

COMMUNITY FOUNDATION SONOMA
COUNTY

DECEMBER 31, 2011

INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

Community Foundation Sonoma County

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Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of **COMMUNITY FOUNDATION SONOMA COUNTY (the Foundation)** as of December 31, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 consolidated financial statements which were audited by other auditors and, in their report dated July 1, 2011, they expressed an unqualified opinion.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its consolidated net assets, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the 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 financial statements.

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The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 29, 2012

Community Foundation Sonoma County

Consolidated Statement of Financial Position

<i>December 31, 2011 (with comparative totals for 2010)</i>	2011	2010
Assets		
Cash and cash equivalents	\$ 1,692,571	\$ 2,315,138
Contributions receivable, net	11,859,664	11,434,840
Investments	98,746,239	100,984,965
Charitable trust assets	21,659,565	24,198,439
Assets held in trust	4,700,029	5,186,817
Property and equipment, net	7,696,815	7,848,858
Other assets	177,191	214,782
Total assets	\$ 146,532,074	\$ 152,183,839
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expense	\$ 138,904	\$ 141,864
Grants payable	1,169,212	954,343
Liabilities associated with assets held in trust	4,700,029	5,182,538
Agency funds	14,249,812	13,068,529
Liabilities to beneficiaries	506,022	801,886
Total liabilities	20,763,979	20,149,160
Net Assets:		
Unrestricted	30,734,840	32,695,191
Temporarily restricted	21,716,947	26,872,621
Permanently restricted	73,316,308	72,466,867
Total net assets	125,768,095	132,034,679
Total liabilities and net assets	\$ 146,532,074	\$ 152,183,839

The accompanying notes are an integral part of this statement.

Community Foundation Sonoma County

Consolidated Statement of Activities

Year Ended December 31, 2011 (with comparative totals for 2010)

	2011			Total	2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Contributions and grants	\$ 4,335,579	\$ 169,400	\$ 849,441	\$ 5,354,420	\$ 15,811,388
Change in value of split-interest agreements		822,950		822,950	217,361
Realized and unrealized (losses) gains on investments	(2,472,462)	(1,196,073)		(3,668,535)	8,604,416
Interest and dividends	608,267	1,994,988		2,603,255	1,711,897
Management fees earned, net	238,356			238,356	233,274
Other income	122,024			122,024	119,557
Net assets released from restrictions	6,946,939	(6,946,939)		-	-
Total support and revenue	9,778,703	(5,155,674)	849,441	5,472,470	26,697,893
Expenses:					
Program services	9,879,783			9,879,783	7,407,813
Supporting services	1,859,271			1,859,271	1,951,329
Total expenses	11,739,054			11,739,054	9,359,142
Change in Net Assets	(1,960,351)	(5,155,674)	849,441	(6,266,584)	17,338,751
Net Assets, beginning of year	32,695,191	26,872,621	72,466,867	132,034,679	114,695,928
Net Assets, end of year	\$ 30,734,840	\$ 21,716,947	\$ 73,316,308	\$ 125,768,095	\$ 132,034,679

The accompanying notes are an integral part of this statement.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2011 (with comparative totals for 2010)

	Program Services	Supporting Services			2011 Total	2010 Total
		Fundraising	Management and General	Total		
Grants and awards	\$ 8,228,993				\$ 8,228,993	\$ 6,220,795
Salaries & wages	615,320	\$ 339,586	\$ 374,180	\$ 713,766	1,329,086	1,301,185
Employee benefits	66,765	43,640	46,010	89,650	156,415	167,772
Payroll taxes	56,493	26,456	29,935	56,391	112,884	117,532
Management and investment fees			530,886	530,886	530,886	450,493
Professional and consulting fees	141,321	30,718	32,563	63,281	204,602	194,506
Legal and accounting	39,646	23,536	57,066	80,602	120,248	153,259
Advertising, marketing, and outreach	33,194	14,457	14,405	28,862	62,056	60,341
Office expense	94,399	31,964	34,200	66,164	160,563	158,337
Computer network	22,030	23,698	31,088	54,786	76,816	97,017
Occupancy	83,650	44,074	46,648	90,722	174,372	134,766
Travel	4,164	3,431	3,311	6,742	10,906	5,375
Conference expenses	199,353	10,595	11,269	21,864	221,217	49,179
Depreciation	155,398	17,055	25,369	42,424	197,822	178,724
Insurance	132,380	2,849	4,880	7,729	140,109	23,204
Miscellaneous	6,677	2,023	3,379	5,402	12,079	46,657
	\$ 9,879,783	\$ 614,082	\$ 1,245,189	\$ 1,859,271	\$ 11,739,054	\$ 9,359,142

The accompanying notes are an integral part of this statement.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2011 (with comparative totals for 2010)</i>	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	\$ (6,266,584)	\$ 17,338,751
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized losses (gains)		
on investments	3,668,535	(8,604,416)
Depreciation	197,822	178,724
Contributions received for long-term purposes	(849,441)	(3,533,396)
Changes in assets and liabilities		
Contributions receivable	(830,340)	542,263
Charitable trust assets	2,538,874	(8,182,926)
Assets held in trust	486,788	(885,217)
Other assets	37,591	492,248
Agency funds	1,181,283	(8,049,458)
Grants payable	214,869	(691,557)
Accounts payable and accrued expense	(2,960)	(229,716)
Liabilities associated with assets held in trust	(482,509)	880,924
Liabilities to beneficiaries	(295,864)	260,166
Net cash used by operating activities	(401,936)	(10,483,610)
Cash Flow from Investing Activities:		
Proceeds from sale of investments	93,078,725	37,170,590
Purchase of investments	(94,508,534)	(33,435,262)
Purchase of property and equipment	(45,779)	(68,922)
Net cash (used) provided by investing activities	(1,475,588)	3,666,406
Cash Flows from Financing Activities:		
Contributions received for long-term purposes	1,254,957	2,351,693
Net Decrease in Cash and Cash Equivalents	(622,567)	(4,465,511)
Cash and Cash Equivalents, beginning of year	2,315,138	6,780,649
Cash and Cash Equivalents, end of year	\$ 1,692,571	\$ 2,315,138
Supplemental Data for Noncash Investing Activities:		
Donated securities	\$ 959,535	\$ 753,868

The accompanying notes are an integral part of this statement.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 1 - Description of the Organization:

Community Foundation Sonoma County (the “Foundation”) was incorporated in California in 1983 as a nonprofit public benefit corporation to provide a means for the long-term preservation and enhancement of the quality of life in Sonoma County. The consolidated financial statements include all accounts and results of activities of the Foundation, as well as certain supporting organizations: the Oliver Ranch Foundation, DeMeo Teen Club, Inc. (d.b.a. Chop’s), and Sonoma Paradiso. The Foundation also maintains two geographic affiliates in Healdsburg and Sonoma Valley. The two affiliates each have their own volunteer boards of directors which help the Foundation raise and distribute funds in their local communities. All significant inter-organizational accounts and transactions have been eliminated.

The Foundation receives funds through grants and 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, and other areas. The Foundation also operates a scholarship program. Over the last three decades, the Foundation has become one of Sonoma County’s largest sources of funding for nonprofit agencies; with 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 that the restriction becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served.

Supporting Organizations

The Foundation has four supporting organizations. Supporting organizations are Section 501(c)(3) organizations that are classified as public charities (rather than private foundations) because they support a publicly supported charity, such as the Foundation. The Foundation appoints the majority of the boards of these organizations, with the exception of Pepperwood Foundation. 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 accordance with two funds established by Charles M. DeMeo. The 21,000-square foot teen center is home to a recording studio, gym, café, night club, tech lounge and art studio, and supports a variety of activities and programs designed to attract and engage youth.

Sonoma Paradiso Foundation

Sonoma Paradiso Foundation, whose primary purpose is to raise money for the benefit of children's organizations in Sonoma County and the Bay Area, became a supporting organization to the Foundation in 2008. Since 2004, the organization has provided more than \$6 million in grants to children in need.

Pepperwood Foundation

Pepperwood Foundation is a leader in conservation dedicated to inspiring kids of all ages to satisfy their natural curiosity and become stewards of the environment. The Foundation includes a 3,120 acre preserve that is rich in biodiversity and serves as a refuge for hundreds of plant and animal species. The Community Foundation appoints three of the seven Board members of the Pepperwood Foundation. Because the Community Foundation does not have a controlling interest in Pepperwood Foundation, accounts of the Pepperwood Foundation are not included in the consolidated financial statements.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Accordingly, the Foundation presents information regarding its net assets and activities according to three classes of net assets

Unrestricted Net Assets – The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets – The portion of net assets consisting of irrevocable remainder charitable trusts, contributions which are scheduled to be received in the future, purpose-restricted grants for which variance power was not given to the Foundation, and the portion of donor-restricted endowment funds that are not permanently restricted. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Permanently Restricted Net Assets – The portion of net assets consisting of the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds where the donor indicated that a portion of the fund be retained permanently. Also included in permanently restricted net assets is the Foundation's beneficial interest in trusts whose remainder is restricted for endowment funds and its interest in land required to be permanently held.

b. Cash and Cash Equivalents

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

c. Investments

All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. Alternative investment funds are valued at the net asset value per unit or percentage of ownership as reported by the funds. Investments received through gifts are recorded at estimated fair value at the date of donation. Certain other investments are recorded at cost.

Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur. Dividend and interest income are accrued when earned.

For purposes of reporting cash flow, purchases of investments represent the total additions to the portfolio from revenues received during the year.

d. Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

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

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

e. Fair Value of Financial Instruments

Some of the Foundation's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such assets and liabilities include cash and cash equivalents, contribution receivables, and payables.

f. Charitable Trust Assets and Other Split-Interest Agreements

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

Charitable Lead Trusts

The Foundation is the recipient of distributions from several charitable lead trusts and is not the trustee of these trusts. Charitable lead trusts are established by donors who specify that distributions from the trusts be made to designated nonprofit organizations over a specified period of time. Upon termination, the remainder of the trust's assets is paid to beneficiaries designated by the donor. When the Foundation is notified that it is the irrevocable recipient of distributions from a lead trust, a receivable for the present value of the expected future cash inflows is reported in the financial statements. The discount rate used to calculate the present value of the future cash inflows is re-evaluated each year based on current market conditions.

Charitable Remainder Trusts

The Foundation is the irrevocable remainder beneficiary of a charitable remainder unitrust and a charitable remainder annuity trust established by two separate donors. The Foundation is the trustee for both trusts, and trust assets are measured and recognized on the statement of financial position at fair value based on quoted market prices. The net present value of estimated future payments to the donors are recognized as a liability (see "Liabilities to Beneficiaries," below). The Foundation is also the beneficiary of certain trusts that are held by other trustees. For those trusts, the net present value of the Foundation's estimated irrevocable remainder interest is recorded as a beneficial interest in trusts.

Under both of the preceding arrangements, contribution revenue is recognized at the creation of the trust in amounts equal to the net present value of the estimated remainder trust, based on various factors, including fair value of the trust assets, life expectancy of the donors, payment terms to donors, and discount rates. Subsequent changes in the measurement of trust-related assets and liabilities are recorded as changes in value of split interest agreements.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Assets Held in Trusts

The Foundation serves as the trustee of two remainder trusts for which the Foundation is not the irrevocable remainder beneficiary. The assets for these trusts are recorded at fair value based on quoted market prices; a corresponding liability is also recorded. The Foundation earns a trustee fee for this arrangement.

Pooled Income Fund

The Foundation recognizes its remainder interest in its pooled income fund as temporarily restricted contribution revenue in the period in which the assets are received from the donor. Donor contributions to the pooled income fund are irrevocable. A donor is assigned a specific number of units based on the proportion of their contribution's fair market value to the total fair market value of the fund. The donor receives the dividends and interest earned on those units. The contributed assets are invested in the fund until the donor's death, at which time the assets revert to the Foundation.

Contributions are measured at the fair value of the assets received and discounted for the estimated life expectancy of the donor (see "Liabilities to Beneficiaries," below).

g. Property and Equipment

Property, plant and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from three to 40 years. Amortization of leasehold improvements is computed over the life of the related lease. The Foundation capitalizes property and equipment with cost or donated fair value over \$2,000.

h. 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.

i. Agency Funds

The Foundation records a liability that represents the readily determinable estimated fair values of assets that the Foundation has received from and invests on behalf of other nonprofit organizations. However, the Foundation maintains legal ownership of the assets and has variance power.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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. As a result of this interpretation, the Foundation classifies as permanently restricted net assets both the original value of the gifts donated plus all subsequent gifts to the donor restricted endowment funds. The remaining value of the donor restricted endowed funds is classified as temporarily restricted net assets until appropriated for expenditure by the Foundation. Appropriation for expenditure for endowed funds is made in a manner consistent with the standards of prudence prescribed by SPMIFA, which include: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources of the organization, (7) The investment policies of the Foundation.

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets. At December 31, 2011, the Foundation had 63 funds with deficiencies of this nature totaling approximately \$1,502,000. These deficiencies are reflected in unrestricted net assets.

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 return objective is to return a percentage in excess of the annual rate of inflation, net of investment fees. Actual returns in any given year may vary from this amount.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 4% 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.

k. Revenue Recognition

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

Contributions expected to be collected in future years, including future interests in charitable lead trusts, are recorded at the present value of estimated future cash flows. Discounts on the future interests are calculated using a rate equal to the approximate investment return applicable to the year in which the unconditional promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation has determined that all receivables are fully collectable, and no allowance for uncollectable accounts has been recorded.

As discussed above, the Foundation receives contributions subject to time or purpose restrictions. When the restriction is met in the same period as the contribution is received, temporarily restricted contributions are reported as temporarily restricted support and net assets released from restrictions.

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 present value of grants to be paid in the future. Grants payable are expected to be paid in the following year.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 general office supplies are allocated based on the overall number of staff in the various functional categories. All other costs are charged directly to the appropriate functional category.

n. Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The amounts estimated could differ from actual results.

o. 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, 2010, from which the summarized information is derived.

Certain reclassifications have been made to the prior year financial statements in order for them to conform to current year presentation. These reclassifications had no effect on net assets or change 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, 2011, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by federal or state authorities for years before December 31, 2008 and 2007, respectively.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

q. Recent Accounting Pronouncements

In May 2011, the FASB issued amendments to existing guidance for fair value measurements. The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. These additional disclosures are required for the year ended December 31, 2012.

r. Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended December 31, 2011 through May 29, 2012, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at December 31, 2011:

Land and art receivable	\$ 7,069,498
Contributions receivable (net of discount of \$2,330,166)	4,783,566
Other receivables	6,600
	<hr/>
	\$ 11,859,664

The land and art receivable relates to an 80% 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 6).

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 \$3,986,994 net of a discount of \$2,330,166 at December 31, 2011. The remaining balance of contribution receivable of \$796,572 is expected to be collected in 2012.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 4 - Investments:

Investments consist of the following at December 31, 2011:

Cash and cash equivalents	\$ 12,410,930
Fixed income	18,841,319
Domestic and international equities	38,213,955
Diversified strategies mutual funds	20,141,311
Alternative investments	8,652,292
	<hr/>
	98,259,807
Privately held stock (at cost)	486,432
	<hr/>
	\$ 98,746,239

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 is the largest investment pool and is for endowment and other long-term funds. The pool focuses on a long-term strategy designed to protect assets against inflation over time, while providing for a steady stream of grants. The target asset allocation, which was revised in 2011 to provide further diversification and reduce volatility, includes five categories of stocks (40%), three categories of bonds (25%), diversified strategies (25%), and alternative investments (10%). The pool had a fair market value of approximately \$70 million at December 31, 2011.

The Socially Responsible Long-Term Investment Pool is for endowment and other long-term pools whose donors prefer socially responsible investments. It is comprised of mutual funds that meet a variety of social screens, both positive and exclusionary. This pool employs a strategic asset allocation of 70% stocks and 30% fixed income and cash. The pool had a fair market value of approximately \$15.2 million at December 31, 2011.

The Intermediate Term Investment Pool is intended for funds with a 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, revised in late 2011, includes stocks (20%), bonds (50%), diversified strategies and alternative investments (20%), and cash and short-term bonds (10%). The pool had a fair market value of approximately \$5.4 million at December 31, 2011.

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 \$7.6 million at December 31, 2011.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 5 - Fair Value Measurement and Net Asset Value Disclosure

Fair Value Disclosures:

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2011:

	Total	Level 1	Level 2
Cash and cash equivalents	\$ 12,410,930	\$ 12,410,930	
Fixed income:			
US government agency	1,524,044	1,524,044	
US corporate notes and bonds	1,107,547		\$ 1,107,547
Mutual funds:			
Core fixed income	10,131,230	10,131,230	
Multi-sector fixed income	2,602,093	2,602,093	
Opportunistic fixed income	3,476,405	3,476,405	
Domestic and international equities:			
Equities:			
Consumer	2,817,605	2,817,605	
Energy & utilities	1,593,569	1,593,569	
Financials	1,800,098	1,800,098	
Health care	1,400,327	1,400,327	
Industrials	1,895,400	1,895,400	
Information technology	2,584,930	2,584,930	
Materials	791,441	791,441	
Mutual funds:			
Domestic funds	11,893,019	11,893,019	
International and global funds	13,437,566	13,437,566	
Diversified strategies mutual funds:			
Global asset allocation	10,101,450	10,101,450	
Real return fund	6,831,653	6,831,653	
Natural resource/commodity funds	3,208,208	3,208,208	
Alternative investments:			
Global opportunistic fixed income ⁽¹⁾	5,047,946		5,047,946
Managed futures ⁽²⁾	3,428,547		3,428,547
US small cap trust ⁽³⁾	175,799		175,799
Subtotal	98,259,807	88,499,968	9,759,839
Charitable trust assets:			
Charitable lead trusts	11,500,670		11,500,670
Charitable remainder trusts	1,402,596		1,402,596
Beneficial interest in trusts	8,520,250		8,520,250
Pooled income investments	236,049		236,049
Assets held in trust	4,700,029		4,700,029
Total	\$ 124,619,401	\$ 88,499,968	\$ 36,119,433

Assets associated with charitable trust assets consist primarily of marketable securities.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

In 2011, the Foundation changed its policy regarding valuation of privately held stock, which is now valued at the lower of cost or market. As a result, \$486,432 in assets was removed from the fair value disclosure. In addition, the Foundation transferred assets related to beneficial interest in trusts from Level 3 to Level 2.

Net Asset Value Disclosure:

The Foundation uses Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have readily determinable fair value. The following is a description of investments using NAV as of December 31, 2011.

- (1) Global opportunistic fixed income, which has the objective of achieving interest income and long-term capital appreciation by investing in US fixed income instruments and non-US developed and emerging markets sovereign debt securities. The fund concentrates its investments in bonds of countries having the best value in the form of high real interest rates.
- (2) Managed futures, which seeks long-term growth by investing in commodities and futures managers that are not correlated to stock and bond markets. The fund invests in approximately 20 underlying managers in the commodities and futures markets in metals, agriculture, energy, currencies, interest rate futures, and global stocks and bonds.
- (3) US small cap trust, whose investment objective is to achieve long-term capital appreciation by investing in a portfolio of small-capitalization companies. The majority of securities are traded on the open market.

The alternative investments above do not have lockup periods, outstanding commitments, and are redeemable within 30 days or less.

Note 6 - Property and Equipment:

Property and equipment consist of the following at December 31, 2011:

Buildings	\$ 5,168,542
Land	3,748,186
Furniture and equipment	488,601
Computers and software	224,562
Leasehold improvements	38,166
	<hr/>
	9,668,057
Less: accumulated depreciation	(1,971,242)
	<hr/>
Total property and equipment, net	\$ 7,696,815

Depreciation expense was \$197,822 for the year ended December 31, 2011.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

The Oliver Ranch Foundation acquired an undivided 20% interest in real estate located in Geyserville, California which includes art installations substantially affixed to the land. The appraised value of the interest is \$3,024,000. The remaining 80% interest is owned by the Oliver Family Living Trust and will be gifted to the Foundation over time (see Note 3).

Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets at December 31, 2011 consist of the following:

Charitable lead trusts	\$ 11,500,670
Endowment - unappropriated earnings	4,617,093
Charitable remainder trusts and irrevocable planned gifts	5,368,032
Present value of pooled income funds	174,771
Other	56,381
	<hr/>
	\$ 21,716,947

Net assets were released from donor restriction for the year ended December 31, 2011 by expiration of time restriction or by the occurrence of other events specified by donors:

Charitable lead trusts	\$ 2,902,729
Endowment - appropriated earnings	3,906,360
Charitable remainder trusts and irrevocable planned gifts maturities	124,388
Other	13,462
	<hr/>
	\$ 6,946,939

Note 8 - Permanently Restricted Net Assets:

Permanently restricted net assets consist of the following at December 31, 2011:

Endowment investments	\$ 55,129,430
Endowment contributions receivable	3,986,994
Endowment beneficial interest in trusts	4,106,386
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	63,222,810
Land receivable	7,069,498
Land required to be held in perpetuity	3,024,000
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	\$ 73,316,308

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 9 - Endowments:

Endowments include contributions which are permanently restricted by donors (permanently restricted net assets) and endowments which have been board designated. The changes in endowment net assets for the year ended December 31, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2010	\$ 706,517	\$ 7,598,751	\$ 53,910,903	\$ 62,216,171
Investment return:				
Realized and unrealized gains	(1,561)	(2,910,156)		(2,911,717)
Interest and dividends	2,812	1,958,731		1,961,543
<hr/>				
Total investment return	1,251	(951,425)		(950,174)
<hr/>				
Contributions		18,794	1,254,957	1,273,751
Appropriated and expended	(6,137)	(3,906,360)		(3,912,497)
Transfer for underwater funds	(1,779,879)	1,779,879		
Reclassification		77,454	(36,430)	41,024
<hr/>				
Change in endowment net assets	(1,784,765)	(2,981,658)	1,218,527	(3,547,896)
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Endowment net assets, December 31, 2011	\$ (1,078,248)	\$ 4,617,093	\$ 55,129,430	\$ 58,668,275

Not included in the roll-forward above are non-investment endowment net assets. These include a contribution receivable of \$3,986,994, which decreased by \$369,086, as well as a beneficial interest in trust of \$4,106,386. The decrease was due to a decline in the present value of the receivable.

Endowment net assets composition by type as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (1,501,594)	\$ 4,617,093	\$ 55,129,430	\$ 58,244,929
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Board-designated endowment	423,346			423,346
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Endowment net assets, December 31, 2011	\$ (1,078,248)	\$ 4,617,093	\$ 55,129,430	\$ 58,668,275

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Endowed net assets are comprised of over 150 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.

Note 10 - 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, 2011, employer contributions to the plan were \$54,152.

Note 11 - Commitments:

The Foundation rents office space under a lease agreement expiring in July 2015. Amounts due under this agreement and under a lease for a photocopier at December 31, 2011 are as follows:

Year Ending December 31,		
2012	\$	125,000
2013		127,000
2014		130,000
2015		77,000
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Total minimum lease payments	\$	459,000
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Total rent expense was \$131,252 for the year ended December 31, 2011.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Note 12 - Concentrations of Credit Risk:

Financial instruments potentially subjecting the Foundation to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation insurance thresholds, cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds, and various debt and equity investments in excess of Securities Investor Protection Corporation insurance. Demand deposits are placed with a local financial institution, and Management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market and credit risk. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the statements. The risk associated with the investments is reduced through diversification.

Contributions are received primarily from organizations and major individual contributors. The Foundation received contributions from two contributors that approximated 28% of the Foundation's total contributions for 2011.

Note 13 - Related Party Transaction:

The Foundation granted \$747,800 to the Pepperwood Foundation, a non-consolidating supporting organization to the Foundation (see Note 1), in 2011.

Community Foundation Sonoma County

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

December 31, 2011

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
Assets						
Cash and cash equivalents	\$ 1,230,001	\$ 6,408	\$ 446,223	\$ 9,939		\$ 1,692,571
Contributions receivable, net	4,790,623	7,069,498	1,459,955		\$ (1,460,412)	11,859,664
Investments	98,746,239					98,746,239
Charitable trust assets	21,659,565					21,659,565
Assets held in trust	4,700,029					4,700,029
Property and equipment, net	20,629	3,024,000	4,652,186			7,696,815
Other assets	161,454		15,737			177,191
Total assets	\$ 131,308,540	\$ 10,099,906	\$ 6,574,101	\$ 9,939	\$ (1,460,412)	\$ 146,532,074
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expense	\$ 99,361	\$ 1,436	\$ 43,407	\$ 112	\$ (5,412)	\$ 138,904
Grants payable	2,624,212				(1,455,000)	1,169,212
Liabilities associated with assets held in trust	4,700,029					4,700,029
Agency funds	14,249,812					14,249,812
Liabilities to beneficiaries	506,022					506,022
Total liabilities	22,179,436	1,436	43,407	112	(1,460,412)	20,763,979
Net Assets:						
Unrestricted	25,668,093	4,972	5,051,948	9,827		30,734,840
Temporarily restricted	20,238,201		1,478,746			21,716,947
Permanently restricted	63,222,810	10,093,498				73,316,308
Total net assets	109,129,104	10,098,470	6,530,694	9,827		125,768,095
Total liabilities and net assets	\$ 131,308,540	\$ 10,099,906	\$ 6,574,101	\$ 9,939	\$ (1,460,412)	\$ 146,532,074

Community Foundation Sonoma County

Consolidating Statement of Activities (See Independent Auditors' Report)

December 31, 2011

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
Change in Unrestricted Net Assets:						
Support and revenue:						
Contributions and grants	\$ 3,962,965	\$ 156,500	\$ 579,131	\$ 161,833	\$ (524,850)	\$ 4,335,579
Realized and unrealized losses on investments	(2,472,462)					(2,472,462)
Interest and dividends	607,635		505	127		608,267
Management fees earned, net	261,586				(23,230)	238,356
Other income	(52,502)		121,976	(1,000)	53,550	122,024
Net assets released from restrictions	6,946,939					6,946,939
Total unrestricted support and revenue	9,254,161	156,500	701,612	160,960	(494,530)	9,778,703
Expenses:						
Program services	10,951,357	136,616	582,342	135,768	(1,926,300)	9,879,783
Supporting services	1,600,313	15,048	245,761	21,379	(23,230)	1,859,271
Total expenses	12,551,670	151,664	828,103	157,147	(1,949,530)	11,739,054
Change in unrestricted net assets	(3,297,509)	4,836	(126,491)	3,813	1,455,000	(1,960,351)
Change in Temporarily Restricted Net Assets:						
Contributions and grants	169,400		1,455,000		(1,455,000)	169,400
Change in value of split-interest agreements	822,950					822,950
Realized and unrealized loss on investments	(1,196,073)					(1,196,073)
Interest and dividends	1,994,988					1,994,988
Total temporarily restricted support and revenue	1,791,265		1,455,000		(1,455,000)	1,791,265
Net assets released from restrictions	(6,946,939)					(6,946,939)
Change in temporarily restricted net assets	(5,155,674)		1,455,000		(1,455,000)	(5,155,674)
Change in Permanently Restricted Net Assets:						
Contributions and grants	849,441					849,441
Change in Net Assets	(7,603,742)	4,836	1,328,509	3,813	-	(6,266,584)
Net Assets, beginning of year	116,732,846	10,093,634	5,202,185	6,014		132,034,679
Net Assets, end of year	\$ 109,129,104	\$ 10,098,470	\$ 6,530,694	\$ 9,827	\$ -	\$ 125,768,095