

**COMMUNITY FOUNDATION
SANTA CRUZ COUNTY AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

December 31, 2015

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 statement of financial position as of December 31, 2015, 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 Subsidiaries as of December 31, 2015, 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 2014 consolidated financial statements of Community Foundation Santa Cruz County and Subsidiaries, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Novogradac + Company LLP

Walnut Creek, California
April 27, 2016

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2015 (with comparative totals for 2014)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
Cash and cash equivalents	\$ 267,548	\$ 960,916	\$ 546,964	\$ 1,775,428	\$ 1,284,848
Investments (note 3)	733,700	39,466,608	48,720,101	88,920,409	87,388,370
Deficit of endowments	(847,796)	-	847,796	-	-
Charitable trust assets (note 5)	-	243,865	1,266,456	1,510,321	1,740,883
Grants and other accounts receivable (note 4)	124,547	22,033	450	147,030	352,145
Deposits and prepaid expenses	30,662	-	-	30,662	43,358
Fixed assets, net (note 7)	8,079,606	-	-	8,079,606	8,360,838
TOTAL ASSETS	<u>\$ 8,388,267</u>	<u>\$ 40,693,422</u>	<u>\$ 51,381,767</u>	<u>\$ 100,463,456</u>	<u>\$ 99,170,442</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and other liabilities	\$ 56,371	\$ 9,833	\$ -	\$ 66,204	\$ 59,487
Grants payable (note 6)	71,186	1,082,159	-	1,153,345	1,979,012
Agency funds (note 11)	-	7,007,509	-	7,007,509	6,020,154
Charitable trust liabilities (note 5)	-	-	827,396	827,396	903,249
Charitable gift annuity liability	-	681,014	-	681,014	692,104
Note payable - tax-exempt bonds (note 8)	1,433,030	-	-	1,433,030	1,669,856
Total liabilities	<u>1,560,587</u>	<u>8,780,515</u>	<u>827,396</u>	<u>11,168,498</u>	<u>11,323,862</u>
Net assets (note 10)	<u>6,827,680</u>	<u>31,912,907</u>	<u>50,554,371</u>	<u>89,294,958</u>	<u>87,846,580</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,388,267</u>	<u>\$ 40,693,422</u>	<u>\$ 51,381,767</u>	<u>\$ 100,463,456</u>	<u>\$ 99,170,442</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2015 (with comparative totals for 2014)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
PUBLIC SUPPORT AND REVENUE					
Contributions and grants	\$ 381,926	\$ 8,992,635	\$ 968,929	\$ 10,343,490	\$ 29,895,423
Investment (loss) income	22,268	(1,735,332)	-	(1,713,064)	3,239,947
Increase in deficit of endowments	(791,473)	791,473	-		
Change in split-interest agreements	-	(39,200)	(104,770)	(143,970)	(81,402)
Foundation services fees	119,503	-	-	119,503	504,998
Other income	18,454	700	-	19,154	14,626
Net assets released from restrictions					
Satisfaction of time and/or purpose restrictions	5,071,492	(5,071,492)	-	-	-
Interfund foundation services fees	1,450,208	(1,450,208)	-	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	6,272,378	1,488,576	864,159	8,625,113	33,573,592
EXPENSES					
Grants and disbursements:					
Arts, history, and culture	970,801	-	-	970,801	837,253
Community development	213,011	-	-	213,011	221,468
Education/youth development	962,920	-	-	962,920	8,372,142
Environment	914,441	-	-	914,441	738,677
Health	579,124	-	-	579,124	1,484,946
Human services	877,803	-	-	877,803	1,576,510
Other	79,815	-	-	79,815	42,313
Regional water management	78,369	-	-	78,369	90,247
Total grants and disbursements	4,676,284	-	-	4,676,284	13,363,556
Supporting services, Programs	1,639,243	-	-	1,639,243	1,466,301
	6,315,527	-	-	6,315,527	14,829,857
Supporting services, Operations					
Marketing and development	430,603	-	-	430,603	473,293
Management and general	430,605	-	-	430,605	473,293
Total supporting services, Operations	861,208	-	-	861,208	946,586
TOTAL EXPENSES	7,176,735	-	-	7,176,735	15,776,443
CHANGE IN NET ASSETS	(904,357)	1,488,576	864,159	1,448,378	17,797,149
NET ASSETS AT BEGINNING OF YEAR	7,732,037	30,424,331	49,690,212	87,846,580	70,049,431
NET ASSETS AT END OF YEAR	\$ 6,827,680	\$ 31,912,907	\$ 50,554,371	\$ 89,294,958	\$ 87,846,580

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2015 (with comparative totals for 2014)

	2015			2014	
	Program Services	Marketing/ Development	Management and General	Total	Total
GRANTS AND DISBURSEMENTS	\$ 4,676,284	\$ -	\$ -	\$ 4,676,284	\$ 13,363,556
PERSONNEL EXPENSES					
Salaries	754,370	198,161	198,162	1,150,693	1,023,069
Payroll taxes and employee benefits	200,987	52,796	52,797	306,580	271,890
Total personnel expenses	<u>955,357</u>	<u>250,957</u>	<u>250,959</u>	<u>1,457,273</u>	<u>1,294,959</u>
OTHER EXPENSES					
General and administrative	107,167	28,151	28,152	163,470	135,666
Conferences and meetings	12,455	3,272	3,272	18,999	28,344
Advertising and marketing	17,858	4,691	4,691	27,240	16,993
Professional services	211,711	55,613	55,613	322,937	432,503
Repairs and maintenance	78,348	20,581	20,580	119,509	116,223
Insurance	24,899	6,541	6,540	37,980	28,745
Total other expenses	<u>452,438</u>	<u>118,849</u>	<u>118,848</u>	<u>690,135</u>	<u>758,474</u>
Depreciation	184,370	48,430	48,432	281,232	277,874
Interest expense	47,078	12,367	12,366	71,811	81,580
Total supporting services	<u>1,639,243</u>	<u>430,603</u>	<u>430,605</u>	<u>2,500,451</u>	<u>2,412,887</u>
Total expenses	<u>\$ 6,315,527</u>	<u>\$ 430,603</u>	<u>\$ 430,605</u>	<u>\$ 7,176,735</u>	<u>\$ 15,776,443</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2015 (with comparative totals for 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,448,378	\$ 17,797,149
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	281,232	277,874
Amortization of bond financing costs included in interest expense	13,174	13,175
Noncash contributions and grants	-	(425,701)
Realized and unrealized losses (gains)	3,980,870	(1,249,633)
Change in split-interest agreements	143,970	81,402
(Increase) decrease in operating assets:		
Charitable trust assets	230,562	(553,335)
Grants and other accounts receivable	205,115	362,589
Deposits and prepaid expenses	12,696	39,224
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	6,717	(82,788)
Grants payable	(825,667)	895,664
Agency funds	987,355	970,485
Charitable trust liabilities	(75,853)	562,563
Charitable gift annuity liability	(11,090)	35,280
Net cash provided by operating activities	<u>6,397,459</u>	<u>18,723,948</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities, net	(5,656,879)	(19,088,910)
Purchase of fixed assets	-	(71,393)
Net cash used in investing activities	<u>(5,656,879)</u>	<u>(19,160,303)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of tax-exempt bonds	<u>(250,000)</u>	<u>(250,000)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	490,580	(686,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,284,848</u>	<u>1,971,203</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,775,428</u>	<u>\$ 1,284,848</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest expense	<u>\$ 58,637</u>	<u>\$ 68,405</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

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 (collectively with RWMF, the “Subsidiaries”), 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 Borina Land, LLC is wholly owned by CFSCC.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets consist primarily of operating reserves, capital assets, and general operating support. Unrestricted net assets also include cumulative unrealized losses on donor-restricted endowment funds to the extent that such losses reduce the endowment fund balance below the historical gift amount.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed stipulations which can be fulfilled either by actions of those stipulations and/or expire with the passage of time and subject to the variance power of the Board of Directors. Temporarily restricted net assets consist primarily of temporarily restricted contributions, including non-endowed donor-advised funds, charitable gift annuities, cash surrender value of life insurance, investments in charitable trusts, and accumulated earnings on endowed funds. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations whereby the historic gift amount is to be preserved in perpetuity and are subject to the variance power of the Board of Directors. While the historic gift is to remain permanently maintained, the Foundation and Subsidiaries may expend the accumulated earnings, which are temporarily restricted, in accordance with donor specifications.

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 note payable - tax exempt bonds. 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 note payable - tax exempt bonds approximates 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

Revenue recognition

Contributions and grants: Contributions and grants are recognized as revenue when received or unconditionally promised and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor-imposed 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, 2015 and 2014, the balance of the allowance for doubtful accounts was \$0.

Foundation services fees: The Foundation charges a monthly maintenance 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 set up 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 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 endowment fund to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

Investments (continued)

Investments include land owned by NLMJ Borina Land, LLC. NLMJ Borina Land, LLC 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 an impact investment loan receivable from a nonprofit organization. The impact investment loan receivable is carried at its 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, 2015, allowance for loan losses was \$0.

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 income beneficiaries, 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, two 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, 2015 and 2014.

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 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

Assets held in charitable gift annuities (continued)

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.

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

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, 2015:

	December 31, 2015			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 85,760,940	\$ -	\$ 3,159,469	\$ 88,920,409
Charitable trust assets	-	-	1,510,321	1,510,321
Total assets	\$ 85,760,940	\$ -	\$ 4,669,790	\$ 90,430,730
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 681,014	\$ 681,014
Charitable trust liabilities	-	-	827,396	827,396
Total liabilities	\$ -	\$ -	\$ 1,508,410	\$ 1,508,410

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, investments in real estate, impact investments, investment in limited liability companies, cash surrender value of life insurance and charitable gift annuity liability, 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, 2015:

Investments

Balance, January 1, 2015	\$ 2,796,063
Addition - Impact investment	350,000
Interest income on impact investment	8,750
Payment of interest on impact investment	(8,750)
Change in value of cash surrender of life insurance	13,406
Balance, December 31, 2015	\$ 3,159,469

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

Charitable trust assets

Balance, January 1, 2015	\$ 1,740,883
Distribution received	(49,939)
Change in value of split-interest agreement	<u>(180,623)</u>
Balance, December 31, 2015	<u>\$ 1,510,321</u>

Charitable gift annuity

Balance, January 1, 2015	\$ 692,104
Addition	6,602
Payments	(56,892)
Change in value of split-interest agreement	<u>39,200</u>
Balance, December 31, 2015	<u>\$ 681,014</u>

Charitable trust liabilities

Balance, January 1, 2015	\$ 903,249
Change in value of split-interest agreement	<u>(75,853)</u>
Balance, December 31, 2015	<u>\$ 827,396</u>

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 2015.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

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 on a straight-line basis over the term of the underlying bonds is included in interest expense on the accompanying consolidated statement of functional expenses.

Agency funds

Agency endowed 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 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.

Agency designated 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.

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 \$25,000 are recorded at the date of approval by the Chief Executive Officer. Donor-advised grants above \$25,000 are recorded at the date of approval by the Executive Committee. 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted net assets.

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

2. Summary of significant accounting policies (continued)

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 Borina Land, LLC 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.

Endowment funds

The Financial Accounting Standards Board provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). This guidance improves disclosures about an organization's endowed funds (both donor-restricted endowment funds and board-designated endowment funds).

The Foundation classifies its unrealized losses on donor-restricted endowment funds as unrestricted net assets to the extent that such losses reduce the fund balance below the historical gift amount. Any gains in subsequent years will first offset the losses in unrestricted net assets before recording unrealized gains and losses as temporarily restricted net assets. As of December 31, 2015 and 2014, the cumulative deficit balance of donor-restricted endowment funds recognized as a reduction of unrestricted net assets was \$847,796 and \$56,323, respectively.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

3. Investments

Investments were comprised of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 7,672,749	\$ 7,661,047
Equities	54,678,104	46,760,664
Fixed income	17,308,884	26,995,298
Alternative investments	9,236,203	5,960,298
Other investments	<u>24,469</u>	<u>11,063</u>
Total investments	<u>\$ 88,920,409</u>	<u>\$ 87,388,370</u>

Investments are allocated among the following portfolios:

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

Socially responsible long term portfolio: The portfolio has an investment objective of earning of 7% and a long term outlook and additional requirements for social criteria.

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

Cash management portfolio: The portfolio has an investment objective of preservation of capital.

Alternative investments - real estate

During 2013, NLMJ Borina Land, LLC received a gift of agricultural land. NLMJ Borina Land, LLC recorded the property at the fair value as of the transfer date of \$2,785,000. NLMJ Borina Land, LLC recognized \$1,400,000 as permanently restricted contributions and \$1,385,000 as temporarily restricted contributions, per donor intent. Real estate is included as part of the long-term portfolio.

Alternative investments - liquid alternatives

The goal of the liquid alternative investments is to produce a non-correlated fixed-income alternative investment with an expected return of treasury bills plus 4% to 6% consistently over three year rolling periods with financial instruments that are liquid and readily available on a daily basis. These alternative investments are intended to improve the risk/reward profile of the Foundation's investment portfolio.

Alternative investments - impact investment

During 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 aligns and supports the philanthropic objectives of the Foundation. On March 2, 2015, upon approval of the finance committee, the Foundation executed an agreement with a nonprofit organization to provide an unsecured loan in the amount of \$350,000 as an impact investment from the socially responsible long term portfolio. The loan bears interest at 3% and matures on March 2, 2020. During 2015, interest income on the loan of \$8,750 was included in investment (loss) income on the accompanying consolidated statement of activities and changes in net assets.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

3. Investments (continued)

Other investments - investment in limited liability companies

In 2012, the Foundation received donations of noncontrolling interests in limited liability companies. The Foundation accepted the donations with a condition that the investments would be liquidated as soon as practical. The Foundation determined that the membership interests donated would be sold for \$14,087 and recorded investments and corresponding contributions in those amounts, which represented management's best estimates of the assets' fair values at the date of the donation. As of December 31, 2015 and 2014, the fair values of membership interests were \$5,022.

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 2015 and 2014, 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, 2015. Cash surrender value of life insurance is estimated by the life insurance company. As of December 31, 2015 and 2014, the fair value of cash surrender value of life insurance was \$19,447 and \$6,041, respectively.

Investment (loss) 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest	\$ 419,119	\$ 397,813
Dividends	1,860,635	1,606,096
Realized gains	1,272,049	1,321,095
Unrealized losses	<u>(5,264,867)</u>	<u>(85,057)</u>
Total investment (loss) income	<u>\$ (1,713,064)</u>	<u>\$ 3,239,947</u>

During 2015 and 2014, dividends included \$136,743 and \$128,987, respectively, received by NLMJ Borina Land, LLC in connection with a lease on the underlying land. During 2015 and 2014, investment management fees of \$411,687 and \$396,902, respectively, and charitable gift annuity custodial fees of \$11,948 and \$13,595, respectively, are recognized as a reduction of realized gains.

4. Grants and other accounts receivable

Grants and other accounts receivable were comprised of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ -	\$ 3,764
Pledges receivable	700	16,400
Grants receivable	122,997	311,707
Gifts and contributions receivable	<u>23,333</u>	<u>20,274</u>
Total	<u>\$ 147,030</u>	<u>\$ 352,145</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

5. Charitable trust assets and liabilities

The Foundation was a beneficiary of five charitable trusts as of December 31, 2015 and 2014. The Foundation serves as trustee for three of these trusts as of December 31, 2015 and 2014.

	2015		2014	
	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	\$ -	\$ 100,877	\$ -	\$ 113,181
Charitable Remainder Trust B	243,854	-	243,865	-
Charitable Remainder Trust C	130,488	204,398	136,861	229,530
Charitable Remainder Trust D	-	-	49,939	-
Charitable Remainder Trust E	308,583	522,121	406,969	560,538
Total	<u>\$ 682,925</u>	<u>\$ 827,396</u>	<u>\$ 837,634</u>	<u>\$ 903,249</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 \$1,132 and \$1,096 in 2015 and 2014, 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.

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 D

The Foundation is a 100% remainderman beneficiary under the terms of the trust. The assets of the trust were not subject to the control of the Foundation. The trust matured in February, 2015 and the Foundation received a total distribution of \$49,939.

Charitable Remainder Trust E

The trust was established during 2014. 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 shall be entitled to compensation for administrating the trust. The Foundation recognized noncash contributions revenue of \$425,701, which is the present value of the future interest expected to be received from the trust as of the date the trust was funded. This amount was included in permanently restricted contributions in the accompanying consolidated statements of activities and changes in net assets.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

6. Grants payable

CFSCC and RWMF make grants to various organizations. As of December 31, 2015 and 2014, the balance of grants payable was \$1,153,345 and \$1,979,012, respectively, of which \$71,187 and \$104,090, respectively, pertained to RWMF. The following is a summary of grants authorized and payable at December 31, 2015:

Due in 2016	\$ 900,194
Due in 2017	211,151
Due in 2018	<u>42,000</u>
Total grants payable	<u>\$ 1,153,345</u>

7. Fixed assets

The Foundation's fixed assets were comprised of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</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>777,813</u>	<u>777,813</u>
Fixed assets	9,521,992	9,521,992
Less: accumulated depreciation	<u>(1,442,386)</u>	<u>(1,161,154)</u>
Fixed assets, net	<u>\$ 8,079,606</u>	<u>\$ 8,360,838</u>

Depreciation expense during 2015 and 2014 was \$281,232 and \$277,874, respectively.

8. Note payable - 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 new 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 2015, the Foundation retired \$250,000 of the tax-exempt bonds. As of December 31, 2015 and 2014, the principal balance on the tax-exempt bonds was \$1,500,000 and \$1,750,000, respectively. In January 2016, the Foundation retired an additional \$100,000 of the tax-exempt bonds. Interest expense during 2015 and 2014 was \$58,637 and \$68,405, respectively.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

8. Note payable - tax-exempt bonds (continued)

In connection with the issuance of the tax-exempt bonds, the Foundation incurred bond financing costs totaling \$131,743. During 2015 and 2014, amortization of bond financing costs was \$13,174 and \$13,175, respectively, and is included in interest expense on the accompanying consolidated statement of functional expenses. As of December 31, 2015 and 2014, bond financing costs of \$66,970 and \$80,144, respectively, net of accumulated amortization of \$64,773 and \$51,599, respectively, were recorded as a reduction from the principal balance of the underlying bonds on the accompanying consolidated statement of financial position.

9. Employee retirement plan

In January 1997, the Foundation established a safe harbor 401(k) 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 90 days of employment. In addition to the 3% contribution, the Board of Directors approved discretionary contributions of \$60,137 and \$55,498, respectively, to the plan in 2015 and 2014. These amounts are included in payroll taxes and employee benefits on the accompanying consolidated statements of functional expenses.

10. Net assets

Unrestricted net assets

Unrestricted net assets consist of operating reserves, capital assets, general operating support, unrealized losses on donor-restricted endowment funds, and the RWMF supporting organization. At December 31, 2015 and 2014, unrestricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Board designated	\$ 306,757	\$ 306,903
Deficit of endowments	(847,796)	(56,288)
Undesignated	7,318,009	7,443,716
RWMF	<u>50,710</u>	<u>37,706</u>
Total unrestricted net assets	<u>\$ 6,827,680</u>	<u>\$ 7,732,037</u>

Temporarily restricted net assets

Temporarily restricted net assets consist of non-endowed donor-advised funds, foundation contributions for special projects, charitable gift annuities, and the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets.

At December 31, 2015 and 2014, temporarily restricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Non-endowed	\$ 23,552,405	\$ 21,183,126
Charitable gift annuities	209,627	270,485
Grants, special projects, and pass-through	2,907,642	1,024,562
Cumulative earnings on permanently restricted net assets in excess of corpus	4,999,368	7,652,354
Charitable remainder trust assets	<u>243,865</u>	<u>293,804</u>
Total temporarily restricted net assets	<u>\$ 31,912,907</u>	<u>\$ 30,424,331</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

10. Net assets (continued)

Permanently restricted net assets

Permanently restricted net assets 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 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 2015 and 2014) are calculated based on a 12-quarter moving average based on balances as of September 30. Both the finance committee and the Board of Directors of the Foundation must approve any changes to the spending percentage.

At December 31, 2015 and 2014, permanently restricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Permanently restricted net assets, beginning of year	\$ 49,690,212	\$ 28,182,715
Net decrease in split interest agreements	(104,770)	(10,619)
Contributions and grants	<u>968,929</u>	<u>21,518,116</u>
Permanently restricted net assets, end of year	<u>\$ 50,554,371</u>	<u>\$ 49,690,212</u>

11. 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. 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

11. Agency funds (continued)

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 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.

The Foundation complies with generally accepted accounting principles as they relate to agency funds by booking their value as a liability as follows:

Agency flex funds

	<u>2015</u>	<u>2014</u>
The Arts Council Fund	\$ 497,426	\$ 516,298
Wharf to Wharf Scholarship Fund	465,019	479,149
Hospice of Santa Cruz County Fund	457,908	-
Agri-Culture Farmworker Housing Fund	293,149	330,369
Monarch Services Agency Flex Fund	269,140	274,695
CASA Operating Fund	245,476	255,317
Ceiba Scholarship Fund	193,410	200,000
CASA Capital Campaign Fund	173,115	180,055
Pacific School Foundation Fund	163,510	170,065
Vajrapani Institute Fund	153,820	-
Friends of Santa Cruz Public Libraries Agency		
Flex Fund Suizner	122,020	126,911
California Grey Bears Legacy Fund	114,647	119,243
Boys & Girls Club of Santa Cruz Fund	110,451	114,879
Native Animal Rescue Fund	96,799	97,865
Stein Memorial Fund for		
Watsonville Public Libraries	73,736	-
Happy Valley School Legacy Flex Fund	62,925	31,867
Vajrapani Institute Wisdom Culture Legacy Fund	39,562	-
Main Beach Volleyball Club Scholarship Fund	32,562	31,802
Jacob's Heart Stewardship Fund	24,852	-
Aptos Sports Foundation Fund	23,578	-
Friends of Santa Cruz		
Public Libraries Agency Flex Fund	14,258	14,273
Georgette Dufresne Memorial Fund for		
Monarch Services	12,761	13,372
Dientes Agency Advised Fund	<u>-</u>	<u>47,960</u>
 Total agency flex funds	 <u>\$ 3,640,124</u>	 <u>\$ 3,004,120</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

11. Agency funds (continued)

Agency endowment funds

	<u>2015</u>	<u>2014</u>
Happy Valley School Foundation Fund	\$ 638,905	\$ 675,751
Temple Beth El Next Generation Fund	638,305	654,519
Stein Memorial Endowment Fund	336,960	-
O'Neill Sea Odyssey Fund	283,412	291,875
Fund for Elkhorn Slough Foundation Fund	186,084	199,434
Agriculture History Project Endowment Fund	141,559	145,776
Jimmie Cox Memorial Scholarship Fund	111,913	94,858
Bonny Doon Education Fund	107,071	114,700
SPCA/Blackie's Senior Friends Fund	91,996	98,237
Santa Cruz Shakespeare Endowment Fund	74,702	-
T.H.A.N.K.S. Agriculture Education Fund	68,306	73,607
Court Appointed Special Advocates Fund	56,213	57,998
Museum of Art and History Endowment Fund	49,231	52,763
Congregational Church of Soquel Endowment Fund	48,994	39,665
Pajaro Valley Historic Association Borina Archive Fund	48,988	37,821
Watsonville Wetlands Watch Laura Hofmeister Scholarship Fund	45,178	46,434
Elkhorn Slough Foundation Fund	41,224	44,182
Santa Cruz Sailing Foundation Fund	36,293	39,086
Agri-Culture Jeannie Witmer Memorial Scholarship Fund	33,622	33,098
Watsonville Wetlands Watch Endowment Fund	32,455	34,663
Kuumbwa Jazz Endowment Fund	30,175	32,513
Monarch Services Fund	30,091	25,795
Mountain Community Resources Endowment Fund	29,421	31,417
Pajaro Valley Quilt Association Agency Endowment	28,002	30,011
Second Harvest Food Forever Fund	27,988	29,888
Snug & Dub Brown Children's Fund	26,940	28,752
Dottie Tyler Fund for Agrarian Oral History	26,111	28,100
Ron and Dottie Tyler Fund for Restored Agrarian Equipment Maintenance	25,662	26,418
Agri-Culture J.J. Crosetti, Jr. Memorial Fund	25,284	-
Save Our Shores Forever Fund	24,475	25,156
Agri-Culture Sandhill Bluff Conservation Easement Monitoring Fund	<u>21,825</u>	<u>23,517</u>
Total agency endowment funds	<u>\$ 3,367,385</u>	<u>\$ 3,016,034</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

12. Major contributions

For the year ended December 31, 2015, 60% of CFSCC's annual contribution and grant revenue was provided from two companies and five individuals to their respective donor advised funds.

13. Subsequent events

In January, 2016, the Foundation retired \$100,000 of the tax-exempt bonds (see Note 8).

Subsequent events have been evaluated through April 27, 2016, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Supplementary Information

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

We have audited the 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, 2015, 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, and our report thereon dated April 27, 2016, which expressed an unqualified opinion on those consolidated financial statements, appears on pages 1 to 2. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information of the Foundation and Subsidiaries shown on pages 27 to 28 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
April 27, 2016

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2015

	CFSC	RWMF	NLMJ Borina Land, LLC	Eliminations	Total
ASSETS					
Cash and cash equivalents	\$ 1,624,033	\$ 151,395	\$ -	\$ -	\$ 1,775,428
Investments	86,135,409	-	2,790,110	(5,110)	88,920,409
Charitable trust assets	1,510,321	-	-	-	1,510,321
Grants and other accounts receivable	176,528	122,997	-	(152,495)	147,030
Deposits and prepaid expenses	30,662	-	-	-	30,662
Fixed assets, net	8,079,606	-	-	-	8,079,606
TOTAL ASSETS	<u>\$ 97,556,559</u>	<u>\$ 274,392</u>	<u>\$ 2,790,110</u>	<u>\$ (157,605)</u>	<u>\$ 100,463,456</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and other liabilities	\$ 66,204	\$ 152,495	\$ -	\$ (152,495)	\$ 66,204
Grants payable	1,082,158	71,187	-	-	1,153,345
Agency funds	7,007,509	-	-	-	7,007,509
Charitable trust liabilities	827,396	-	-	-	827,396
Charitable gift annuity liability	681,014	-	-	-	681,014
Tax-exempt bonds	1,433,030	-	-	-	1,433,030
Total liabilities	<u>11,097,311</u>	<u>223,682</u>	<u>-</u>	<u>(152,495)</u>	<u>11,168,498</u>
NET ASSETS					
Unrestricted	6,777,200	50,710	5,110	(5,110)	6,827,910
Temporarily restricted	30,527,677	-	1,385,000	-	31,912,677
Permanently restricted	49,154,371	-	1,400,000	-	50,554,371
Total net assets	<u>86,459,248</u>	<u>50,710</u>	<u>2,790,110</u>	<u>(5,110)</u>	<u>89,294,958</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 97,556,559</u>	<u>\$ 274,392</u>	<u>\$ 2,790,110</u>	<u>\$ (157,605)</u>	<u>\$ 100,463,456</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, 2015

	CFSCC	RWMF	NLMJ Borina Land, LLC	Eliminations	Total
PUBLIC SUPPORT AND REVENUE					
Contributions and grants	\$ 10,430,030	\$ 405,389	\$ -	\$ (491,929)	\$ 10,343,490
Investment loss	(1,713,064)	-	(141,419)	141,419	(1,713,064)
Change in split-interest agreements	(143,970)	-	-	-	(143,970)
Foundation services fees	119,503	-	-	-	119,503
Other income	19,154	-	-	-	19,154
TOTAL PUBLIC SUPPORT AND REVENUE	8,711,653	405,389	(141,419)	(350,510)	8,625,113
EXPENSES					
Grants and disbursements	4,854,972	313,241	-	(491,929)	4,676,284
Salaries	1,150,693	-	-	-	1,150,693
Payroll taxes and employee benefits	306,580	-	-	-	306,580
General and administrative	163,470	-	-	-	163,470
Conferences and meetings	18,999	-	-	-	18,999
Advertising and marketing	27,240	-	-	-	27,240
Professional services	243,793	79,144	-	-	322,937
Repairs and maintenance	119,509	-	-	-	119,509
Insurance	37,980	-	-	-	37,980
Depreciation	281,232	-	-	-	281,232
Interest expense	71,811	-	-	-	71,811
TOTAL EXPENSES	7,276,279	392,385	-	(491,929)	7,176,735
CHANGE IN NET ASSETS	1,435,374	13,004	(141,419)	141,419	1,448,378
NET ASSETS AT BEGINNING OF YEAR	85,023,874	37,706	2,931,529	(146,529)	87,846,580
NET ASSETS AT END OF YEAR	\$ 86,459,248	\$ 50,710	\$ 2,790,110	\$ (5,110)	\$ 89,294,958

see accompanying independent auditor's report on supplementary information