

**COMMUNITY FOUNDATION
SANTA CRUZ COUNTY AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
AND

SUPPLEMENTARY INFORMATION

December 31, 2018 and 2017

with

Independent Auditor's Report

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

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Independent Auditor's Report

To the Board of Directors of
Community Foundation Santa Cruz County:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Foundation Santa Cruz County (the "Foundation") and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 from 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation Santa Cruz County and Subsidiary as of December 31, 2018, and the changes in their net assets and their 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 2017 consolidated financial statements of Community Foundation Santa Cruz County and Subsidiary, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 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 applied in the audits of the consolidated financial statements and certain additional 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.

Novogradac & Company LLP

Walnut Creek, California
June 27, 2019

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
ASSETS				
Cash and cash equivalents	\$ 1,171,476	\$ 1,676,103	\$ 2,847,579	\$ 1,045,637
Investments (note 3)	475,976	112,789,932	113,265,908	119,460,391
Charitable trust assets (note 6)	-	2,052,496	2,052,496	2,374,494
Grants and other accounts receivable (note 4)	661,171	101,500	762,671	423,192
Loans receivable - CIRF (note 5)	-	1,459,600	1,459,600	-
Loan interest receivable	-	7,274	7,274	-
Deposits and prepaid expenses	75,229	-	75,229	37,774
Fixed assets, net (note 8)	7,484,532	-	7,484,532	7,713,828
TOTAL ASSETS	\$ 9,868,384	\$ 118,086,905	\$ 127,955,289	\$ 131,055,316
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and other liabilities	\$ 147,810	\$ 16,563	\$ 164,373	\$ 127,079
Grants payable (note 7)	1,204,859	2,880,857	4,085,716	916,549
Agency funds (note 12)	-	13,664,143	13,664,143	14,569,968
Charitable trust liabilities (note 6)	-	993,586	993,586	1,199,421
Charitable gift annuity liability	-	698,429	698,429	753,246
Notes payable, net of unamortized debt issuance costs (note 9)	1,080,690	-	1,080,690	1,104,378
Total liabilities	2,433,359	18,253,578	20,686,937	18,670,641
Net assets				
Without donor restrictions	7,435,025	-	7,435,025	7,666,391
With donor restrictions	-	99,833,327	99,833,327	104,718,284
Total net assets (note 11)	7,435,025	99,833,327	107,268,352	112,384,675
TOTAL LIABILITIES AND NET ASSETS	\$ 9,868,384	\$ 118,086,905	\$ 127,955,289	\$ 131,055,316

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
PUBLIC SUPPORT AND REVENUE				
Contributions and grants	\$ 2,137,397	\$ 17,240,144	\$ 19,377,541	\$ 13,110,223
Investment income	21,904	(8,313,451)	(8,291,547)	11,171,766
Change in split-interest agreements	-	(144,359)	(144,359)	96,997
Foundation services fees	266,650	-	266,650	171,140
Other income	19,932	11,897	31,829	19,188
Debt forgiveness income	-	-	-	420,000
Satisfaction of time and/or purpose restrictions	11,960,609	(11,960,609)	-	-
Interfund foundation services fees	1,908,807	(1,908,807)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	16,315,299	(5,075,185)	11,240,114	24,989,314
EXPENSES				
Grants and disbursements:				
Arts, history, and culture	609,571	-	609,571	720,141
Community development	745,781	-	745,781	771,256
Education/youth development	3,049,663	-	3,049,663	1,243,633
Environment	1,346,563	-	1,346,563	995,191
Health	2,423,753	-	2,423,753	763,813
Human services	1,406,744	-	1,406,744	1,172,258
Other	2,124,743	-	2,124,743	208,121
Regional water management	1,578,348	-	1,578,348	472,359
Total grants and disbursements	13,285,166	-	13,285,166	6,346,772
Supporting services, programs	1,945,948	-	1,945,948	1,981,219
	15,231,114	-	15,231,114	8,327,991
Supporting services, operations				
Marketing and development	624,816	-	624,816	668,733
Management and general	500,507	-	500,507	448,655
Total supporting services, Operations	1,125,323	-	1,125,323	1,117,388
TOTAL EXPENSES	16,356,437	-	16,356,437	9,445,379
CHANGE IN NET ASSETS	(41,138)	(5,075,185)	(5,116,323)	15,543,935
NET ASSETS AT BEGINNING OF YEAR	7,476,163	104,908,512	112,384,675	96,840,740
NET ASSETS AT END OF YEAR	\$ 7,435,025	\$ 99,833,327	\$ 107,268,352	\$ 112,384,675

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017	
	Program Services	Marketing/ Development	Management and General	Total	Total
GRANTS AND DISBURSEMENTS	\$ 13,285,166	\$ -	\$ -	\$ 13,285,166	\$ 6,346,772
SUPPORTING SERVICES					
PERSONNEL EXPENSES					
Salaries	998,765	320,689	256,887	1,576,341	1,512,424
Payroll taxes and employee benefits	293,424	94,214	75,471	463,109	424,593
Total personnel expenses	<u>1,292,189</u>	<u>414,903</u>	<u>332,358</u>	<u>2,039,450</u>	<u>1,937,017</u>
OTHER EXPENSES					
General and administrative	120,662	38,744	31,034	190,440	183,504
Conferences and meetings	19,971	6,412	5,137	31,520	42,870
Advertising and marketing	15,049	4,832	3,871	23,752	31,592
Professional services	145,776	46,807	37,494	230,077	367,882
Repairs and maintenance	102,157	32,801	26,275	161,233	150,927
Insurance	24,110	7,741	6,201	38,052	36,372
Depreciation	188,555	60,542	48,497	297,594	282,248
Interest expense	37,479	12,034	9,640	59,153	59,816
Loss on disposal of fixed assets	-	-	-	-	6,379
Total other expenses	<u>653,759</u>	<u>209,913</u>	<u>168,149</u>	<u>1,031,821</u>	<u>1,161,590</u>
Total supporting services	<u>1,945,948</u>	<u>624,816</u>	<u>500,507</u>	<u>3,071,271</u>	<u>3,098,607</u>
Total expenses	<u>\$ 15,231,114</u>	<u>\$ 624,816</u>	<u>\$ 500,507</u>	<u>\$ 16,356,437</u>	<u>\$ 9,445,379</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (5,116,323)	\$ 15,543,935
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Debt forgiveness income	-	(420,000)
Depreciation	297,594	282,248
Amortization of bond financing costs included in interest expense	13,175	13,174
Loss on disposal of fixed assets	-	6,379
Realized and unrealized gains	11,213,355	(8,597,271)
Change in split-interest agreements	144,359	(96,997)
Decrease (increase) in operating assets:		
Charitable trust assets	321,998	(544,611)
Grants and other accounts receivable	(339,479)	392,793
Loan interest receivable	(7,274)	-
Deposits and prepaid expenses	(37,455)	(742)
Increase (decrease) in operating liabilities:		
Accounts payable and other liabilities	37,294	38,391
Grants payable	3,169,167	(1,098,311)
Agency funds	(905,825)	4,309,333
Charitable trust liabilities	(205,835)	385,303
Charitable gift annuity liability	(54,817)	(17,360)
Net cash provided by operating activities	<u>8,529,934</u>	<u>10,196,264</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Funding of loans receivable - CIRF	(1,459,600)	-
Purchase of securities, net	(5,163,231)	(9,895,892)
Purchase of fixed assets	(68,298)	(184,381)
Net cash used in investing activities	<u>(6,691,129)</u>	<u>(10,080,273)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment of notes payable	(36,863)	-
Proceeds from notes payable	-	165,000
Net cash (used in) provided by financing activities	<u>(36,863)</u>	<u>165,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,801,942	280,991
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,045,637	764,646
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,847,579</u>	<u>\$ 1,045,637</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest expense	<u>\$ 45,978</u>	<u>\$ 46,642</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. General

Community Foundation Santa Cruz County (“CFSCC” or the “Foundation”) is a California nonprofit public benefit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a non-private foundation under Section 509(a)(1) of the Internal Revenue Code of 1986. CFSCC was organized in 1982 to enhance the quality of life by seeking, accepting, managing and disbursing funds to address a variety of community needs throughout Santa Cruz County. Grants and technical assistance services provided are in accordance with the terms of CFSCC’s guidelines and are subject to approval of the Board of Directors of CFSCC.

The Regional Water Management Foundation (“RWMF”), a subsidiary of CFSCC and a California nonprofit public benefit corporation, was organized on August 21, 2007 to implement and administer Integrated Regional Water Management Grants awarded by the State of California and such other grants from state, federal or other sources as may be awarded to RWMF from time to time. Since 2007, in addition to implementing and administering the grants, RWMF has expanded its scope of activities to include those aimed at addressing water issues in Santa Cruz County. RWMF is a Type I supporting organization under Section 509(a)(3) of the Internal Revenue Code.

NLMJ Borina Land, LLC (“NLMJ”), a California limited liability company, was organized on September 26, 2013 to be operated for the exclusive purpose of holding title to agricultural land held for investment, collecting income therefrom and turning over the entire amount thereof, less expenses to CFSCC. NLMJ is wholly owned by CFSCC. NLMJ, collectively with RWMF and certain charitable trusts in which the Foundation serves as the trustee, are herein referred to as the Subsidiaries.

2. Summary of significant accounting policies

Principles of consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of the Foundation and Subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of accounting

The Foundation and Subsidiaries prepare their consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Basis of presentation

The Foundation and Subsidiaries are required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions consist primarily of operating reserves, capital assets, general operating support, and the RWMF supporting organization.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)

Net assets with donor restrictions: Net assets that are subject to donor-imposed stipulations. Net assets with donor restrictions consist primarily of non-endowed and endowed donor funds (including donor-advised funds), charitable gift annuities, cash surrender value of life insurance, and investments in charitable trusts. Donor funds include resources that are restricted by a donor for use for a particular purpose or in a particular future period and are subject to the variance power of the Board of Directors. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Endowed funds represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds. The historic gift amount of endowed funds is to be preserved in perpetuity and are subject to the variance power of the Board of Directors.

Endowment funds

Interpretation of relevant law: The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. When reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the original value of initial and subsequent gift amounts donated to the fund. Any deficit of a donor-restricted endowment fund is presented as a reduction in net assets with donor restrictions. If a fund does not have any accumulated earnings, the fund does not participate in grantmaking. As of December 31, 2018, the fair value of underwater funds was \$29,820,965 and the historic gift amount was \$30,431,117.

Investment and spending policies: The Foundation has adopted investment policies that preserve capital, regularly evaluate and control risk to ensure it is commensurate with the given investment style and objective of the portfolio and is invested with the care, skill, prudence, and diligence with the goal of producing returns equal to or exceeding prevailing standards among community foundations of similar asset size. The investment strategy for endowed funds utilizes a “total return,” that is, the aggregate return from capital appreciation and dividend and interest income. Donors (the person or organization that established the fund) or the fund representative authorized by the fund agreement may choose the investment option for their fund when their fund is established. The donor or fund representative may also request to change their fund’s investment option once per calendar year.

The Board of Directors, after conferring with counsel with respect to the provisions of both the Uniform Management of Institutional Funds Act (“UMIFA”) and UPMIFA, has adopted a spending plan that continues to follow UMIFA by enforcing no spending of the permanently restricted portion of donor funds, which consists of the historic gift, or corpus, of the fund. The objective of endowed funds is that the principal gift(s) of the fund will be held forever. Charitable distributions will be spent from a fund’s net earnings according to the Foundation’s spending policy. The spending policy is established to ensure the availability of grant-making dollars to the community in perpetuity. Pursuant to the policy, the total target return is 7%. The funds available for grant-making use determined each year (which was 4% for 2018 and 2017) are calculated based on a 12-quarter moving average based on balances as of December 31. Both the finance committee and the Board of Directors of the Foundation must approve any changes to the spending percentage.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Summary of significant accounting policies (continued)

Endowment funds

Investment and spending policies (continued):

Under the Foundation's endowment spending policy, 4% of the average of the fair value at the end of the previous 12 quarters is appropriated. For calendar year 2018, the calculation for new grant making dollars was \$2,546,780. Of this amount, \$154,613 was related to endowed agency funds.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America includes the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair value of financial instruments

The financial instruments of the Foundation and Subsidiaries include cash and cash equivalents, investments, grants and other accounts receivable, accounts payable and other liabilities, grants payable and notes payable. The recorded values of these financial instruments approximate their fair values. The carrying amount of cash and cash equivalents, grants and other accounts receivable, accounts payable and other liabilities and grants payable approximates fair value because of the short maturities of those investments. The carrying amount of notes payable approximate fair value since stated rate is similar to rates currently available to the Foundation for debt with similar terms and remaining maturities.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Foundation and Subsidiaries consider all highly liquid investments with an initial maturity of three months or less at the date of acquisition to be cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair values.

The Foundation and Subsidiaries maintain their cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation and Subsidiaries have not experienced any losses in such accounts. The Foundation and Subsidiaries believe they are not exposed to any significant credit risk on cash and cash equivalents.

Revenue recognition

Contributions and grants: Contributions and grants are recognized as revenue when received or unconditionally promised and are recorded as support with donor restrictions or without donor restrictions. Unconditional pledges to give are recorded as contributions when pledged at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

Grants and other accounts receivable consist primarily of unconditional promises to give. Receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2018 and 2017, the balance of the allowance for doubtful accounts was \$0.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Foundation services fees: The Foundation charges a monthly service fee for endowed and non-endowed funds under management. These fees are recorded internally both as revenue and expense. All bequests are subject to a one-time fee. These fees help fund the general operations of the Foundation. Fees earned from funds other than agency funds and charitable gift annuities have been eliminated for financial statement presentation, in that these fees do not come from sources external to the Foundation. Foundation services fees earned from agency funds and bequest fees are included in foundation services fees on the accompanying consolidated statements of activities and changes in net assets.

Investments

Investments are stated at fair value. Investment purchases and sales are accounted for on a trade-date basis. Realized and unrealized gains and losses are calculated based upon the underlying cost of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investments are made according to the finance policy adopted by the Foundation's Board of Directors. The guidelines provide for investment in equities, fixed income, and alternative investments. Outside advisors are utilized by the Foundation for the purpose of providing investment advice and report to the Finance Committee.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

The Foundation maintains master investment accounts (funds) for its endowed and non-endowed donor funds. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowed and non-endowed funds based on the relationship of the market value of each donor fund to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Investments include land owned by NLMJ. NLMJ leases the land pursuant to the terms of a lease agreement and accounts for its land lease as an operating lease. Lease revenue, net of operating expenses, is included in investment income on the accompanying consolidated statements of activities and changes in net assets.

Investments also include local impact investment loan receivables. The impact investment loans receivable are carried at outstanding principal balance, less an allowance for loan losses. Interest income is accrued on the principal loan balance. Management's determination of the level of allowance for loan losses rests upon various judgments and assumptions, including current and projected economic conditions. As of December 31, 2018, allowance for loan losses was \$0.

Investments also include loans receivable – Community Investment Revolving Fund (CIRF). The CIRF loans receivable are carried at outstanding principal balance, less an allowance for loan losses. Interest income is accrued on the principal loan balance. Management's determination of the level of allowance for loan losses rests upon various judgments and assumptions, including current and projected economic conditions. As of December 31, 2018, allowance for loan losses was \$0.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Summary of significant accounting policies (continued)

Charitable trust assets

Charitable lead trust: The Foundation serves as trustee for a charitable lead trust. Under the term of the trust agreement, the Foundation is to receive annual distributions and make distributions to income beneficiaries. At the end of the term, or upon the death of the trustor, assets remaining in the trust will be dispersed in accordance with the term of the trust. As the amounts due to be received by the Foundation are immaterial, no receivable has been recorded for this trust. The Foundation records the assets held for income beneficiaries in the trust at their fair values based on current quoted market values. The corresponding liability is recorded as charitable trust liabilities on the accompanying consolidated statements of financial position.

Charitable remainder trusts: The Foundation is a 100% remainderman beneficiary under four charitable remainder trusts, three of which the Foundation also serves as trustee. At the end of the terms, or upon the death of the income beneficiaries, assets remaining in the trusts will be dispersed in accordance with the terms of the trusts. The Foundation records the amounts expected to be received based on the present value of the remainder interests using a discount rate of 2% as of December 31, 2018 and 2017.

In addition, for trusts in which the Foundation serves as trustee, the Foundation makes distributions to income beneficiaries for a given term or the life of the beneficiaries under the terms of these trust agreements and records the amounts held for income beneficiaries equal to the differences between the total assets held in the charitable remainder trusts at their fair values based on quoted market values and the amounts expected to be received by the Foundation. The corresponding liability is recorded as charitable trust liabilities on the accompanying consolidated statements of financial position.

Assets held in charitable gift annuities

The Foundation has established various charitable gift annuities. Under the terms of these agreements, donors contribute assets to the Foundation in exchange for a promise by the Foundation to pay fixed distributions to the donors for the lives of the donors. Upon the death of the donors, assets remaining in the charitable gift annuities will be transferred to a fund held for the benefit of a cause or an organization designated by the donors. The Foundation records the assets held in the charitable gift annuities as investments at their fair market values based on current quoted market prices and records a liability under the charitable gift annuities based on the estimated fair value, estimated by calculating the discounted value of the amounts due to the donors based on the Internal Revenue Service annuity and mortality tables. The Foundation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability and for contributions made to the Foundation pursuant to the underlying agreements.

Annuity liabilities are recorded for the required life annuity payments at the present value of expected future cash payments discounted using current interest rates and actuarial assumptions. The annuity obligations are adjusted each year for changes in the life expectancy of the donors and are reduced as payments are made to the donors.

The Foundation is licensed by the State of California to enter into annuity agreements with donors. California statute requires entities with such a license to maintain a segregated reserve account equal to at least the present value of annuity liabilities, and must be calculated using California's prescribed mortality table and rate of interest. The Foundation has complied with this requirement.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Summary of significant accounting policies (continued)

Fair value measurements

The Foundation applies the accounting provisions related to fair value measurements. 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. Fair value measurement standards establish a three level hierarchy that prioritizes the information used in developing fair value estimates, and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Foundation's own assumptions.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the disclosed level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the item being measured.

The following tables present the Foundation's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2018:

	December 31, 2018			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 110,321,519	\$ -	\$ 2,944,389	\$ 113,265,908
Charitable trust assets	-	-	2,052,496	2,052,496
Total assets	<u>\$ 110,321,519</u>	<u>\$ -</u>	<u>\$ 4,996,885</u>	<u>\$ 115,318,404</u>
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 698,429	\$ 698,429
Charitable trust liabilities	-	-	993,586	993,586
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,692,015</u>	<u>\$ 1,692,015</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

Investments in equity, fixed income and liquid alternative securities, including U.S. Treasury securities, mutual funds, corporate bonds, asset backed securities and commodities, are classified as Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency. Assets and liabilities measured at fair value on a recurring basis using unobservable inputs include charitable trust assets and liabilities, charitable gift annuity investments in real estate, impact investments, investment in limited liability companies, and cash surrender value of life insurance, and are classified within Level 3 of the fair value hierarchy. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable when the determination of the fair value requires significant judgment or estimation.

The tables below present information about the changes in investments, charitable trust assets, charitable gift annuity and charitable trust liabilities for the year ended December 31, 2018:

<u>Investments – Level 3</u>	<u>Real Estate</u>	<u>Other</u>	<u>Total</u>
Balance, January 1, 2018	\$ 2,785,000	\$ 49,420	\$ 2,834,420
Contributions of LLC interest	-	100,000	100,000
Change in value	-	9,969	9,969
Balance, December 31, 2018	<u>\$ 2,785,000</u>	<u>\$ 159,389</u>	<u>\$ 2,944,389</u>

Charitable trust assets

Balance, January 1, 2018	\$ 2,374,494
Change in value of split-interest agreement	(321,998)
Balance, December 31, 2018	<u>\$ 2,052,496</u>

Charitable gift annuity

Balance, January 1, 2018	\$ 753,246
Addition	530
Payments	(83,544)
Change in value of split-interest agreement	28,197
Balance, December 31, 2018	<u>\$ 698,429</u>

Charitable trust liabilities

Balance, January 1, 2018	\$ 1,199,421
Change in value of split-interest agreement	(205,835)
Balance, December 31, 2018	<u>\$ 993,586</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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2. Summary of significant accounting policies (continued)

Fixed assets and depreciation

Fixed assets are stated at cost. Purchases of property, equipment or improvements costing more than \$1,000 are capitalized and recorded at cost. Major improvements are charged to the fixed assets account, while maintenance and repairs, which do not extend the life of the respective assets, are expensed. When fixed assets are retired or otherwise disposed, the cost of the fixed asset and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The useful lives of the assets are estimated as follows:

Building and improvements	40 years
Land improvements	20 years
Office equipment and software	3 – 10 years

Impairment of long-lived assets

The Foundation and Subsidiaries review their long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2018.

Bond financing costs and amortization

Bond financing costs incurred in connection with the issuance of the tax-exempt bonds were recorded at cost as a reduction from the principal balance of the underlying bonds. Amortization of bond financing costs over the term of the underlying bonds is included in interest expense on the accompanying consolidated statement of functional expenses.

Agency funds

Agency funds: When a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of the fund, the Foundation accounts for the transfer of such assets as a liability. The liability is the total fair value of the funds and is reflected as agency funds on the accompanying consolidated statements of financial position. In addition, related amounts received or distributed, investment income or loss, and expenses are not presented on the accompanying consolidated statements of activities and changes in net assets.

Designated agency funds: The Foundation receives and distributes assets for the benefit of various other not-for-profit organizations under certain donor fund agreements. The Foundation accepts a contribution from a donor and agrees to transfer a portion of the return on investment of those assets, subject to the Foundation's spending policy, to another entity that is specified by the donor. The Foundation holds such funds as designated funds.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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2. Summary of significant accounting policies (continued)

Grants and disbursements

Grants are made from available principal and income in accordance with the designations of donors. Endowed funds are subject to the Foundation's spending policy. Grants are recorded at the date of approval. Donor-advised grants below \$50,000 are recorded at the date of approval. Donor-advised grants above \$50,000 are recorded at the date of approval by the Executive Committee. The Board of Directors ratifies all grants. Grant awards are presented on the accompanying consolidated statements of activities and changes in net assets, net of grant refunds.

Recognition of donor restrictions

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions. When restrictions on contributions are satisfied in the same period as the receipt of the contribution, the Foundation reports both the contribution received and the related expense in net assets without donor restrictions.

Functional allocation of expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities and changes in net assets. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on a prorated allocation of employee compensation.

Income taxes

CFSCC and RWMF have been granted tax exempt status by the Internal Revenue Service and the California Franchise Tax Board. In addition, CFSCC has received a ruling from the Internal Revenue Service that it is not a private foundation. CFSCC and RWMF have also registered with the Registry of Charitable Trusts of the Office of the Attorney General of the State of California. NLMJ is disregarded for federal tax purposes and has been granted tax exempt status by the California Franchise Tax Board.

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires the Foundation and Subsidiaries to report information regarding their exposure to various tax positions taken by the Foundation and Subsidiaries. Management has determined whether any tax positions have met the recognition threshold and has measured the Foundation and Subsidiaries' exposure to those tax positions. Management believes that the Foundation and Subsidiaries have adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Foundation and Subsidiaries are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying consolidated financial statements.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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December 31, 2018 and 2017

3. Investments

Investments were comprised of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 6,791,218	\$ 8,400,110
Equities	79,714,204	72,127,064
Fixed income	5,723,017	23,335,552
Alternative investments	20,878,080	15,548,245
Other investments	<u>159,389</u>	<u>49,420</u>
Total investments	<u>\$ 113,265,908</u>	<u>\$ 119,460,391</u>

Investments are allocated among the following portfolios:

Long term portfolio: The portfolio has an investment objective of earning 7% for the aggregate assets invested.

Socially responsible long term portfolio: The portfolio shares the long term portfolio’s goal of exceeding an absolute rate of return of 7%. The construction of the portfolio is centered on three core components: socially responsible investing; environmental, social, and governance and impact investing.

Short duration fixed income portfolio: The portfolio has an investment objective of preservation of purchasing power with a target cash allocation of 20%.

Capital preservation portfolio: The portfolio has an investment objective of preservation of capital.

Outside managed accounts: Assets in this portfolio are managed by the donors’ recommended managers and are approved by the Finance Committee.

Charitable Gift Annuity (“CGA”) Portfolio: Per the State of California, Department of Insurance, the calculated “required” amount of CGA reserve must be invested as specified in the applicable guidelines and the California Insurance Code, Sections 1170 through 1182, as amended by Section 11521.2. The Foundation meets this requirement. Between the reserve and surplus accounts, the objective of the portfolio is preservation of capital.

Operational cash management: The portfolio includes local cash management for receipts and disbursements; and gift receipt, grants payable and general cash preservation accounts to manage the liquidity needs of CFSCC.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Investments (continued)

The investment balance, as summarized above, is allocated among these portfolios as follows:

	<u>2018</u>	<u>2017</u>
Donor portfolios:		
Long term	\$ 85,467,454	\$ 95,630,650
Socially responsible long term	18,759,809	18,154,425
Short duration fixed income	1,665,950	384,752
Capital preservation	1,926,764	1,906,859
Outside managed accounts	1,070,597	1,202,022
Charitable gift annuity portfolio	<u>970,714</u>	<u>1,088,503</u>
Total donor portfolios	109,861,288	118,367,211
Operational cash management	<u>3,304,620</u>	<u>1,093,180</u>
Total investments	<u>\$ 113,265,908</u>	<u>\$ 119,460,391</u>

Alternative investments - real estate

During 2013, NLMJ received a gift of agricultural land. Pursuant to an operating lease agreement, NLMJ receives rent revenue as the lessor of the underlying land. The rent revenue, net of incidental expenses, is included in investment income on the accompanying consolidated statements of activities and changes in net assets. NLMJ recorded the property at the fair value of \$2,785,000 as of the transfer date. Alternative investment in real estate is included as part of the long term portfolio.

Alternative investments - impact investment

In 2014, the Board of Directors approved a finance policy that added impact investing as an allowable alternative investment. Impact investments, along with their financial returns, are to foster positive social, economic or environmental changes, which align and support the philanthropic objectives of the Foundation. Upon approval of the finance committee, the Foundation executed agreements with local nonprofit organizations to provide unsecured loans as an impact investment from the socially responsible long term portfolio. These loans bear interest at 3% to 5% and mature on various dates. As of December 31, 2018 and 2017, the impact investment receivable was \$750,000 and \$350,000, respectively. During 2018 and 2017, interest income on these loans was included in investment income on the accompanying consolidated statements of activities and changes in net assets. Alternative impact investments are included as part of the socially responsible long term portfolio.

Alternative investments - others

Alternative investments - others include liquid alternatives, rethink impact investment, structured product European banks, and Calvert global water fund. As of December 31, 2018 and 2017, the fair values of the alternative investments - others were \$17,343,080 and \$12,413,245, respectively. Other alternative investments are included as part of the long term, socially responsible long term, and charitable gift annuity portfolios.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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3. Investments (continued)

Other investments - investment in limited liability companies

The Foundation occasionally receives donations of noncontrolling interests in limited liability companies. The Foundation accepts such donations with a condition that the investments would be liquidated as soon as practical. During 2018, the Foundation received a contribution membership interest and estimated the fair value of such interest at \$100,000 and recorded investments and corresponding contributions in that amount which represented management's best estimates of the assets' fair values at the date of the donation. As of December 31, 2018 and 2017, the fair values of membership interests were \$103,447 and \$5,187, respectively. Investment in limited liability companies is included as part of the long term portfolio.

Other investments - cash surrender value of life insurance

The Foundation is the beneficiary of a \$750,000 life insurance policy of an insured donor. During 2018 and 2017, the Foundation made premium payments of \$19,000 in each year from the restricted contributions made by the insured donor. The asset is reported at the amount that could be realized at December 31, 2018. Cash surrender value of life insurance is estimated by the life insurance company. As of December 31, 2018 and 2017, the fair value of cash surrender value of life insurance was \$55,942 and \$44,233, respectively. Cash surrender value of life insurance is included as part of the operational cash management portfolio.

Investment income

The following schedule summarizes the investment return and its classification in the accompanying consolidated statements of activities and changes in net assets for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest	\$ 521,859	\$ 444,461
Dividends	2,413,851	2,130,047
Realized gains	1,137,487	2,109,328
Management fees	(498,166)	(409,651)
Unrealized (losses) gains	<u>(11,866,578)</u>	<u>6,897,581</u>
Total investment income	<u>\$ (8,291,547)</u>	<u>\$ 11,171,766</u>

During 2018 and 2017, dividends included \$148,710 and \$133,978, respectively, received by NLMJ in connection with a lease on the underlying land.

4. Grants and other accounts receivable

Grants and other accounts receivable were comprised of the following as of December 31, 2018 and 2018:

	<u>2018</u>	<u>2017</u>
Accounts receivable - RWMF	\$ 28,744	\$ 144,493
Grants receivable - RWMF	607,667	106,989
Contributions and grants receivable	<u>126,260</u>	<u>171,710</u>
Total	<u>\$ 762,671</u>	<u>\$ 423,192</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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5. Loans receivable – Community Investment Revolving Fund (CIRF)

In 2018, the Foundation received a \$1,500,000 contribution to create a Community Investment Revolving Fund (CIRF). The purpose of CIRF is to increase working capital in the social sector and create positive social returns in the community. Repayment of funds will revolve back into the community as new loans and interest payments will cover administration costs. The Board of Directors approved increases to existing impact investment loans from CIRF totaling \$1,500,000. These loans bear interest at rates ranging from 2.5% to 5% and mature on various dates in 2028. As of December 31, 2018, the CIRF receivable was \$1,459,600. During 2018, interest income on these loans of \$7,274 was included in other income on the accompanying consolidated statements of activities and changes in net assets.

Loans receivable were comprised of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Loans receivable	\$ 1,459,600	\$ -
Loan interest receivable	<u>7,274</u>	<u>-</u>
Total	<u>\$ 1,466,874</u>	<u>\$ -</u>

6. Charitable trust assets and liabilities

As of December 31, 2018 and 2017, the Foundation was a beneficiary of five charitable trusts. The Foundation serves as trustee for four and three of these trusts as of December 31, 2018 and 2017, respectively.

	<u>2018</u>		<u>2017</u>	
	Amounts expected to be received from trusts	Amounts held for income beneficiaries	Amounts expected to be received from trusts	Amounts held for income beneficiaries
Charitable Lead Trust A	\$ -	\$ 89,044	\$ -	\$ 104,426
Charitable Remainder Trust B	272,473	-	314,081	-
Charitable Remainder Trust C	159,224	193,104	175,159	229,514
Charitable Remainder Trust E	301,258	417,611	365,971	474,175
Charitable Remainder Trust F	<u>325,956</u>	<u>293,826</u>	<u>319,862</u>	<u>391,306</u>
Total	<u>\$ 1,058,911</u>	<u>\$ 993,585</u>	<u>\$ 1,175,073</u>	<u>\$ 1,199,421</u>

Charitable Lead Trust A

The Foundation is a beneficiary for the lifetime of the donor and also acts as trustee without compensation. The 1% annual unitrust distribution received by the Foundation totaled \$1,521 and \$980 in 2018 and 2017, respectively. As the amounts due to be received by the Foundation are immaterial, no receivable has been recorded for this Trust.

Charitable Remainder Trust B

The Foundation is a 100% remainderman beneficiary under the terms of the trust. The assets of the trust are in no way subject to the control of the Foundation at this time.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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6. Charitable trust assets and liabilities (continued)

Charitable Remainder Trust C

The Foundation is a 100% remainderman beneficiary under the terms of the trust and also acts as trustee without compensation.

Charitable Remainder Trust E

The Foundation is a 100% remainderman beneficiary under the terms of the trust and also acts as trustee without compensation until July 31, 2016, the second anniversary from the creation date of the trust. Commencing on August 1, 2016, the Foundation became entitled to compensation for administrating the trust.

Charitable Remainder Trust F

The trust was established during 2016. The Foundation is a 100% remainderman beneficiary under the terms of the trust. Prior to June 29, 2017, the assets of the trust were in no way subject to the control of the Foundation. Effective on June 29, 2017, the Foundation shall act as a trustee without compensation.

7. Grants payable

CFSCC and RWMF make grants to various organizations. As of December 31, 2018 and 2017, the balance of grants payable was \$4,085,716 and \$916,549, respectively, of which \$1,204,859 and \$39,527, respectively, pertained to RWMF. The following is a summary of grants authorized and payable at December 31, 2018:

Due in 2019	\$ 3,767,116
Due in 2020	224,650
Due in 2021	48,950
Due in 2022	30,000
Due in 2023	<u>15,000</u>
Total grants payable	<u>\$ 4,085,716</u>

8. Fixed assets

The Foundation's fixed assets were comprised of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,083,604	\$ 1,083,604
Land improvements	317,498	317,498
Building	7,343,077	7,343,077
Office equipment and software	<u>1,037,129</u>	<u>968,831</u>
Fixed assets	9,781,308	9,713,010
Less: accumulated depreciation	<u>(2,296,776)</u>	<u>(1,999,182)</u>
Fixed assets, net	<u>\$ 7,484,532</u>	<u>\$ 7,713,828</u>

Depreciation expense during 2018 and 2017 was \$297,594 and \$282,248, respectively.

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9. Notes payable

The Foundation's notes payable consisted of the following as of December 31,

	<u>2018</u>	<u>2017</u>
Tax-exempt bonds	\$ 980,000	\$ 980,000
Santa Cruz County Bank loan	<u>128,137</u>	<u>165,000</u>
Total	1,108,137	1,145,000
Less: unamortized debt issuance costs	<u>(27,447)</u>	<u>(40,622)</u>
Notes payable, net of unamortized debt issuance costs	<u>\$ 1,080,690</u>	<u>\$ 1,104,378</u>

Tax-exempt bonds

In January 2011, the Foundation closed a "Friends & Family" tax-exempt bond transaction and used the proceeds to repay the line of credit that was used to finance the construction of CFSCC's center for philanthropy. Twelve investors (including four board members) took advantage of this opportunity and saved the Foundation significant interest payments on other commercial real estate loan options. The Foundation will continue to raise funds to pay off the bond holders. The Foundation entered into an Indenture Agreement with the California Statewide Communities Development Authority (the "Authority") and Wells Fargo Bank, National Association (the "Trustee") to obtain loan proceeds funded by the issuance of tax-exempt revenue bonds (Community Foundation Santa Cruz County) Series 2011 in the amount of \$2,500,000 to finance the construction of the Foundation's center for philanthropy. Proceeds from the sale of the bonds in the amount of \$2,500,000 were loaned by the Authority to the Foundation under conditions stipulated in certain loan and regulatory agreements. Repayment of the loan is secured by a first deed of trust in favor of the Trustee acting on behalf of the Authority. The loan bears interest at an annual rate of 3.75% and requires payments of interest only, payable semi-annually on January 1 and July 1, beginning July 1, 2011. All principal and unpaid interest shall be payable at maturity on January 1, 2021.

During 2018 and 2017, two bond holders forgave \$0 and \$420,000, respectively. This amount was included in debt forgiveness income on the accompanying consolidated statements of activities and changes in net assets. Interest expense during 2018 and 2017 was \$45,979 and \$46,642, respectively.

Debt issuance costs are being amortized to interest expense over the term of the loan. For 2018 and 2017, the effective interest rate was 5.85% and 4.68%, respectively. In connection with the issuance of the tax-exempt bonds, the Foundation incurred bond financing costs totaling \$131,743. During 2018 and 2017, amortization expense for debt issuance costs was \$13,174 in each year.

Santa Cruz County Bank

On December 21, 2017, the Foundation obtained financing from Santa Cruz County Bank for an amount up to \$250,000. The note bears interest at an annual rate of 5.00% and requires 3 monthly consecutive interest only payments beginning January 21, 2018. Beginning April 21, 2018, the loan requires monthly principal and interest payments of \$4,719. All principal and unpaid interest shall be payable at maturity on March 21, 2023.

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10. Employee retirement plan

In January 1997, the Foundation established a 401(k) plan. Currently, the plan is a safe harbor plan that requires the Foundation to contribute 3% of eligible employee compensation. Employees are eligible to participate in the plan starting on the first of the month following 60 days of employment. In addition to the 3% contribution, the Board of Directors approved discretionary contributions of \$123,703 and \$72,236, respectively, to the plan in 2018 and 2017. The increase in 2018 is due to a change in the timing of discretionary contributions paid into employee accounts. The Board of Directors approved a 3% contribution in 2018 and 2017. These amounts are included in payroll taxes and employee benefits on the accompanying consolidated statements of functional expenses.

11. Net assets

Net assets without donor restrictions

Net assets without donor restrictions consist of operating reserves (board designated funds), capital assets, general operating support, and the RWMF supporting organization. Board designated funds are funded with surplus unrestricted operating funds and are intended to provide an internal source of funds for situations such as sudden increase in expense, one-time unbudgeted expenses or unanticipated loss in funding.

At December 31, 2018 and 2017, net assets without donor restrictions consisted of the following:

	<u>2018</u>	<u>2017</u>
Board designated	\$ 454,314	\$ 454,179
Undesignated	6,949,548	7,100,277
RWMF	<u>31,160</u>	<u>111,935</u>
Total net assets without donor restrictions	<u>\$ 7,435,022</u>	<u>\$ 7,666,391</u>

Net assets with donor restrictions

Net assets with donor restrictions consist of non-endowed and endowed funds, foundation contributions for special projects, charitable gift annuities, cash surrender value of life insurance, and investment in charitable trusts. Endowed funds represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds.

At December 31, 2018 and 2017, net assets with donor restrictions consisted of the following:

	<u>2018</u>	<u>2017</u>
Non-endowed	\$ 33,795,252	\$ 36,382,675
Charitable gift annuities	277,283	320,008
Grants, special projects, and pass-through	2,869,254	876,553
Charitable remainder trust assets	1,175,073	1,175,073
Endowed	<u>61,716,468</u>	<u>65,963,975</u>
Total net assets with donor restrictions	<u>\$ 99,833,330</u>	<u>\$ 104,718,284</u>

12. Agency funds

When a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of the fund, the Foundation accounts for the transfer of such assets as a liability. The liability is the total fair value of the funds held by the Foundation and is reflected as agency funds on the accompanying consolidated statements of financial position.

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12. Agency funds (continued)

In addition, related amounts received or distributed, investment income or loss, and expenses are not presented on the accompanying consolidated statements of activities and changes in net assets. The Foundation complies with generally accepted accounting principles as they relate to agency funds by booking their value as a liability. There are two types of agency funds as described below:

Agency flex funds

Agency flex funds continue as long as the need for them exists. Payments may be paid out of both principal and income, at the request of the agency and approved by the Foundation's Board of Directors. Agency flex funds may be invested in either long term or short term pools. Agency flex funds balances at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Peixoto Organic & Sustainable Farming Education Fund	\$ 2,243,562	\$ 2,485,581
Hospice of Santa Cruz County Reserve Fund	2,152,442	2,376,482
Wharf to Wharf Scholarship Fund	507,252	553,749
Hospice of Santa Cruz County Fund	487,384	542,642
CASA Operating Fund II	484,066	-
The Arts Council Fund	471,399	529,276
Ceiba Scholarship Fund	414,559	556,530
Monarch Services Agency Flex Fund	286,464	318,943
CASA Operating Fund	261,770	290,900
Agri-Culture Farmworker Housing Fund	254,074	318,943
Pacific School Foundation Fund	237,139	290,900
Vajrapani Institute Fund	189,050	313,473
CASA Capital Campaign Fund	160,002	264,026
Happy Valley School Legacy Flex Fund	147,287	206,379
Stein Memorial Fund for Watsonville Public Libraries	143,377	181,119
Boys & Girls Club of Santa Cruz Fund	117,560	133,929
California Grey Bears Legacy Fund	116,963	147,200
Pajaro Valley Prevention and Student Assistance Capital Campaign Fund	115,825	-
Jacob's Heart Stewardship Fund	73,896	82,274
Santa Cruz Community Ventures Agency Flex Fund	72,272	204,408
Pajaro Valley Quilt Association Flex Fund	45,452	-
Vajrapani Institute Wisdom Culture Legacy Fund	43,155	47,111
Main Beach Volleyball Club Scholarship Fund	34,658	38,587
Aptos Sports Foundation Fund	25,071	27,913
MBOSC Trail Fund	25,045	-
PV United Field Fund	23,618	-
Friends of Santa Cruz Public Libraries Agency Flex Fund	14,660	16,505
Georgette Dufresne Memorial Fund for Monarch Services	7,686	8,709
Friends of Santa Cruz Public Libraries Agency Flex Fund Sulzner	-	144,598
Total agency endowment funds	<u>\$ 9,155,688</u>	<u>\$ 9,731,447</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
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12. Agency funds (continued)

Agency endowment funds

Agency endowment funds will continue to payout, subject to the spending plan for endowed funds, in perpetuity. All agency endowment funds are invested in a long term pool. Agency endowment funds balances at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Temple Beth El Next Generation Fund	\$ 974,205	\$ 1,086,144
O'Neill Sea Odyssey Fund	697,715	734,678
Happy Valley School Foundation Fund	666,198	747,574
Stein Memorial Endowment Fund	343,690	388,091
Bonny Doon Education Fund	214,231	210,982
Agriculture History Project Endowment Fund	200,025	219,741
Fund for Elkhorn Slough Foundation Fund	179,538	205,901
Jimmie Cox Memorial Scholarship Fund	112,400	125,970
SPCA/Blackie's Senior Friends Fund	89,612	101,240
Santa Cruz Shakespeare Endowment Fund	80,311	90,583
T.H.A.N.K.S. Agriculture Education Fund	65,823	75,766
Court Appointed Special Advocates Fund	59,038	67,608
Laura Brown Memorial Scholarship Fund	52,049	-
Pajaro Valley Historic Association Borina Archive Fund	50,879	56,442
Congregational Church of Soquel Endowment Fund	48,469	55,852
Museum of Art and History Endowment Fund	47,499	54,474
Watsonville Wetlands Watch Laura Hofmeister Scholarship Fund	44,352	50,102
Agri-Culture Jeannie Witmer Memorial Scholarship Fund	41,948	44,647
Elkhorn Slough Foundation Fund	39,775	45,615
Santa Cruz Sailing Foundation Fund	34,483	39,757
Agri-Culture J.J. Crosetti, Jr. Memorial Fund	32,547	35,704
Kuumbwa Jazz Endowment Fund	31,996	36,807
Watsonville Wetlands Watch Endowment Fund	31,613	35,716
Monarch Services Fund	30,929	34,867
John Mello Historical Preservation Endowment Fund	29,616	32,854
Agricultural Education in Santa Clara County Fund	28,739	26,492
Mountain Community Resources Endowment Fund	28,659	32,378
Second Harvest Food Forever Fund	27,263	30,801
Pajaro Valley Quilt Association Agency Endowment	27,017	30,984
Ron and Dottie Tyler Fund for Restored Agrarian Equipment Maintenance	26,799	29,797
Snug & Dub Brown Children's Fund	26,256	29,663
Ernest and Beverley Bontadelli Memorial Fund	25,961	-
Save Our Shores Forever Fund	25,211	28,459
Dottie Tyler Fund for Agrarian Oral History	24,964	28,781
San Lorenzo Valley Water District Olympia Wellfield Habitat Set-Aside	24,127	-
Land Trust of Santa Cruz County Endowment Fund	23,277	-
Agri-Culture Sandhill Bluff Conservation Easement Monitoring Fund	<u>21,241</u>	<u>24,051</u>
Total agency endowment funds	<u>\$ 4,508,455</u>	<u>\$ 4,838,521</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

13. Major contributions

For the year ended December 31, 2018, 50% of CFSCC's annual contribution and grant revenue was provided by seven donors.

14. Liquidity and availability of financial assets

The following reflects the Foundation's financial assets as of the balance sheet date, reduced by the amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, endowments and accumulated earnings net of appropriations within one year and board designated endowments.

Financial assets

Cash and cash equivalents	\$ 2,847,579
Investments	113,265,908
Grants and other accounts receivable	<u>762,671</u>
Financial assets, at year end	116,876,158

Add those available for general expenditure within one year due to:

Time restricted funds available within one year	229,700
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Less those unavailable for general expenditure within one year due to:

Total net assets with donor restrictions	(99,833,330)
Agency funds	(13,664,143)
Charitable gift annuities liabilities	<u>(698,429)</u>

Financial assets available to meet cash needs for general expenditure within one year

\$ 2,909,956

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

15. Subsequent events

Subsequent events have been evaluated through June 27, 2019, which is the date the consolidated financial statements were available to be issued. The following is a summary of significant transactions through June 27, 2019:

As of June 27, 2019, the note payable to Santa Cruz County Bank was paid in full.

Beginning in 2019, the Foundation changed its spending policy. For funds whose net earnings may reduce the fund below historic gift and the average balance in the twelve trailing quarters exceeds the historic gift, the fund may spend at the following levels: if 98% or above historic gift, then spend 4% of the 12 trailing quarter average balance, if between 96-97.99%, then spend 3%, if between 94-95.99%, then spend 2%. There is to be no spending if the fund dips below 94% of the historic gift. Special consideration to spend may be made during active fund development or other circumstance which would make the 12 trailing quarters an inappropriate view of a specific fund's balance and spending calculation.

As of June 27, 2019, the fair value of underwater funds was \$3,386,958 and the historic gift amount was \$3,423,600.

SUPPLEMENTARY INFORMATION

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2018

	CFSCC & NLMJ	RWMF	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 2,054,108	\$ 793,471	\$ -	\$ 2,847,579
Investments	113,268,408	-	(2,500)	113,265,908
Charitable trust assets	2,052,496	-	-	2,052,496
Grants and other accounts receivable	319,725	636,411	(193,465)	762,671
Loans receivable - CIRF	1,459,600	-	-	1,459,600
Loan interest receivable	7,274	-	-	7,274
Deposits and prepaid expenses	75,229	-	-	75,229
Fixed assets, net	7,484,532	-	-	7,484,532
TOTAL ASSETS	<u>\$ 126,721,372</u>	<u>\$ 1,429,882</u>	<u>\$ (195,965)</u>	<u>\$ 127,955,289</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and other liabilities	\$ 163,976	\$ 193,862	\$ (193,465)	\$ 164,373
Grants payable	2,880,856	1,204,860	-	4,085,716
Agency funds	13,664,143	-	-	13,664,143
Charitable trust liabilities	993,586	-	-	993,586
Charitable gift annuity liability	698,429	-	-	698,429
Notes payable	1,080,690	-	-	1,080,690
Total liabilities	<u>19,481,680</u>	<u>1,398,722</u>	<u>(193,465)</u>	<u>20,686,937</u>
NET ASSETS				
Without donor restrictions	7,406,365	31,160	(2,500)	7,435,025
With donor restrictions	99,833,327	-	-	99,833,327
Total net assets	<u>107,239,692</u>	<u>31,160</u>	<u>(2,500)</u>	<u>107,268,352</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 126,721,372</u>	<u>\$ 1,429,882</u>	<u>\$ (195,965)</u>	<u>\$ 127,955,289</u>

see accompanying independent auditor's report on supplementary information

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>CFSCC</u>	<u>RWMF</u>	<u>Eliminations</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Contributions and grants	\$ 17,856,424	\$ 1,943,634	\$ (422,517)	\$ 19,377,541
Investment income	(8,355,738)	-	64,191	(8,291,547)
Change in split-interest agreements	(144,359)	-	-	(144,359)
Foundation services fees	266,650	-	-	266,650
Other income	24,555	-	-	24,555
Interest income - note receivable	7,274	-	-	7,274
Debt forgiveness income	-	-	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	<u>9,654,806</u>	<u>1,943,634</u>	<u>(358,326)</u>	<u>11,240,114</u>
EXPENSES				
Grants and disbursements	11,706,818	2,000,865	(422,517)	13,285,166
Salaries	1,576,341	-	-	1,576,341
Payroll taxes and employee benefits	462,897	212	-	463,109
General and administrative	189,095	1,345	-	190,440
Conferences and meetings	26,430	5,090	-	31,520
Advertising and marketing	23,752	-	-	23,752
Professional services	213,180	16,897	-	230,077
Repairs and maintenance	161,233	-	-	161,233
Insurance	38,052	-	-	38,052
Depreciation	297,594	-	-	297,594
Interest expense	59,153	-	-	59,153
Loss on disposal of fixed assets	-	-	-	-
TOTAL EXPENSES	<u>14,754,545</u>	<u>2,024,409</u>	<u>(422,517)</u>	<u>16,356,437</u>
CHANGE IN NET ASSETS	<u>(5,099,739)</u>	<u>(80,775)</u>	<u>64,191</u>	<u>(5,116,323)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>112,339,431</u>	<u>111,935</u>	<u>(66,691)</u>	<u>112,384,675</u>
NET ASSETS AT END OF YEAR	<u>\$ 107,239,692</u>	<u>\$ 31,160</u>	<u>\$ (2,500)</u>	<u>\$ 107,268,352</u>

see accompanying independent auditor's report on supplementary information