

**COMMUNITY FOUNDATION
SANTA CRUZ COUNTY AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

December 31, 2014

with

Independent Auditor's Report

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Foundation Santa Cruz County (the "Foundation") and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Foundation Santa Cruz County and Subsidiaries as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the 2013 consolidated financial statements of Community Foundation Santa Cruz County and Subsidiaries, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 2, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Novogradac + Company LLP

Walnut Creek, California
April 10, 2015

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2014 (with comparative totals for 2013)

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
Cash and cash equivalents	\$ 508,975	\$ 402,120	\$ 373,753	\$ 1,284,848	\$ 1,971,203
Investments (note 3)	491,879	38,123,862	48,772,629	87,388,370	67,131,229
Charitable trust assets (note 5)	-	293,804	1,447,079	1,740,883	761,847
Grants and other accounts receivable (note 4)	149,170	202,975	-	352,145	714,734
Deposits and prepaid expenses	43,358	-	-	43,358	82,582
Fixed assets, net (note 7)	8,360,838	-	-	8,360,838	8,567,319
Intangible assets, net (note 8)	80,144	-	-	80,144	93,319
TOTAL ASSETS	<u>\$ 9,634,364</u>	<u>\$ 39,022,761</u>	<u>\$ 50,593,461</u>	<u>\$ 99,250,586</u>	<u>\$ 79,322,233</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and other liabilities	\$ 48,237	\$ 11,250	\$ -	\$ 59,487	\$ 142,275
Grants payable (note 6)	104,090	1,874,922	-	1,979,012	1,083,348
Agency funds (note 12)	-	6,020,154	-	6,020,154	5,049,669
Charitable trust liabilities (note 5)	-	-	903,249	903,249	340,686
Charitable gift annuity liability	-	692,104	-	692,104	656,824
Note payable - tax-exempt bonds (note 9)	1,750,000	-	-	1,750,000	2,000,000
Total liabilities	<u>1,902,327</u>	<u>8,598,430</u>	<u>903,249</u>	<u>11,404,006</u>	<u>9,272,802</u>
Net assets	<u>7,732,037</u>	<u>30,424,331</u>	<u>49,690,212</u>	<u>87,846,580</u>	<u>70,049,431</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,634,364</u>	<u>\$ 39,022,761</u>	<u>\$ 50,593,461</u>	<u>\$ 99,250,586</u>	<u>\$ 79,322,233</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2014 (with comparative totals for 2013)

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
PUBLIC SUPPORT AND REVENUE					
Contributions and grants	\$ 500,012	\$ 7,877,295	\$ 21,518,116	\$ 29,895,423	\$ 23,788,281
Investment (loss) income	(4,897)	3,244,844	-	3,239,947	6,612,901
Change in split-interest agreements	-	(70,783)	(10,619)	(81,402)	36,607
Foundation services fees	504,998	-	-	504,998	102,780
Other income	14,626	-	-	14,626	19,817
Net assets released from restrictions					
Satisfaction of time and/or purpose restrictions	13,312,161	(13,312,161)	-	-	-
Interfund foundation services fees	1,680,053	(1,680,053)	-	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	16,006,953	(3,940,858)	21,507,497	33,573,592	30,560,386
EXPENSES					
Grants and disbursements:					
Arts, history, and culture	837,253	-	-	837,253	720,737
Community development	221,468	-	-	221,468	524,548
Education/youth development	8,372,142	-	-	8,372,142	1,375,327
Environment	738,677	-	-	738,677	1,100,016
Health	1,484,946	-	-	1,484,946	1,589,067
Human services	1,576,510	-	-	1,576,510	804,663
Other	42,313	-	-	42,313	11,000
Regional water management	90,247	-	-	90,247	2,013,952
Total grants and disbursements	13,363,556	-	-	13,363,556	8,139,310
Supporting services, Programs	1,466,301	-	-	1,466,301	852,442
	14,829,857	-	-	14,829,857	8,991,752
Supporting services, Operations					
Marketing and development	473,293	-	-	473,293	510,895
Management and general	473,293	-	-	473,293	715,253
Total supporting services, Operations	946,586	-	-	946,586	1,226,148
TOTAL EXPENSES	15,776,443	-	-	15,776,443	10,217,900
CHANGE IN NET ASSETS	230,510	(3,940,858)	21,507,497	17,797,149	20,342,486
NET ASSETS AT BEGINNING OF YEAR	7,501,527	34,365,189	28,182,715	70,049,431	49,706,945
NET ASSETS AT END OF YEAR	\$ 7,732,037	\$ 30,424,331	\$ 49,690,212	\$ 87,846,580	\$ 70,049,431

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2014 (with comparative totals for 2013)

	2014			2013	
	Program Services	Marketing/ Development	Management and General	Total	Total
GRANTS AND DISBURSEMENTS	\$ 13,363,556	\$ -	\$ -	\$ 13,363,556	\$ 8,139,310
PERSONNEL EXPENSES					
Salaries	621,715	200,678	200,676	1,023,069	954,270
Payroll taxes and employee benefits	165,226	53,332	53,332	271,890	266,671
Total personnel expenses	<u>786,941</u>	<u>254,010</u>	<u>254,008</u>	<u>1,294,959</u>	<u>1,220,941</u>
OTHER EXPENSES					
General and administrative	82,444	26,611	26,611	135,666	130,290
Conferences and meetings	17,225	5,560	5,559	28,344	24,930
Advertising and marketing	10,327	3,333	3,333	16,993	13,788
Professional services	262,830	84,836	84,837	432,503	194,570
Repairs and maintenance	70,628	22,797	22,798	116,223	104,952
Insurance	17,468	5,638	5,639	28,745	28,521
Total other expenses	<u>460,922</u>	<u>148,775</u>	<u>148,777</u>	<u>758,474</u>	<u>497,051</u>
Depreciation and amortization	176,869	57,090	57,090	291,049	282,864
Interest expense	41,569	13,418	13,418	68,405	77,734
Total supporting services	<u>1,466,301</u>	<u>473,293</u>	<u>473,293</u>	<u>2,412,887</u>	<u>2,078,590</u>
Total expenses	<u>\$ 14,829,857</u>	<u>\$ 473,293</u>	<u>\$ 473,293</u>	<u>\$ 15,776,443</u>	<u>\$ 10,217,900</u>
Expenses as a percentage of total expenses	<u>94.00%</u>	<u>3.00%</u>	<u>3.00%</u>	<u>100.00%</u>	<u>100.00%</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2014 (with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 17,797,149	\$ 20,342,486
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	291,049	282,864
Noncash contributions and grants	(425,701)	(2,785,000)
Realized and unrealized gains	(1,249,633)	(5,085,861)
Change in split-interest agreements	81,402	(36,607)
(Increase) decrease in operating assets:		
Charitable trust assets	9,228	(182,913)
Grants and other accounts receivable	362,589	189,434
Deposits and prepaid expenses	39,224	(51,408)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(82,788)	4,831
Grants payable	895,664	(11,737)
Agency funds	970,485	1,417,005
Charitable gift annuity liability	35,280	69,133
Net cash provided by operating activities	<u>18,723,948</u>	<u>14,152,227</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities, net	(19,088,910)	(13,427,439)
Purchase of fixed assets	(71,393)	(3,521)
Net cash used in investing activities	<u>(19,160,303)</u>	<u>(13,430,960)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of tax-exempt bonds	<u>(250,000)</u>	<u>(250,000)</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(686,355)	471,267
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,971,203</u>	<u>1,499,936</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,284,848</u>	<u>\$ 1,971,203</u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest expense	<u>\$ 68,405</u>	<u>\$ 77,734</u>

see accompanying notes

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

1. General

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

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

NLMJ Borina Land, LLC (collectively with RWMF, the “Subsidiaries”), a California limited liability company, was organized on September 26, 2013 to be operated for the exclusive purpose of holding title to agricultural land, 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
December 31, 2014

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)

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

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

Use of estimates

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

Cash and cash equivalents

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

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

Revenue recognition

Contributions and grants: Contributions and grants are recognized as revenue when received or unconditionally promised and are recorded as 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.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Contributions and grants (continued): Grants and other accounts receivable consist primarily of unconditional promises to give. Receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2014 and 2013, the balance of the allowance for doubtful accounts was \$0.

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

Investments

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

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

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

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

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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

2. Summary of significant accounting policies (continued)

Charitable trust assets

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

Charitable remainder trusts: The Foundation is a 100% remainderman beneficiary under four charitable remainder trusts, for two of which the Foundation also serves as trustee. At the end of the terms, or upon the death of the income beneficiaries, assets remaining in the trusts will be dispersed in accordance with the terms of the trusts. The Foundation records the amounts expected to be received based on the present value of the remainder interests using a discount rate of 2% as of December 31, 2014 and 2013.

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

Assets held in charitable gift annuities

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

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

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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

2. Summary of significant accounting policies (continued)

Fair value measurements

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

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

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

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

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

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

The following tables present the Foundation's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2014 and 2013:

	December 31, 2014			Fair Value Measurements
	Level 1	Level 2	Level 3	
Assets				
Investments	\$ 84,592,307	\$ -	\$ 2,796,063	\$ 87,388,370
Charitable trust assets	-	-	1,740,883	1,740,883
Total assets	<u>\$ 84,592,307</u>	<u>\$ -</u>	<u>\$ 4,536,946</u>	<u>\$ 89,129,253</u>
Liabilities				
Charitable gift annuity	\$ -	\$ -	\$ 692,104	\$ 692,104
Charitable trust liabilities	-	-	903,249	903,249
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,595,353</u>	<u>\$ 1,595,353</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

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

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:

Building and improvements	40 years
Land improvements	20 years
Office equipment and software	3 – 10 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 2014 or 2013.

Agency funds

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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

2. Summary of significant accounting policies (continued)

Agency funds (continued)

Agency 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 a portion of the return on investment of those assets, subject to the Foundation's spending policy, to another entity that is specified by the donor. The Foundation holds such funds as designated funds. Distributions to the donor-specified entity are from earnings and pursuant to the Foundation's spending policy.

Grants and disbursements

Grants are made from available principal and income in accordance with the designations of donors. Endowed funds are subject to the Foundation's spending policy. Grants are recorded at the date of approval. Donor-advised grants below \$25,000 are recorded at the date of approval by the Chief Executive Officer. Donor-advised grants above \$25,000 are recorded at the date of approval by the Executive Committee. Grant awards are presented on the accompanying consolidated statements of activities and changes in net assets, net of grant refunds.

Recognition of donor restrictions

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions. When restrictions on contributions are satisfied in the same period as the receipt of the contribution, the Foundation reports both the contribution received and the related expense in unrestricted net assets.

Functional allocation of expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities and changes in net assets. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on 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
December 31, 2014

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

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

The Foundation classifies its unrealized losses on donor-restricted endowment funds as unrestricted net assets to the extent that such losses reduce the fund balance below the historical gift amount. Any gains in subsequent years will first offset the losses in unrestricted net assets before recording unrealized gains and losses as temporarily restricted net assets. During the year ended December 31, 2014 and 2013, the Foundation reclassified investment loss of \$56,323 and \$35, respectively, on donor-restricted endowment funds as unrestricted net assets.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2014 and 2013 were \$16,993 and \$13,788, respectively, and included maintenance of the Foundation's website.

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform with the 2014 presentation.

3. Investments

Investments were comprised of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 7,661,047	\$ 6,720,148
Equities	46,760,664	34,276,781
Fixed income	26,995,298	21,029,065
Alternative investments	5,960,298	5,070,216
Other investments	<u>11,063</u>	<u>35,019</u>
Total investments	<u>\$ 87,388,370</u>	<u>\$ 67,131,229</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

3. Investments (continued)

Investments are allocated among the following portfolios:

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

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

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

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

Alternative investments - real estate

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

Alternative investments - liquid alternatives

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

Other investments - investment in limited liability companies

In 2012, the Foundation received donations of noncontrolling interests in limited liability companies. The Foundation accepted the donations with a condition that the investments would be liquidated immediately. The Foundation determined that the membership interests donated would be sold for \$14,087 and recorded investments and corresponding contributions in those amounts, which represented management's best estimates of the assets' fair values at the date of the donation. As of December 31, 2014 and 2013, the fair values of membership interests were \$5,021 and \$5,019, respectively. The Foundation recorded gains (losses) of \$2 and (\$9,068), respectively, during 2014 and 2013. These amounts are included in investment income on the accompanying consolidated statements of activities and changes in net assets.

Other investments - cash surrender value of life insurance

The Foundation is the beneficiary of a \$750,000 life insurance policy of an insured donor. During 2014 and 2013, the Foundation made premium payments of \$19,000 in each year from the restricted contributions made by the insured donor. The asset is reported at the amount that could be realized at December 31, 2014. Cash surrender value of life insurance is estimated by the life insurance company.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

3. Investments (continued)

Investment income

The following schedule summarizes the investment return and its classification in the accompanying consolidated statements of activities and changes in net assets for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest	\$ 397,813	\$ 325,257
Dividends	1,606,096	1,216,488
Realized gains	1,321,095	953,055
Unrealized (losses) gains	<u>(85,057)</u>	<u>4,118,101</u>
Total investment income	<u>\$ 3,239,947</u>	<u>\$ 6,612,901</u>

During 2014 and 2013, dividends included \$128,987 and \$17,542, respectively, received by NLMJ Borina Land, LLC in connection with a lease on the underlying land. During 2014 and 2013, investment management fees of \$396,902 and \$295,142, respectively, and charitable gift annuity custodial fees of \$13,595 and \$14,705, respectively, are recognized as a reduction of realized gains.

4. Grants and other accounts receivable

Grants and other accounts receivable were comprised of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 3,764	\$ 30,502
Pledges receivable	16,400	36,375
Grants receivable	311,707	531,657
Gifts and contributions receivable	<u>20,274</u>	<u>116,200</u>
Total	<u>\$ 352,145</u>	<u>\$ 714,734</u>

Pledges receivable

Pledges receivable were comprised of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Due within one year	\$ 10,700	\$ 24,984
Due within two to four years	<u>5,700</u>	<u>11,400</u>
Gross pledges receivable	16,400	36,384
Less discount to reflect pledges receivable at present value	<u>-</u>	<u>(9)</u>
Total pledges receivable	<u>\$ 16,400</u>	<u>\$ 36,375</u>

Gifts and contributions receivable

In 2013, the Foundation was 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 was expected to be received and included in grants and other accounts receivable on the accompanying 2013 consolidated statements of financial position. This amount was received during 2014.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

5. Charitable trust assets and liabilities

The Foundation was a beneficiary of five and four charitable trusts as of December 31, 2014 and 2013, respectively. The Foundation serves as trustee for three and two of these trusts as of December 31, 2014 and 2013, respectively.

	2014		2013	
	Amounts expected to be received from trusts	Amounts held for income beneficiaries	Amounts expected to be received from trusts	Amounts held for income beneficiaries
Charitable Lead Trust A	\$ -	\$ 113,181	\$ -	\$ 109,602
Charitable Remainder Trust B	243,865	-	241,522	-
Charitable Remainder Trust C	136,861	229,530	128,748	231,084
Charitable Remainder Trust D	49,939	-	50,891	-
Charitable Remainder Trust E	406,969	560,538	-	-
Total	<u>\$ 837,634</u>	<u>\$ 903,249</u>	<u>\$ 421,161</u>	<u>\$ 340,686</u>

Charitable Lead Trust A

The Foundation is a beneficiary for the lifetime of the donor and also acts as trustee without compensation. The 1% annual unitrust distribution received by the Foundation totaled \$1,096 and \$904 in 2014 and 2013, respectively. As the amounts due to be received by the Foundation are immaterial, no receivable has been recorded for this Trust.

Charitable Remainder Trust B

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

Charitable Remainder Trust C

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

Charitable Remainder Trust D

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

Charitable Remainder Trust E

The Trust was established during 2014. The Foundation is a 100% remainderman beneficiary under the terms of the trust and also acts as trustee without compensation. The Foundation recognized noncash contributions revenue of \$425,701, which is the present value of the future interest expected to be received from the trust as of the date the trust was funded. This amount was included in permanently restricted contributions in the accompanying consolidated statements of activities and changes in net assets.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

6. Grants payable

CFSCC and RWMF make grants to various organizations. As of December 31, 2014 and 2013, the balance of grants payable was \$1,979,012 and \$1,083,348, respectively, of which \$104,090 and \$78,632, respectively, pertained to RWMF. The following is a summary of grants authorized and payable at December 31, 2014:

Due in 2015	\$ 1,208,361
Due in 2016	588,000
Due in 2017	158,651
Due in 2018	<u>24,000</u>
Total grants payable	<u>\$ 1,979,012</u>

7. Fixed assets

The Foundation's fixed assets were comprised of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 1,083,604	\$ 1,083,604
Land improvements	317,498	317,498
Building	7,343,077	7,343,037
Office equipment and software	<u>777,813</u>	<u>706,460</u>
Fixed assets	9,521,992	9,450,599
Less: accumulated depreciation	<u>(1,161,154)</u>	<u>(883,280)</u>
Fixed assets, net	<u>\$ 8,360,838</u>	<u>\$ 8,567,319</u>

Depreciation expense during 2014 and 2013 was \$277,874 and \$269,690, respectively.

8. Intangible assets

The Foundation's intangible assets were comprised of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deferred financing costs	\$ 131,743	\$ 131,743
Less: accumulated amortization	<u>(51,599)</u>	<u>(38,424)</u>
Intangible assets, net	<u>\$ 80,144</u>	<u>\$ 93,319</u>

Amortization expense during 2014 and 2013 was \$13,175 and \$13,174, respectively.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

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. 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 2014, the Foundation retired \$250,000 of the tax-exempt bonds. As of December 31, 2014, the principal balance on the tax-exempt bonds was \$1,750,000. In January, 2015, the Foundation retired an additional \$250,000 of the tax-exempt bonds. Interest expense during 2014 and 2013 was \$68,405 and \$77,734, 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 Directors approved discretionary contributions of \$55,498 to the plan in 2014. 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, 2014 and 2013, unrestricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Board designated	\$ 306,903	\$ 304,545
Underwater portion	56,288	35
Undesignated	<u>7,368,846</u>	<u>7,196,947</u>
Total unrestricted net assets	<u>\$ 7,732,037</u>	<u>\$ 7,501,527</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

11. Net assets (continued)

Temporarily restricted net assets

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

At December 31, 2014 and 2013, temporarily restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Non-endowed	\$ 21,183,126	\$ 19,505,322
Charitable gift annuities	270,485	341,338
Grants, special projects, and pass-through	1,024,562	7,004,469
Cumulative earnings on permanently restricted net assets in excess of corpus	7,652,354	7,221,647
Charitable remainder trust assets	<u>293,804</u>	<u>292,413</u>
Total temporarily restricted net assets	<u>\$ 30,424,331</u>	<u>\$ 34,365,189</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 donor or fund representative may also request to change their fund’s investment option once per calendar year.

The Board of Directors, after conferring with counsel with respect to the provisions of both the Uniform Management of Institutional Funds Act (“UMIFA”) and UPMIFA, has adopted a spending plan that continues to follow UMIFA by enforcing no spending of the permanently restricted portion of donor funds, which consists of the historic gift, or corpus, of the fund. The objective of endowed funds is that the principal gift(s) of the fund will be held forever. Charitable distributions will be spent from a fund’s net earnings according to the Foundation’s spending policy. The spending policy is established to ensure the availability of grant-making dollars to the community in perpetuity. Pursuant to the policy, the total target return is 7%. The funds available for grant-making use determined each year (which was 4% for 2014 and 2013) 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 SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

11. Net assets (continued)

Permanently restricted net assets (continued)

At December 31, 2014 and 2013, permanently restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Permanently restricted net assets, beginning of year	\$ 28,182,715	\$ 22,471,493
Net (decrease) appreciation of split interest agreements	(10,619)	26,436
Contributions and grants	<u>21,518,116</u>	<u>5,684,786</u>
Permanently restricted net assets, end of year	<u>\$ 49,690,212</u>	<u>\$ 28,182,715</u>

12. Agency funds

When a not-for-profit organization establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of the fund, the Foundation accounts for the transfer of such assets as a liability. The liability is the total fair value of the funds held by the Foundation and is reflected as agency funds on the accompanying consolidated statements of financial position. 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 endowment funds will continue to payout, subject to the spending plan for endowed funds, in perpetuity. All agency endowment funds are invested in a long term pool.

Agency flex funds

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

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

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>2014</u>	<u>2013</u>
Happy Valley School Foundation Fund	\$ 675,751	\$ 658,711
Temple Beth El Next Generation Fund	654,519	624,652
O'Neill Sea Odyssey Fund	291,875	277,319
Fund for Elkhorn Slough Foundation Fund	199,434	197,085
Agriculture History Project Endowment Fund	145,776	136,276
Bonny Doon Education Fund	114,700	113,161
SPCA/Blackie's Senior Friends Fund	98,237	99,333
Jimmie Cox Memorial Scholarship Fund	94,858	57,445
T.H.A.N.K.S. Agriculture Education Fund	73,607	70,538
Court Appointed Special Advocates Fund	57,998	50,570
Museum of Art and History Endowment Fund	52,763	52,142
Watsonville Wetlands Watch		
Laura Hofmeister Scholarship Fund	46,434	37,536
Elkhorn Slough Foundation Fund	44,182	43,662
Congregational Church of Soquel Endowment Fund	39,665	36,861
Santa Cruz Sailing Foundation Fund	39,086	38,336
Pajaro Valley Historic Association Borina		
Archive Fund	37,821	30,118
Watsonville Wetlands Watch Endowment Fund	34,663	35,065
Agri-Culture Jeannie Witmer Memorial		
Scholarship Fund	33,098	28,306
Kuumbwa Jazz Endowment Fund	32,513	32,297
Mountain Community Resources Endowment Fund	31,417	31,763
Pajaro Valley Quilt Association Agency Endowment	30,011	29,657
Second Harvest Food Forever Fund	29,888	30,213
Snug & Dub Brown Children's Fund	28,752	28,561
Dottie Tyler Fund for Agrarian Oral History	28,100	26,929
Ron and Dottie Tyler Fund for Restored		
Agrarian Equipment Maintenance	26,418	25,317
Monarch Services Fund	25,795	-
Save Our Shores Forever Fund	25,156	-
Agri-Culture Sandhill Bluff Conservation		
Easement Monitoring Fund	<u>23,517</u>	<u>22,537</u>
 Total agency endowment funds	 <u>\$ 3,016,034</u>	 <u>\$ 2,814,390</u>

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

12. Agency funds (continued)

Agency flex funds

	<u>2014</u>	<u>2013</u>
The Arts Council Fund	516,298	567,305
Wharf to Wharf Scholarship Fund	479,149	468,596
Agri-Culture Farmworker Housing Fund	330,369	354,658
Monarch Services Agency Flex Fund	274,695	303,517
CASA Operating Fund	255,317	-
Ceiba Scholarship Fund	200,000	-
CASA Capital Campaign Fund	180,055	-
Pacific School Foundation Fund	170,065	113,258
Friends of Santa Cruz Public Libraries Agency		
Flex Fund Suizner	126,911	-
California Grey Bears Legacy Fund	119,243	114,533
Boys & Girls Club of Santa Cruz Fund	114,879	110,364
Native Animal Rescue Fund	97,865	97,706
Dientes Agency Advised Fund	47,960	46,695
Happy Valley School Legacy Flex Fund	31,867	-
Main Beach Volleyball Club Scholarship Fund	31,802	30,528
Friends of Santa Cruz		
Public Libraries Agency Flex Fund	14,273	28,119
Georgette Dufresne Memorial Fund for		
Monarch Services	<u>13,372</u>	<u>-</u>
Total agency flex funds	<u>\$ 3,004,120</u>	<u>\$ 2,235,279</u>

13. Major contributions

For the year ended December 31, 2014, approximately 41% of RWMF's annual contribution and grant revenue, \$126,952, was provided from the State Propositions 50 and 84 Integrated Regional Water Management Programs and approximately 83% of CFSCC's annual contribution and grant revenue was provided from one company, two foundations, and two individuals to their respective donor advised funds.

COMMUNITY FOUNDATION SANTA CRUZ COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

14. Subsequent events

During 2014, the Board of Directors approved a finance policy that added impact investing as an allowable alternative investment. Impact investments, along with their financial returns, are to foster positive social, economic or environmental changes, which aligns and supports the philanthropic objectives of the Foundation. The finance committee approved an impact investment of up to \$500,000 of alternative investments in the socially responsible long term portfolio. On March 2, 2015, the Foundation executed an agreement with a nonprofit organization to provide an unsecured loan in the amount of \$350,000 as an impact investment. The loan bears interest at 3% and matures on March 2, 2020.

In January, 2015, the Foundation retired \$250,000 of the tax-exempt bonds (see Note 9).

Subsequent events have been evaluated through April 10, 2015, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Supplementary Information

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

We have audited the consolidated financial statements of Community Foundation Santa Cruz County (the "Foundation") and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2014, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and our report thereon dated April 10, 2015, which expressed an unqualified opinion on those consolidated financial statements, appears on pages 1 to 2. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information of the Foundation and Subsidiaries shown on pages 27 to 28 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Novogradac + Company LLP
Walnut Creek, California
April 10, 2015

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2014

	CFSCC	RWMF	NLMJ Borina Land, LLC	Eliminations	Total
ASSETS					
Cash and cash equivalents	\$ 1,244,325	\$ 40,523	\$ -	\$ -	\$ 1,284,848
Investments	84,603,370	-	2,931,529	(146,529)	87,388,370
Charitable trust assets	1,740,883	-	-	-	1,740,883
Grants and other accounts receivable	250,872	148,896	-	(47,623)	352,145
Deposits and prepaid expenses	43,358	-	-	-	43,358
Fixed assets, net	8,360,838	-	-	-	8,360,838
Intangible assets, net	80,144	-	-	-	80,144
TOTAL ASSETS	\$ 96,323,790	\$ 189,419	\$ 2,931,529	\$ (194,152)	\$ 99,250,586
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and other liabilities	\$ 59,487	\$ -	\$ -	\$ -	\$ 59,487
Grants payable	1,874,922	151,713	-	(47,623)	1,979,012
Agency funds	6,020,154	-	-	-	6,020,154
Charitable trust liabilities	903,249	-	-	-	903,249
Charitable gift annuity liability	692,104	-	-	-	692,104
Tax-exempt bonds	1,750,000	-	-	-	1,750,000
Total liabilities	11,299,916	151,713	-	(47,623)	11,404,006
NET ASSETS					
Unrestricted	7,694,331	37,706	146,529	(146,529)	7,732,037
Temporarily restricted	29,039,331	-	1,385,000	-	30,424,331
Permanently restricted	48,290,212	-	1,400,000	-	49,690,212
Total net assets	85,023,874	37,706	2,931,529	(146,529)	87,846,580
TOTAL LIABILITIES AND NET ASSETS	\$ 96,323,790	\$ 189,419	\$ 2,931,529	\$ (194,152)	\$ 99,250,586

see accompanying independent auditor's report

COMMUNITY FOUNDATION OF SANTA CRUZ COUNTY AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2014

	CFSCC	RWMF *	NLMJ Borina Land, LLC	Eliminations	Total
PUBLIC SUPPORT AND REVENUE					
Contributions and grants	\$ 29,603,445	\$ 377,728	\$ -	\$ (85,750)	\$ 29,895,423
Investment income	3,239,947	-	128,987	(128,987)	3,239,947
Change in split-interest agreements	(81,402)	-	-	-	(81,402)
Foundation services fees	504,998	-	-	-	504,998
Other income	14,626	-	-	-	14,626
TOTAL PUBLIC SUPPORT AND REVENUE	33,281,614	377,728	128,987	(214,737)	33,573,592
EXPENSES					
Grants and disbursements	13,273,309	175,997	-	(85,750)	13,363,556
Salaries	1,023,069	-	-	-	1,023,069
Payroll taxes and employee benefits	271,890	-	-	-	271,890
General and administrative	135,666	-	-	-	135,666
Conferences and meetings	28,344	-	-	-	28,344
Advertising and marketing	16,993	-	-	-	16,993
Professional services	318,109	114,394	-	-	432,503
Repairs and maintenance	116,223	-	-	-	116,223
Insurance	28,745	-	-	-	28,745
Depreciation and amortization	291,049	-	-	-	291,049
Interest expense	68,405	-	-	-	68,405
TOTAL EXPENSES	15,571,802	290,391	-	(85,750)	15,776,443
CHANGE IN NET ASSETS	17,709,812	87,337	128,987	(128,987)	17,797,149
NET ASSETS AT BEGINNING OF YEAR	67,314,062	(49,631)	2,802,542	(17,542)	70,049,431
NET ASSETS AT END OF YEAR	\$ 85,023,874	\$ 37,706	\$ 2,931,529	\$ (146,529)	\$ 87,846,580

* 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.