

COMMUNITY FOUNDATION SONOMA COUNTY

DECEMBER 31, 2022

INDEPENDENT AUDITORS' REPORT,
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Community Foundation Sonoma County

Independent Auditors' Report, Consolidated Financial Statements and Supplementary Information

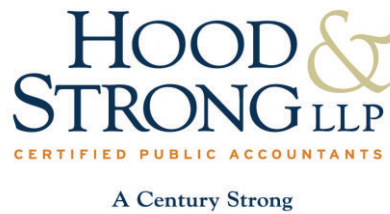
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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of **COMMUNITY FOUNDATION SONOMA COUNTY (the Foundation)**, which comprise the consolidated statement of financial position as of December 31, 2022, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Report on Summarized Comparative Information

We have previously audited the Foundation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 26, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information (pages 28 and 29) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Hood & Strong LLP

San Francisco, California
August 2, 2023

Community Foundation Sonoma County

Consolidated Statement of Financial Position

<i>December 31, 2022 (with comparative totals for 2021)</i>	2022	2021
Assets		
Cash and cash equivalents	\$ 3,663,960	\$ 883,112
Contributions receivable, net	12,791,983	14,173,668
Note receivable	975,141	975,141
Investments	187,421,620	213,479,336
Charitable trust assets	2,628,561	3,096,649
Property and equipment, net	6,354,089	6,384,266
Operating right-of-use lease assets	505,226	
Other assets	94,645	182,024
Total assets	\$ 214,435,225	\$ 239,174,196
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expense	\$ 144,976	\$ 183,476
Grants payable	1,940,391	2,527,891
Operating lease liability	512,686	
Agency funds	21,461,691	24,259,627
Total liabilities	24,059,744	26,970,994
Net Assets:		
Without donor restrictions:		
Designated for donor advised funds	43,473,543	42,868,709
Designated for specific fields of interest	10,857,023	11,098,645
Board-designated funds	3,187,145	3,002,126
Undesignated	2,424,284	3,202,915
Total without donor restrictions	59,941,995	60,172,395
With donor restrictions:		
Time and purpose	32,403,785	56,852,414
Perpetual restrictions	98,029,701	95,178,393
Total with donor restrictions	130,433,486	152,030,807
Total net assets	190,375,481	212,203,202
Total liabilities and net assets	\$ 214,435,225	\$ 239,174,196

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2022 (with comparative totals for 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue:				
Contributions and grants	\$ 12,480,577	\$ 7,627,149	\$ 20,107,726	\$ 15,196,943
Bequests and trusts	4,371,090	304,215	4,675,305	1,455,031
Government grant - Paycheck Protection Program			-	314,154
Change in value of split-interest agreements		(443,089)	(443,089)	371,784
Investment (loss) income, net	(7,055,764)	(18,433,766)	(25,489,530)	19,557,917
Management fees earned, net	248,648		248,648	243,487
Other income	102,077		102,077	103,496
Net assets released from restrictions	10,651,830	(10,651,830)	-	-
Total support and revenue	20,798,458	(21,597,321)	(798,863)	37,242,812
Expenses:				
Program services	18,630,983		18,630,983	16,668,739
Supporting services	2,397,875		2,397,875	1,844,379
Total expenses	21,028,858	-	21,028,858	18,513,118
Change in Net Assets	(230,400)	(21,597,321)	(21,827,721)	18,729,694
Net Assets, beginning of year	60,172,395	152,030,807	212,203,202	193,473,508
Net Assets, end of year	\$ 59,941,995	\$ 130,433,486	\$ 190,375,481	\$ 212,203,202

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Functional Expenses

Year Ended December 31, 2022 (with comparative totals for 2021)

	Program Services	Supporting Services			2022 Total	2021 Total
		Fundraising	Management and General	Total		
Grants and awards	\$ 17,172,830				\$ 17,172,830	\$ 15,003,631
Salaries and wages	662,475	\$ 195,090	\$ 973,909	\$ 1,168,999	1,831,474	1,720,810
Employee benefits	102,532	30,864	158,105	188,969	291,501	275,289
Payroll taxes	52,058	15,330	76,531	91,861	143,919	128,879
Professional and consulting fees	208,324	59,996	360,631	420,627	628,951	549,428
Advertising, marketing, and outreach	56,648	16,962	86,889	103,851	160,499	144,576
Office expense	48,887	14,708	75,345	90,053	138,940	100,272
Computer network	52,802	15,894	81,421	97,315	150,117	127,436
Occupancy	90,042	23,838	122,114	145,952	235,994	210,472
Staff development and meetings	23,607	7,106	36,402	43,508	67,115	37,937
Depreciation	11,697	3,521	18,036	21,557	33,254	42,420
Insurance	149,081	2,336	22,847	25,183	174,264	171,968
	\$ 18,630,983	\$ 385,645	\$ 2,012,230	\$ 2,397,875	\$ 21,028,858	\$ 18,513,118

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2022 (with comparative totals for 2021)</i>	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	\$ (21,827,721)	\$ 18,729,694
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Realized and unrealized loss (gain) on investments, net	28,309,344	(16,092,363)
Depreciation	33,254	42,420
Right-of-use lease asset amortization	169,887	
Contributions received for long-term purposes	(2,636,487)	(2,398,867)
Discount on long-term receivables	(214,822)	(1,292,511)
Receipt of donated property		(1,609,000)
Forgiveness of Note payable - Paycheck Protection Program		(314,154)
Changes in assets and liabilities:		
Contributions receivable	1,596,507	50,995
Charitable trust assets	468,088	(346,784)
Other assets	87,379	(96,710)
Accounts payable and accrued expense	(38,500)	22,832
Grants payable	(587,500)	(1,062,500)
Operating lease liability	(162,427)	
Agency funds	(2,797,936)	4,422,437
Net cash provided by operating activities	2,399,066	55,489
Cash Flow from Investing Activities:		
Proceeds from sale of investments	74,617,045	60,742,198
Purchase of investments	(76,868,673)	(65,734,061)
Purchase of property and equipment	(3,077)	(18,877)
Net cash used by investing activities	(2,254,705)	(5,010,740)
Cash Flows from Financing Activities:		
Contributions received for long-term purposes	2,636,487	2,398,867
Net cash provided by financing activities	2,636,487	2,398,867
Change in Cash and Cash Equivalents	2,780,848	(2,556,384)
Cash and Cash Equivalents, beginning of year	883,112	3,439,496
Cash and Cash Equivalents, end of year	\$ 3,663,960	\$ 883,112
Supplementary Cash Flow Disclosure:		
Receipt of property interest held for endowment	\$ -	\$ 1,609,000
Forgiveness of Note payable- Paycheck Protection Program	\$ -	\$ 314,154
Cash paid during the year for operating leases	\$ 168,300	\$ -
Operating right-of-use asset obtained by lease liabilities	\$ 675,113	\$ -

See accompanying notes to the consolidated financial statements.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 1 - Description of the Organization:

Community Foundation Sonoma County (the “Foundation”) was incorporated in California in 1983 as a nonprofit public benefit corporation to provide a means for the long-term preservation and enhancement of the quality of life in Sonoma County. The consolidated financial statements include all accounts and results of activities of the Foundation, as well as its supporting organization the Oliver Ranch Foundation. The Foundation also maintains two geographic affiliates in Healdsburg and Sonoma Valley. The two affiliates each have their own volunteer boards of directors which help the Foundation raise and distribute funds in their local communities. In August 2022, the Foundation changed its legal name to Sonoma County Community Foundation, but continues to operate as Community Foundation Sonoma County under a fictitious business name.

The Foundation receives funds primarily through donations from individuals and foundations. Distribution of funds for philanthropic purposes is made primarily through the direct operation of a grantmaking program. Grants are made in the areas of health and human services, education, arts and culture, education, animal welfare and the environment. Over the past 39 years, the Foundation has granted over \$290 million with over 90% of the grants distributed to Sonoma County nonprofit organizations. The remainder was distributed outside of Sonoma County.

The Foundation’s bylaws include a variance provision giving the Board the power to modify any restriction or condition on the distribution of funds if, in the sole judgment of the Board, the restriction becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served.

Supporting Organization

As of December 31, 2022, the Foundation has one supporting organization. The supporting organization is a Section 501(c)(3) organization that is classified as a public charity (rather than private foundations) because it supports a publicly-supported charity, such as the Foundation. The Foundation appoints most of the board of this organization. The supporting organization in which the Foundation has a controlling interest is consolidated herein.

The Oliver Ranch Foundation

The Oliver Ranch Foundation was formed in 2009 to promote the arts by providing creative inspiration, opportunities for the growth and development of artists; serving as a venue for exhibiting extraordinary site-specific sculptures; preserving and maintaining the art installations; organizing docent tours; forming educational partnerships; and commissioning site-specific performances. Oliver Ranch houses one of the country’s premiere private reserves for site-specific art installations which celebrate the ingenuity and imagination of great artists of the time.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

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

Net Assets without donor restriction – The portion of net assets are not subject to time or donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Foundation. Net assets without donor restrictions include donor advised and other client funds held by the Foundation with variance power. The Board of Directors has designated net assets for certain endowments (see Note 10) and a reserve for operations.

Net Assets with donor restrictions – The portion of net assets consisting of irrevocable remainder charitable trusts, contributions which are scheduled to be received in the future, purpose-restricted grants for which variance power was not given to the Foundation, and the portion of donor-restricted endowment funds that are not restricted in perpetuity. Net assets with donor restrictions also include the portion of net assets consisting of contributions to endowment funds where the donor indicated that a portion of the fund be retained in perpetuity and the Foundation's interest in land required to be permanently held.

When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Changes in Net Assets as net assets released from restrictions.

b. Principles of Consolidation

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

c. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include the Foundation's operating, checking and money market accounts not held for investment purposes.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

d. Investments

All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. Investments received through gifts are recorded at estimated fair value at the date of donation. Certain other investments are recorded at cost.

Gains and losses that result from market fluctuations are recognized in the Consolidated Statement of Activities and Changes in Net Assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

For purposes of reporting cash flows, purchases of investments represent the total purchases of securities during the year.

e. Fair Value Measurements

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

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

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

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

f. Note Receivable

The Foundation records notes receivable at cost. The receivables are evaluated for impairment annually and written down if appropriate. Notes receivable are recorded at the time the note is approved by the Foundation.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

g. Charitable Trust Assets and Other Split-Interest Agreements

Charitable Lead Trusts

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

Charitable Remainder Trusts

The Foundation is an irrevocable remainder beneficiary of a charitable remainder annuity trust. The Foundation is also the beneficiary of certain trusts that are held by other trustees. For those trusts, the net present value of the Foundation's estimated irrevocable remainder interest is recorded as a beneficial interest in trusts.

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

h. Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from 3 to 40 years. Amortization of leasehold improvements is computed over the life of the asset or the related lease. The Foundation capitalizes property and equipment with cost or donated fair value over \$2,000.

i. Leases

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

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

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

j. Endowment Funds

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

Interpretation of relevant law

The Board of Directors of the Foundation, with the advice of legal counsel, has determined it holds net assets that meet the definition of endowment funds under SPMIFA. The corpus represents the fair value of the original gifts as of the gift date, and all subsequent gifts to the donor-restricted endowment funds. The value of assets in excess of original gifts in donor-restricted endowed funds is classified as net assets with donor restrictions until appropriated for expenditure by the Foundation. Appropriation for expenditure for endowed funds is made in a manner consistent with the standards of prudence prescribed by SPMIFA, which include: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the Foundation.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the historical gift value “corpus”. At December 31, 2022, the Foundation had 30 funds with deficiencies totaling \$782,595. These deficiencies are reflected in net assets with donor restrictions.

Fair value of underwater endowments	\$ 18,793,460
Less: Original endowment gift amount	(19,576,055)
	\$ (782,595)

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Investment and spending policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported while seeking to maintain the purchasing power of the endowment assets. The Foundation’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current objective is to achieve a rate of return in excess of the annual rate of inflation, net of investment fees. Actual returns in any given year may vary from this amount.

To satisfy its long-term return objective, the Foundation relies on a total return strategy, in which investment returns are achieved through both capital appreciation of equity securities (realized and unrealized) and current yield (dividends and interest). The Foundation uses a diversified asset allocation to support the long-term return objective within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation’s endowed funds for grantmaking and administration. The current grantmaking spending policy is to distribute an amount equal to 3.75% of a trailing 12-quarter rolling average for funds with balances of at least 80% of the historic gift value. The administrative expense policy is 2% of the fund balance for endowed scholarship funds and no greater than 1.5% of the endowed fund balance for other funds. This is consistent with the Foundation’s objective of maintaining the purchasing power of endowed assets as well as to provide additional real growth through new gifts and investment return.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

k. Revenue Recognition

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

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

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

As discussed above, the Foundation receives contributions subject to time or purpose restrictions. When the restriction is met in the same period as the contribution is received, contributions are reported as released from donor restricted net assets and increases in net assets without donor restrictions.

l. Grant Expenses

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

m. Allocation of Functional Expenses

Salaries and related expenses have been allocated between program, management and general, and fundraising based on the time each employee spends on these functions. Indirect expenses, such as occupancy, office expenses and computer network, are allocated based on the overall number of staff in the various operational categories. All other costs are charged directly to the appropriate functional category.

n. Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

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, 2021, from which the summarized information is derived.

p. Income Taxes

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

As of December 31, 2022, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the consolidated financial statements.

q. Recent Accounting Pronouncements

Pronouncements Adopted

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under the ASU, a lessee is required to recognize right-to-use assets and liabilities on its statement of financial position for all leases with lease terms of more than twelve months. The Foundation adopted Topic 842 on January 1, 2022, using the optional transition method which does not require restatement of prior-period financial statements. The Foundation has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Foundation's historical accounting treatment under ASC Topic 840, Leases.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The guidance in this ASU changed the required presentation and expanded disclosures for in-kind contributions of nonfinancial assets. The Foundation adopted the standard on January 1, 2022 on a retroactive basis. The standard did not have a material impact on the financial statements.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

r. Subsequent Events

The Foundation evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2022 through August 2, 2023, the date the consolidated financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred, the nature of which would require disclosure in these financial statements.

Note 3 - **Contributions Receivable:**

Contributions receivable consisted of the following at December 31, 2022:

Land and art receivable	\$ 5,513,276
Contributions receivable (net of discount of \$2,778,997)	6,757,863
Bequests receivable	360,000
Other receivables	160,844
	\$ 12,791,983

The land and art receivable relates to a 60% interest in land and art installations, which will be given to the Oliver Ranch Foundation at a date no later than that of the death of the last trustee of the Oliver Family Living Trust (see Note 7).

In addition, the trustees of the Oliver Family Living Trust established an endowment at the Foundation to support the operations of Oliver Ranch Foundation. The amount of the endowment will vary over time with changes in the Consumer Price Index. The present value of the endowment pledge is \$6,757,863 net of a discount of \$2,778,997 at December 31, 2022.

The remaining receivables balance of \$520,844 is expected to be collected in the year ending December 31, 2023.

Note 4 - **Note Receivable:**

During 2016, the Foundation accepted an unsecured loan of \$975,000 bearing annual interest at 2.55% payable quarterly. The loan is due and payable in full in a balloon payment, including all principal and unpaid interest, on or before December 31, 2032. The loan is subject to a subordination agreement. Principal prepayments may be made at any time but require approval of the borrower's bank. The balance of principal and accrued interest totaled \$975,141 at December 31, 2022.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 5 - Investments:

Investments consisted of the following at December 31, 2022:

Cash and cash equivalents	\$ 8,680,038
Fixed income	75,367,310
Domestic and international equities	103,374,272
	\$ 187,421,620

The Foundation's net investment loss consisted of the following for the year ended December 31, 2022:

Net realized and unrealized loss	\$ (28,309,344)
Investment management fees	(230,934)
Dividends and interest	3,050,748
Investment loss, net	\$ (25,489,530)

The Foundation has four investment pools made available to donors for investment of gifted assets. Separate asset allocations are maintained for each investment pool as follows:

The Long-Term Pool investment pool focuses on a long-term strategy designed to protect assets against inflation over time, while providing for a steady stream of grants. The target asset allocation, which is designed to provide diversification and reduce volatility is 85% in a core portfolio which includes five categories of stocks (55%) and two categories of bonds (30%), and (15%) in satellite portfolio. The core of the portfolio consists of investments that track major market indices with minimal tracking error (defined as the deviation of excess return). Additional positions, known as satellites, are added to the portfolio and allow for greater flexibility regarding tracking error. Overall, the pool is allocated 67% to stocks and 33% to bonds. The pool had a fair market value of approximately \$116 million at December 31, 2022.

The Environmental, Social, Governance (ESG) (formerly titled Socially Responsible) Long-Term Investment Pool is for endowment and other long-term funds whose donors prefer socially responsible investments. Composed of funds that include environmental, social and governance ("ESG") factors in addition to conventional financial factors in the security analysis and investment allocation. This pool employs a strategic asset allocation very similar to our Long-Term Investment Pool, represented by mostly passive investments in equity (65%) and fixed income and cash (35%) assets. The pool had a fair market value of approximately \$30 million at December 31, 2022.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

The Intermediate Term Investment Pool is intended for funds with an expected duration of 2 to 5 years and is available only for expendable (non-endowment) funds. The pool is constructed to have less volatility than the long-term pool, but with higher returns than the short-term pool. The target asset allocation is 85% in a core portfolio which includes stocks (22%), bonds and cash (63%), and 15% in satellite portfolio. Overall, the pool was allocated 25% to stocks and 75% to bonds and cash. The pool had a fair market value of approximately \$21 million at December 31, 2022.

The Short-Term Investment Pool is best suited for an expendable fund that will be granting out a significant portion of its money in the short term. The investment objectives of this pool is capital preservation and liquidity, with a secondary objective of income that approaches or exceeds the Foundation's administrative expense rate. This pool's investments may include money market funds, treasury bills, municipal obligations, certificates of deposit, and other cash equivalent investments. The pool had a fair market value of approximately \$17 million at December 31, 2022.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 6 - Fair Value Measurement:

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 8,680,038	\$ 8,680,038	
Fixed income:			
US government agency	7,249,305	7,249,305	
US corporate notes and bonds	2,690,583		\$ 2,690,583
Mutual funds:			
Core fixed income	49,858,904	49,858,904	
Global & international fixed income	15,568,518	15,568,518	
Domestic and international equities:			
Equities:			
U.S. equities	3,848,329	3,848,329	
International and global	12,293,605	12,293,605	
Emerging and frontier markets	515,493	515,493	
Mutual Funds:			
Domestic funds	52,170,719	52,170,719	
International and global funds	29,386,265	29,386,265	
Emerging markets	5,159,861	5,159,861	
Subtotal	\$ 187,421,620	\$ 184,731,037	\$ 2,690,583
Charitable trust assets:			
Charitable lead trusts	11,528		11,528
Beneficial interest in trusts	2,617,033		2,617,033
Subtotal	2,628,561	-	2,628,561
Total	\$ 190,050,181	\$ 184,731,037	\$ 5,319,144

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

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 7 - Property and Equipment:

Property and equipment consisted of the following at December 31, 2022:

Land	\$ 6,285,750
Furniture and equipment	149,997
Computers and software	193,289
Leasehold improvements	73,132
Subtotal	6,702,168
Less accumulated depreciation	348,079
Total property and equipment, net	\$ 6,354,089

Depreciation expense was \$33,254 for the year ended December 31, 2022.

The Oliver Ranch Foundation acquired an undivided 40% interest in real estate located in Geyserville, California which includes art installations substantially affixed to the land. The value of the interest is \$6,285,750 according to an appraisal completed at the gift date. The remaining 60% interest is owned by the Oliver Family Living Trust and will be gifted to the Foundation over time (see Note 3).

Note 8 - Note Payable – Paycheck Protection Program:

The Foundation received loan proceeds in the amount of \$314,154 with a maturity date of April 20, 2022 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses. The loans and accrued interest could be forgivable as long as the Foundation used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintained its payroll and other personnel related levels. On June 28, 2021, the Foundation received notice of full forgiveness of the loan which is reflected on the Consolidated Statement of Activities and Changes in Net Assets for the year ended December 31, 2021.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 9 - Grants Payable:

Unconditional grants payable at December 31, 2022 are scheduled to be disbursed as follows:

Year Ending December 31,

2023	\$ 605,000
2024	835,391
2025	500,000

Unconditional Grants Payable	\$ 1,940,391
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In 2019, the Foundation approved a conditional grant to Chop's Teen Club granting financial support for 10 years on the following schedule: Years 1 and 2: \$495,000, year 3: \$475,000, year 4: \$450,000, year 5: \$425,000, years 6-10: \$375,000; for a maximum of \$4,215,000. As of December 31, 2022 the remaining conditional commitment was \$2,300,000. Payments are subject to measurable performance barriers and a right of return. Consequently, at December 31, 2022, future grant payments have not been recognized in the accompanying Consolidated Statement of Activities and Changes in Net Assets because the conditions on which they depend have not yet been met.

Note 10 - Agency Grants:

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

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

Balance at December 31, 2021	\$ 24,259,627
Contributions	1,607,792
Interest and dividends	395,353
Net realized and unrealized gain	(4,014,425)
Grants	(538,008)
Other expenses	(248,648)
Balance at December 31, 2022	\$ 21,461,691

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 11 - Net Assets with Donor Restriction:

Net assets with donor restrictions at December 31, 2022 consisted of the following:

Time and purpose:	
Purpose-restricted funds	\$ 14,256,044
Endowment - unappropriated earnings	15,507,450
Charitable remainder trusts, charitable lead trust, and irrevocable planned gifts	2,617,033
Charitable lead trusts	11,528
Other	11,730
Subtotal	32,403,785
Perpetual restrictions:	
Endowment investments (corpus)	79,472,816
Endowment and bequest contributions receivable	6,757,862
Land and art receivable	5,513,273
Land required to be held in perpetuity	6,285,750
Subtotal	98,029,701
Total	\$ 130,433,486

Net assets were released from donor restriction for the year ended December 31, 2022 as follow:

Endowment - appropriated earnings	\$ 5,221,220
Purpose-restricted funds	5,405,610
Other	25,000
	\$ 10,651,830

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 12 - Endowments:

Endowments include contributions which are restricted in perpetuity by donors (with donor restrictions) and endowments which have been Board designated (without donor restrictions). The changes in endowment net assets for the year ended December 31, 2021 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions Time or Purpose</u>	<u>Perpetuity</u>	Total
Endowment net assets, December 31, 2021	\$ 1,094,136	\$ 37,447,370	\$ 76,686,329	\$ 115,227,835
Investment return:				
Net realized and unrealized losses	(181,002)	(18,497,375)		(18,678,377)
Interest and dividends	16,513	1,778,675		1,795,188
Investment fees	(15,499)	(154,145)		(169,644)
Total investment return	(179,988)	(16,872,845)		(17,052,833)
Contributions			2,786,487	2,786,487
Appropriations and donors' releases	(24,900)	(5,067,075)		(5,091,975)
Change in endowment net assets	(204,888)	(21,939,920)	2,786,487	(19,358,321)
Endowment net assets, December 31, 2022	\$ 889,248	\$ 15,507,450	\$ 79,472,816	\$ 95,869,514

Not included in the roll-forward above are noninvestment endowment net assets (see Note 11).

In a prior year, the Foundation's Board of Directors adopted a policy for gifts without donor restrictions. The policy designates a portion of certain gifts for current operations and the remainder to certain designated endowments whose income will be used for community grants and Foundation operations.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Investment net assets composition by type as of December 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> <u>Time or Purpose</u>	<u>Perpetuity</u>	Total
Donor restricted endowments		\$ 15,507,450	\$ 79,472,816	\$ 94,980,266
Board-designated endowment	\$ 889,248			889,248
Endowment net assets, December 31, 2022	\$ 889,248	\$ 15,507,450	\$ 79,472,816	\$ 95,869,514

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

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 13 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available within one year of the Consolidated Statement of Financial Position date for general expenditures were as follows:

Financial assets at December 31, 2022:

Cash and cash equivalents	\$ 3,663,960
Contributions receivable	12,791,983
Note receivable	975,141
Investments	187,421,620
Charitable trust assets	2,628,561
Total financial assets	207,481,265
Less amounts not available to be used within one year:	
Beneficial interest in charitable remainder trusts	(2,628,561)
Agency funds	(21,461,691)
Endowment investments - corpus	(79,472,816)
Net assets restricted by time or purpose, including long-term receivables	(45,650,062)
Designated net assets:	
Donor advised funds	(43,473,543)
Special fields of interest	(10,857,023)
Board designated operating reserve funds	(2,297,897)
Board designated reserve- endowment	(889,248)
Add:	
Appropriated endowment fees	1,649,038
Agency fund fees	321,925
	(204,759,878)
Financial assets available to meet general expenditures over the next twelve months	\$ 2,721,387

The Foundation has certain Board-designated and donor-restricted assets which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year. Additionally, certain other Board-designated assets are designated as an operating reserve. However, the Board-designated amounts could be made available, if necessary. As part of the Foundation's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 14 - 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, 2022, employer contributions to the plan were \$79,364.

Note 15 - Commitments:

Operating Leases

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

Year Ending December 31,	
2023	\$ 173,250
2024	178,475
2025	168,368
Total lease payments	520,093
Less discount to present value	(7,407)
Present value of lease liabilities	512,686

The weighted average remaining lease term as of December 31, 2022, was approximately 2.84 years. The weighted average discount rate as of December 31, 2022, was 1.00%.

Total lease expense under the above lease was \$175,760 for the year ended December 31, 2022.

Community Foundation Sonoma County

Notes to the Consolidated Financial Statements

Note 16 - Concentrations of Credit Risk:

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

Contributions are received primarily from organizations and major individual contributors. The Foundation received contributions from two contributors that approximated 22% of the Foundation's total contributions, bequests and trusts for 2022.

Note 17 - Related Party Transaction:

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

Community Foundation Sonoma County

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

December 31, 2022

	Community Foundation Sonoma County	Oliver Ranch Foundation	Eliminating Entries	Consolidated Balance
Assets				
Cash and cash equivalents	\$ 3,649,313	\$ 14,647		\$ 3,663,960
Contributions receivable, net	7,260,128	5,531,855		12,791,983
Note receivable	975,141			975,141
Investments	187,421,620			187,421,620
Charitable trust assets	2,628,561			2,628,561
Property and equipment, net	68,339	6,285,750		6,354,089
Operating right-of-use leased assets	505,226			505,226
Other assets	94,645			94,645
Total assets	\$ 202,602,973	\$ 11,832,252	\$ -	\$ 214,435,225
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expense	\$ 114,006	\$ 30,970		\$ 144,976
Grants payable	1,940,391			1,940,391
Operating lease liabilities	512,686			512,686
Agency funds	21,461,691			21,461,691
Total liabilities	24,028,774	30,970	\$ -	24,059,744
Net Assets:				
Without donor restrictions:				
Designated for donor advised funds	43,473,543			43,473,543
Designated for specific fields of interest	10,857,023			10,857,023
Board designated reserves	3,187,145			3,187,145
Undesignated	2,422,025	2,259		2,424,284
Total without donor restrictions	59,939,736	2,259	-	59,941,995
With donor restriction:				
Time and purpose	32,403,785			32,403,785
Perpetual restrictions	86,230,678	11,799,023		98,029,701
Total with donor restrictions	118,634,463	11,799,023	-	130,433,486
Total net assets	178,574,199	11,801,282	-	190,375,481
Total liabilities and net assets	\$ 202,602,973	\$ 11,832,252	\$ -	\$ 214,435,225

Community Foundation Sonoma County

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

Year ended December 31, 2022

	Community Foundation Sonoma County	Oliver Ranch Foundation	Eliminating Entries	Consolidated Balance
Change in Net Assets Without Donor Restrictions:				
Support and revenue:				
Contributions and grants	\$ 12,430,030	\$ 50,547		\$ 12,480,577
Bequests and trusts	4,371,090			4,371,090
Investment loss, net	(7,055,764)			(7,055,764)
Management fees earned, net	268,648		\$ (20,000)	248,648
Other income	101,852	225		102,077
Net assets released from restrictions	10,651,830			10,651,830
Total support and revenue	20,767,686	50,772	(20,000)	20,798,458
Expenses:				
Program services	18,610,792	20,191		18,630,983
Supporting services	2,333,702	84,173	(20,000)	2,397,875
Total expenses	20,944,494	104,364	(20,000)	21,028,858
Change in net assets without donor restrictions	(176,808)	(53,592)	-	(230,400)
Change in Net Assets With Donor Restrictions:				
Support and revenue:				
Contributions and grants	7,627,149			7,627,149
Bequests and trusts	304,215			304,215
Change in value of split-interest agreements	(443,089)			(443,089)
Investment loss, net	(18,433,766)			(18,433,766)
Net assets released from restrictions	(10,651,830)			(10,651,830)
Total restricted support and revenue	(21,597,321)	-	-	(21,597,321)
Change in Net Assets	(21,774,129)	(53,592)		(21,827,721)
Net Assets, beginning of year	200,348,328	11,854,874	-	212,203,202
Net Assets, end of year	\$ 178,574,199	\$ 11,801,282	\$ -	\$ 190,375,481