

**COMMUNITY FOUNDATION
SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
with
Report of Independent Auditors
For the years ended December 31, 2012 and 2011**

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Community Foundation Santa Cruz County and Subsidiary (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, 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 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 Subsidiary as of December 31, 2012 and 2011, 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
April 30, 2013

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	548,088	188,339	67,741	804,168
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	\$ 10,853,968	\$ 24,084,368	\$ 22,471,493	\$ 57,409,829
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	2,912,047	4,790,837	-	7,702,884
Net assets	7,941,921	19,293,531	22,471,493	49,706,945
TOTAL LIABILITIES AND NET ASSETS	\$ 10,853,968	\$ 24,084,368	\$ 22,471,493	\$ 57,409,829

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 171,008	\$ 135,749	\$ 429,484	\$ 736,241
Investments	843,655	15,581,551	20,558,004	36,983,210
Investments - charitable remainder trusts	-	491,219	90,614	581,833
Receivables:				
Accounts receivable	1,128	3,462	-	4,590
Pledges receivable	-	101,249	67,369	168,618
Grants receivable	297,259	405,000	-	702,259
Gifts receivable	3,865	36,621	56,439	96,925
Total receivables	<u>302,252</u>	<u>546,332</u>	<u>123,808</u>	<u>972,392</u>
Deposits and prepaid expenses	47,907	-	-	47,907
Other assets	-	-	10,000	10,000
Fixed assets, net	9,050,899	-	-	9,050,899
Intangible assets, net	119,667	-	-	119,667
Investment in trust	-	-	30,000	30,000
TOTAL ASSETS	<u><u>\$ 10,535,388</u></u>	<u><u>\$ 16,754,851</u></u>	<u><u>\$ 21,241,910</u></u>	<u><u>\$ 48,532,149</u></u>
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 134,913	\$ 55,367	\$ -	\$ 190,280
Grants payable	297,260	458,462	-	755,722
Agency funds	-	2,903,614	-	2,903,614
Charitable gift annuity liability	-	333,882	-	333,882
Note payable - tax-exempt bonds	2,500,000	-	-	2,500,000
Total liabilities	<u>2,932,173</u>	<u>3,751,325</u>	<u>-</u>	<u>6,683,498</u>
Net assets	<u>7,603,215</u>	<u>13,003,526</u>	<u>21,241,910</u>	<u>41,848,651</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,535,388</u></u>	<u><u>\$ 16,754,851</u></u>	<u><u>\$ 21,241,910</u></u>	<u><u>\$ 48,532,149</u></u>

see accompanying notes

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>9,488,970</u>	<u>6,290,005</u>	<u>1,229,583</u>	<u>17,008,558</u>
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	<u>7,150,829</u>	<u>-</u>	<u>-</u>	<u>7,150,829</u>
Supporting services, Programs	1,084,409	-	-	1,084,409
	<u>8,235,238</u>	<u>-</u>	<u>-</u>	<u>8,235,238</u>
Supporting services, Operations				
Marketing and development	457,512	-	-	457,512
Management and general	457,514	-	-	457,514
Total supporting services, Operations	<u>915,026</u>	<u>-</u>	<u>-</u>	<u>915,026</u>
TOTAL EXPENSES	<u>9,150,264</u>	<u>-</u>	<u>-</u>	<u>9,150,264</u>
INCREASE IN NET ASSETS	<u>338,706</u>	<u>6,290,005</u>	<u>1,229,583</u>	<u>7,858,294</u>
NET ASSETS AT BEGINNING OF YEAR	<u>7,603,215</u>	<u>13,003,526</u>	<u>21,241,910</u>	<u>41,848,651</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,941,921</u>	<u>\$ 19,293,531</u>	<u>\$ 22,471,493</u>	<u>\$ 49,706,945</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
For the year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 1,656,151	\$ 2,658,790	\$ 389,662	\$ 4,704,603
Grants	240,308	826,279	213,000	1,279,587
Investment income (loss)	2,711	(787,721)	-	(785,010)
Change in split-interest agreements	-	(115,540)	777	(114,763)
Other income	115,794	1,170	-	116,964
Net assets released from restrictions				
Satisfaction of time and/or purpose restrictions	4,602,704	(4,602,704)	-	-
Management fees	590,484	(590,484)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	7,208,152	(2,610,210)	603,439	5,201,381
EXPENSES				
Grants and disbursements:				
Arts, history, and culture	470,580	-	-	470,580
Community development	309,742	-	-	309,742
Education/youth development	738,220	-	-	738,220
Environment	646,480	-	-	646,480
Health	1,492,548	-	-	1,492,548
Human services	553,135	-	-	553,135
Other	10,751	-	-	10,751
Regional water management	1,260,871	-	-	1,260,871
Total grants and disbursements	5,482,327	-	-	5,482,327
Supporting services, Programs	1,023,571	-	-	1,023,571
	6,505,898	-	-	6,505,898
Supporting services, Operations				
Marketing and development	295,722	-	-	295,722
Management and general	591,444	-	-	591,444
Total supporting services, Operations	887,166	-	-	887,166
TOTAL EXPENSES	7,393,064	-	-	7,393,064
(DECREASE) INCREASE IN NET ASSETS	(184,912)	(2,610,210)	603,439	(2,191,683)
NET ASSETS AT BEGINNING OF YEAR	7,788,127	15,613,736	20,638,471	44,040,334
NET ASSETS AT END OF YEAR	\$ 7,603,215	\$ 13,003,526	\$ 21,241,910	\$ 41,848,651

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2012

	<u>Program Services</u>	<u>Marketing/ Development</u>	<u>Management and General</u>	<u>Total</u>
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	<u>132,608</u>	<u>55,947</u>	<u>55,947</u>	<u>244,502</u>
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	<u>6,149</u>	<u>2,594</u>	<u>2,595</u>	<u>11,338</u>
Total other expenses	267,301	112,774	112,775	492,850
Depreciation and amortization	150,244	63,388	63,388	277,020
Interest expense	<u>51,049</u>	<u>21,538</u>	<u>21,538</u>	<u>94,125</u>
Total supporting services	<u>1,084,409</u>	<u>457,512</u>	<u>457,514</u>	<u>1,999,435</u>
Total expenses	<u>\$ 8,235,238</u>	<u>\$ 457,512</u>	<u>\$ 457,514</u>	<u>\$ 9,150,264</u>
Expenses as a percentage of total expenses	<u>90.00%</u>	<u>5.00%</u>	<u>5.00%</u>	<u>100.00%</u>

see accompanying notes

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

For the year ended December 31, 2011

	Program Services	Marketing/ Development	Management and General	Total
GRANTS AND DISBURSEMENTS	\$ 5,482,327	\$ -	\$ -	\$ 5,482,327
PERSONNEL EXPENSES				
Salaries	452,659	130,779	261,558	844,996
Payroll taxes and employee benefits	114,482	33,075	66,151	213,708
Total personnel expenses	<u>567,141</u>	<u>163,854</u>	<u>327,709</u>	<u>1,058,704</u>
OTHER EXPENSES				
General and administrative	81,415	23,522	47,043	151,980
Conferences and meetings	12,765	3,688	7,376	23,829
Advertising and marketing	8,422	2,433	4,866	15,721
Professional services	104,767	30,268	60,537	195,572
Repairs and maintenance	48,255	13,941	27,883	90,079
Insurance	5,767	1,666	3,332	10,765
Total other expenses	<u>261,391</u>	<u>75,518</u>	<u>151,037</u>	<u>487,946</u>
Depreciation and amortization	143,340	41,413	82,825	267,578
Interest expense	51,699	14,937	29,873	96,509
Total supporting services	<u>1,023,571</u>	<u>295,722</u>	<u>591,444</u>	<u>1,910,737</u>
Total expenses	<u>\$ 6,505,898</u>	<u>\$ 295,722</u>	<u>\$ 591,444</u>	<u>\$ 7,393,064</u>
Expenses as a percentage of total expenses	<u>88.00%</u>	<u>4.00%</u>	<u>8.00%</u>	<u>100.00%</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 7,858,294	\$ (2,191,683)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	277,020	267,578
Realized and unrealized (gains) losses	(2,323,923)	1,795,556
Change in split-interest agreements	(38,701)	114,763
(Increase) decrease in operating assets:		
Contributions receivable - charitable remainder trusts	243,585	60,516
Accounts receivable	3,038	(3,183)
Pledges receivable	65,697	103,488
Grants receivable	87,174	(159,539)
Gifts receivable	12,315	(38,951)
Deposits and prepaid expenses	16,733	(24,019)
Other assets	(4,087)	(10,000)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(52,836)	61,576
Grants payable	339,363	243,751
Agency funds	729,050	(93,131)
Charitable gift annuity liability	253,809	(42,992)
Net cash provided by operating activities	<u>7,466,531</u>	<u>83,730</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) sale of securities, net	(6,406,401)	177,854
Purchase of fixed assets	<u>(46,435)</u>	<u>(67,903)</u>
Net cash (used in) provided by investing activities	(6,452,836)	109,951
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of construction costs payable	-	(356,109)
Repayment of line of credit	-	(2,319,198)
Proceeds from note payable - tax-exempt bonds	-	2,500,000
Retirement of tax-exempt bonds	(250,000)	-
Payment for intangible assets (deferred financing costs)	<u>-</u>	<u>(114,513)</u>
Net cash used in financing activities	<u>(250,000)</u>	<u>(289,820)</u>
Net increase (decrease) in cash and cash equivalents	763,695	(96,139)
Cash and cash equivalents at beginning of year	<u>736,241</u>	<u>832,380</u>
Cash and cash equivalents at end of year	<u>\$ 1,499,936</u>	<u>\$ 736,241</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	<u>\$ 94,125</u>	<u>\$ 96,509</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

1. General

Community Foundation Santa Cruz County (“CFSCC”) 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. As of December 31, 2012 and 2011, RWMF has received \$11,028,346 and \$7,216,942, respectively.

2. Summary of significant accounting policies

Principles of consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of CFSCC and its subsidiary, RWMF (collectively, the “Foundation”). All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of accounting

The Foundation prepares its 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 is required to report information regarding its 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 board designated operating reserve fund, capital assets, and general operating support.

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 statement of activities as net assets released from restrictions.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)

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 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 to concentrations of credit risk consist principally of temporary cash investments. The Foundation places its temporary cash investments with high credit quality financial institutions and, by policy, limits 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 has not experienced any losses in such accounts. The Foundation believes it is 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 considers 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.

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 statement of financial position.

The Foundation maintains master investment accounts for its donor-advised and board-designated endowment 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

Other assets

During 2012 and 2011, 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 2012 and 2011 would be sold for \$14,087 and \$10,000, 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.

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

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.

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, 2012 and 2011:

	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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

	December 31, 2011			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 36,983,210	\$ -	\$ -	\$ 36,983,210
Investments – charitable remainder trusts	-	-	581,833	581,833
Total assets	\$ 36,983,210	\$ -	\$ 581,833	\$ 37,565,043
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 333,882	\$ 333,882
Total liabilities	\$ -	\$ -	\$ 333,882	\$ 333,882

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.

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

Impairment of long-lived assets

The Foundation reviews its 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 2012 or 2011.

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.

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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

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 expense

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.

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires the Foundation to report information regarding its exposure to various tax positions taken by the Foundation. Management has determined whether any tax positions have met the recognition threshold and has measured the Foundation's exposure to those tax positions. Management believes that the Foundation has 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 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

Endowment funds (continued)

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, 2012, the Foundation reclassified investment gains of \$27,649 on donor-restricted endowment funds as unrestricted net assets. During the year ended December 31, 2011, the Foundation reclassified investment losses of \$27,649 on donor-restricted endowment funds as unrestricted net assets. As of December 31, 2012, no fund balances were below the historical gift amount. As of December 31, 2011, the net amount of fund balances below the historical gift amount totaled \$27,649.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2012 and 2011 were \$21,140 and \$15,721, respectively, and included maintenance of the Foundation's website.

Subsequent events

Subsequent events have been evaluated through April 30, 2013, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Investments

Investments were comprised of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 6,050,594	\$ 3,504,358
Common and preferred stocks	29,795,851	26,912,894
U.S. government securities, corporate bonds and assets back securities	<u>9,905,790</u>	<u>6,565,958</u>
Total investments	<u>\$ 45,752,235</u>	<u>\$ 36,983,210</u>

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest	\$ 294,044	\$ 356,905
Dividends	859,053	659,095
Realized gains	456,131	602,071
Unrealized gains (losses)	1,867,792	(2,397,627)
Investment expenses	<u>(6,920)</u>	<u>(5,454)</u>
Total investment income (loss)	<u>\$ 3,470,100</u>	<u>\$ (785,010)</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

4. Pledges receivable

Pledges receivable were comprised of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 97,948	\$ 113,250
Due within two to four years	<u>5,141</u>	<u>55,494</u>
Gross pledges receivable	103,089	168,744
Less discount to reflect pledges receivable at present value	<u>(168)</u>	<u>(126)</u>
Total pledges receivable	<u>\$ 102,921</u>	<u>\$ 168,618</u>

5. Investments - charitable remainder trusts

The Foundation was a beneficiary of four and five charitable trusts as of December 31, 2012 and 2011, 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 \$974 and \$904 in 2012 and 2011, 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 \$196,523 and \$189,082 at December 31, 2012 and 2011, 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 \$102,312 and \$90,614 at December 31, 2012 and 2011, 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 \$39,413 and \$32,400 at December 31, 2012 and 2011, respectively.

Remainder Interest in Trust E – terminated in 2012

During 2009, the Foundation became the 100% remainderman beneficiary of a fifth trust. The assets of the trust became subject to the control of the Foundation during 2012. The present value of the remainder interest totaled approximately \$269,737 at December 31, 2011.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

6. Grants payable

The Foundation makes grants to various organizations. As of December 31, 2012 and 2011, the balance of grants payable was \$1,095,085 and \$755,722, respectively, of which \$569,482 and \$458,462, respectively, pertained to RWMF. The following is a summary of grants authorized and payable at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 925,584	\$ 327,412
Due within two to four years	<u>169,501</u>	<u>428,310</u>
Total grants payable	<u>\$ 1,095,085</u>	<u>\$ 755,722</u>

7. Fixed assets

The Foundation's fixed assets were comprised of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,083,604	\$ 1,083,604
Land improvements	317,498	317,498
Building	7,343,037	7,343,657
Office equipment and software	<u>702,939</u>	<u>655,884</u>
Fixed assets	9,447,078	9,400,643
Less: accumulated depreciation	<u>(613,590)</u>	<u>(349,744)</u>
Fixed assets, net	<u>\$ 8,833,488</u>	<u>\$ 9,050,899</u>

Depreciation expense during 2012 and 2011 was \$263,846 and \$255,502, respectively.

8. Intangible assets

The Foundation's intangible assets were comprised of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Deferred financing costs	\$ 131,743	\$ 131,743
Less: accumulated amortization	<u>(25,250)</u>	<u>(12,076)</u>
Intangible assets, net	<u>\$ 106,493</u>	<u>\$ 119,667</u>

Amortization expense during 2012 and 2011 was \$13,174 and \$12,076, respectively.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

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 2012, the Foundation retired \$250,000 of the tax-exempt bonds. As of December 31, 2012 and 2011, the principal balance on the tax-exempt bonds was \$2,250,000 and \$2,500,000, respectively. Interest expense during 2012 and 2011 was \$94,125 and \$96,193, respectively.

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 \$43,947 and \$41,673 to the plan in 2012 and 2011, 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 board designated operating reserve fund, capital assets, general operating support, unrealized losses on donor-restricted endowment funds, and the RWMF supporting organization. At December 31, 2012 and 2011, unrestricted net assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Board designated	\$ 280,408	\$ 266,386
Undesignated	<u>7,661,513</u>	<u>7,336,829</u>
Total unrestricted net assets	<u>\$ 7,941,921</u>	<u>\$ 7,603,215</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

11. Net assets (continued)

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, 2012 and 2011, temporarily restricted net assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Non-endowed	\$ 13,276,588	\$ 8,388,556
Charitable gift annuities	304,608	116,235
Grants, special projects, and pass-through	1,265,209	1,451,169
Investment income on		
permanently restricted net assets	4,211,190	2,556,347
Investments – charitable remainder trusts	<u>235,936</u>	<u>491,219</u>
Total temporarily restricted net assets	<u>\$ 19,293,531</u>	<u>\$ 13,003,526</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.

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 2012 and 2011) 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

11. Net assets (continued)

Permanently restricted net assets (continued)

At December 31, 2012 and 2011, permanently restricted net assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Permanently restricted net assets, beginning of year	\$ 21,241,910	\$ 20,638,471
Net appreciation of split interest agreements	26,151	777
Contributions and grants	<u>1,203,432</u>	<u>602,662</u>
Permanently restricted net assets, end of year	<u>\$ 22,471,493</u>	<u>\$ 21,241,910</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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

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:

	<u>2012</u>	<u>2011</u>
Happy Valley School Foundation Fund	\$ 570,828	\$ 532,948
Temple Beth El Next Generation Fund	542,137	487,619
Wharf to Wharf Scholarship Fund	403,227	-
Agri-Culture Farmworker Housing Fund	309,623	301,798
Women's Crisis Support/Defense de Mujere Fund	278,978	255,316
Fund for Elkhorn Slough Foundation Fund	177,226	160,982
O'Neill Sea Odyssey Fund	147,615	134,086
Agriculture History Project Endowment Fund	117,228	106,483
Pacific School Foundation Fund	101,510	27,086
Native Animal Rescue Fund	100,350	100,426
California Grey Bears Legacy Fund	100,020	91,537
Boys & Girls Club of Santa Cruz Fund	100,000	-
Bonny Doon Education Fund	98,977	89,905
SPCA/Blackie's Senior Friends Fund	88,478	84,144
Museum of Art and History Endowment Fund	46,889	42,592
Court Appointed Special Advocates Fund	43,835	39,818
Santa Cruz County Farm Bureau Scholarship Fund	42,036	38,184
Dientes Agency Advised Fund	39,564	39,148
Elkhorn Slough Foundation Fund	39,262	35,664
Santa Cruz Sailing Foundation Fund	34,649	31,632
Congregational Church of Soquel Endowment Fund	33,133	24,854
Watsonville Wetlands Watch Endowment Fund	31,268	30,116
Kuumbwa Jazz Endowment Fund	29,186	26,644
Mountain Community Resources Endowment Fund	28,289	26,249
Second Harvest Food Forever Fund	26,895	24,955
Pajaro Valley Quilt Association Agency Endowment	26,670	24,226
Snug & Dub Brown Children's Fund	25,446	23,732
Watsonville Wetlands Watch		
Laura Hofmeister Scholarship Fund	24,783	15,123
Friends of Santa Cruz		
Public Libraries Agency Flex Fund	24,562	22,479
Santa Cruz Museum Association Fund	-	77,065
Nature and History Center Renovation Fund	-	8,803
Total agency funds	<u>\$ 3,632,664</u>	<u>\$ 2,903,614</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

13. Major contributions

For the year ended December 31, 2012, approximately 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 individuals to their respective donor advised funds.

For the year ended December 31, 2011, 100% of RWMF's annual contribution and grant revenue, \$1,405,262, was provided from the State Propositions 50 and 84 Integrated Regional Water Management Programs and approximately 46% of CFSCC's annual contribution and grant revenue was provided from two foundations, one company, and one individual to their respective donor advised funds.

SUPPLEMENTARY INFORMATION

Independent Auditors' Report on Supplementary Information

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

We have audited the consolidated financial statements of Community Foundation Santa Cruz County and Subsidiary (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, 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 April 30, 2013, 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 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
April 30, 2013

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
December 31, 2012

ASSETS	CFSCC	RWMF	Eliminations	Total
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	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
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	<u>2,250,000</u>	<u>-</u>	<u>-</u>	<u>2,250,000</u>
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 report of independent auditors

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION (CONTINUED)
December 31, 2011

	CFSCC	RWMF	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 678,604	\$ 57,637	\$ -	\$ 736,241
Investments	36,983,210	-	-	36,983,210
Investments - charitable remainder trusts	581,833	-	-	581,833
Receivables:				
Accounts receivable	4,590	-	-	4,590
Pledges receivable	168,618	-	-	168,618
Grants receivable	478,769	297,259	(73,769)	702,259
Gifts receivable	96,925	-	-	96,925
Total receivables	748,902	297,259	(73,769)	972,392
Deposits and prepaid expenses	47,907	-	-	47,907
Other assets	10,000	-	-	10,000
Fixed assets, net	9,050,899	-	-	9,050,899
Intangible assets, net	119,667	-	-	119,667
Investment in trust	30,000	-	-	30,000
TOTAL ASSETS	\$ 48,251,022	\$ 354,896	\$ (73,769)	\$ 48,532,149
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 110,281	\$ 79,999	\$ -	\$ 190,280
Grants payable	458,462	371,029	(73,769)	755,722
Agency funds	2,903,614	-	-	2,903,614
Charitable gift annuity liability	333,882	-	-	333,882
Tax-exempt bonds	2,500,000	-	-	2,500,000
Total liabilities	6,306,239	451,028	(73,769)	6,683,498
NET ASSETS				
Unrestricted	7,699,347	(96,132)	-	7,603,215
Temporarily restricted	13,003,526	-	-	13,003,526
Permanently restricted	21,241,910	-	-	21,241,910
Total net assets	41,944,783	(96,132)	-	41,848,651
TOTAL LIABILITIES AND NET ASSETS	\$ 48,251,022	\$ 354,896	\$ (73,769)	\$ 48,532,149

see accompanying report of independent auditors

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS
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 income	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.

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
For the year ended December 31, 2011

	<u>CFSCC</u>	<u>RWMF *</u>	<u>Eliminations</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 3,447,836	\$ 1,405,262	\$ (148,495)	\$ 4,704,603
Grants	1,279,587	-	-	1,279,587
Investment loss	(785,010)	-	-	(785,010)
Change in split-interest agreements	(114,763)	-	-	(114,763)
Other income	116,964	-	-	116,964
TOTAL PUBLIC SUPPORT AND REVENUE	<u>3,944,614</u>	<u>1,405,262</u>	<u>(148,495)</u>	<u>5,201,381</u>
EXPENSES				
Grants and disbursements	4,221,456	1,409,366	(148,495)	5,482,327
Salaries	844,996	-	-	844,996
Payroll taxes and employee benefits	213,708	-	-	213,708
General and administrative	151,937	43	-	151,980
Conferences and meetings	23,829	-	-	23,829
Advertising and marketing	15,721	-	-	15,721
Professional services	183,213	12,359	-	195,572
Repairs and maintenance	90,079	-	-	90,079
Insurance	10,765	-	-	10,765
Depreciation and amortization	267,578	-	-	267,578
Interest expense	96,509	-	-	96,509
TOTAL EXPENSES	<u>6,119,791</u>	<u>1,421,768</u>	<u>(148,495)</u>	<u>7,393,064</u>
DECREASE IN NET ASSETS	<u>(2,175,177)</u>	<u>(16,506)</u>	<u>-</u>	<u>(2,191,683)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>44,119,960</u>	<u>(79,626)</u>	<u>-</u>	<u>44,040,334</u>
NET ASSETS AT END OF YEAR	<u>\$ 41,944,783</u>	<u>\$ (96,132)</u>	<u>\$ -</u>	<u>\$ 41,848,651</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.