

COMMUNITY FOUNDATION SONOMA
COUNTY

DECEMBER 31, 2012

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **COMMUNITY FOUNDATION SONOMA COUNTY (the Foundation)** which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Foundation Sonoma County as of December 31, 2012, and the changes in its consolidated net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hood & Sperry LLP

San Francisco, California
June 20, 2013

Community Foundation Sonoma County

Consolidated Statement of Financial Position

<i>December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 1,425,384	\$ 1,692,571
Contributions receivable, net	12,067,763	11,859,664
Investments	107,791,101	98,746,239
Charitable trust assets	19,638,288	21,659,565
Assets held in trust	4,976,178	4,700,029
Property and equipment, net	7,423,121	7,696,815
Other assets	194,697	177,191
Total assets	\$ 153,516,532	\$ 146,532,074
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expense	\$ 164,838	\$ 138,904
Grants payable	969,213	1,169,212
Liabilities associated with assets held in trust	4,976,178	4,700,029
Agency funds	16,335,703	14,249,812
Liabilities to beneficiaries	596,939	506,022
Total liabilities	23,042,871	20,763,979
Net Assets:		
Unrestricted	32,099,119	30,734,840
Temporarily restricted	22,547,232	21,716,947
Permanently restricted	75,827,310	73,316,308
Total net assets	130,473,661	125,768,095
Total liabilities and net assets	\$ 153,516,532	\$ 146,532,074

The accompanying notes are an integral part of this statement.

Community Foundation Sonoma County

Consolidated Statement of Activities

Year Ended December 31, 2012 (with comparative totals for 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Contributions and grants	\$ 6,514,012	\$ 154,358	\$ 3,723,671	\$ 10,392,041	\$ 5,354,420
Change in value of split-interest agreements		891,214		891,214	822,950
Realized and unrealized gains (losses) on investments	2,111,024	3,859,060		5,970,084	(3,668,535)
Interest and dividends	537,586	1,749,582		2,287,168	2,603,255
Management fees earned, net	287,050			287,050	238,356
Other income	102,609			102,609	122,024
Net assets released from restrictions	4,953,553	(4,953,553)			
Total support and revenue	14,505,834	1,700,661	3,723,671	19,930,166	5,472,470
Expenses:					
Program services	11,660,497			11,660,497	9,879,783
Supporting services	1,615,318			1,615,318	1,859,271
Total expenses	13,275,815			13,275,815	11,739,054
Change in Net Assets Before Reclassifications	1,230,019	1,700,661	3,723,671	6,654,351	(6,266,584)
Recovery of Certain Underwater Funds	851,485	(851,485)			
Reclassification of Net Assets	(717,225)	(18,891)	(1,212,669)	(1,948,785)	
Change in Net Assets After Reclassifications	1,364,279	830,285	2,511,002	4,705,566	(6,266,584)
Net Assets, beginning of year	30,734,840	21,716,947	73,316,308	125,768,095	132,034,679
Net Assets, end of year	\$ 32,099,119	\$ 22,547,232	\$ 75,827,310	\$ 130,473,661	\$ 125,768,095

The accompanying notes are an integral part of this statement.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2012 (with comparative totals for 2011)

	Program Services	Supporting Services			2012 Total	2011 Total
		Fundraising	Management and General	Total		
Grants and awards	\$ 9,973,500				\$ 9,973,500	\$ 8,228,993
Salaries & wages	730,871	\$ 352,080	\$ 378,255	\$ 730,335	1,461,206	1,329,086
Employee benefits	92,031	49,594	53,909	103,503	195,534	156,415
Payroll taxes	64,134	27,627	30,207	57,834	121,968	112,884
Management and investment fees			223,498	223,498	223,498	530,886
Professional and consulting fees	81,130	41,866	44,804	86,670	167,800	204,602
Legal and accounting	32,256	22,938	20,703	43,641	75,897	120,248
Advertising, marketing, and outreach	42,475	21,523	21,523	43,046	85,521	62,056
Office expense	109,427	45,336	50,268	95,604	205,031	160,563
Computer network	33,934	26,769	36,800	63,569	97,503	76,816
Occupancy	94,810	40,536	42,661	83,197	178,007	174,372
Travel	6,380	4,537	4,537	9,074	15,454	10,906
Conference expenses	135,871	10,323	11,284	21,607	157,478	221,217
Depreciation	134,690	9,770	16,574	26,344	161,034	197,822
Insurance	125,099	7,455	15,021	22,476	147,575	140,109
Miscellaneous	3,889	1,464	3,456	4,920	8,809	12,079
	\$ 11,660,497	\$ 661,818	\$ 953,500	\$ 1,615,318	\$ 13,275,815	\$ 11,739,054

The accompanying notes are an integral part of this statement.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,705,566	\$ (6,266,584)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized (gains) losses on investments	(5,970,084)	3,668,535
Depreciation	161,034	197,822
Contributions received for long-term purposes	(3,723,671)	(849,441)
Changes in assets and liabilities		
Contributions receivable	416,182	(830,340)
Charitable trust assets	2,021,277	2,538,874
Assets held in trust	(276,149)	486,788
Other assets	(17,506)	37,591
Agency funds	2,085,891	1,181,283
Grants payable	(199,999)	214,869
Accounts payable and accrued expense	25,934	(2,960)
Liabilities associated with assets held in trust	276,149	(482,509)
Liabilities to beneficiaries	90,917	(295,864)
Net cash used by operating activities	(404,459)	(401,936)
Cash Flow from Investing Activities:		
Proceeds from sale of investments	29,872,569	93,078,725
Purchases of investments	(32,947,347)	(94,508,534)
Proceeds from sale of property and equipment	187,278	
Purchases of property and equipment	(74,618)	(45,779)
Net cash used by investing activities	(2,962,118)	(1,475,588)
Cash Flows from Financing Activities:		
Contributions received for long-term purposes	3,099,390	1,254,957
Net Decrease in Cash and Cash Equivalents	(267,187)	(622,567)
Cash and Cash Equivalents, beginning of year	1,692,571	2,315,138
Cash and Cash Equivalents, end of year	\$ 1,425,384	\$ 1,692,571
Supplemental Data for Noncash Investing Activities:		
Donated securities	\$ 991,405	\$ 959,535

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.

Pepperwood Foundation had assets of \$22.9 million at June 30, 2012, the date of the latest audited financial statements. The assets were principally comprised of property and equipment (\$21.5 million), pledges receivable (\$0.9 million) and cash and equivalents (\$0.4 million). It had no significant liabilities. The property and equipment is comprised principally of preserve (land) and buildings and improvements, primarily the Dwight Center for Conservation Science. As of December 31, 2012, Pepperwood Foundation had assets of \$22.7 million (unaudited), including property and equipment (\$21.2 million), cash and equivalents (\$1.0 million), and pledges receivable (\$0.5 million); it had no significant liabilities.

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. The Board of Directors has designated unrestricted net assets for an endowment (see Note 9).

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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

Permanently Restricted Net Assets – The portion of net assets consisting of the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds where the donor indicated that a portion of the fund be retained permanently. 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. The fair value of alternative investments is more fully described below. 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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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. In addition, the Foundation reports certain alternative investments using the net asset value per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock-up and notice periods associated with the underlying funds. The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of observable 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.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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.

Subsequent to year-end, at the request of the Donor the Foundation transferred trusteeship of the two remainder trusts to a third party but continues to be the remainder beneficiary of the trusts. The value of the trusts at the transfer date was approximately \$5.3 million.

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).

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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”).

Community Foundation Sonoma County

Notes to 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. 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, 2012, the Foundation had 44 funds with deficiencies of this nature totaling approximately \$650,000. 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.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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.

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.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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, 2011, from which the summarized information is derived.

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, 2012, 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, 2009 and 2008, respectively.

q. Recent Accounting Pronouncements

In October 2012, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update No. 2012-05 – Statement of Cash Flows (Topic 230) *Not-for-Profit Entities – Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The update requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in which case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, the proceeds upon sale should be classified as an investing activity. This guidance is effective prospectively for annual periods, beginning after June 15, 2013. The adoption of this guidance is not expected to have a material effect on the Foundation's financial statements.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

r. Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended December 31, 2012 through June 20, 2013, 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, except as described in Note 2f.

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at December 31, 2012:

Land and art receivable	\$ 7,069,498
Contributions receivable (net of discount of \$2,888,288)	4,264,335
Bequests receivable	731,537
Other receivables	2,393
	<hr/>
	\$ 12,067,763

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 \$4,163,735 net of a discount of \$2,888,288 at December 31, 2012. The remaining balance of contributions receivable of \$100,600 is expected to be collected in 2013 and 2014.

Note 4 - Investments:

Investments consist of the following at December 31, 2012:

Cash and cash equivalents	\$ 7,658,048
Fixed income	20,659,886
Domestic and international equities	43,160,544
Diversified strategies mutual funds	22,891,360
Alternative investments	8,932,440
	<hr/>
	103,302,278
Certificates of deposit	4,019,281
Privately held stock (at cost)	469,542
	<hr/>
	\$ 107,791,101

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

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 is designed to provide 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 \$75.3 million at December 31, 2012.

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 \$18.2 million at December 31, 2012.

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 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 \$6.1 million at December 31, 2012.

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 \$7.8 million at December 31, 2012.

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, 2012:

	Total	Level 1	Level 2
Cash and cash equivalents	\$ 7,658,048	\$ 7,658,048	
Fixed income:			
US government agency	839,935	839,935	
US corporate notes and bonds	1,725,679		\$ 1,725,679
Mutual funds:			
Core fixed income	10,861,167	10,861,167	
Multi-sector fixed income	3,096,156	3,096,156	
Opportunistic fixed income	4,136,949	4,136,949	
Domestic and international equities:			
Equities:			
Consumer	4,287,795	4,287,795	
Energy & utilities	2,533,487	2,533,487	
Financials	3,145,309	3,145,309	
Health care	2,042,973	2,042,973	
Industrials	2,509,271	2,509,271	
Information technology	3,442,584	3,442,584	
Materials	1,306,660	1,306,660	
Mutual funds:			
Domestic funds	8,530,107	8,530,107	
International and global funds	15,362,358	15,362,358	
Diversified strategies mutual funds:			
Global asset allocation	11,577,090	11,577,090	
Real return fund	9,264,020	9,264,020	
Natural resource/commodity funds	2,050,250	2,050,250	
Alternative investments:			
Global opportunistic fixed income ⁽¹⁾	5,760,877		5,760,877
Managed futures ⁽²⁾	3,171,563		3,171,563
Subtotal	103,302,278	92,644,159	10,658,119
Charitable trust assets:			
Charitable lead trusts	8,782,003		8,782,003
Charitable remainder trusts	1,460,731		1,460,731
Beneficial interest in trusts	9,104,454		9,104,454
Pooled income investments	291,100		291,100
Subtotal	19,638,288		19,638,288
Assets held in trust	4,976,178		4,976,178
Total	\$ 127,916,744	\$ 92,644,159	\$ 35,272,585

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Assets associated with charitable trust assets and assets held in trust consist primarily of cash equivalents, equities, fixed income and various mutual funds.

Certificates of deposit are not subject to fair value measurements as they do not meet the definition of an equity security.

The Foundation values privately held stock at the lower of cost or market.

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, 2012.

- (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 25 underlying managers in the commodities and futures markets in metals, agriculture, energy, currencies, interest rate futures, and global stocks and bonds.

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, 2012:

Buildings	\$ 5,100,583
Land	3,627,328
Furniture and equipment	484,685
Computers and software	177,720
Leasehold improvements	38,166
	<hr/> 9,428,482
Less: accumulated depreciation	(2,005,361)
	<hr/>
Total property and equipment, net	\$ 7,423,121

Depreciation expense was \$161,034 for the year ended December 31, 2012.

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 value of the interest is \$3,024,000 according to an appraisal completed at the gift date. 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, 2012 consist of the following:

Charitable lead trusts	\$	8,782,003
Endowment - unappropriated earnings		7,563,702
Charitable remainder trusts and irrevocable planned gifts		5,938,836
Present value of pooled income funds		211,408
Other		51,283
		<hr/>
	\$	22,547,232

Net assets were released from donor restriction for the year ended December 31, 2012 by expiration of time restriction or by the occurrence of other events specified by donors:

Charitable lead trusts	\$	3,044,395
Endowment - appropriated earnings		1,861,680
Other		47,478
		<hr/>
	\$	4,953,553

Note 8 - Permanently Restricted Net Assets:

Permanently restricted net assets consist of the following at December 31, 2012:

Endowment investments	\$	57,016,151
Endowment contributions receivable		4,591,775
Endowment beneficial interest in trusts		4,106,386
		<hr/>
		65,714,312
Land receivable		7,069,498
Land required to be held in perpetuity		3,043,500
		<hr/>
	\$	75,827,310

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, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2011	\$ (1,078,248)	\$ 4,617,093	\$ 55,129,430	\$ 58,668,275
Investment return:				
Realized and unrealized gains	1,897	4,756,775		4,758,672
Interest and dividends	3,701	1,749,582		1,753,283
Investment and support fees	(1,355)	(897,714)		(899,069)
Total investment return	4,243	5,608,643		5,612,886
Contributions	6,455	70,022	3,099,390	3,175,867
Appropriated and expended	(78,480)	(1,861,680)		(1,940,160)
Recovery of certain underwater funds	851,485	(851,485)		
Reclassification to agency funds		(18,891)	(1,212,669)	(1,231,560)
Change in endowment net assets	779,460	(2,662,034)	1,886,721	4,147
Endowment net assets, December 31, 2012	\$ (294,545)	\$ 7,563,702	\$ 57,016,151	\$ 64,285,308

Not included in the roll-forward above are non-investment endowment net assets. These include a contribution receivable of \$4,163,735, which increased by \$176,741, and \$428,040 of bequests receivable as well as a beneficial interest in trust of \$4,106,386. The increase was due to an increase in the present value of the receivable.

In 2012, the Foundation undertook a comprehensive review of the more than 400 funds it manages. As a result of this review, it reclassified a number of funds as agency funds, reducing net assets by approximately \$1.9 million. A portion of these funds were endowment funds, so endowments were reduced in the schedule above by \$1.2 million. The reclassification is also reflected in the Statement of Activities and the Consolidated Statement of Activities.

Community Foundation Sonoma County

Notes to Consolidated Financial Statements

Endowment net assets composition by type as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ (650,110)	\$ 7,563,702	\$ 57,016,151	\$ 63,929,743
Board-designated endowments	355,565			355,565
Endowment net assets, December 31, 2012	\$ (294,545)	\$ 7,563,702	\$ 57,016,151	\$ 64,285,308

Donor restricted endowments 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. Board-designated endowments are comprised primarily of an operating reserve fund.

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, 2012, employer contributions to the plan were \$62,083.

Note 11 - Commitments:

The Foundation rents office space under a lease agreement expiring in July 2015. Approximate amounts due under this agreement at December 31, 2012 are as follows:

Year Ending December 31,	
2013	\$ 127,000
2014	130,000
2015	77,000
Total minimum lease payments	\$ 334,000

Total rent expense was \$131,640 for the year ended December 31, 2012.

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 five contributors that approximated 59% of the Foundation's total contributions for 2012.

Note 13 - Related Party Transaction:

The Foundation granted approximately \$533,000 to the Pepperwood Foundation, a non-consolidating supporting organization to the Foundation (see Note 1), in 2012.

The Foundation has and may continue to have Board of Directors and Committee members who are employed by corporations that provide services to the Foundation. The Foundation has a conflict of interest policy which covers relationships with Directors, Committee members and staff.

Community Foundation Sonoma County

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

December 31, 2012

	Community Foundation Sonoma County	Oliver Ranch Foundation	DeMeo Teen Club, Inc.	Sonoma Paradiso	Eliminating Entries	Consolidated Balance
Assets						
Cash and cash equivalents	\$ 798,351	\$ 9,734	\$ 611,195	\$ 6,104		\$ 1,425,384
Contributions receivable, net	5,000,355	7,069,498	957,393		\$ (959,483)	12,067,763
Investments	107,791,101					107,791,101
Charitable trust assets	19,638,288					19,638,288
Assets held in trust	4,976,178					4,976,178
Property and equipment, net	41,757	3,043,500	4,337,864			7,423,121
Other assets	177,518		17,179			194,697
Total assets	\$ 138,423,548	\$ 10,122,732	\$ 5,923,631	\$ 6,104	\$ (959,483)	\$ 153,516,532
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expense	\$ 120,913	\$ 12,000	\$ 36,183	\$ 225	\$ (4,483)	\$ 164,838
Grants payable	1,924,213				(955,000)	969,213
Liabilities associated with assets held in trust	4,976,178					4,976,178
Agency funds	16,335,703					16,335,703
Liabilities to beneficiaries	596,939					596,939
Total liabilities	23,953,946	12,000	36,183	225	(959,483)	23,042,871
Net Assets:						
Unrestricted	27,203,120	(2,266)	4,892,386	5,879		32,099,119
Temporarily restricted	21,552,170		995,062			22,547,232
Permanently restricted	65,714,312	10,112,998				75,827,310
Total net assets	114,469,602	10,110,732	5,887,448	5,879		130,473,661
Total liabilities and net assets	\$ 138,423,548	\$ 10,122,732	\$ 5,923,631	\$ 6,104	\$ (959,483)	\$ 153,516,532

Community Foundation Sonoma County

Consolidating Statement of Activities (See Independent Auditors' Report)

December 31, 2012

	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	\$ 6,191,846	\$ 64,470	\$ 104,196	\$ 158,500	\$ (5,000)	\$ 6,514,012
Realized and unrealized gain on investments	2,112,773		(1,749)			2,111,024
Interest and dividends	536,750		836			537,586
Management fees earned, net	312,454				(25,404)	287,050
Other income	3,856		98,753			102,609
Net assets released from restrictions	4,931,484		22,069			4,953,553
Total unrestricted support and revenue	14,089,163	64,470	224,105	158,500	(30,404)	14,505,834
Expenses:						
Program services	10,817,704	70,975	636,210	140,608	(5,000)	11,660,497
Supporting services	1,370,692	733	247,457	21,840	(25,404)	1,615,318
Total expenses	12,188,396	71,708	883,667	162,448	(30,404)	13,275,815
Change in unrestricted net assets before reclassification	1,900,767	(7,238)	(659,562)	(3,948)		1,230,019
Recovery of certain underwater funds	851,485					851,485
Reclassification of net assets	(717,225)					(717,225)
Change in unrestricted net assets	2,035,027	(7,238)	(659,562)	(3,948)		1,364,279
Change in Temporarily Restricted Net Assets:						
Contributions and grants	115,973		38,385			154,358
Change in value of split-interest agreements	891,214					891,214
Realized and unrealized gain on investments	3,859,060					3,859,060
Interest and dividends	1,749,582					1,749,582
Total temporarily restricted support and revenue	6,615,829		38,385			6,654,214
Net assets released from restrictions	(4,931,484)		(22,069)			(4,953,553)
Change in temporarily restricted net assets before reclassification	1,684,345		16,316			1,700,661
Recovery of certain underwater funds	(851,485)					(851,485)
Reclassification of net assets	(18,891)					(18,891)
Change in temporarily restricted net assets	813,969		16,316			830,285
Change in Permanently Restricted Net Assets:						
Contributions and grants	3,704,171	19,500				3,723,671
Reclassification of net assets	(1,212,669)					(1,212,669)
Change in permanently restricted net assets	2,491,502	19,500				2,511,002
Change in Net Assets	5,340,498	12,262	(643,246)	(3,948)		4,705,566
Net Assets, beginning of year	109,129,104	10,098,470	6,530,694	9,827		125,768,095
Net Assets, end of year	\$ 114,469,602	\$ 10,110,732	\$ 5,887,448	\$ 5,879	\$ -	\$ 130,473,661