

**COMMUNITY FOUNDATION
SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
with
Independent Auditor's Report
For the years ended December 31, 2013 and 2012**

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 and Subsidiaries:

Report on the Consolidated 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, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits 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, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Novogradac + Company LLP

San Francisco, California
June 2, 2014

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents	\$ 277,551	\$ 1,167,769	\$ 525,883	\$ 1,971,203
Investments	536,052	39,075,792	27,484,366	67,096,210
Investments - charitable remainder trusts	-	392,413	128,748	521,161
Receivables:				
Accounts receivable	30,502	-	-	30,502
Pledges receivable	-	32,376	3,999	36,375
Grants receivable	131,907	399,750	-	531,657
Gifts receivable	700	10,800	4,700	16,200
Total receivables	163,109	442,926	8,699	614,734
Deposits and prepaid expenses	82,582	-	-	82,582
Other assets	-	-	5,019	5,019
Fixed assets, net	8,567,319	-	-	8,567,319
Intangible assets, net	93,319	-	-	93,319
Investment in trust	-	-	30,000	30,000
TOTAL ASSETS	\$ 9,719,932	\$ 41,078,900	\$ 28,182,715	\$ 78,981,547
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 139,773	\$ 2,502	\$ -	\$ 142,275
Grants payable	78,632	1,004,716	-	1,083,348
Agency funds	-	5,049,669	-	5,049,669
Charitable gift annuity liability	-	656,824	-	656,824
Note payable - tax-exempt bonds	2,000,000	-	-	2,000,000
Total liabilities	2,218,405	6,713,711	-	8,932,116
Net assets	7,501,527	34,365,189	28,182,715	70,049,431
TOTAL LIABILITIES AND NET ASSETS	\$ 9,719,932	\$ 41,078,900	\$ 28,182,715	\$ 78,981,547

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 80,279	\$ 890,048	\$ 529,609	\$ 1,499,936
Investments	1,254,446	22,770,045	21,727,744	45,752,235
Investments - charitable remainder trusts	-	235,936	102,312	338,248
Receivables:				
Accounts receivable	1,530	22	-	1,552
Pledges receivable	-	37,469	65,452	102,921
Grants receivable	543,485	71,600	-	615,085
Gifts receivable	3,073	79,248	2,289	84,610
Total receivables	<u>548,088</u>	<u>188,339</u>	<u>67,741</u>	<u>804,168</u>
Deposits and prepaid expenses	31,174	-	-	31,174
Other assets	-	-	14,087	14,087
Fixed assets, net	8,833,488	-	-	8,833,488
Intangible assets, net	106,493	-	-	106,493
Investment in trust	-	-	30,000	30,000
TOTAL ASSETS	<u><u>\$ 10,853,968</u></u>	<u><u>\$ 24,084,368</u></u>	<u><u>\$ 22,471,493</u></u>	<u><u>\$ 57,409,829</u></u>
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 136,444	\$ 1,000	\$ -	\$ 137,444
Grants payable	525,603	569,482	-	1,095,085
Agency funds	-	3,632,664	-	3,632,664
Charitable gift annuity liability	-	587,691	-	587,691
Note payable - tax-exempt bonds	2,250,000	-	-	2,250,000
Total liabilities	<u>2,912,047</u>	<u>4,790,837</u>	<u>-</u>	<u>7,702,884</u>
Net assets	<u>7,941,921</u>	<u>19,293,531</u>	<u>22,471,493</u>	<u>49,706,945</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,853,968</u></u>	<u><u>\$ 24,084,368</u></u>	<u><u>\$ 22,471,493</u></u>	<u><u>\$ 57,409,829</u></u>

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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 2,380,815	\$ 8,535,155	\$ 1,676,356	\$ 12,592,326
Grants	14,265	7,173,260	4,008,430	11,195,955
Investment (loss) income	(559)	6,613,460	-	6,612,901
Change in split-interest agreements	-	10,171	26,436	36,607
Other income	123,248	(651)	-	122,597
Net assets released from restrictions				
Satisfaction of time and/or purpose restrictions	6,369,245	(6,369,245)	-	-
Management fees	890,492	(890,492)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	9,777,506	15,071,658	5,711,222	30,560,386
EXPENSES				
Grants and disbursements:				
Arts, history, and culture	720,737	-	-	720,737
Community development	524,548	-	-	524,548
Education/youth development	1,375,327	-	-	1,375,327
Environment	1,100,016	-	-	1,100,016
Health	1,589,067	-	-	1,589,067
Human services	804,663	-	-	804,663
Other	11,000	-	-	11,000
Regional water management	2,013,952	-	-	2,013,952
Total grants and disbursements	8,139,310	-	-	8,139,310
Supporting services, Programs	852,442	-	-	852,442
	8,991,752	-	-	8,991,752
Supporting services, Operations				
Marketing and development	510,895	-	-	510,895
Management and general	715,253	-	-	715,253
Total supporting services, Operations	1,226,148	-	-	1,226,148
TOTAL EXPENSES	10,217,900	-	-	10,217,900
(DECREASE) INCREASE IN NET ASSETS	(440,394)	15,071,658	5,711,222	20,342,486
NET ASSETS AT BEGINNING OF YEAR	7,941,921	19,293,531	22,471,493	49,706,945
NET ASSETS AT END OF YEAR	\$ 7,501,527	\$ 34,365,189	\$ 28,182,715	\$ 70,049,431

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
For the year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 4,109,933	\$ 6,852,140	\$ 198,332	\$ 11,160,405
Grants	718,155	515,126	1,005,100	2,238,381
Investment income	25,098	3,445,002	-	3,470,100
Change in split-interest agreements	-	12,550	26,151	38,701
Other income	95,971	5,000	-	100,971
Net assets released from restrictions				
Satisfaction of time and/or purpose restrictions	3,903,167	(3,903,167)	-	-
Management fees	636,646	(636,646)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	9,488,970	6,290,005	1,229,583	17,008,558
EXPENSES				
Grants and disbursements:				
Arts, history, and culture	534,688	-	-	534,688
Community development	249,521	-	-	249,521
Education/youth development	677,272	-	-	677,272
Environment	962,439	-	-	962,439
Health	605,980	-	-	605,980
Human services	534,688	-	-	534,688
Other	11,500	-	-	11,500
Regional water management	3,574,741	-	-	3,574,741
Total grants and disbursements	7,150,829	-	-	7,150,829
Supporting services, Programs	1,084,409	-	-	1,084,409
	8,235,238	-	-	8,235,238
Supporting services, Operations				
Marketing and development	457,512	-	-	457,512
Management and general	457,514	-	-	457,514
Total supporting services, Operations	915,026	-	-	915,026
TOTAL EXPENSES	9,150,264	-	-	9,150,264
INCREASE IN NET ASSETS	338,706	6,290,005	1,229,583	7,858,294
NET ASSETS AT BEGINNING OF YEAR	7,603,215	13,003,526	21,241,910	41,848,651
NET ASSETS AT END OF YEAR	\$ 7,941,921	\$ 19,293,531	\$ 22,471,493	\$ 49,706,945

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2013

	<u>Program Services</u>	<u>Marketing/ Development</u>	<u>Management and General</u>	<u>Total</u>
GRANTS AND DISBURSEMENTS	\$ 8,139,310	\$ -	\$ -	\$ 8,139,310
PERSONNEL EXPENSES				
Salaries	391,352	234,549	328,369	954,270
Payroll taxes and employee benefits	<u>109,363</u>	<u>65,545</u>	<u>91,763</u>	<u>266,671</u>
Total personnel expenses	500,715	300,094	420,132	1,220,941
OTHER EXPENSES				
General and administrative	53,433	32,024	44,833	130,290
Conferences and meetings	10,224	6,128	8,578	24,930
Advertising and marketing	5,655	3,389	4,744	13,788
Professional services	79,794	47,823	66,953	194,570
Repairs and maintenance	43,041	25,796	36,115	104,952
Insurance	<u>11,697</u>	<u>7,010</u>	<u>9,814</u>	<u>28,521</u>
Total other expenses	203,844	122,170	171,037	497,051
Depreciation and amortization	116,004	69,525	97,335	282,864
Interest expense	<u>31,879</u>	<u>19,106</u>	<u>26,749</u>	<u>77,734</u>
Total supporting services	<u>852,442</u>	<u>510,895</u>	<u>715,253</u>	<u>2,078,590</u>
Total expenses	<u>\$ 8,991,752</u>	<u>\$ 510,895</u>	<u>\$ 715,253</u>	<u>\$ 10,217,900</u>
Expenses as a percentage of total expenses	<u>88.00%</u>	<u>5.00%</u>	<u>7.00%</u>	<u>100.00%</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the year ended December 31, 2012

	Program Services	Marketing/ Development	Management and General	Total
GRANTS AND DISBURSEMENTS	\$ 7,150,829	\$ -	\$ -	\$ 7,150,829
PERSONNEL EXPENSES				
Salaries	483,207	203,865	203,866	890,938
Payroll taxes and employee benefits	132,608	55,947	55,947	244,502
Total personnel expenses	615,815	259,812	259,813	1,135,440
OTHER EXPENSES				
General and administrative	78,437	33,093	33,092	144,622
Conferences and meetings	16,301	6,877	6,878	30,056
Advertising and marketing	11,465	4,837	4,838	21,140
Professional services	99,887	42,142	42,142	184,171
Repairs and maintenance	55,062	23,231	23,230	101,523
Insurance	6,149	2,594	2,595	11,338
Total other expenses	267,301	112,774	112,775	492,850
Depreciation and amortization	150,244	63,388	63,388	277,020
Interest expense	51,049	21,538	21,538	94,125
Total supporting services	1,084,409	457,512	457,514	1,999,435
Total expenses	\$ 8,235,238	\$ 457,512	\$ 457,514	\$ 9,150,264
Expenses as a percentage of total expenses	90.00%	5.00%	5.00%	100.00%

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 20,342,486	\$ 7,858,294
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	282,864	277,020
Contributions	(2,785,000)	-
Realized and unrealized gains	(5,085,861)	(2,323,923)
Change in split-interest agreements	(36,607)	(38,701)
(Increase) decrease in operating assets:		
Contributions receivable - charitable remainder trusts	(182,913)	243,585
Accounts receivable	(28,950)	3,038
Pledges receivable	66,546	65,697
Grants receivable	83,428	87,174
Gifts receivable	68,410	12,315
Deposits and prepaid expenses	(51,408)	16,733
Other assets	9,068	(4,087)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	4,831	(52,836)
Grants payable	(11,737)	339,363
Agency funds	1,417,005	729,050
Charitable gift annuity liability	69,133	253,809
Net cash provided by operating activities	<u>14,161,295</u>	<u>7,466,531</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities, net	(13,436,507)	(6,406,401)
Purchase of fixed assets	<u>(3,521)</u>	<u>(46,435)</u>
Net cash used in investing activities	<u>(13,440,028)</u>	<u>(6,452,836)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of tax-exempt bonds	<u>(250,000)</u>	<u>(250,000)</u>
Net increase in cash and cash equivalents	471,267	763,695
Cash and cash equivalents at beginning of year	1,499,936	736,241
Cash and cash equivalents at end of year	<u><u>\$ 1,971,203</u></u>	<u><u>\$ 1,499,936</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	<u><u>\$ 77,734</u></u>	<u><u>\$ 94,125</u></u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

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 support activities for the benefit of CFSCC. RWMF is a Type I supporting organization under Section 509(a)(3) of the Internal Revenue Code. RWMF is the recipient of a \$12,500,000 grant awarded by the California State Water Resource Control Board and funded by State Proposition 50 Integrated Regional Water Management Program. The grant funds the implementation of 15 high priority water projects in the region from 2008 through 2013 and RWMF provides management and administration for implementation of this grant. In 2011, RWMF was awarded a \$999,750 reimbursement grant from the California Department of Water Resources to update the Integrated Regional Water Management Plan for the Santa Cruz Region and to complete key technical studies to better inform water resources management. RWMF is partnering with four local agencies to complete this work from 2011 through 2013. RWMF continues to be approached and open to other opportunities to support these efforts. Beyond these grants, RWMF has an agreement with water agencies in Santa Cruz County to continue providing coordination and support services through fiscal year 2015. These partnership efforts are an important element of water resource management in Santa Cruz County. As of December 31, 2013 and 2012, RWMF has received \$13,224,896 and \$11,028,346, respectively.

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, 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

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, charitable gift annuities, 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.

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.

Concentration of credit risk

Financial instruments that potentially subject the Foundation and Subsidiaries to concentrations of credit risk consist principally of temporary cash investments. The Foundation and Subsidiaries place their temporary cash investments with high credit quality financial institutions and, by policy, limit the amount of credit exposed to any one financial institution. At times, the account balances may exceed the institution's 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.

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.

Investments

Investment purchases and sales are accounted for on a trade-date basis. Realized 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 other securities with performance measured against appropriate indices. Outside advisors are utilized by the Foundation for the purpose of providing investment advice and report to the Finance Committee.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

2. Summary of significant accounting policies (continued)

Investments (continued)

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 endowment 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.

Other assets

During 2013 and 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 immediately. The Foundation determined that the membership interests donated during 2013 and 2012 would be sold for \$5,019 and \$14,087, respectively, and recorded investments and corresponding contributions in those amounts, which represent management's best estimates of the assets' fair values. During 2012, the Foundation received proceeds of \$10,000 from the sale of the limited liability company interest that was received in 2011.

Assets held in charitable trusts

The Foundation serves as the trustee for two charitable trusts. Under the terms of these trust agreements, the Foundation makes distributions to income beneficiaries for a given term or the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trusts will be dispersed in accordance with the terms of the trusts (Charitable Lead Trust A and Remainder Interest in Trust B – see Note 5).

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 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.

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

2. Summary of significant accounting policies (continued)

Assets held in charitable gift annuities (continued)

The Foundation is licensed by the State of California to enter into annuity agreements with donors. California statutes require entities with such a license to maintain a segregated reserve account, which is calculated based on the state's annuity 2000 mortality table with a discount rate of 4.5%. The Foundation has complied with this requirement.

Fair value measurements

The Foundation applies the accounting provisions related to fair value measurements. These provisions define fair value 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, establish a 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
For the years ended December 31, 2013 and 2012

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, 2013 and 2012:

	December 31, 2013			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 64,311,210	\$ -	\$ -	\$ 64,311,210
Investments – charitable remainder trusts	-	-	571,161	571,161
Total assets	\$ 64,311,210	\$ -	\$ 571,161	\$ 64,882,371
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 656,824	\$ 656,824
Total liabilities	\$ -	\$ -	\$ 656,824	\$ 656,824
	December 31, 2012			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 45,752,235	\$ -	\$ -	\$ 45,752,235
Investments – charitable remainder trusts	-	-	338,248	338,248
Total assets	\$ 45,752,235	\$ -	\$ 338,248	\$ 46,090,483
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 587,691	\$ 587,691
Total liabilities	\$ -	\$ -	\$ 587,691	\$ 587,691

Investments in equity, fixed income securities including U.S. Treasury securities, mutual funds, corporate bonds and asset backed securities are classified within 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 significant inputs based on Internal Revenue Service group annuity and mortality tables are classified within Level 3 of the fair value hierarchy.

The Foundation's financial instruments include cash and cash equivalents, pledges, grants and gifts receivable, investments, investments in charitable remainder trusts, agency funds, accounts payable and other liabilities, tax-exempt bonds, and grants payable. The recorded value of these amounts reflects the cost which management believes approximates fair value.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

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 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:

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

Intangible assets

Deferred financing costs incurred in connection with the issuance of the tax-exempt bonds were recorded at cost and will be amortized on a straight-line basis over 10 years, the term of the underlying bonds.

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 2013 or 2012.

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 must account 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.

Designated funds

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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

2. Summary of significant accounting policies (continued)

Contributions

Contributions received 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

Grants are made from available principal and income in accordance with the designations of donors. Grants are recorded at the date of approval by the Board of Directors. Donor-advised grants below \$10,000 are recorded at the date of approval by the Executive Director. 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.

Internal management fees

The Foundation charges a monthly maintenance fee internally for endowed and non-endowed funds under management. These fees help fund the general operations of the Foundation. These fees are recorded internally both as revenue and expense. Fees earned from funds other than agency funds have been eliminated for financial statement presentation, in that these fees do not come from sources external to the Foundation. Fees earned from agency funds are included in other income on the accompanying consolidated statements of activities and changes in 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 an evaluation by the Foundation's management.

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

2. Summary of significant accounting policies (continued)

Income taxes (continued)

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

In August 2008, the Financial Accounting Standards Board provided 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 also improves disclosures about an organization's endowed funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Foundation is subject to the required disclosures in that it 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. During the year ended December 31, 2013, the Foundation reclassified investment loss of \$35 on donor-restricted endowment funds as unrestricted net assets. During the year ended December 31, 2012, the Foundation reclassified investment gains of \$27,649 on donor-restricted endowment funds as unrestricted net assets. As of December 31, 2013, no fund balances were below the historical gift amount.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2013 and 2012 were \$13,788 and \$21,140, respectively, and included maintenance of the Foundation's website.

Subsequent events

Subsequent events have been evaluated through June 2, 2014, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

3. Investments

Investments were comprised of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 6,720,148	\$ 6,050,594
Common and preferred stocks	43,159,770	29,795,851
U.S. government securities, corporate bonds and asset-backed securities	14,431,292	9,905,790
Real estate	<u>2,785,000</u>	<u>-</u>
Total investments	<u>\$ 67,096,210</u>	<u>\$ 45,752,235</u>

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. This amount is included in investments in the accompanying consolidated statements of financial position. NLMJ Borina Land, LLC recognized \$1,400,000 as permanently restricted contributions and \$1,385,000 as temporarily restricted contributions per donor intent.

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest	\$ 325,257	\$ 294,044
Dividends	1,216,488	859,053
Realized gains	967,760	456,131
Unrealized gains	4,118,101	1,867,792
Investment expenses	<u>(14,705)</u>	<u>(6,920)</u>
Total investment income	<u>\$ 6,612,901</u>	<u>\$ 3,470,100</u>

4. Pledges receivable

Pledges receivable were comprised of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 24,984	\$ 97,948
Due within two to four years	<u>11,400</u>	<u>5,141</u>
Gross pledges receivable	36,384	103,089
Less discount to reflect pledges receivable at present value	<u>(9)</u>	<u>(168)</u>
Total pledges receivable	<u>\$ 36,375</u>	<u>\$ 102,921</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

5. Investments - charitable remainder trusts

The Foundation was a beneficiary of four charitable trusts as of December 31, 2013 and 2012, respectively:

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 \$904 and \$974 in 2013 and 2012, respectively. As the amounts due to be received by the Foundation are immaterial, no receivable has been recorded for this Trust.

Remainder Interest in 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. The present value of the remainder interest totaled approximately \$241,522 and \$196,523 at December 31, 2013 and 2012, respectively.

Remainder Interest in Trust C

The Foundation is a 100% remainderman beneficiary under the terms of the trust and also acts as trustee without compensation. The present value of the remainder interest totaled approximately \$128,748 and \$102,312 at December 31, 2013 and 2012, respectively.

Remainder Interest in Trust D

The Foundation is a 100% remainderman beneficiary under the terms of the trust. The assets of the trust are not currently subject to the control of the Foundation. The present value of the remainder interest totaled approximately \$50,891 and \$39,413 at December 31, 2013 and 2012, respectively.

Other Charitable Remainder Interest

The Foundation is entitled to receive one-fifth of the proceeds from the sale of a property owned by a deceased donor. The Foundation estimated the total sales proceeds, net of selling costs, to be \$500,000 and as such, \$100,000 is expected to be received in 2014.

6. Grants payable

CFSCC and RWMF make grants to various organizations. As of December 31, 2013 and 2012, the balance of grants payable was \$1,083,348 and \$1,095,085, respectively, of which \$78,632 and \$525,603, respectively, pertained to RWMF. The following is a summary of grants authorized and payable at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 825,514	\$ 925,584
Due within two to four years	<u>257,834</u>	<u>169,501</u>
Total grants payable	<u>\$ 1,083,348</u>	<u>\$ 1,095,085</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

7. Fixed assets

The Foundation's fixed assets were comprised of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,083,604	\$ 1,083,604
Land improvements	317,498	317,498
Building	7,343,037	7,343,037
Office equipment and software	<u>706,460</u>	<u>702,939</u>
Fixed assets	9,450,599	9,447,078
Less: accumulated depreciation	<u>(883,280)</u>	<u>(613,590)</u>
Fixed assets, net	<u>\$ 8,567,319</u>	<u>\$ 8,833,488</u>

Depreciation expense during 2013 and 2012 was \$269,690 and \$263,846, respectively.

8. Intangible assets

The Foundation's intangible assets were comprised of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Deferred financing costs	\$ 131,743	\$ 131,743
Less: accumulated amortization	<u>(38,424)</u>	<u>(25,250)</u>
Intangible assets, net	<u>\$ 93,319</u>	<u>\$ 106,493</u>

Amortization expense during 2013 and 2012 was \$13,174 for each year.

9. 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. On January 27, 2011, the Foundation used the proceeds to repay the outstanding principal and all outstanding interest on the line of credit. 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 2013 and 2012, the Foundation retired \$250,000 of the tax-exempt bonds for each year. As of December 31, 2013 and 2012, the principal balance on the tax-exempt bonds was \$2,000,000 and \$2,250,000, respectively. Interest expense during 2013 and 2012 was \$77,734 and \$94,125, respectively.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

10. Employee retirement plan

In January 1997, the Foundation established a 401(k) plan. Employees are eligible to participate in the plan starting on the first of the month following 90 days of employment. The Board of Trustees approved discretionary contributions of \$53,820 and \$43,947 to the plan in 2013 and 2012, respectively. These amounts are included in payroll taxes and employee benefits on the accompanying consolidated statements of functional expenses.

11. 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, 2013 and 2012, unrestricted net assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Board designated	\$ 304,545	\$ 280,408
Undesignated	<u>7,196,982</u>	<u>7,661,513</u>
Total unrestricted net assets	<u>\$ 7,501,527</u>	<u>\$ 7,941,921</u>

Temporarily restricted net assets

Temporarily restricted net assets consist of non-endowed donor 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, 2013 and 2012, temporarily restricted net assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Non-endowed	\$ 19,505,322	\$ 13,276,588
Charitable gift annuities	341,338	304,608
Grants, special projects, and pass-through	7,004,469	1,265,209
Investment income on		
permanently restricted net assets	7,221,647	4,211,190
Investments – charitable remainder trusts	<u>292,413</u>	<u>235,936</u>
Total temporarily restricted net assets	<u>\$ 34,365,189</u>	<u>\$ 19,293,531</u>

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

11. Net assets (continued)

Permanently restricted net assets (continued)

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. In July 2012, the policy was amended to modify the total target return from 8% to 7%. The funds available for grant-making use determined each year (which was 4% for 2013 and 2012) 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, 2013 and 2012, permanently restricted net assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Permanently restricted net assets, beginning of year	\$ 22,471,493	\$ 21,241,910
Net appreciation of split interest agreements	26,436	26,151
Contributions and grants	<u>5,684,786</u>	<u>1,203,432</u>
Permanently restricted net assets, end of year	<u>\$ 28,182,715</u>	<u>\$ 22,471,493</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 must account 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. There are two types of agency funds as described below:

Agency endowment funds

Agency funds that will continue to payout, subject to the spending plan for endowed funds, in perpetuity. All agency endowment funds are invested in a long-term investment strategy.

Agency flex funds

Agency funds that continue as long as the need for it exists and are paid out of both principal and income, at the request of the agency and approved by Foundation’s Board of Directors. Agency flex funds may be invested in either long-term or short-term investment strategies.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

12. Agency funds (continued)

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

Agency endowment funds

	<u>2013</u>		<u>2012</u>
Happy Valley School Foundation Fund	\$ 658,711	\$	570,828
Temple Beth El Next Generation Fund	624,652		542,137
O'Neill Sea Odyssey Fund	277,319		147,615
Fund for Elkhorn Slough Foundation Fund	197,085		177,226
Agriculture History Project Endowment Fund	136,276		117,228
Bonny Doon Education Fund	113,161		98,977
SPCA/Blackie's Senior Friends Fund	99,333		88,478
T.H.A.N.K.S. Agriculture Education Fund	70,538		-
Santa Cruz County Farm Bureau Scholarship Fund	57,445		42,036
Museum of Art and History Endowment Fund	52,142		46,889
Court Appointed Special Advocates Fund	50,570		43,835
Elkhorn Slough Foundation Fund	43,662		39,262
Santa Cruz Sailing Foundation Fund	38,336		34,649
Watsonville Wetlands Watch			
Laura Hofmeister Scholarship Fund	37,536		24,783
Congregational Church of Soquel Endowment Fund	36,861		33,133
Watsonville Wetlands Watch Endowment Fund	35,065		31,268
Kuumbwa Jazz Endowment Fund	32,297		29,186
Mountain Community Resources Endowment Fund	31,763		28,289
Second Harvest Food Forever Fund	30,213		26,895
Pajaro Valley Historic Association Borina			
Archive Fund	30,118		-
Pajaro Valley Quilt Association Agency Endowment	29,657		26,670
Snug & Dub Brown Children's Fund	28,561		25,446
Agri-Culture Jeannie Witmer Memorial			
Scholarship Fund	28,306		-
Dottie Tyler Fund for Agrarian Oral History	26,929		-
Ron and Dottie Tyler Fund for Restored			
Agrarian Equipment Maintenance	25,317		-
Agri-Culture Sandhill Bluff Conservation			
Easement Monitoring Fund	<u>22,537</u>		<u>-</u>
 Total agency endowment funds	 <u>\$ 2,814,390</u>	 <u>\$</u>	 <u>2,174,830</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

12. Agency funds (continued)

Agency flex funds

	<u>2013</u>	<u>2012</u>
The Arts Council Fund	567,305	-
Wharf to Wharf Scholarship Fund	468,596	403,227
Agri-Culture Farmworker Housing Fund	354,658	309,623
Women's Crisis Support/Defense de Mujere Fund	303,517	278,978
California Grey Bears Legacy Fund	114,533	100,020
Pacific School Foundation Fund	113,258	101,510
Boys & Girls Club of Santa Cruz Fund	110,364	100,000
Native Animal Rescue Fund	97,706	100,350
Dientes Agency Advised Fund	46,695	39,564
Main Beach Volleyball Club Scholarship Fund	30,528	-
Friends of Santa Cruz		
Public Libraries Agency Flex Fund	<u>28,119</u>	<u>24,562</u>
 Total agency flex funds	 <u>\$ 2,235,279</u>	 <u>\$ 1,457,834</u>

13. Major contributions

For the year ended December 31, 2013, approximately 100% of RWMF's annual contribution and grant revenue, \$2,196,550, was provided from the State Propositions 50 and 84 Integrated Regional Water Management Programs and approximately 74% of CFSCC's annual contribution and grant revenue was provided from one company, one foundation, and three individuals to their respective donor advised funds.

For the year ended December 31, 2012, 100% of RWMF's annual contribution and grant revenue, \$3,811,404, was provided from the State Propositions 50 and 84 Integrated Regional Water Management Programs and approximately 63% of CFSCC's annual contribution and grant revenue was provided from one company, one foundation, and four individual to their respective donor advised funds.

SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Supplementary Information

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

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, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and our report thereon dated June 2, 2014, which expressed an unqualified opinion on those consolidated financial statements, appears on pages 1 to 2. Our audits were 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 30 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

San Francisco, California
June 2, 2014

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
December 31, 2013

	<u>CFSCC</u>	<u>RWMF</u>	<u>NLMJ Borina Land, LLC</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 1,844,543	\$ 126,660	\$ -	\$ -	\$ 1,971,203
Investments	64,311,210	-	2,802,542	(17,542)	67,096,210
Investments - charitable remainder trusts	521,161	-	-	-	521,161
Receivables:					
Accounts receivable	30,502	-	-	-	30,502
Pledges receivable	36,375	-	-	-	36,375
Grants receivable	549,317	131,907	-	(149,567)	531,657
Gifts receivable	16,200	-	-	-	16,200
Total receivables	<u>632,394</u>	<u>131,907</u>	<u>-</u>	<u>(149,567)</u>	<u>614,734</u>
Deposits and prepaid expenses	82,582	-	-	-	82,582
Other assets	5,019	-	-	-	5,019
Fixed assets, net	8,567,319	-	-	-	8,567,319
Intangible assets, net	93,319	-	-	-	93,319
Investment in trust	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
TOTAL ASSETS	<u>\$ 76,087,547</u>	<u>\$ 258,567</u>	<u>\$ 2,802,542</u>	<u>\$ (167,109)</u>	<u>\$ 78,981,547</u>
LIABILITIES AND NET ASSETS					
Accounts payable and other liabilities	\$ 62,276	\$ 79,999	\$ -	\$ -	\$ 142,275
Grants payable	1,004,716	228,199	-	(149,567)	1,083,348
Agency funds	5,049,669	-	-	-	5,049,669
Charitable gift annuity liability	656,824	-	-	-	656,824
Tax-exempt bonds	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Total liabilities	<u>8,773,485</u>	<u>308,198</u>	<u>-</u>	<u>(149,567)</u>	<u>8,932,116</u>
NET ASSETS					
Unrestricted	7,551,158	(49,631)	17,542	(17,542)	7,501,527
Temporarily restricted	32,980,189	-	1,385,000	-	34,365,189
Permanently restricted	<u>26,782,715</u>	<u>-</u>	<u>1,400,000</u>	<u>-</u>	<u>28,182,715</u>
Total net assets	<u>67,314,062</u>	<u>(49,631)</u>	<u>2,802,542</u>	<u>(17,542)</u>	<u>70,049,431</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 76,087,547</u>	<u>\$ 258,567</u>	<u>\$ 2,802,542</u>	<u>\$ (167,109)</u>	<u>\$ 78,981,547</u>

see accompanying independent auditor's report

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
December 31, 2012

	<u>CFSCC</u>	<u>RWMF</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,416,001	\$ 83,935	\$ -	\$ 1,499,936
Investments	45,752,235	-	-	45,752,235
Investments - charitable remainder trusts	338,248	-	-	338,248
Receivables:				
Accounts receivable	1,552	-	-	1,552
Pledges receivable	102,921	-	-	102,921
Grants receivable	152,737	543,485	(81,137)	615,085
Gifts receivable	84,610	-	-	84,610
Total receivables	<u>341,820</u>	<u>543,485</u>	<u>(81,137)</u>	<u>804,168</u>
Deposits and prepaid expenses	31,174	-	-	31,174
Other assets	14,087	-	-	14,087
Fixed assets, net	8,833,488	-	-	8,833,488
Intangible assets, net	106,493	-	-	106,493
Investment in trust	30,000	-	-	30,000
TOTAL ASSETS	<u>\$ 56,863,546</u>	<u>\$ 627,420</u>	<u>\$ (81,137)</u>	<u>\$ 57,409,829</u>
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 57,445	\$ 79,999	\$ -	\$ 137,444
Grants payable	569,482	606,740	(81,137)	1,095,085
Agency funds	3,632,664	-	-	3,632,664
Charitable gift annuity liability	587,691	-	-	587,691
Tax-exempt bonds	2,250,000	-	-	2,250,000
Total liabilities	<u>7,097,282</u>	<u>686,739</u>	<u>(81,137)</u>	<u>7,702,884</u>
NET ASSETS				
Unrestricted	8,001,240	(59,319)	-	7,941,921
Temporarily restricted	19,293,531	-	-	19,293,531
Permanently restricted	22,471,493	-	-	22,471,493
Total net assets	<u>49,766,264</u>	<u>(59,319)</u>	<u>-</u>	<u>49,706,945</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,863,546</u>	<u>\$ 627,420</u>	<u>\$ (81,137)</u>	<u>\$ 57,409,829</u>

see accompanying independent auditor's report

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2013

	<u>CFSCC</u>	<u>RWMF *</u>	<u>NLMJ Borina Land, LLC</u>	<u>Eliminations</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE					
Contributions	\$ 7,773,807	\$ 2,196,550	\$ 2,785,000	\$ (163,031)	\$ 12,592,326
Grants	11,195,955	-	-	-	11,195,955
Investment income	6,612,901	-	17,542	(17,542)	6,612,901
Change in split-interest agreements	36,607	-	-	-	36,607
Other income	122,597	-	-	-	122,597
TOTAL PUBLIC SUPPORT AND REVENUE	<u>25,741,867</u>	<u>2,196,550</u>	<u>2,802,542</u>	<u>(180,573)</u>	<u>30,560,386</u>
EXPENSES					
Grants and disbursements	6,125,358	2,176,983	-	(163,031)	8,139,310
Salaries	954,270	-	-	-	954,270
Payroll taxes and employee benefits	266,671	-	-	-	266,671
General and administrative	130,290	-	-	-	130,290
Conferences and meetings	24,930	-	-	-	24,930
Advertising and marketing	13,788	-	-	-	13,788
Professional services	184,691	9,879	-	-	194,570
Repairs and maintenance	104,952	-	-	-	104,952
Insurance	28,521	-	-	-	28,521
Depreciation and amortization	282,864	-	-	-	282,864
Interest expense	77,734	-	-	-	77,734
TOTAL EXPENSES	<u>8,194,069</u>	<u>2,186,862</u>	<u>-</u>	<u>(163,031)</u>	<u>10,217,900</u>
INCREASE IN NET ASSETS	<u>17,547,798</u>	<u>9,688</u>	<u>2,802,542</u>	<u>(17,542)</u>	<u>20,342,486</u>
NET ASSETS AT BEGINNING OF YEAR	<u>49,766,264</u>	<u>(59,319)</u>	<u>-</u>	<u>-</u>	<u>49,706,945</u>
NET ASSETS AT END OF YEAR	<u>\$ 67,314,062</u>	<u>\$ (49,631)</u>	<u>\$ 2,802,542</u>	<u>\$ (17,542)</u>	<u>\$ 70,049,431</u>

* Costs incurred by RWMF are reimbursed by the California State Water Resource Control Board and funded by State Proposition 50 Integrated Regional Water Management Program. These reimbursements are not recorded by RWMF as a receivable until they are submitted to and approved by the State.

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
For the year ended December 31, 2012

	<u>CFSCC</u>	<u>RWMF *</u>	<u>Eliminations</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 7,509,289	\$ 3,811,404	\$ (160,288)	\$ 11,160,405
Grants	2,238,381	-	-	2,238,381
Investment loss	3,470,100	-	-	3,470,100
Change in split-interest agreements	38,701	-	-	38,701
Other income	100,971	-	-	100,971
TOTAL PUBLIC SUPPORT AND REVENUE	<u>13,357,442</u>	<u>3,811,404</u>	<u>(160,288)</u>	<u>17,008,558</u>
EXPENSES				
Grants and disbursements	3,576,088	3,735,029	(160,288)	7,150,829
Salaries	890,938	-	-	890,938
Payroll taxes and employee benefits	244,502	-	-	244,502
General and administrative	144,622	-	-	144,622
Conferences and meetings	29,878	178	-	30,056
Advertising and marketing	21,140	-	-	21,140
Professional services	144,787	39,384	-	184,171
Repairs and maintenance	101,523	-	-	101,523
Insurance	11,338	-	-	11,338
Depreciation and amortization	277,020	-	-	277,020
Interest expense	94,125	-	-	94,125
TOTAL EXPENSES	<u>5,535,961</u>	<u>3,774,591</u>	<u>(160,288)</u>	<u>9,150,264</u>
INCREASE IN NET ASSETS	<u>7,821,481</u>	<u>36,813</u>	<u>-</u>	<u>7,858,294</u>
NET ASSETS AT BEGINNING OF YEAR	<u>41,944,783</u>	<u>(96,132)</u>	<u>-</u>	<u>41,848,651</u>
NET ASSETS AT END OF YEAR	<u>\$ 49,766,264</u>	<u>\$ (59,319)</u>	<u>\$ -</u>	<u>\$ 49,706,945</u>

* Costs incurred by RWMF are reimbursed by the California State Water Resource Control Board and funded by State Proposition 50 Integrated Regional Water Management Program. These reimbursements are not recorded by RWMF as a receivable until they are submitted to and approved by the State.

June 2, 2014

To the Audit Committee and 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 for the year ended December 31, 2013, and have issued our report thereon dated June 2, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 7, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the estimates described above in determining that they are reasonable in relation to the consolidated financial statements taken as a whole. The most sensitive estimates affecting the consolidated financial statements were:

1. Management's estimate of the fair market value of investments is based on an evaluation of third party information obtained and observable inputs such as quoted prices for identical assets in active markets.
2. Management's estimate of current value of charitable gift annuities is based on current quoted market prices and estimates the annuity liability based on the estimated discounted value of the amounts due to the donor based on the IRS annuity and mortality tables.
3. Management's estimate of the present value of the remainder interests in several charitable lead trusts is calculated based on the IRS annuity and mortality tables.
4. Management's estimate of depreciation methods is based on the estimated useful lives of the assets.

5. Management's estimate of functional expense allocations is based on the estimated allocation of salaries to the specified functions which is based on sources of funding.
6. Management's estimate of the present value of pledges and grants receivable is based on the management's expectation that all pledges and grants will be received. Management's period evaluation is based on past experience, relationships with corresponding donors, adverse situations that may affect the donors' ability to pay, and current economic conditions.
7. Management's estimate of the fair value of a property donated by an unrelated party.

Management's estimates affecting the consolidated financial statements are based on subjective and objective factors including the allocation of assets, liabilities, revenues and expenses among funds, the fair market value of investments, and present value of contributions and pledges receivable.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the consolidated financial statements were:

1. The disclosure of investments in the notes to the financial statements. This note contains a description of the composition of the investment balance as of December 31, 2013 and a summary of activity for the year then ended.
2. The disclosure of net assets in the notes to the financial statements. This note contains a description of the composition of unrestricted, temporarily restricted and permanently restricted net assets.
3. The disclosure of agency funds in the notes to the financial statements. This note contains a detailed listing of the organizations for which the funds are held.

The financial statement disclosures are neutral, consistent, and clear.

Generally accepted auditing standards encourage independent verification of financial information. As part of our audit, we obtained independent, third-party verification of various financial information, including cash, investments, contributions received and grants paid.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 2, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This information is intended solely for the use of the Audit Committee, Board of Directors, and management of Community Foundation Santa Cruz County and Subsidiaries and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Novogradac & Company LLP
NOVOGRADAC & COMPANY LLP