pool’s investments may include money market funds, treasury bills, municipal obligations, certificates of deposit, and other cash equivalent investments. The pool had a fair market value of approximately \$18 million at December 31, 2023.

Note 6 - Fair Value Measurement:

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2023:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> |
|---|----------------|----------------|----------------|
| Money market funds | \$ 5,342,756 | \$ 5,342,756 | |
| Fixed income: | | | |
| US government agency | 12,359,677 | 12,359,677 | |
| US corporate notes and bonds | 1,121,457 | | \$ 1,121,457 |
| Mutual funds: | | | |
| Core fixed income | 52,102,506 | 52,102,506 | |
| Global & international fixed income | 16,445,456 | 16,445,456 | |
| Domestic and international equities: | | | |
| Equities: | | | |
| U.S. equities | 8,209,438 | 8,209,438 | |
| International and global | 10,536,289 | 10,536,289 | |
| Emerging and frontier markets | 887,136 | 887,136 | |
| Mutual Funds: | | | |
| Domestic funds | 57,516,294 | 57,516,294 | |
| International and global funds | 33,457,250 | 33,457,250 | |
| Emerging markets | 7,772,998 | 7,772,998 | |
| Subtotal | \$ 205,751,257 | \$ 204,629,800 | \$ 1,121,457 |
| Charitable trust assets: | | | |
| Beneficial interest in trusts | 2,783,119 | | 2,783,119 |
| Subtotal | 2,783,119 | - | 2,783,119 |
| Total | \$ 208,534,376 | \$ 204,629,800 | \$ 3,904,576 |

Community Foundation Sonoma County

Notes to the 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.

Note 7 - Property and Equipment:

Property and equipment consisted of the following at December 31, 2023:

| | |
|-----------------------------------|--------------|
| Land | \$ 6,285,750 |
| Furniture and equipment | 139,206 |
| Computers and software | 162,441 |
| Leasehold improvements | 73,132 |
| <hr/> | |
| Subtotal | 6,660,529 |
| Less accumulated depreciation | (324,206) |
| <hr/> | |
| Total property and equipment, net | \$ 6,336,323 |

Depreciation expense was \$17,767 for the year ended December 31, 2023.

The Oliver Ranch Foundation holds an undivided 40% interest in real estate located in Geyserville, California which includes art installations substantially affixed to the land. The value of the interest is \$6,285,750 according to an appraisal completed at the gift date. The remaining 60% 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:

Unconditional grants payable at December 31, 2023 are scheduled to be disbursed as follows:

Year Ending December 31,

| | |
|------------------------------|--------------|
| 2024 | \$ 892,891 |
| 2025 | 550,000 |
| 2026 | 50,000 |
| 2027 | 50,000 |
| 2028 | 50,000 |
| Thereafter | 250,000 |
| <hr/> | |
| Unconditional Grants Payable | \$ 1,842,891 |

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

In 2019, the Foundation approved a conditional grant to Chop's Teen Club 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. As of December 31, 2023 the remaining conditional commitment was \$1,875,000. Payments are subject to measurable performance barriers and a right of return. Consequently, at December 31, 2023, future grant payments have not been recognized in the accompanying Consolidated Statement of Activities and Changes in Net Assets because the conditions 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, 2022 | \$ 21,461,691 |
| Contributions | 387,626 |
| Interest and dividends | 574,494 |
| Net realized and unrealized gain | 3,091,245 |
| Grants | (831,098) |
| Other expenses | (258,045) |
| <hr/> | |
| Balance at December 31, 2023 | \$ 24,425,913 |

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 10 - Net Assets with Donor Restriction:

Net assets with donor restrictions at December 31, 2023 consisted of the following:

| | |
|--|----------------|
| Time and purpose: | |
| Purpose-restricted funds | \$ 12,623,812 |
| Endowment - unappropriated earnings | 27,358,867 |
| Charitable remainder trusts, charitable lead trust, and irrevocable planned gifts | 2,783,119 |
| Other | 11,730 |
| <hr/> | |
| Subtotal | 42,777,528 |
| <hr/> | |
| Perpetual restrictions: | |
| Endowment investments (corpus) | 80,887,417 |
| Endowment and bequest contributions receivable | 6,419,216 |
| Land and art receivable | 5,653,967 |
| Land required to be held in perpetuity | 6,285,750 |
| <hr/> | |
| Subtotal | 99,246,350 |
| <hr/> | |
| Total | \$ 142,023,878 |

Net assets were released from donor restriction for the year ended December 31, 2023 as follow:

| | |
|-----------------------------------|--------------|
| Endowment - appropriated earnings | \$ 4,696,662 |
| Purpose-restricted funds | 4,897,282 |
| Other | 11,710 |
| <hr/> | |
| | \$ 9,605,654 |

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 11 - Endowments:

Endowments include contributions which are restricted in perpetuity by donors (with donor restrictions) and endowments which have been Board designated (without donor restrictions). The changes in endowment net assets for the year ended December 31, 2023 were as follows:

| | <u>Without Donor</u> <u>Restrictions</u> | <u>With Donor Restrictions</u> <u>Time or Purpose</u> | <u>Perpetuity</u> | <u>Total</u> |
|--|---|--|-------------------|----------------|
| Endowment net assets, December 31, 2022 | \$ 889,248 | \$ 15,507,450 | \$ 79,472,816 | \$ 95,869,514 |
| Investment return, net: | | | | |
| Net realized and unrealized gains | 136,370 | 14,042,652 | | 14,179,022 |
| Interest and dividends | 23,549 | 2,505,427 | | 2,528,976 |
| Investment fees | (15,824) | (139,514) | | (155,338) |
| Total investment return, net | 144,095 | 16,408,565 | - | 16,552,660 |
| Contributions | | | 1,414,601 | 1,414,601 |
| Appropriations and donors' releases | (17,800) | (4,557,148) | | (4,574,948) |
| Change in endowment net assets | 126,295 | 11,851,417 | 1,414,601 | 13,392,313 |
| Endowment net assets, December 31, 2023 | \$ 1,015,543 | \$ 27,358,867 | \$ 80,887,417 | \$ 109,261,827 |

Not included in the roll-forward above are noninvestment endowment net assets which totaled \$18,358,933 at December 31, 2023 (see Note 10).

In a prior year, the Foundation's Board of Directors adopted a policy for gifts without donor restrictions. The policy designates a portion of certain gifts 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 the Consolidated Financial Statements

Endowment investment net assets composition by type as of December 31, 2023:

| | <u>Without Donor</u> <u>Restrictions</u> | <u>With Donor Restrictions</u> | | <u>Total</u> |
|---|---|--------------------------------|-------------------|----------------|
| | | <u>Time or Purpos</u> | <u>Perpetuity</u> | |
| Donor restricted endowments | | \$ 27,358,867 | \$ 80,887,417 | \$ 108,246,284 |
| Board-designated endowment | \$ 1,015,543 | | | 1,015,543 |
| <hr/> | | | | |
| Endowment invested net assets, December 31, 2023 | \$ 1,015,543 | \$ 27,358,867 | \$ 80,887,417 | \$ 109,261,827 |

Donor-restricted endowment investments are comprised of over 140 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. The Board-designated endowment is a fund to support the operation of the Foundation.

Community Foundation Sonoma County

Notes to the 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 were as follows:

Financial assets at December 31, 2023:

| | |
|--|---------------|
| Cash and cash equivalents | \$ 874,591 |
| Contributions receivable | 14,210,814 |
| Note receivable | 975,141 |
| Investments | 205,751,257 |
| Charitable trust assets | 2,783,119 |
| <hr/> | |
| Total financial assets | 224,594,922 |
| <hr/> | |
| Less amounts not available to be used within one year: | |
| Beneficial interest in charitable remainder trusts | (2,783,119) |
| Agency funds | (24,425,913) |
| Endowment investments - corpus | (80,887,417) |
| Net assets restricted by time or purpose, including long-term receivables | (42,777,527) |
| Designated net assets: | |
| Donor advised funds | (43,584,969) |
| Special fields of interest | (12,534,017) |
| Board designated operating reserve funds | (2,571,645) |
| Board designated reserve- endowment | (1,015,586) |
| Add: | |
| Appropriated endowment income | 1,737,782 |
| Agency fund fees | 366,389 |
| <hr/> | |
| | (208,476,022) |
| <hr/> | |
| Financial assets available to meet general expenditures over the next twelve months | \$ 16,118,900 |

The Foundation has certain Board-designated and donor-restricted endowments, a portion which are available for general expenditure within one year in the normal course of operations. The Board-designated amounts could be made available for general expenditures, 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 the 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, 2023, employer contributions to the plan were \$52,066.

Note 14 - Commitments:

Operating Lease

The Foundation is a party to a lease agreement for its administrative office. Future aggregate minimum lease payments are as follows:

| | | |
|------------------------------------|----|---------|
| Year Ending | | |
| December 31, | | |
| 2024 | \$ | 178,475 |
| 2025 | | 168,368 |
| <hr/> | | |
| Total lease payments | | 346,843 |
| Less discount to present value | | (3,192) |
| <hr/> | | |
| Present value of lease liabilities | \$ | 343,651 |

The weighted average remaining lease term as of December 31, 2023, was approximately 1.84 years. The weighted average discount rate as of December 31, 2023, was 1.00%.

Total lease expense under the above lease was \$175,760 for the year ended December 31, 2023.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

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 fluctuations and credit risk. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the consolidated financial statements. The risk associated with the investments is reduced through diversification.

Contributions are received primarily from organizations and major individual contributors. The Foundation received contributions from three contributors that approximated 36% of the Foundation's total contributions and bequests and trusts support for 2023.

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.

Community Foundation Sonoma County

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

December 31, 2023

| | Community Foundation Sonoma County | Oliver Ranch Foundation | Eliminating Entries | Consolidated Balance |
|--|--|-------------------------------|------------------------|-------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 863,194 | \$ 11,397 | | \$ 874,591 |
| Contributions receivable, net | 8,551,760 | 5,659,054 | | 14,210,814 |
| Note receivable | 975,141 | | | 975,141 |
| Investments | 205,751,257 | | | 205,751,257 |
| Charitable trust assets | 2,783,119 | | | 2,783,119 |
| Property and equipment, net | 50,572 | 6,285,750 | | 6,336,322 |
| Operating right-of-use leased assets | 333,681 | | | 333,681 |
| Other assets | 109,356 | | | 109,356 |
| Total assets | \$ 219,418,080 | \$ 11,956,201 | \$ - | \$ 231,374,281 |
| Liabilities and Net Assets | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expense | \$ 116,964 | \$ 10,286 | | \$ 127,250 |
| Grants payable | 1,842,891 | | | 1,842,891 |
| Operating lease liabilities | 343,651 | | | 343,651 |
| Agency funds | 24,425,913 | | | 24,425,913 |
| Total liabilities | 26,729,419 | 10,286 | \$ - | 26,739,705 |
| Net Assets: | | | | |
| Without donor restrictions: | | | | |
| Designated for donor advised funds | 43,584,969 | | | 43,584,969 |
| Designated for specific fields of interest | 12,534,017 | | | 12,534,017 |
| Board designated reserves | 3,587,231 | | | 3,587,231 |
| Undesignated | 2,898,283 | 6,198 | | 2,904,481 |
| Total without donor restrictions | 62,604,500 | 6,198 | - | 62,610,698 |
| With donor restriction: | | | | |
| Time and purpose | 42,777,528 | | | 42,777,528 |
| Perpetual restrictions | 87,306,633 | 11,939,717 | | 99,246,350 |
| Total with donor restrictions | 130,084,161 | 11,939,717 | - | 142,023,878 |
| Total net assets | 192,688,661 | 11,945,915 | - | 204,634,576 |
| Total liabilities and net assets | \$ 219,418,080 | \$ 11,956,201 | \$ - | \$ 231,374,281 |

Community Foundation Sonoma County

Supplementary Information Consolidating Statement of Activities and Changes in Net Assets (See Independent Auditors' Report)

Year ended December 31, 2023

| | Community Foundation Sonoma County | Oliver Ranch Foundation | Eliminating Entries | Consolidated Balance |
|---|---|-------------------------------|------------------------|-------------------------|
| Change in Net Assets Without Donor Restrictions: | | | | |
| Support and revenue: | | | | |
| Contributions and grants | \$ 7,598,545 | \$ 98,963 | | \$ 7,697,508 |
| Bequests and trusts | 50,000 | | | 50,000 |
| Investment income, net | 7,258,004 | | | 7,258,004 |
| Management fees earned, net | 278,045 | | \$ (20,000) | 258,045 |
| Other income | 100,961 | | | 100,961 |
| Net assets released from restrictions | 9,605,654 | | | 9,605,654 |
| Total support and revenue | 24,891,209 | 98,963 | (20,000) | 24,970,172 |
| Expenses: | | | | |
| Program services | 20,459,860 | 27,893 | | 20,487,753 |
| Supporting services | 1,766,583 | 67,133 | (20,000) | 1,813,716 |
| Total expenses | 22,226,443 | 95,026 | (20,000) | 22,301,469 |
| Change in net assets without donor restrictions | 2,664,766 | 3,937 | - | 2,668,703 |
| Change in Net Assets With Donor Restrictions: | | | | |
| Support and revenue: | | | | |
| Contributions and grants | 2,004,439 | 140,695 | | 2,145,134 |
| Bequests and trusts | 978,129 | | | 978,129 |
| Change in value of split-interest agreements | 166,270 | | | 166,270 |
| Investment income, net | 17,906,513 | | | 17,906,513 |
| Net assets released from restrictions | (9,605,654) | | | (9,605,654) |
| Total restricted support and revenue | 11,449,697 | 140,695 | - | 11,590,392 |
| Change in Net Assets | 14,114,463 | 144,632 | | 14,259,095 |
| Net Assets, beginning of year | 178,574,199 | 11,801,282 | - | 190,375,481 |
| Net Assets, end of year | \$ 192,688,662 | \$ 11,945,914 | \$ - | \$ 204,634,576 |